

## FORM 5

### QUARTERLY LISTING STATEMENT

Name of CNSX Issuer: **Advantex Marketing International Inc. (the “Issuer”)**.

Trading Symbol: **ADX**

This Quarterly Listing Statement must be posted on or before the day on which the Issuer’s unaudited interim financial statements are to be filed under the *Securities Act*, or, if no interim statements are required to be filed for the quarter, within 60 days of the end of the Issuer’s first, second and third fiscal quarters. This statement is not intended to replace the Issuer’s obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by the CNSX Policies. If material information became known and was reported during the preceding quarter to which this statement relates, management is encouraged to also make reference in this statement to the material information, the news release date and the posting date on the CNSX.ca website.

#### **General Instructions**

- (a) Prepare this Quarterly Listing Statement using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the following items must be in narrative form. When the answer to any item is negative or not applicable to the Issuer, state it in a sentence. The title to each item must precede the answer.
- (b) The term “Issuer” includes the CNSX Issuer and any of its subsidiaries.
- (c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

There are three schedules which must be attached to this report as follows:

#### **SCHEDULE A: FINANCIAL STATEMENTS**

Financial statements are required as follows:

For the first, second and third financial quarters interim financial statements prepared in accordance with the requirements under Ontario securities law must be attached.

***Interim consolidated financial statements for the three months ended September 30, 2022 are attached as Schedule A.***

If the Issuer is exempt from filing certain interim financial statements, give the date of the exempting order.

**N/A**

## **SCHEDULE B: SUPPLEMENTARY INFORMATION**

The supplementary information set out below must be provided when not included in Schedule A.

### **1. Related party transactions**

Provide disclosure of all transactions with a Related Person, including those previously disclosed on Form 10. Include in the disclosure the following information about the transactions with Related Persons:

- (a) A description of the relationship between the transacting parties. Be as precise as possible in this description of the relationship. Terms such as affiliate, associate or related company without further clarifying details are not sufficient.
- (b) A description of the transaction(s), including those for which no amount has been recorded.
- (c) The recorded amount of the transactions classified by financial statement category.
- (d) The amounts due to or from Related Persons and the terms and conditions relating thereto.
- (e) Contractual obligations with Related Persons, separate from other contractual obligations.
- (f) Contingencies involving Related Persons, separate from other contingencies.

**The information connected to related party transactions is provided in note 10 to the attached interim consolidated financial statements for the three months ended September 30, 2022.**

### **2. Summary of securities issued and options granted during the period.**

Provide the following information for the period beginning on the date of the last Listing Statement (Form 2A):

- (a) summary of securities issued during the period,

Date of Issue	Type of Security (common shares, convertible debentures, etc.)	Type of Issue (private placement, public offering, exercise of warrants, etc.)	Number	Price	Total Proceeds	Type of Consideration (cash, property, etc.)	Describe relationship of Person with Issuer (indicate if Related Person)	Commission Paid

**No issuances during the period.**

(b) summary of options granted during the period,

Date	Number	Name of Optionee if Related Person and relationship	Generic description of other Optionees	Exercise Price	Expiry Date	Market Price on date of Grant
N/A	N/A	N/A	N/A	N/A	N/A	N/A

**No options, restricted share units granted during the period.**

### 3. Summary of securities as at the end of the reporting period.

Provide the following information in tabular format as at the end of the reporting period:

- (a) description of authorized share capital including number of shares for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions,
- (b) number and recorded value for shares issued and outstanding,
- (c) description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value, and
- (d) number of shares in each class of shares subject to escrow or pooling agreements or any other restriction on transfer.

**(a) As at September 30, 2022 there was no change in the authorized share capital compared to June 30, 2022. The authorized share capital as at June 30, 2022 is disclosed in note 7(a) to the audited consolidated financial statements for year ended June 30, 2022 which are available under the Issuers profile on [www.sedar.com](http://www.sedar.com).**

**(b) As at September 30, 2022 and June 30, 2022 there were issued and outstanding as follows:**

**i) 253,392,507 common shares at September 30, 2022 and at June 30, 2021, and**

**ii) 461,887 class A preference shares at September 30, 2022 and June 30, 2022**

**(c) As at September 30, 2022 no stock options, restricted share units, warrants and convertible securities were outstanding.**

**(d) None.**

4. List the names of the directors and officers, with an indication of the position(s) held, as at the date this report is signed and filed.

<b>Marc Lavine</b>	<b>Director, Chairman of the Audit Committee</b>
<b>David Moscovitz</b>	<b>Director, Chairman of the Compensation and Governance Committee</b>
<b>Kelly Ambrose</b>	<b>Director, CEO, President, Secretary, Chairman of the Board of Directors, Member of the Audit Committee, Member of the Compensation and Governance Committee</b>
<b>Mukesh Sabharwal</b>	<b>CFO and VP</b>

## **SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS**

Provide Interim MD&A if required by applicable securities legislation.

***The interim MD&A for the three month periods ended September 30, 2022 and 2021 is attached as Schedule C.***

## Certificate Of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Quarterly Listing Statement.
2. As of the date hereof there is no material information concerning the Issuer which has not been publicly disclosed.
3. The undersigned hereby certifies to CNSX that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all CNSX Requirements (as defined in CNSX Policy 1).
4. All of the information in this Form 5 Quarterly Listing Statement is true.

Dated: November 29, 2022.

Kelly Ambrose  
Name of Director or Senior Officer

"Kelly Ambrose"  
Signature

CEO and President  
Official Capacity

<b>Issuer Detail</b>		
Name of Issuer	For Quarter Ended	Date of Report YY/MM/D
Advantex Marketing International Inc.	September 30, 2022	2022/11/29
Issuer Address		
100 King Street West, Suite 1600		
City/Province/Postal Code	Issuer Fax No.	Issuer Telephone No.
Toronto, Ontario, M5X 1G5.	(905) 946 2984	(905) 470 9558
Contact Name	Contact Position	Contact Telephone No.
Kelly Ambrose	CEO and President	(416) 992-9005
Contact Email Address	Web Site Address	
Kelly.ambrose@advantex.com	www.advantex.com	

SCHEDULE A

**ADVANTEX MARKETING INTERNATIONAL INC.  
CONSOLIDATED FINANCIAL STATEMENTS  
For the three months ended September 30, 2022**

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of the company. Management is responsible for the information and representations contained in these consolidated financial statements and other sections of this report.

An auditor has not performed a review of these consolidated financial statements.

Advantex Marketing International Inc.  
Consolidated Statements of Financial Position (unaudited)  
(expressed in Canadian dollars)

	Note	September 30, 2022	June 30, 2022
		\$	\$
<b>Assets</b>			
<b>Current assets</b>			
Cash		\$ 156,938	\$ 93,185
Accounts receivable		73,103	83,320
Transaction credits	5	1,639,763	3,312,268
Prepaid expenses and sundry assets		1,589	41,589
		<u>\$ 1,871,393</u>	<u>\$ 3,530,362</u>
<b>Total assets</b>		<b>\$ 1,871,393</b>	<b>\$ 3,530,362</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Loan payable	6	\$ 2,420,240	\$ 4,019,685
Lease liability	15	-	12,768
Loan	16	60,000	60,000
Accounts payable and accrued liabilities		2,896,743	2,825,914
		<u>\$ 5,376,983</u>	<u>\$ 6,918,367</u>
<b>Non-current liabilities</b>			
9% non convertible debentures payable	7	\$ 7,367,697	\$ 6,953,878
		<u>\$ 7,367,697</u>	<u>\$ 6,953,878</u>
<b>Total liabilities</b>		<b>\$ 12,744,680</b>	<b>\$ 13,872,245</b>
<b>Shareholders' deficiency</b>			
Share capital	8	\$ 24,530,555	\$ 24,530,555
Contributed surplus		7,742,802	7,742,802
Accumulated other comprehensive loss		(47,383)	(47,383)
Deficit		(43,099,261)	(42,567,857)
<b>Total deficiency</b>		<b>\$ (10,873,287)</b>	<b>\$ (10,341,883)</b>
<b>Total liabilities and deficiency</b>		<b>\$ 1,871,393</b>	<b>\$ 3,530,362</b>

**Going concern (note 2) and Commitments and contingencies (note 11)**

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

**Approved by the Board**

Director: Signed "Marc Lavine"  
Marc Lavine

Director: Signed "Kelly Ambrose"  
Kelly Ambrose



Advantex Marketing International Inc.  
Consolidated Statements of Loss and Comprehensive Loss (unaudited)  
For the three months ended September 30, 2022 and 2021  
(expressed in Canadian dollars)

	Note	2022	2021
		\$	\$
<b>Revenues</b>	14		
Marketing activities		\$ 216,577	\$ 197,468
Interest income		368,260	175,829
		<b>\$ 584,837</b>	<b>\$ 373,297</b>
Direct expenses	13/14	171,176	139,637
		413,661	233,660
<b>Operating expenses</b>			
Selling and marketing	13/14	134,747	147,898
General and administrative	13/14	284,385	201,608
<b>(Loss) from operations before depreciation, amortization and interest</b>		<b>(5,471)</b>	<b>(115,846)</b>
Stated interest expense - loan payable, and 9% non convertible debentures payable	6/7	314,077	244,207
Interest - Lease	15	180	2,172
Non-cash interest expense - accretion charges, restructuring bonus and amortization of transaction costs related to 9% non convertible debentures payable	7	211,676	194,183
<b>Net (loss) and comprehensive (loss)</b>		<b>\$ (531,404)</b>	<b>\$ (556,408)</b>
<b>(Loss) per share</b>			
Basic and Diluted	12	\$ (0.00)	\$ (0.01)

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

Advantex Marketing International Inc.  
Consolidated Statements of Changes in Shareholders' Deficiency (unaudited)  
For the three months ended September 30, 2022 and 2021  
(expressed in Canadian dollars)

	Class A preference shares	Common shares	Contributed surplus	Accumulated other comprehen - sive loss	Deficit	Total
	\$	\$	\$	\$	\$	\$
<b>Balance at July 1, 2021</b>	\$ 3,815	\$ 24,526,740	\$ 7,364,720	\$ (47,383)	\$ (39,860,019)	\$ (8,012,127)
Issuance of 9% non convertible debentures payable (note 7)	-	-	402,725	-	-	402,725
Net (loss) and comprehensive (loss)	-	-	-	-	(556,408)	(556,408)
<b>Balance at September 30, 2021</b>	\$ 3,815	\$ 24,526,740	\$ 7,767,445	\$ (47,383)	\$ (40,416,427)	\$ (8,165,810)
<b>Balance at July 1, 2022</b>	\$ 3,815	\$ 24,526,740	\$ 7,742,802	\$ (47,383)	\$ (42,567,857)	\$ (10,341,883)
Net (loss) and comprehensive (loss)	-	-	-	-	(531,404)	(531,404)
<b>Balance at September 30, 2022</b>	\$ 3,815	\$ 24,526,740	\$ 7,742,802	\$ (47,383)	\$ (43,099,261)	\$ (10,873,287)

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

Advantex Marketing International Inc.  
Consolidated Statements of Cash Flow (unaudited)  
For the three months ended September 30, 2022 and 2021  
(expressed in Canadian dollars)

	Note	2022	2021
		\$	\$
<b>Operational activities</b>			
Net (loss) for the period		\$ (531,404)	\$ (556,408)
Adjustments for:			
Accrued and unpaid 9% non convertible debentures payable interest	7	202,143	173,506
Interest - Lease	15	180	2,172
Accretion charge - 9% non convertible debentures payable	7	187,360	173,944
Restructuring bonus - 9% non convertible debentures payable	7	19,304	18,749
Amortization of transaction costs - 9% non convertible debentures payable	7	<u>5,012</u>	<u>1,490</u>
		(117,405)	(186,547)
Changes in items of working capital			
Accounts receivable		10,217	(8,386)
Transaction credits		1,672,505	(1,154,293)
Prepaid expenses and sundry assets		40,000	(1,998)
Accounts payable and accrued liabilities		<u>70,829</u>	<u>(10,694)</u>
		1,793,551	(1,175,371)
<b>Net cash generated/(used) - operating activities</b>		<b>\$ 1,676,146</b>	<b>\$ (1,361,918)</b>
<b>Financing activities</b>			
Gross proceeds - 9% non convertible debentures payable	7	\$ -	\$ 1,000,000
Transaction costs - 9% non convertible debentures payable	7	-	(77,501)
Payment for lease	15	(12,948)	(19,419)
Proceeds of loan payable	6	628,452	2,190,551
(Repayment) of loan payable		<u>(2,227,897)</u>	<u>(1,178,917)</u>
<b>Net cash generated/(used) - financing activities</b>		<b>\$ (1,612,393)</b>	<b>\$ 1,914,714</b>
<b>Increase in cash during the period</b>		<b>\$ 63,753</b>	<b>\$ 552,796</b>
Cash at beginning of the period		<u>93,185</u>	<u>82,606</u>
<b>Cash at end of the period</b>		<b>\$ 156,938</b>	<b>\$ 635,402</b>
<b>Additional information</b>			
Interest paid		\$ 111,934	\$ 70,701

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

## 1 General information

Advantex Marketing International Inc. and its subsidiaries (together the company or Advantex) is a public company with common shares listed on the Canadian Securities Exchange (trading symbol ADX).

During periods ended September 30, 2022 and 2021 the company's core business was its merchant cash advance ("MCA") program. Under this program, the company provides merchants with working capital through the pre-purchase, at a discount, of merchants' future cash flows.

The company also has an agreement with Aeroplan Inc. owned by Air Canada ("AC") to operate as a re-seller of aeroplan points to merchants. Aeroplan members are eligible to earn aeroplan points on purchases at merchants who acquire aeroplan points from the company. The original five year term of the agreement ended April 30, 2019, was extended to April 2020, thereafter to April 2021 and current extension is to December 31, 2022. The agreement can be terminated by AC under certain conditions during its term.

The company's segment reporting is provided in note 14.

Advantex is incorporated and domiciled in Canada. Until August 31, 2022 the address of its registered office was Suite 606, 600 Alden Road, Markham, Ontario, L3R 0E7, and thereafter is 100 King Street West, Suite 1600, Toronto, Ontario, M5X 1G5.

## 2 Going concern

These consolidated financial statements have been prepared in accordance with accounting principles applicable to a going concern, which contemplates that the company will be able to realize its assets and settle its liabilities as they come due during the normal course of operations for the foreseeable future. When a company is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity is required to disclose those uncertainties.

The company has a shareholders' deficiency of \$10,873,287 and negative working capital of \$3,505,590 as at September 30, 2022. During the year ended June 30, 2022 the company closed two financings (notes 7), \$1.0 million in September 2021 and \$150,000 in March 2022. The continuing negative effects of the pandemic, and the prevailing inflationary and increasing interest rate environment have created a more highly uncertain economic environment. More so for small independent businesses operating in the hospitality segment, especially restaurants. The company's customers are primarily small independent restaurants. Consequently, there is uncertainty surrounding the company's ability in the foreseeable future to generate cash flows sufficient to meet its operational needs and meet its obligations on due dates. Failure to meet obligations on due dates may lead to company being unable to continue operations due to: denial by suppliers of products and services; loss of access to a) loan payable (note 6) which supports the company's merchant cash advance program, and b) general working capital provided by 9% 2025 debentures (note 7); and inability to access alternative economically viable sources to replace existing capital. These material uncertainties cast significant doubt on the company's ability to

continue as a going concern.

These consolidated financial statements do not include any adjustments or disclosures that may result from the company's ability to continue as a going concern. If the going concern assumption were not appropriate for these consolidated financial statements, adjustments may be necessary in the carrying values of assets and liabilities and the reported expenses and balance sheet classifications; and such adjustments could be material.

### **3 Basis of preparation**

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

These interim consolidated financial statements do not include all the information and notes required by IFRS for annual financial statements and therefore, should be read in conjunction with the audited consolidated financial statements and notes for the company's year ended June 30, 2022, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

These interim consolidated financial statements and related notes have been reviewed by the company's audit committee and approved by the company's Board of directors ("Board") on November 29, 2022.

### **4 Summary of significant accounting policies**

The accounting policies adopted are consistent with those of the previous financial year.

Details of accounting policies are available in note 3 to the audited consolidated financial statements for year ended June 30, 2022.

### **5 Transaction credits**

Under the MCA program the company provides merchants with working capital through the pre-purchase, at a discount, of merchants' future cash flows.

Credit risk is the risk of financial loss to the company if a customer fails to meet its contractual obligations.

Under the MCA product, the company acquires the rights to receive future cash flows, associated with future business activity, at a discount from participating establishments ("transaction credits"). Under the MCA program the transaction credits are estimated to be fully extinguishable within 365 days. Until these transaction credits have been extinguished through collections from participating merchants there is a credit risk.

Transaction credits are net of applicable allowance, which is established based on specific credit risk associated with the customer and other relevant information.

The evaluation of collectability of transaction credits is done on an individual customer basis. For specifically identified transaction credit balances that are impaired an expected loss is estimated. The amount of the estimates is determined based on the status of the customer and the company's

historical experience on recoveries.

Due to the uncertainties created by Covid-19 pandemic, for the unimpaired transaction credits the company has estimated loss based on historical loss rate supplemented by a forecast loss rate. The historical loss ratio is based on the losses experienced over the seven year period prior to start of the Covid-19 pandemic. The forecast loss rate is based on the company's knowledge of its customers and its evaluation of the impact of the pandemic on individual customers' ability to operate. Location of the merchant business, past and current payment history, current economic activity, duration of the public health restrictions, time-line of return to pre-pandemic economic activity levels are the inputs into the forecast loss ratio.

The company collects its dues through pre-authorized debits. The company's past experience is that recurring rejections of payments by a merchant – unless due to administration or clerical oversight and rapidly rectified - is the likely indication of the merchant not being able to operate, pay the company's dues leading to a credit loss. The risk management processes of the company in determining the expected credit losses review: a) the unimpaired portfolio for merchants with recurring rejections, b) reason(s) for the rejection(s) and the time-line within which satisfactorily resolved, c) location of the merchant and number of years in business, and d) likelihood of continuation of business for the period until the dues are paid to the company.

During year ended June 30, 2021 and the first nine months of year ended June 30, 2022 Covid-19 pandemic restrictions impacted economic activity. There was uncertainty related to the pace and extent of economic recovery in the business segments the company operates in and hence the evaluation of collectability of transaction credits. The current inflationary and increasing interest rate environment and its unknown impact on economic activity is a likely factor in evaluation of collectability in future periods.

Recoveries are only recorded when objective verifiable evidence supports the change in the original provision.

The maximum exposure to credit risk is the net balance of the transaction credits.

The transaction credit balances and the related allowance is as follows:

	September 30, 2022	June 30, 2022
	\$	\$
Transaction credits	\$ 3,019,616	\$ 4,692,121
Allowance	(1,379,853)	(1,379,853)
<b>Per Consolidated statement of financial position</b>	<b>\$ 1,639,763</b>	<b>\$ 3,312,268</b>
<b>Maximum exposure to credit risk</b>	<b>\$ 1,639,763</b>	<b>\$ 3,312,268</b>

The transaction credits that are considered impaired and the related allowance is as follows:

	September 30, 2022	June 30, 2022
	\$	\$
Impaired transaction credits	\$ 1,310,831	\$ 1,246,397
Allowance	(1,310,831)	(1,246,397)
<b>Impaired transaction credits not allowed for</b>	<b>\$ -</b>	<b>\$ -</b>
The company carries a general allowance towards transaction credits. This allowance at September 30, 2022 and June 30, 2022 is the historical loss ratio. At September 30, 2021 this allowance is the historical loss ratio and a forecast loss ratio to estimate for recovery issues on account of pandemic	\$ 69,022	\$ 133,456

Movement on allowance for impaired transaction credits:

	September 30, 2022	September 30, 2021
	\$	\$
<b>Balance brought forward at start of period</b>	<b>\$ 1,379,853</b>	<b>\$ 1,061,295</b>
Allowance created during the period	-	-
Impaired accounts written back against allowance	-	74
<b>Balance carried forward at end of period</b>	<b>\$ 1,379,853</b>	<b>\$ 1,061,369</b>

## 6 Loan payable

	September 30, 2022	June 30, 2022
	\$	\$
<b>Balance at start of period</b>	<b>\$ 4,019,685</b>	<b>\$ 2,387,439</b>
(Decrease)/Increase in borrowing	(1,599,445)	1,632,246
<b>Balance at end of period</b>	<b>\$ 2,420,240</b>	<b>\$ 4,019,685</b>

The Loan payable is a line of credit facility provided by Accord Financial Inc. ("Accord"), and was established in December 2007. The loan payable has a facility limit of \$8.5 million and is only available to the company for acquisition of transaction credits. As security, Accord has first charge to all amounts due from establishments funded from the loan payable.

Due to Covid-19 pandemic restrictions and their impact on the company's business, Accord allowed the company to defer payment of interest from March 2020 to June 2020. Subsequent to June 30, 2020, Accord provided the company an overdraft facility of \$460,000. This overdraft facility was increased by \$75,000 in June 2022, to be paid back by middle of September 2022 and the company repaid the \$75,000 by due date. The overdraft facility is a general working capital facility and is a carve-out from the loan payable limit of \$8.5 million. The interest rate is similar to the loan payable. As of September 30, 2022, the company has utilized \$429,425 from this overdraft facility (at June 30, 2022 \$492,750 and at September 30, 2021 \$451,000).

In September 2021 the company and Accord agreed to: 1) extend the term of their agreement, which was due to end in December 2021, to June 30, 2022, 2) amend, effective September 1, 2021, the interest rate to the prime rate of a certain Canadian bank plus 8.80% from prime rate of a certain Canadian bank plus 9.05%, and 3) the overdraft facility would be repayable by the company in equal monthly instalments between January 2022 and June 2022.

In December 2021 Accord deferred the start of the re-payment of the overdraft facility to April 1, 2022.

In March 2022 the company and Accord agreed to: 1) extend the term of their agreement, which was due to end June 30, 2022, to July 31, 2024, and 2) a payment plan for Advantex to re-pay the overdraft facility by July 31, 2024. The agreement is subject to automatic renewal after July 31, 2024 for periods of one year unless terminated by either party by giving 180 days written notice prior to end of the term.

Accord funds 90% of each dollar of transaction credits acquired by the company and the company funds 10%. The company is responsible for all delinquencies on amounts due from establishments funded from the loan payable.

The loan payable is repayable on demand to Accord.

The interest cost during three months ended September 30, 2022 was \$111,934 (2021 \$70,701).

Tabulation of re-payment of overdraft facility

	<u>At September 22</u>
9 months ended June 30, 2023	\$ 87,882
12 months ended June 30, 2024	124,086
12 months ended June 30, 2025 - Payment due July 2024	217,457
	<u>\$ 429,425</u>

## 7 9% Non-convertible debentures payable

The company received agreement of the 9% debentures holders to extend their maturity date from December 31, 2021 to December 31, 2025. The 9% debentures were issued as 5,759 units (5,559 units in December 2017 and 200 units in October 2019) consisting of principal amount of \$5,759,000 and 623,377,196 common shares of the company. Effective March 15, 2021 the 9% debentures were replaced by 9% 2025 debentures on a dollar for dollar basis with respect to the principal amount, restructuring bonus, and interest rate as such terms are defined in the 9%



debentures.

The company closed a \$250,000 financing on March 15, 2021 by way of senior secured non-convertible debentures ("9% 2025 debentures"). The 9% 2025 debentures were issued on the same terms and rank pari passu with existing 9% Non-convertible debentures payable ("9% debentures") bearing interest at 9% per annum and maturing on December 31, 2025. The financing was a related party transaction (note 10).

The unpaid interest from December 16, 2018 until March 14, 2021 on the 9% debentures together with interest on interest are due on maturity of 9% 2025 debentures. An additional feature of the 9% 2025 debentures is that the first year interest is deferred and is payable in eight equal instalments, with each instalment being added to each semi-annual interest payment payable after the first year through December 31, 2025, and the interest on interest will be added in the final interest payment.

On September 7, 2021 the company issued 9% 2025 debentures for gross proceeds of \$1.0 million. The financing was a related party transaction (note 10). As described in Note 10, in September 2021, the purchasers of 9% 2025 debentures - \$250,000 in March 2021 and \$1.0 million in September 2021 - received common shares. The common shares were determined to have nil value.

On March 24, 2022 the company issued 9% 2025 debentures for gross proceeds of \$150,000. The financing was a related party transaction (note 10). As described in Note 10, in March 2022, the purchasers of 9% 2025 debenture received common shares. The common shares were determined to have nil value.

The 9% 2025 debentures are secured by a general security interest over the assets of the company and its subsidiaries. The 9% 2025 debentures require the company to meet financial covenants. The company was in compliance with financial covenants at September 30, 2021 and September 30, 2022. On June 26, 2022 the company received waiver of the events of default with respect to financial covenants at December 31, 2021 and March 31, 2022. In addition, the company received agreement of the debenture holders to defer the payment of interest payable September 15, 2022 and re-set financial covenants for quarters ended June 30, 2022 until June 30, 2023. If the company were to breach a financial covenant or were unable to pay its debts as they came due, it would be in default under the 9% 2025 debentures agreement and, as a result, the 9% 2025 debentures holders would have the right to waive the event of default, demand immediate payment of the 9% 2025 debentures in full or modify the terms and conditions of the 9% 2025 debentures including key terms such as repayment terms, interest rates and security. If the company is unable to secure alternative financing to repay the 9% 2025 debentures in the event that the debenture holders demand immediate payment, the 9% 2025 debentures holders would have the right to realize upon a part or all of the security held by them.

The fair value of the \$1.0 million 9% 2025 debentures issued in September 2021 was initially determined to be \$597,275 based on a discounted cash flow of the interest and principal obligations of the 9% 2025 debentures. As a result \$402,725 was recognized in the contributed surplus. At June 30, 2022 the fair value was amended to \$666,183 and the recognition in the contributed surplus was amended to \$333,817 (consolidated statements of changes in shareholder deficiency for year ended June 30, 2022). In addition, the company incurred \$77,501 of transaction costs related to the transaction and these are being amortized to maturity date.

The fair value of the \$150,000 9% 2025 debentures issued in March 2022 was determined to be \$105,735 based on a discounted cash flow of the interest and principal

obligations of the 9% 2025 debentures. As a result \$44,265 has been recognized in the contributed surplus (consolidated statements of changes in shareholder deficiency for year ended June 30, 2022). In addition, the company incurred \$8,115 of transaction costs related to the transaction and these are being amortized to maturity date.

Movement on 9% 2025 debentures is tabulated hereunder:

<b>Balance at June 30, 2022</b>	<b>\$ 5,991,254</b>	<b>\$ 962,624</b>	<b>\$ 6,953,878</b>
Accretion charge for the period	187,360	-	187,360
Restructuring bonus for the period	19,304	-	19,304
Amortization of transaction costs for the period	5,012	-	5,012
Interest for the period	-	202,143	202,143
<b>Balance at September 30, 2022</b>	<b>\$ 6,202,930</b>	<b>\$ 1,164,767</b>	<b>\$ 7,367,697</b>

Stated interest, accretion charge and restructuring bonus are as follows:

	<u>Period ended September 30, 2022</u>			<u>Period ended September 30, 2021</u>		
	<u>Stated interest</u>	<u>Accretion charge</u>	<u>Restructuring bonus</u>	<u>Stated interest</u>	<u>Accretion charge</u>	<u>Restructuring bonus</u>
	\$	\$	\$	\$	\$	\$
9% 2025 debentures	202,143	187,360	19,304	173,506	173,944	18,749
	<u>\$ 202,143</u>	<u>\$ 187,360</u>	<u>\$ 19,304</u>	<u>\$ 173,506</u>	<u>\$ 173,944</u>	<u>\$ 18,749</u>
In addition, three months ended September 30, 2022 include \$5,012 amortization of transaction costs (2021 - \$1,490).						

## 8 Share capital

No change in the authorized share capital since June 30, 2022.

No change in issued Class A preference shares since June 30, 2022.

No change in common shares since June 30, 2022.

## 9 Share-based payments

### Employee stock options

The company has a stock option plan for directors, officers, employees and consultants.

The number of employee stock options issuable per the company's stock option plan is 556,285.

There were no stock options outstanding during the three months ended September 30, 2022 and 2021.

The company has recorded \$nil of stock-based compensation expense during three months ended September 30, 2022 and 2021.

#### Restricted Share Unit Plan

The company has a restricted share unit plan (the "RSU Plan"), pursuant to which the Board may grant restricted share units (the "RSUs") to eligible persons. The eligible persons are directors, officers, employees and consultants of the company designated by the Board. On August 26, 2021 at a special meeting of the shareholders the company received approval from its shareholders to increase the maximum number of common shares of the company which may be made subject to issuance under RSUs granted under the RSU Plan.

The maximum number of common shares of the company which may be made subject to issuance under RSUs granted under the RSU Plan is 13,733,333.

The company has not granted any RSUs under the RSU plan as at September 30, 2022 and 2021.

#### Potentially Dilutive Securities

No potentially dilutive securities exist as at September 30, 2022 and September 30, 2021.

### **10 Related party transactions**

#### 9% 2025 debentures

Related parties were issued units of 9% debentures on terms and conditions applicable to other recipients of 9% debentures. Effective March 15, 2021 the 9% debentures held by all debenture holders were replaced by 9% 2025 debentures on a dollar for dollar basis with respect to the principal amount, restructuring bonus, and interest rate as such terms are defined in the 9% debentures.

On March 15, 2021, the company closed a \$250,000 financing by way of 9% 2025 debentures. Through managed accounts and principals, related parties Generation IACP Inc. and Generation PMCA Corp. purchased \$200,000, and Kelly Ambrose, the company's President and Chief Executive Officer and a director purchased \$50,000 of

the 9% 2025 debentures.

On September 7, 2021, the company closed a \$1.0 million financing by way of 9% 2025 debentures. Through managed accounts and principals, related parties Generation IACP Inc. and Generation PMCA Corp. purchased \$975,000, and Kelly Ambrose, the company's President and Chief Executive Officer and a director purchased \$25,000 of the 9% 2025 debentures.

On March 24, 2022, the company closed a \$150,000 financing by way of 9% 2025 debentures. Related parties, principals of Generation IACP Inc. and Generation PMCA Corp. purchased \$150,000 of the 9% 2025 debentures.

9% debentures and 9% 2025 debentures are described in note 7.

#### Common shares

On September 7, 2021 the company issued common shares. The common shares disclosed hereunder reflect conversion at consolidation ratio used in the share consolidation completed in June 2022.

- a. For purchase of \$200,000 and \$975,000 9% 2025 debentures on March 15, 2021 and September 7, 2021 respectively the company issued 175,270,833 common shares to managed accounts and principals of Generation IACP Inc. and Generation PMCA Corp. For purchase of \$50,000 and \$25,000 9% 2025 debentures on March 15, 2021 and September 7, 2021 respectively the company issued 11,187,500 common shares to Kelly Ambrose the company's President and Chief Executive Officer;
- b. Kelly Ambrose, the company's President and Chief Executive Officer was issued 10,833,333 common shares as a retention bonus and 219,621 common shares in lieu of a portion of vacation pay due to him; and
- c. Mukesh Sabharwal, the company's Vice President and Chief Financial Officer was issued 4,166,667 common shares as a retention bonus and 114,312 common shares in lieu of a portion of vacation pay due to him.

On March 24, 2022 for purchase of \$150,000 9% 2025 debentures the company issued 22,375,000 common shares to the principals of Generation IACP Inc. and Generation PMCA Corp.

The holdings of 9% 2025 debentures and common shares by related parties are summarized below:

	September 30, 2022		June 30, 2022	
	9% 2025 debentures	Common shares	9% 2025 debentures	Common shares
Director, Chief Executive Officer - K. Ambrose	\$ 575,000	25,424,582	\$ 575,000	25,424,582
Director - M. Lavine	500,000	2,450,494	500,000	2,450,494
Director - D. Moscovitz	9,000	38,966	9,000	38,966
Chief Financial Officer - M. Sabharwal	115,000	5,197,599	115,000	5,197,599
R. Abramson, GIACP, GPMCA (a)	3,208,650	151,409,008	3,543,650	158,137,414
Herbert Abramson (b)	431,000	48,864,527	431,000	48,864,527
	<u>\$ 4,838,650</u>	<u>233,385,176</u>	<u>\$ 5,173,650</u>	<u>240,113,582</u>
Total issued and outstanding 9% 2025 debentures and common shares	\$ 7,159,000	253,392,507	\$ 7,159,000	253,392,507
% held by parties in tabulation	67.6%	92.1%	72.3%	94.8%
(a) Randall Abramson ("R. Abramson"), along with Generation IACP Inc. ("GIACP") and Generation PMCA Corp. ("GPMCA") in their capacity as portfolio managers on behalf of their respective fully managed accounts, beneficially own (directly or indirectly) or exercise control or direction over, in aggregate, the above securities of the company. R. Abramson indirectly controls both GIACP and GPMCA and is a portfolio manager of both firms				
(b) Herbert Abramson, Chairman and a portfolio manager of both GIACP and GPMCA, beneficially owns the securities of the company				

## 11 Commitments and contingencies

### Legal matters

From time to time, the company is party to legal proceedings arising out of the normal course of business. The results of these litigations cannot be predicted with certainty, and management is of the opinion that the outcome of these types of proceedings is generally not determinable. Any loss resulting from these proceedings will be charged to operations in the period the loss is determined.

### Taxation

The Inland Revenue Service ("IRS") assessed a penalty of USD 100,000 with respect to a US subsidiary for late filing of a return for fiscal year which commenced September 1, 2020 and ended August 31, 2021 with respect to certain foreign owned US corporations. The corporation in question is dormant since its year ended August 31, 2019. The company has lodged an appeal with the IRS citing the relief for late filing available with respect to fiscal year 2020 and other mitigating circumstances including the relief available under small corporation category.

## 12 Earnings per share

Basic EPS is calculated by dividing the net income (loss) for the period attributable to equity owners of the company by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method.

	Period ended September 30, 2022	Period ended September 30, 2021
	\$	\$
Net (loss) and comprehensive (loss)	\$ (531,404)	\$ (556,408)
<b>Basic and Diluted EPS</b>		
Average number of issued post consolidation common shares during the period *	253,392,507	81,939,742
<b>Basic EPS</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>
* The company completed a share consolidation on the basis of one (1) post-consolidation common share for every thirty (30) pre-consolidation common shares. The company's board of directors set May 29, 2022 as the effective date of the consolidation. To enable a comparison the average number of issued common shares, in above tabulation, are stated as if the share consolidation had taken place on July 1, 2021. As additional information, the pre-consolidation average number of issued common shares during period ended September 30, 2021 was 2,458,192,250 and based on this the reported basic EPS for 2021 was \$0.00		
There are no potentially dilutive common shares outstanding at September 30, 2022 and 2021. Hence Diluted EPS not computed		

### 13 Nature of expenses

	Period ended September 30, 2022	Period ended September 30, 2021
	\$	\$
<b>Direct expenses</b>		
Costs of loyalty rewards, and marketing in connection with the company's merchant based loyalty program	\$ 164,996	\$ 138,171
Expense for provision against impaired accounts receivable and transaction credits, credit & collection expense	6,180	1,466
	<b>\$ 171,176</b>	<b>\$ 139,637</b>
<b>Selling and Marketing, and General &amp; Administrative</b>		
Salaries and wages including travel	\$ 325,778	\$ 250,351
Professional fees	39,010	58,043
Facilities, processing, and office expenses	42,500	22,370
Other	11,844	18,742
	<b>\$ 419,132</b>	<b>\$ 349,506</b>

Selling and Marketing, and General & Administrative reflect receipt of wage and rent subsidies during period ended September 30, 2022 of \$1,888 (2021 \$101,000). Salaries and wages expense during period ended September 30, 2021 reflects write-back of \$35,063 resulting from extinguishment of a portion of vacation pay dues to CEO and CFO of the company upon issuance to them of common shares in September 2021 (note 10).

### 14 Segment reporting

The company's reportable segments include: (1) MCA program, and (2) Aeroplan program. Where applicable, corporate and other activities are reported separately as Corporate.

The programs are described in Note 1.

Financial information by reportable segment for period ended September 30, 2022 and September 30, 2021 is tabulated.

The Chief Operating Decision Maker reviews the segment income statement. The segment assets and liabilities are not reviewed.

For the period ended September 30, 2022.

	MCA program	Aeroplan program	Total
	\$	\$	\$
Revenues	368,260	216,577	584,837
Direct expenses	<u>6,180</u>	<u>164,996</u>	<u>171,176</u>
	362,080	51,581	413,661
Selling & marketing	84,847	49,900	134,747
General & administrative	<u>179,072</u>	<u>105,313</u>	<u>284,385</u>
Earnings/(loss) from operations before depreciation, amortization and interest	98,161	(103,632)	(5,471)
Stated Interest - loan payable	111,934	-	111,934
Stated Interest - 9% non convertible debentures payable	127,285	74,858	202,143
Interest - Lease	112	68	180
Non-cash interest - 9% non convertible debentures payable - accretion charges, restructuring bonus and amortization of transaction costs	<u>133,288</u>	<u>78,388</u>	<u>211,676</u>
Segment (loss)	<u>(274,458)</u>	<u>(256,946)</u>	<u>(531,404)</u>



For the period ended September 30, 2021.

	MCA program	Aeroplan program	Total
	\$	\$	\$
Revenues	175,829	197,468	373,297
Direct expenses	<u>1,466</u>	<u>138,171</u>	<u>139,637</u>
	174,363	59,297	233,660
Selling & marketing	69,662	78,236	147,898
General & administrative	<u>94,961</u>	<u>106,647</u>	<u>201,608</u>
Earnings/(Loss) from operations before depreciation, amortization and interest	9,740	(125,586)	(115,846)
Stated Interest - loan payable	70,701	-	70,701
Stated Interest - 9% non convertible debentures payable	81,724	91,782	173,506
Interest - Lease	1,023	1,149	2,172
Non-cash interest - 9% non convertible debentures payable - accretion charges, restructuring bonus and amortization of transaction costs	<u>91,463</u>	<u>102,720</u>	<u>194,183</u>
Segment (loss)	<u>(235,171)</u>	<u>(321,237)</u>	<u>(556,408)</u>

## 15 Leases

The company adopted IFRS 16 with respect to its head office lease at 600 Alden Road (note 1).

The lease ended August 31, 2022.

Movement is tabulated:

	<u>Right of use asset</u>	<u>Lease liability</u>
	\$	\$
Balance as at June 30, 2022	\$ -	\$ 12,768
Interest payments	-	180
Lease payments	-	<u>(12,948)</u>
Balance as at September 30, 2022	<u>\$ -</u>	<u>\$ -</u>

## 16 Government subsidies

The company availed Covid-19 pandemic relief measures during periods ended September 30, 2022 and September 30, 2021 under Federal wage and rent subsidies

Amount of rent subsidy of \$1,888 received during period ended September 30, 2022 is reflected as a reduction of the facilities expense disclosed in note 13 (2021 - \$20,496). Amount of wage subsidy of \$80,504 received during period ended September 30, 2021 is reflected as a reduction of the salaries and wages expense disclosed in note 13.

The company received \$60,000 under the Canada Emergency Business Account. \$20,000 of this loan of \$60,000 is forgivable provided the loan is re-paid by December 31, 2023. There is no interest on the \$60,000 loan provided it is re-paid by December 31, 2023. Beginning on January 1, 2024, interest will accrue on the balance of the loan at the rate of 5% per annum.

Aeroplan is a Registered Trademark of Aeroplan Inc.

**ADVANTEX® MARKETING INTERNATIONAL INC.**  
**Management's Discussion and Analysis of Operating Results**  
For the three month periods ended September 30, 2022 and 2021

This management's discussion and analysis ("MD&A") has been prepared based on information available to Advantex Marketing International Inc. ("Advantex" or "the company") as at November 29, 2022. MD&A is a narrative explanation to enable the reader to assess material changes in the financial condition and results of operations of the company during the three month period ended September 30, 2022 compared to the three month period ended September 30, 2021. This MD&A should be read in conjunction with the company's audited consolidated financial statements and the related notes for the twelve months ended June 30, 2022, and the interim consolidated financial statements and the related notes for the three months ended September 30, 2022 which are available on [www.sedar.com](http://www.sedar.com). All dollar amounts are stated in Canadian Dollars, which is the company's presentation and functional currency, unless otherwise noted. Certain dollar amounts have been rounded and may not tie directly to the interim and audited consolidated financial statements.

**Overall Performance**

Advantex is an aggregator of independent merchants, and currently provides merchant cash advance ("MCA") and loyalty marketing services to its community of merchants. MCA program meets working capital needs of merchants. It is the core business of the company. Loyalty marketing provides merchants an economic way to market their establishments to about 5 million consumers. Loyalty marketing services are delivered through its re-seller relationship with Aeroplan loyalty program owned by Air-Canada.

The company's merchants operate across Canada in diverse business segments: restaurants; independent inns, resorts and selected hotels; spas; retailers of men's and ladies fashion, footwear and accessories; florists and garden centres; health and beauty centres; gift stores; and home décor, many of which are leaders in their respective business segment.

In the MCA program the company provides merchants' with working capital through pre-purchase, at a discount, of merchants' future cash flows and company earns its revenue, per contract terms, as it collects against the pre-purchased receivables. The amount collected against the pre-purchased receivables less of revenue is applied to reduce the working capital advances. The balance of working capital advances given to the merchants, less of provision for delinquent accounts, is the transaction credits on the consolidated statement of financial position.

In the loyalty marketing program the company is a re-seller of aeroplan points. Participating merchants are able to leverage a powerful currency – aeroplan points - to market their business, specific products and services to the Aeroplan membership which is able to accelerate earning aeroplan points. Advantex earns its revenue from selling aeroplan points, at an agreed price per aeroplan point.

Financial performance for three months ended September 30, 2022 ("Q1 Fiscal 2023") reflected gradual re-build of the MCA program following capital raise of \$1.0 million in September 2021 and \$150,000 in March 2022 offset by diminished ability, for want of capital, to deploy advances falling due for renewal in September 2022. Aeroplan program revenues continued to improve reflecting gradual return to normality post pandemic offset by economic environment.

Pandemic was the event driving three months ended September 30, 2021 (“Q1 Fiscal 2022”) financial performance. Pandemic had an adverse economic impact on Advantex’s customer base and consequently this negatively affected Advantex’s revenues from both programs, its earnings, and its financial position.

The key events of Q1 Fiscal 2023 and Q1 Fiscal 2022 and their outcomes on the financial performance are discussed in this Section.

#### Capital raise

In September 2021 the company raised \$1.0 million by issuing 9% 2025 debentures (Section 9% Non-Convertible Debentures Payable). The capital raise was a related party transaction (Section Related Party Transactions) where the purchasers were led by the existing primary shareholder and primary holder of 9% 2025 debentures.

This enabled the company to address the pandemic driven erosion of working capital, continue operations and start the process to re-build its MCA business. This re-build is evident in higher MCA program revenue of Q1 Fiscal 2023 compared to Q1 Fiscal 2022.

#### Agreements with partners

In September 2021 the company and Accord Financial Inc. (“Accord”) agreed to extend the term of their agreement to June 30, 2022. This was followed by an agreement in March 2022 where the parties agreed to extend term of agreement to July 31, 2024 (Section Loan Payable). Accord provides a line of credit facility that is available to the company only for acquisition of transaction credits under its MCA and Aeroplan programs. This relationship enabled the company to re-build its MCA program.

During Q1 Fiscal 2022 the company and Aeroplan Inc. (“Aeroplan”) continued to work together under the terms of the original agreement which ended April 30, 2021. In August 2022 the two parties signed an extension until December 31, 2022 while discussing future terms and direction (Section Economic Dependence). Under this agreement the company operated as a reseller of aeroplan points.

#### Interest rates

The interest payable by the company for using the line of credit provided by Accord is 8.8% plus prime rate of a Canadian bank. The increase in prime rate since early 2022 increased interest cost.

#### Financial Outcome

Both MCA and Aeroplan program revenues improved during Q1 Fiscal 2023 compared to Q1 Fiscal 2022 (\$584,837 vs. \$373,297) and this is reflected in improvement in company’s gross profit (\$413,661 vs. 233,660).

The company qualified and availed federal wage and rent subsidies during Q1 Fiscal 2022 (\$101,000). With tapering off of subsidy programs and improving company revenues, the subsidies availed during Q1 Fiscal 2023 were nominal at \$1,888. The company continued to keep a tight control over costs. The head office lease ended August 31, 2022. The company head office is C/o its legal counsel and its working environment is work from home, giving annual savings of about \$150,000.

The outcome of above was a significantly lower loss from operations before depreciation, amortization and interest. Q1 Fiscal 2023 \$5,471 vs Q1 Fiscal 2022 \$115,846.

Stated interest costs were higher in Q1 Fiscal 2023 reflecting higher utilization of line of credit, higher

debenture principal, and rising interest rates. The cost during Q1 Fiscal 2023 was \$314,077 vs Q1 Fiscal 2022 \$244,207.

Non-cash interest and costs were higher in Q1 Fiscal 2023. Primarily to do with accretion charges on account of 9% 2025 debentures raise in September 2021 and March 2022. Q1 Fiscal 2023 \$211,856 vs Q1 Fiscal 2022 \$196,355.

Q1 Fiscal 2023 net loss was lower at \$531,404 vs. Q1 Fiscal 2022 \$556,408.

## **Outlook**

The Outlook from the year ended June 30, 2022 MD&A filed on October 20, 2022 continues to be applicable as of date hereof, and is reproduced.

The company believes its core business - MCA program - is a growth industry because institutional lenders are not focused on meeting working capital needs of independent merchants, even more so because of impact of Covid-19 pandemic and the currently prevailing economic uncertainties. Independent merchants are the engines of significant economic activity and although there are several competitors in the MCA space the company believes its strategy of transparent and competitive pricing give it an ability to grow its MCA portfolio if it has access to growth capital.

The loyalty marketing program the company provides is dependent on its agreement with Aeroplan. Operating this program gives the company a significant secondary business line and an advantage over competition in the MCA space. The current agreement expires December 2022. The company expects to sign a multi-year renewal.

The company believes it has the support of the primary holder of 9% 2025 debentures, evidenced by their additive investment of \$1.3 million since March 2021. The company believes it has the support of Accord. The company and Accord extended the term of the agreement to July 31, 2024.

Primarily due to Covid-19 pandemic, the company's MCA portfolio had declined significantly. Since the raise of \$1.0 million in September 2021 the company started to re-build its MCA portfolio and as of June 30, 2022 it had about 125 merchants up from about 80 at start of September 2021. The company believes with adequate capital it has the ability to initially go back to pre Covid-19 pandemic level of about 250 merchants and expand beyond significantly thereafter. The \$1.0 million and \$150,000 the company raised in September 2021 and March 2022 was used to stabilize its financial position, fund re-build of its MCA business and for general corporate purposes. However, the company needs access to capital to maintain its MCA portfolio at June 30, 2022 level and from there to expand its MCA portfolio. In addition to capital the growth of MCA portfolio depends, given the prevailing economic environment, on the return of merchant business confidence. The maintenance and growth of company's MCA portfolio is essential to bring financial stability.

The company is engaging with primary holder of 9% 2025 debentures and potential investors to raise capital necessary to maintain and expand its MCA program, and continue operations.

There is reason to be cautiously optimistic about Advantex's future. The optimism comes from market size for the company's products and its experience of working in the market. Caution comes from uncertainty in the company's ability to raise capital to maintain and expand its business which is the path to financial stability. Additional risk factor is the current inflationary and high interest environment and its fallout on the economy which in turn could adversely impact business and consumer confidence.

## **Summary – Three months ended September 30, 2022**

The financial highlights for Q1 Fiscal 2023 compared to Q1 Fiscal 2022 are summarized in the tabulation:

	<u>Q1 Fiscal 2023</u>	<u>Q1 Fiscal 2022</u>
	\$	\$
<b>Revenues</b>		
MCA program	\$ 368,260	\$ 175,829
Aeroplan program	216,577	197,468
	<b>\$ 584,837</b>	<b>\$ 373,297</b>
<b>(Loss) from operations before depreciation, amortization, interest</b>	<b>\$ (5,471)</b>	<b>\$ (115,846)</b>
<b>Net (loss) and Comprehensive (loss)</b>	<b>\$ (531,404)</b>	<b>\$ (556,408)</b>

### Income Statement – Q1 Fiscal 2023 compared to Q1 Fiscal 2022

#### Context

Financial performance for Q1 Fiscal 2023 reflected gradual re-build of the MCA program following capital raise of \$1.0 million in September 2021 and \$150,000 in March 2022 offset by diminished ability, for want of capital, to deploy advances falling due for renewal in September 2022. Aeroplan program revenues continued to improve reflecting gradual return to normality post pandemic offset by economic environment.

Pandemic was the event driving Q1 Fiscal 2022 financial performance. Pandemic had an adverse economic impact on Advantex's customer base and consequently this negatively affected Advantex's revenues from both programs, its earnings, and its financial position.

#### Specifics

Q1 Fiscal 2022 MCA program revenues at \$368,260 improved (\$192,431 – 109.4% higher) compared to Q1 Fiscal 2022. Aeroplan program revenues at \$216,577 continued gradual improvement (\$19,109 – 9.7% higher) compared to Q1 Fiscal 2022.

The company's gross profit was higher by \$180,001 (77.0%). Q1 Fiscal 2023 \$413,661 compared to \$233,660 for Q1 Fiscal 2022. The MCA program gross profit at \$362,080 improved \$187,717 (107.7%) compared to Q1 Fiscal 2022 at \$174,363. The improvement reflects the growth in MCA revenues. Aeroplan program gross profit at \$51,581 was \$7,716 lower (13.0%) compared to Q1 Fiscal 2022 at \$59,297 and reflects margin compression consequent to revenues from larger but lower margin merchants forming a higher proportion of the total revenues.

Selling expenses were \$13,151 lower - Q1 Fiscal 2023 \$134,747 compared to Q1 Fiscal 2022 \$147,898. Remuneration/expenses of sales staff are the primary selling expenses (over 90% in both periods). Both periods reflect sales staff receiving, since April 1, 2020, 85% of their pre pandemic remuneration. The cost saving measure was implemented to address some of the financial impact of pandemic on the company.

General & Administrative expenses ("G&A") at \$284,385 were \$82,777 higher (41.1%) compared to Q1 Fiscal 2022 at \$201,608. Controlling for exceptional items in Q1 Fiscal 2022, the Q1 Fiscal 2023 G&A

were flat compared to Q1 Fiscal 2022. Q1 Fiscal 2023 reflects: (i) \$80,504 wage subsidy received under Federal wage subsidy (Q1 Fiscal 2023 \$nil). This subsidy was for sales and G&A staff of the company, (ii) \$20,496 Federal rent subsidy (Q1 Fiscal 2023 \$1,888), (iii) \$35,063 extinguishment of part of vacation pay dues to CEO and CFO who were issued common shares in settlement, and (iv) cost of special meeting of shareholders held in August 2021 to seek shareholder approval to issuance of common shares of the company in connection with the September 2021 financing; consolidation of the issued and outstanding common shares of the company; and increase the number of issuable units pursuant to the restricted share unit plan of the company.

The above revenues less costs are reflected in \$110,375 lower loss from operations before depreciation, amortization and interest. Q1 Fiscal 2023 \$5,471 compared to Q1 Fiscal 2022 \$115,846.

Stated interest cost was higher by \$69,870.

- Interest paid on loan payable was \$41,233 higher (Q1 Fiscal 2023 \$111,934 compared to Q1 Fiscal 2022 \$70,701), a reflection of higher utilization of loan payable and increase in the interest rate due to rate increases by the Bank of Canada (Q1 Fiscal 2023 interest rate on loan payable between 12.50 – 14.25% compared to 11.25 – 11.50% during Q1 Fiscal 2022). Average loan payable balance during Q1 Fiscal 2023 was \$3,240,394 compared to \$2,486,917 during Q1 Fiscal 2022. The higher utilization reflects higher MCA program receivables (transaction credits – stated net of provision for delinquent accounts - on the balance sheet) during Q1 Fiscal 2023 which in turn is a reflection of the re-build of MCA business commenced in September 2021; and
- Interest on 9% 2025 debentures was \$28,637 higher. The increase in Q1 Fiscal 2023 primarily reflects higher principal amount - \$1.0 million increase in September 2021 and \$150,000 in March 2022. The principal amount of the 9% 2025 debentures at September 30, 2022 was \$7,159,000.

Q1 Fiscal 2023 non cash interest at \$211,856 is higher by \$15,501 compared to Q1 Fiscal 2022 at \$196,355. The increase was primarily from accretion charges - \$187,360 in Q1 Fiscal 2023 compared to \$174,944 in Q1 Fiscal 2022 - to do with issuance of additional 9% 2025 debentures of \$1.0 million and \$150,000 in September 2021 and March 2022 respectively.

The above factors are reflected in a \$25,004 lower net loss. Q1 Fiscal 2023 \$531,404 compared to Q1 Fiscal 2022 \$556,408.

Balance Sheet – Q1 Fiscal 2023 compared to Q1 Fiscal 2022

	September 30, 2022	September 30, 2021	Increase/ (Decrease)
<b>Current assets</b>			
Transaction credits (net of provision for delinquent accounts)	\$ 1,639,763	\$ 2,880,956	\$ (1,241,193)
Cash	156,938	635,402	(478,464)
All others	74,692	147,149	(72,457)
	<b>\$ 1,871,393</b>	<b>\$ 3,663,507</b>	<b>\$ (1,792,114)</b>
Transaction credits as % of Current assets	87.6%	78.6%	
<b>Total assets</b>	<b>\$ 1,871,393</b>	<b>\$ 3,663,507</b>	<b>\$ (1,792,114)</b>
<b>Current liabilities</b>			
Loan payable	\$ 2,420,240	\$ 3,399,073	\$ (978,833)
Accounts payable and accrued liabilities	2,896,743	2,720,464	176,279
All others	60,000	127,432	(67,432)
	<b>\$ 5,376,983</b>	<b>\$ 6,246,969</b>	<b>\$ (869,986)</b>
<b>Non-current liabilities</b>			
9% non convertible debentures payable	\$ 7,367,697	\$ 5,582,348	\$ 1,785,349
Principal amount at September 30, 2022 \$7,159,000 vs. \$7,009,000 at September 30, 2021			

Transaction credits. Firstly, with the gradual easing of pandemic public health restrictions commencing late June 2021 onwards and availability of capital upon raise of \$1.0 million in September 2021 the company started to re-build its MCA portfolio and arrest the continuing decline – a result of pandemic health restrictions and their economic fall-out on the company and the company's merchant base - in the MCA portfolio since the start of the pandemic. Secondly, the company had diminished ability, for want of capital, to deploy advances falling due for renewal in September 2022. Thirdly, provision for delinquent accounts - \$1,379,853 at September 30, 2022 vs. \$1,061,369 at September 30, 2021 – reflected the company's policy to provide for credit risk. The above factors are reflected in the balance of transaction credits at the end of Q1 Fiscal 2023 and Q1 Fiscal 2022.

Cash. September 30, 2021 reflects \$1.0 m from capital raise in September 2021 and its utilization in operation during September 2021.

The loan payable is used exclusively to fund transaction credits deployed with merchants. The company funds 10% of each dollar of transaction credit and the loan payable funds the balance 90%. The company back-stops all delinquencies. To support the company during the pandemic Accord provided the company with a working capital overdraft. The loan payable balance at September 30, 2022 and September 30, 2021 includes amounts payable under the working capital overdraft provided by Accord (2022 \$429,425 vs 2021 \$451,000). The loan payable balance at September 30, 2022 and September 30, 2021 (net of working capital overdraft) reflects the change in transaction credits.

The 9% 2025 debentures balances at September 30, 2022 and September 30, 2021 reflect debt portion – fair value of debentures plus primarily the accretion charges - of



9% 2025 debentures, and accrued and unpaid interest. Unpaid interest at September 30, 2022 was \$1,164,767 compared to \$962,624 at June 30, 2022. (Section 9% Non-Convertible Debentures Payable).

### Results of Operations

	<u>Q1 Fiscal 2023</u>	<u>Q1 Fiscal 2022</u>
	\$	\$
<b>Revenue</b>	<b>\$ 584,837</b>	<b>\$ 373,297</b>
Costs of loyalty rewards, and marketing in connection with Advantex's merchant based loyalty program	164,996	138,171
Expense for provision against delinquent accounts, credit/collection expense	6,180	1,466
<b>Gross profit</b>	<b>\$ 413,661</b>	<b>\$ 233,660</b>
Selling and General & Administrative	419,132	349,506
<b>(Loss) from operations before depreciation, amortization, interest</b>	<b>\$ (5,471)</b>	<b>\$ (115,846)</b>
Cash interest on loan payable and debentures	314,077	244,207
<b>(Loss) from operations before depreciation, amortization, non-cash interest, and other non cash expenses</b>	<b>\$ (319,548)</b>	<b>\$ (360,053)</b>
Interest - Lease	180	2,172
Non-cash interest expense - accretion charges, restructuring bonus and amortization of transaction costs related to 9% non convertible debentures payable	211,676	194,183
<b>Net (loss) and comprehensive (loss)</b>	<b>\$ (531,404)</b>	<b>\$ (556,408)</b>
<b>Basic and Diluted (loss) per share</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>

*Extract from the Statement of Financial Position*

	At September 30, 2022	At June 30, 2022	Increase/ (Decrease)
	\$	\$	\$
<b>Current assets</b>			
Transaction credits	\$ 1,639,763	\$ 3,312,268	\$ (1,672,505)
All others	231,630	218,094	13,536
	<u>\$ 1,871,393</u>	<u>\$ 3,530,362</u>	<u>\$ (1,658,969)</u>
<b>Total assets</b>	<b>\$ 1,871,393</b>	<b>\$ 3,530,362</b>	<b>\$ (1,658,969)</b>
<b>Current liabilities</b>			
Loan payable	\$ 2,420,240	\$ 4,019,685	\$ (1,599,445)
Accounts payable and accrued liabilities	2,896,743	2,825,914	70,829
All others	60,000	72,768	(12,768)
	<u>\$ 5,376,983</u>	<u>\$ 6,918,367</u>	<u>\$ (1,541,384)</u>
<b>Non-current liabilities</b>			
9% non convertible debentures payable	\$ 7,367,697	\$ 6,953,878	\$ 413,819
Principal amount at September 30, 2022 and June 30, 2022 \$7,159,00			
<b>Shareholders' deficiency</b>	<b>\$ (10,873,287)</b>	<b>\$ (10,341,883)</b>	<b>\$ 531,404</b>

The change in current assets primarily reflects decrease in transaction credits, net of provision for delinquent accounts. Due to the company's diminished ability, for want of capital, to deploy advances falling due for renewal in September 2022, the transaction credits at September 30, 2022 were lower compared to June 30, 2022.

The change in the total assets reflects decrease in the current assets.

On the current liabilities side, the main change is on account of loan payable. Loan payable supports 90% investment in transaction credits. The loan payable balance at September 30, 2022 also includes amounts payable under the working capital overdraft provided by Accord (September 30, 2022 \$429,425 vs. June 30, 2022 \$492,750). The loan payable balance at September 30, 2022 and June 30, 2022 (net of working capital overdraft) reflects the change in transaction credits at the end of the two periods.

Non-current liabilities reflect 9% 2025 debentures. The balances reflect debt portion – fair value of debentures plus primarily the accretion charges - of 9% 2025 debentures, and accrued and unpaid interest. Unpaid interest at September 30, 2022 was \$1,164,767 compared to \$962,624 at June 30, 2022. (Section 9% Non-Convertible Debentures Payable).

The movement in the shareholders' deficit reflects net loss of \$531,404 during Q1 Fiscal 2023.

Extracts from the Statement of Cash Flow

	Q1 Fiscal 2023	Q1 Fiscal 2022	Change
	\$	\$	\$
Net (loss)	\$ (531,404)	\$ (556,408)	\$ 25,004
Adjustments for non cash expenses	413,999	369,861	44,138
(Loss) after adjustments for non cash expenses	\$ (117,405)	\$ (186,547)	\$ 69,142
Changes in working capital	1,793,551	(1,175,371)	2,968,922
Net cash generated from/(used in) financing activities	(1,612,393)	1,914,714	(3,527,107)
Net cash generated from/(used in) operations	\$ 63,753	\$ 552,796	\$ (489,043)
Cash at start of year	\$ 93,185	\$ 82,606	\$ 10,579
Cash at end of year	\$ 156,938	\$ 635,402	\$ (478,464)

*Adjustments for non-cash expenses.* A significant item for both periods was accrued and unpaid 9% 2025 debentures interest, for Q1 Fiscal 2023 \$202,143 vs. Q1 Fiscal 2022 \$173,506. Furthermore, charges for Accretion and Restructuring bonus respecting 9% 2025 debentures were \$206,664 for Q1 Fiscal 2023 vs. \$192,693 for Q1 Fiscal 2022.

*Changes in working capital.* Transaction credits, accounts receivable, accounts payable and accrued liabilities and other working capital items.

During Q1 Fiscal 2023 the primary item was decrease in transaction credits, net of provision for delinquent accounts, of \$1,672,505. Due to the company's diminished ability, for want of capital, to deploy advances falling due for renewal in September 2022, the transaction credits at September 30, 2022 were lower compared to June 30, 2022. During Q1 Fiscal 2022 the primary item was increase of \$1,154,293 in transaction credits, net of provision for delinquent accounts. The gradual easing of pandemic public health restrictions commencing late June 2021 onwards and availability of capital upon raise of \$1.0 million in September 2021 the company started to re-build its MCA portfolio and arrest the continuing decline – a result of pandemic health restrictions and their economic fall-out on the company and the company's merchant base - in the MCA portfolio since the start of the pandemic. There was nominal movement on provision for delinquent accounts during the two periods.

From time to time the company enters into payment plans to settle its dues. The company has arrears with respect to amounts due to Aeroplan. The company primarily fell into arrears on account of the pandemic. A payment plan was established in April 2021 and it ends in December 2022. As of date hereof the company is current with the payment plan obligations. The company has a payment plan with Accord (Section Loan Payable). As of date hereof the company is current with the payment plan obligations.

*Financing activities.*

Q1 Fiscal 2022 reflects raise of \$1.0 million gross proceeds via issuance of 9% 2025 debentures. Net of transaction costs \$922,499.

Loan payable. Loan payable supports 90% investment in transaction credits. The loan payable balance also includes amounts payable under the working capital overdraft provided by Accord. During Q1 Fiscal 2023 the decrease of \$1,599,445 is primarily due to above movement on transaction credits. During Q1 Fiscal 2022 the increase of \$1,011,634 is primarily due to above noted movement on transaction credits.

*Investing activities.* \$nil in both periods. The company is frugal with capital expenditures given its financial situation. During Q1 Fiscal 2023 the company continued gradual move of its entire IT infrastructure into the cloud. The company does not expect significant capital expenditures in the next twelve months.

*The presentations in Results of Operations section are not set out in accordance with International Financial Reporting Standards (“IFRS”). The presentations are extracts from the interim consolidated financial statement for the three months ended September 30, 2022, and have been included to provide additional analysis for the reader.*

## Revenue

The company’s revenues were derived from merchants participating in the MCA program, and the Aeroplan program which the company has been operating for about a decade.

In the MCA program the company provides merchants’ with working capital through pre-purchase, at a discount, of merchants’ future cash flows and company earns its revenue, per contract terms, as it collects against the pre-purchased cash flows. The amount collected against the pre-purchased cash flows less of revenue is applied to reduce the working capital advances. The balance of working capital advances given to the merchants, less of provision for delinquent accounts, is the transaction credits on the consolidated statement of financial position.

The Aeroplan program. Here the company is a re-seller. The company sells aeroplan points to merchants who are small and mid-sized retailers and service providers. Revenue is recognized, at the agreed price per aeroplan point, when the participating merchant issues aeroplan points to an Aeroplan member completing a qualifying transaction at the merchant.

The drivers for revenues from the MCA program are primarily the amount of working capital advances deployed with merchants, the discount at which future cash flows are purchased from merchants, followed by number of participating merchants.

The revenues from the Aeroplan program reflects the number of participating merchants, traffic of Aeroplan members completing purchases at participating merchants, the level of engagement of participating merchants in the program and mix of merchants issuing aeroplan points.

The revenue trends are provided in the tabulation.

	Q1 Fiscal 2023	Q1 Fiscal 2022	Inc./(Dec)	Inc./(Dec)
	\$	\$	\$	%
<b>Revenues</b>				
MCA program	\$ 368,260	\$ 175,829	\$ 192,431	109.4%
Aeroplan program	216,577	197,468	19,109	9.7%
	<b>\$ 584,837</b>	<b>\$ 373,297</b>	<b>\$ 211,540</b>	<b>56.7%</b>

### MCA program

The average transaction credits, net of provision for delinquent accounts, during Q1 Fiscal 2023 was \$2,506,372 compared to \$1,838,967 during Q1 Fiscal 2022. This is the primary reason for increase in MCA revenues of \$192,431.

Transaction credits, net of provision for transaction credits, at September 30, 2021 were \$1,154,293 higher compared to June 30, 2021. The gradual easing of pandemic public

health restrictions commencing late June 2021 onwards and availability of capital upon raise of \$1.0 million in September 2021 the company started to re-build its MCA portfolio and arrest the continuing decline – a result of pandemic health restrictions and their economic fall-out on the company and the company's merchant base - in the MCA portfolio since the start of the pandemic.

Transaction credits, net of provision for transaction credits, at September 30, 2022 were \$1,672,505 lower compared to June 30, 2022. Due to the company's diminished ability, for want of capital, to deploy advances falling due for renewal in September 2022.

Average number of MCA merchants during Q1 Fiscal 2023 was about 125 compared with about 100 during Q1 Fiscal 2022.

#### Aeroplan program

Aeroplan program revenues saw a gradual uptick in Q1 Fiscal 2023 as economic activity picked since summer of 2022.

Average number of merchants about 100 during both periods.

#### **Direct Expenses**

MCA direct expenses are expense for provision for delinquencies against transaction credits (\$nil for both periods), and credit /collection expense (Q1 Fiscal 2023 \$6,180 compared to \$1,466 for Q1 Fiscal 2022).

In the Aeroplan program, direct expenses are primarily costs of aeroplan points which the company purchases from Aeroplan. Other costs include cost of marketing and advertising on behalf of merchants and provision against receivables.

	Q1 Fiscal 2023	Q1 Fiscal 2022	Inc./(Dec)	Inc./(Dec)
	\$	\$	\$	%
<b>Revenues</b>				
MCA program	\$ 368,260	\$ 175,829	\$ 192,431	109.4%
Aeroplan program	216,577	197,468	19,109	9.7%
	<b>\$ 584,837</b>	<b>\$ 373,297</b>	<b>\$ 211,540</b>	<b>56.7%</b>
<b>Direct expenses</b>				
MCA program	\$ 6,180	\$ 1,466	\$ 4,714	321.6%
Aeroplan program	164,996	138,171	26,825	19.4%
	<b>\$ 171,176</b>	<b>\$ 139,637</b>	<b>\$ 31,539</b>	<b>22.6%</b>

#### MCA program.

While the company believes it has adequate provision for delinquencies as at September 30, 2022, the after effects of the pandemic and the prevailing inflationary and high interest environment are a significant risk factor when assessing the collectability of transaction credits.

The methodology for estimating the provision for delinquencies against transaction credits is discussed in this document in Credit Risk under section Critical Accounting Estimates.

The company monitored credit risk along above methodology during Q1 Fiscal 2023 and Q1 Fiscal 2022.

#### Aeroplan program

Direct cost relative to revenues is primarily attributable to the mix of gross margins the company earns from transacting merchants.

#### **Gross Profit**

The gross profit is tabulated:

	Q1 Fiscal 2023	Q1 Fiscal 2022	Inc./ (Dec)
	\$	\$	\$
MCA program	\$ 362,080	\$ 174,363	\$ 187,717
Aeroplan program	51,581	59,297	(7,716)
	<b>\$ 413,661</b>	<b>\$ 233,660</b>	<b>\$ 180,001</b>
Company gross margin	70.7%	62.6%	

The company's gross profit was higher reflecting improvement in MCA program gross profit and this reflects improvement in MCA revenues. Aeroplan program gross profit was marginally down and this reflected margin compression due to mix of merchants.

#### **Selling Expenses**

Selling expenses include expenses arising from remuneration of sales staff, and other selling activities. The significant component is cost – remuneration and travel/cell - of the sales staff.

During both periods the company's sales force is common to MCA and Aeroplan programs.

	Q1 Fiscal 2023	Q1 Fiscal 2022	Inc./.(Dec)	Inc./.(Dec)
	\$	\$	\$	%
<b>Revenues</b>				
MCA program	\$ 368,260	\$ 175,829	\$ 192,431	109.4%
Aeroplan program	216,577	197,468	19,109	9.7%
	<b>\$ 584,837</b>	<b>\$ 373,297</b>	<b>\$ 211,540</b>	<b>56.7%</b>
<b>Selling expenses</b>				
MCA Remuneration/expenses of sales staff	\$ 116,664	\$ 139,107	\$ (22,443)	-16.1%
Aeroplan Remuneration/expenses - staff	16,185	-	16,185	
Web marketing for MCA program	-	7,345	(7,345)	
All other	1,898	1,446	452	31.3%
	<b>\$ 134,747</b>	<b>\$ 147,898</b>	<b>\$ (13,151)</b>	<b>-8.9%</b>
Remuneration/expenses as % of selling expenses	98.6%	94.1%		

Both periods reflect sales staff receiving, since April 1, 2020, 85% of their pre pandemic remuneration. The cost saving measure was implemented to address some of the financial impact of the pandemic on the company.

In Q1 Fiscal 2022 the Aeroplan staff remuneration/expenses is included in G&A. Due to primary nature of this staff changing to sales the cost is included in selling expenses in Q1 Fiscal 2023.

### General and Administrative Expenses (“G&A”)

G&A expenses include compensation for all non-sales staff, professional fees, head office premises costs, shareholder and public relations costs, office overheads, capital and income taxes, and foreign exchange gains/(losses).

	Q1 Fiscal 2023	Q1 Fiscal 2022	Inc./(Dec)	Inc./(Dec)
	\$	\$	\$	%
<b>Change in revenues</b>	<b>\$ 584,837</b>	<b>\$ 373,297</b>	<b>\$ 211,540</b>	<b>56.7%</b>
<b>G&amp;A</b>				
Compensation for non-sales staff including staff travel	\$ 193,489	\$ 209,458	\$ (15,969)	
Compensation for Aeroplan staff	-	17,352	(17,352)	
Extinguishment of part of vacation pay dues of CEO and CFO	-	(35,063)	35,063	
CEWS - for sales and non-sales staff	-	(80,504)	80,504	
Head Office lease	24,869	38,353	(13,484)	
CERS	(1,888)	(20,496)	18,609	
All other G&A expenses	67,915	72,508	(4,594)	
	<b>\$ 284,385</b>	<b>\$ 201,608</b>	<b>\$ 82,777</b>	<b>41.1%</b>

Controlling for the following exceptional items in Q1 Fiscal 2022, the G&A for the two periods was flat.

- The CEO and CFO were issued 10,018,037 common shares in lieu of a part of their vacation dues (\$35,063) in September 2021;
- Cost assistance on sales and G&A salaries from Canada Emergency Wag Subsidy (“CEWS”) of \$80,504;
- Cost assistance on rent from Canada Emergency Rent Subsidy (“CERS”) of \$20,496 compared to \$1,888 from Hardest-Hit Business Recovery Program in Q1 Fiscal 2023; and
- Expense incurred for special meeting of shareholders held in August 2021 to seek shareholder approval to: issuance of common shares of the company in connection with financing closed in September 2021; consolidation of the issued and outstanding common shares of the company; and increase the number of issuable units pursuant to the restricted share unit plan of the company.

Both fiscal years reflect administration staff including management receiving, since April 1, 2020, 85% of their pre pandemic remuneration. The cost saving measure was implemented to address some of the financial impact of the pandemic on the company.

### Interest Expense

The interest expense is tabulated:



	Q1 Fiscal 2023	Q1 Fiscal 2022	Inc.//(Dec)
	\$	\$	\$
Stated ("Cash") interest expense			
Loan payable	\$ 111,934	\$ 70,701	\$ 41,233
9% non convertible debentures payable	<u>202,143</u>	<u>173,506</u>	<u>28,637</u>
	<u>\$ 314,077</u>	<u>\$ 244,207</u>	<u>\$ 69,870</u>
Non-cash interest expense			
Interest - Lease	\$ 180	\$ 2,172	\$ (1,992)
Accretion charge on 9% non convertible debentures payable	187,360	173,944	13,416
Restructuring bonus on 9% non convertible debentures payable	19,304	18,749	555
Amortization of transaction costs on 9% non convertible debentures payable	<u>5,012</u>	<u>1,490</u>	<u>3,522</u>
	<u>\$ 211,856</u>	<u>\$ 196,355</u>	<u>\$ 15,501</u>
Total interest expense	<u>\$ 525,933</u>	<u>\$ 440,562</u>	<u>\$ 85,371</u>

Stated interest cost was higher by \$69,870.

- Interest paid on loan payable was \$41,233 higher (Q1 Fiscal 2023 \$111,934 compared to Q1 Fiscal 2022 \$70,701), a reflection of higher utilization of loan payable and increase in the interest rate due to rate increases by the Bank of Canada (Q1 Fiscal 2023 interest rate on loan payable between 12.50 – 14.25% compared to 11.25 – 11.50% during Q1 Fiscal 2022). Average loan payable balance during Q1 Fiscal 2023 was \$3,240,394 compared to \$2,486,917 during Q1 Fiscal 2022. The higher utilization reflects higher MCA program receivables (transaction credits – stated net of provision for delinquent accounts - on the balance sheet) during Q1 Fiscal 2023 which in turn is primarily a reflection of the re-build of MCA business commenced in September 2021; and
- Interest on 9% 2025 debentures was \$28,637 higher. The increase in Q1 Fiscal 2023 reflects higher principal amount - \$1.0 million increase in September 2021 and \$150,000 in March 2022. The principal amount of the 9% 2025 debentures at September 30, 2022 was \$7,159,000.

Q1 Fiscal 2023 non cash interest at \$211,856 is higher by \$15,501 compared to Q1 Fiscal 2022 at \$196,355. The increase was primarily from accretion charges - \$187,360 in Q1 Fiscal 2023 compared to \$174,944 in Q1 Fiscal 2022 - to do with issuance of additional 9% 2025 debentures of \$1.0 million and \$150,000 in September 2021 and March 2022 respectively.

## Net Loss

Highlights of Q1 Fiscal 2023 compared to Q1 Fiscal 2022 are tabulated:

	<u>Q1 Fiscal 2023</u>	<u>Q1 Fiscal 2022</u>	<u>Inc./ (Dec)</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Revenues</b>	<b>\$ 584,837</b>	<b>\$ 373,297</b>	<b>\$ 211,540</b>
Direct expenses			
Costs of loyalty rewards, and marketing in connection with Advantex's merchant based loyalty program	164,996	138,171	26,825
Expense for provision against delinquent accounts, credit/collection expense	6,180	1,466	4,714
<b>Gross profit</b>	<b>413,661</b>	<b>233,660</b>	<b>180,001</b>
Selling and General & administrative expenses	421,020	450,506	(29,487)
Federal pandemic wage and rent subsidies	(1,888)	(101,000)	(99,113)
<b>(Loss) from operations before depreciation, amortization and interest</b>	<b>(5,471)</b>	<b>(115,846)</b>	<b>(110,375)</b>
Stated interest expense - loan payable, and 9% non convertible debentures payable	314,077	244,207	69,870
<b>(Loss) from operations before depreciation, amortization, non cash interest and non cash items</b>	<b>(319,548)</b>	<b>(360,053)</b>	<b>(40,505)</b>
Interest - Lease	180	2,172	(1,992)
Non-cash interest expense - accretion charges, restructuring bonus and amortization of transaction costs related to 9% non convertible debentures payable	211,676	194,183	17,493
<b>Net (loss) and comprehensive (loss)</b>	<b>\$ (531,404)</b>	<b>\$ (556,408)</b>	<b>\$ (25,004)</b>
<b>(Loss) per share</b>			
Basic and Diluted	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>	

\* The company completed a share consolidation on the basis of one (1) post-consolidation common share for every thirty (30) pre-consolidation common shares. The company's board of directors set May 29, 2022 as the effective date of the consolidation. To enable a comparison the average number of issued common shares, in above tabulation, are stated as if the share consolidation had taken place on July 1, 2021. As additional information, the pre-consolidation average number of issued common shares during period ended September 30, 2021 was 2,458,192,250 and based on this the reported basic EPS for 2021 was \$0.00

The detailed analysis of the above tabulated items is provided in Sections - *Income Statement – Q1 Fiscal 2023 compared to Q1 Fiscal 2022*, and in Sections Revenue, Direct Expenses, Gross Profit, Selling Expenses, G&A, and Interest Expense.

## Working Capital and Liquidity Management

	Q1 Fiscal 2023	Q1 Fiscal 2022
	\$	\$
<b>Funds available to expand MCA program (Transaction credits on the balance sheet) and meet working capital needs</b>		
Net (loss)	\$ (531,404)	\$ (556,408)
Adjustments for non cash expenses	413,999	369,861
(Loss) after adjustment for non cash expenses	(117,405)	(186,547)
Cash balances at start of the period	93,185	82,606
Change in loan payable	(1,599,445)	1,011,634
Net proceeds from raise of 9% non convertible debentures payable	-	922,499
Change in accounts receivable	10,217	(8,386)
	<b>\$ (1,613,448)</b>	<b>\$ 1,821,806</b>
<b>Utilization of funds</b>		
Cash balances at end of periods	\$ 156,938	\$ 635,402
Change in transaction credits	(1,672,505)	1,154,293
Change in accounts payable & accrued liabilities	(70,829)	10,694
Change in all other working capital items	(40,000)	1,998
Change in other financing items	12,948	19,419
	<b>\$ (1,613,448)</b>	<b>\$ 1,821,806</b>

### Working Capital and Liquidity Management

*Adjustments for non-cash expenses.* A significant item for both periods was accrued and unpaid 9% 2025 debentures interest, for Q1 Fiscal 2023 \$202,143 vs. Q1 Fiscal 2022 \$173,506. Furthermore, charges for Accretion and Restructuring bonus respecting 9% 2025 debentures were \$206,664 for Q1 Fiscal 2023 vs. \$192,693 for Q1 Fiscal 2022.

*Changes in working capital.* Transaction credits, accounts receivable, accounts payable and accrued liabilities and other working capital items.

During Q1 Fiscal 2023 the primary item was decrease in transaction credits, net of provision for delinquent accounts, of \$1,672,505. Due to the company's diminished ability, for want of capital, to deploy advances falling due for renewal in September 2022, the transaction credits at September 30, 2022 were lower compared to June 30, 2022. During Q1 Fiscal 2022 the primary item was increase of \$1,154,293 in transaction credits, net of provision for delinquent accounts. The gradual easing of pandemic public health restrictions commencing late June 2021 onwards and availability of capital upon raise of \$1.0 million in September 2021 the company started to re-build its MCA portfolio and arrest the continuing decline – a result of pandemic health restrictions and their economic fall-out on the company and the company's merchant base - in the MCA portfolio since the start of the pandemic. There was nominal movement on provision for delinquent accounts during the two periods.

From time to time the company enters into payment plans to settle its dues. The company has arrears with respect to amounts due to Aeroplan. The company primarily fell into arrears on account of the pandemic. A payment plan was established in April 2021 and it ends in December 2022. As of date hereof the company is current with the payment plan obligations. The company has a payment plan

with Accord (Section Loan Payable). As of date hereof the company is current with the payment plan obligations.

*Financing activities.*

Q1 Fiscal 2022 reflects raise of \$1.0 million gross proceeds via issuance of 9% 2025 debentures. Net of transaction costs \$922,499.

Loan payable. Loan payable supports 90% investment in transaction credits. The loan payable balance also includes amounts payable under the working capital overdraft provided by Accord. During Q1 Fiscal 2023 the decrease of \$1,599,445 is primarily due to above movement on transaction credits. During Q1 Fiscal 2022 the increase of \$1,011,634 is primarily due to above noted movement on transaction credits.

*Investing activities.* \$nil in both periods. The company is frugal with capital expenditures given its financial situation. During Q1 Fiscal 2023 the company continued gradual move of its entire IT infrastructure into the cloud. The company does not expect significant capital expenditures in the next twelve months.

The company does not have the wherewithal to re-pay its legacy suppliers i.e. those providing services connected to CIBC/TD program which ended in fiscal year ended June 30, 2019 and those suppliers not essential to operating the new business model. It will have to reach settlement accommodation with these suppliers. The company either has or is negotiating payment plans in place with suppliers critical to ongoing operations.

Cash balances at the end of periods reflect cash (used) by operations [(loss) after adjustment for non-cash expenses – see above tabulation], payments of accounts payable, collection of transaction credits, deployment of advances with merchants, raise of \$1.0 million in September 2021 and \$150,000 in March 2022 by issuance of 9% 2025 debentures, and usage for general corporate purposes.

The company's operations are funded by debt – loan payable and 9% 2025 debentures (Sections Loan Payable, 9% Non-Convertible Debentures Payable). The company's future success is dependent on financial stability in order to retain its existing relationships with Aeroplan, Accord and holders of 9% 2025 debentures (Section Economic Dependence), and access to additional working capital in the form of debt and or equity.

The \$1.0 million the company raised in September 2021 and \$150,000 in March 2022 was used to stabilize its financial position, fund its MCA business and for general corporate purposes. However, the pace at which it was able to expand its MCA portfolio was dependent on the return of merchant business confidence and the availability of funds – after use to stabilize its financial position and for general corporate purposes - from the money raised in Fiscal year ended June 30, 2022 to expand MCA portfolio. The return of merchant business confidence and the company's ability to raise growth capital are matters of uncertainty given the prevailing economic environment. The growth of company's MCA portfolio is essential to bring financial stability.

At the end of September 2022 the company was in urgent need of capital to maintain its current MCA program activity level, to continue to re-build its MCA program, and continue operations.

As of September 30, 2022 the company does not have any off balance sheet financing arrangements.

*Going Concern*

The consolidated financial statements for three months ended September 30, 2022 have been

prepared in accordance with accounting principles applicable to a going concern, which contemplates that the company will be able to realize its assets and settle its liabilities as they come due during the normal course of operations for the foreseeable future. When a company is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity is required to disclose those uncertainties.

The company has a shareholders' deficiency of \$10,873,287 and negative working capital of \$3,505,590 as at September 30, 2022. During the year ended June 30, 2022 the company closed two financings, \$1.0 million in September 2021 and \$150,000 in March 2022. The continuing negative effects of the pandemic, and the prevailing inflationary and increasing interest rate environment have created a more highly uncertain economic environment. More so for small independent businesses operating in the hospitality segment, especially restaurants. The company's customers are primarily small independent restaurants. Consequently, there is uncertainty surrounding the company's ability in the foreseeable future to generate cash flows sufficient to meet its operational needs and meet its obligations on due dates. Failure to meet obligations on due dates may lead to company being unable to continue operations due to: denial by suppliers of products and services; loss of access to a) loan payable which supports the company's merchant cash advance program, and b) general working capital provided by 9% 2025 debentures; and inability to access alternative economically viable sources to replace existing capital. These material uncertainties cast significant doubt on the company's ability to continue as a going concern.

These consolidated financial statements do not include any adjustments or disclosures that may result from the company's ability to continue as a going concern. If the going concern assumption were not appropriate for these consolidated financial statements, adjustments may be necessary in the carrying values of assets and liabilities and the reported expenses and balance sheet classifications; and such adjustments could be material.

### Contractual Obligations

Contractual obligations as at September 30, 2022 were due as follow:

	<u>Total</u>	<u>Less than 1 year</u>	<u>1 to 3 years</u>	<u>4 to 5 years</u>
	\$	\$	\$	\$
Loan payable	\$ 2,420,240	\$ 2,420,240	\$ -	\$ -
9% 2025 debentures	7,159,000	-	-	7,159,000
Canada Emergency Business Account	60,000	-	60,000	-
	<u>\$ 9,639,240</u>	<u>\$ 2,420,240</u>	<u>\$ 60,000</u>	<u>\$ 7,159,000</u>

In addition, there are contractual obligations to holders of 9% 2025 debenture payable on maturity date December 31, 2025: interest of \$1,150,383 payable for the period December 16, 2018 to March 14, 2021, restructuring bonus of \$1,288,620, and interest on unpaid interest of \$632,186. During the term of the 9% 2025 debentures the company has a contractual obligation to pay stated interest at 9% of \$3,033,976.

### Loan Payable

The Loan payable is a line of credit facility provided by Accord Financial Inc. ("Accord"), and was established in December 2007. The loan payable has a facility limit of \$8.5 million and is only available to the company for acquisition of transaction credits. As security, Accord has first charge to

all amounts due from establishments funded from the loan payable.

Due to Covid-19 pandemic restrictions and their impact on the company's business, Accord allowed the company to defer payment of interest from March 2020 to June 2020. Subsequent to June 30, 2020, Accord provided the company an overdraft facility of \$460,000. This overdraft facility was increased by \$75,000 in June 2022, to be paid back by middle of September 2022 and the company repaid the \$75,000 by due date. The overdraft facility is a general working capital facility and is a carve-out from the loan payable limit of \$8.5 million. The interest rate is similar to the loan payable. As of September 30, 2022, the company has utilized \$429,425 from this overdraft facility (at June 30, 2022 \$492,750 and at September 30, 2021 \$451,000).

In September 2021 the company and Accord agreed to: 1) extend the term of their agreement, which was due to end in December 2021, to June 30, 2022, 2) amend, effective September 1, 2021, the interest rate to the prime rate of a certain Canadian bank plus 8.80% from prime rate of a certain Canadian bank plus 9.05%, and 3) the overdraft facility would be repayable by the company in equal monthly instalments between January 2022 and June 2022.

In December 2021 Accord deferred the start of the re-payment of the overdraft facility to April 1, 2022.

In March 2022 the company and Accord agreed to: 1) extend the term of their agreement, which was due to end June 30, 2022, to July 31, 2024, and 2) a payment plan for Advantex to re-pay the overdraft facility by July 31, 2024. The agreement is subject to automatic renewal after July 31, 2024 for periods of one year unless terminated by either party by giving 180 days written notice prior to end of the term.

Accord funds 90% of each dollar of transaction credits acquired by the company and the company funds 10%. The company is responsible for all delinquencies on amounts due from establishments funded from the loan payable.

The loan payable is repayable on demand to Accord.

### **9% Non-Convertible Debentures Payable**

The company received agreement of the holders of senior secured 9% non-convertible debentures payable ("9% debentures") to extend their maturity date from December 31, 2021 to December 31, 2025. The 9% debentures were issued as 5,759 units (5,559 units in December 2017 and 200 units in October 2019) consisting of principal amount of \$5,759,000 and 623,377,196 common shares of the company. Effective March 15, 2021 the 9% debentures were replaced by way of senior secured non-convertible debentures payable ("9% 2025 debentures") on a dollar for dollar basis with respect to the principal amount, restructuring bonus, and interest rate as such terms are defined in the 9% 2025 debentures.

The company closed a \$250,000 financing on March 15, 2021 by way of 9% 2025 debentures. The 9% 2025 debentures were issued on the same terms and rank pari passu with existing 9% debentures bearing interest at 9% per annum and maturing on December 31, 2025. The financing was a related party transaction (Section Related Party Transactions).

The unpaid interest from December 16, 2018 until March 14, 2021 on the 9% debentures together with interest on interest are due on maturity of 9% 2025 debentures. An additional feature of the 9% 2025 debentures is that the first year interest is deferred and is payable in eight equal instalments, with each instalment being added to each semi-annual interest payment payable after the first year through December 31, 2025, and the interest on interest will be added in the final interest payment.

On September 7, 2021 the company issued 9% 2025 debentures for gross proceeds of \$1.0 million. The financing was a related party transaction. In September 2021, the purchasers of 9% 2025 debentures - \$250,000 in March 2021 and \$1.0 million in September 2021 - received common shares. The common shares were determined to have nil value.

On March 24, 2022 the company issued 9% 2025 debentures for gross proceeds of \$150,000. The financing was a related party transaction. In March 2022, the purchasers of 9% 2025 debenture received common shares. The common shares were determined to have nil value.

The 9% 2025 debentures are secured by a general security interest over the assets of the company and its subsidiaries. The 9% 2025 debentures require the company to meet financial covenants. The company was in compliance with financial covenants at September 30, 2021 and September 30, 2022. On June 26, 2022 the company received waiver of the events of default with respect to financial covenants at December 31, 2021 and March 31, 2022. In addition, the company received agreement of the debenture holders to defer the payment of interest payable September 15, 2022 and re-set financial covenants for quarters ended June 30, 2022 until June 30, 2023. If the company were to breach a financial covenant or were unable to pay its debts as they came due, it would be in default under the 9% 2025 debentures agreement and, as a result, the 9% 2025 debentures holders would have the right to waive the event of default, demand immediate payment of the 9% 2025 debentures in full or modify the terms and conditions of the 9% 2025 debentures including key terms such as repayment terms, interest rates and security. If the company is unable to secure alternative financing to repay the 9% 2025 debentures in the event that the debenture holders demand immediate payment, the 9% 2025 debentures holders would have the right to realize upon a part or all of the security held by them.

The fair value of the \$1.0 million 9% 2025 debentures issued in September 2021 was initially determined to be \$597,275 based on a discounted cash flow of the interest and principal obligations of the 9% 2025 debentures. As a result \$402,725 was recognized in the contributed surplus. At June 30, 2022 the fair value was amended to \$666,183 and the recognition in the contributed surplus was amended to \$333,817 (consolidated statements of changes in shareholder deficiency for year ended June 30, 2022). In addition, the company incurred \$77,501 of transaction costs related to the transaction and these are being amortized to maturity date.

The fair value of the \$150,000 9% 2025 debentures issued in March 2022 was determined to be \$105,735 based on a discounted cash flow of the interest and principal obligations of the 9% 2025 debentures. As a result \$44,265 has been recognized in the contributed surplus (consolidated statements of changes in shareholder deficiency for year ended June 30, 2022). In addition, the company incurred \$8,115 of transaction costs related to the transaction and these are being amortized to maturity date.

The principal amount of the 9% 2025 debentures at September 30, 2022 and June 30, 2022 was \$7,159,000 (September 30, 2021 \$7,009,000).

## Summary of Quarterly Results

In millions of dollars, except per share amounts						
<u>12 month period ended September 30, 2022</u>						
	Q2	Q3	Q4	Q1	Total	
	Dec 31, 2021	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022		
	\$	\$	\$	\$		\$
Revenues	0.4	0.5	0.5	0.6		2.0
% of annual revenues	20.1%	25.0%	24.9%	30.0%		100.0%
Net (loss)	(0.7)	(0.6)	(0.9)	(0.5)		(2.7)
(Loss) per share - Basic and Diluted	-	-	-	-		(0.01)
<u>12 month period ended September 30, 2021</u>						
	Q4	Q3	Q4	Q1	Total	
	Dec 31, 2020	Mar 21, 2021	Jun 30, 2021	Sep 30, 2021		
	\$	\$	\$	\$		\$
Revenues	0.4	0.2	0.3	0.4		1.3
% of annual revenues	30.8%	15.4%	23.0%	30.8%		100.0%
Net (loss)	(0.5)	(0.5)	(0.6)	(0.6)		(2.2)
(Loss) per share - Basic and Diluted	(0.02)	(0.01)	(0.02)	(0.01)		(0.07)

Q1 Fiscal 2023 reflects re-build of MCA business following capital raises in September 2021 and March 2022, and diminished capital availability to deploy advances falling due for renewal in September 2022.

Pandemic was the primary factor driving performance during Q1 Fiscal 2022. The start of re-build of MCA business following capital raise of \$1.0 million in September 2021 was a secondary factor.

### Capital Resources

The company did not incur material capital expenditures or enter into any material equipment leases during the two periods under review. During Q1 Fiscal 2023 the company continued gradual move of its entire IT infrastructure into the cloud. The company does not expect significant capital expenditures in the next twelve months.

### Critical Accounting Estimates

The preparation of the company's consolidated financial statements, in accordance with IFRS, requires the company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the interim and annual consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The company's significant accounting policies are disclosed in note 3 to the audited consolidated financial statements for year ended June 30, 2022.

### Contingent liabilities

From time to time, the company is party to legal proceedings arising out of the normal course of business. The results of these litigations cannot be predicted with certainty,



and management is of the opinion that the outcome of these types of proceedings is generally not determinable. Any loss resulting from these proceedings will be charged to operations in the period the loss is determined.

#### *Going concern*

The company assesses the going concern assumption on a quarterly basis. In assessing whether the going concern assumption is appropriate, management considers all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The company has prepared a financial forecast based on its expectation regarding impact of the pandemic and its interplay with uncertain economic environment in the foreseeable future, market for its programs, its ability to expand its existing MCA and Aeroplan programs, renewal of its agreement with Aeroplan, ability to reach and fulfil settlement accommodation with suppliers, continued access to existing sources of debt, ability to access additional sources of working capital in the form of either debt or equity to stabilize its financial situation, continue operations, and support maintenance and growth of its core business, the MCA program.

The company's audited consolidated financial statements for year ended June 30, 2022 and three months ended September 30, 2022 carry a going concern note (note 2a and note 2 respectively). The note is also carried in the Section Working Capital and Liquidity Management in this document.

#### *Financial instruments – fair value*

The carrying value of accounts receivable, transaction credits, accounts payable and accrued liabilities, loan payable approximate their fair values due to the short-term maturity of these instruments.

A significant amount of estimation was applied in evaluation of the fair value of the 9% 2025 debentures. Estimates applied by management in the determination of fair value are reflective of the company's overall cost of equity capital.

#### *Credit risk*

Credit risk is the risk of financial loss to the company if a customer fails to meet its contractual obligations.

The company has certain business risks linked to the collection of its transaction credits.

Under the MCA program the company acquires the rights to receive future cash flows, associated with future business activity, at a discount from participating merchants ("transaction credits" on consolidated statement of financial position).

The majority of the transaction credits are estimated to be fully extinguishable within 365 days. Until these transaction credits have been extinguished through collections from participating merchants, there is a credit risk.

The evaluation of collectability of transaction credits is done on an individual customer basis. For specifically identified transaction credit balances that are impaired an expected loss is estimated. The amount of the estimates is determined based on the status of the customer and the company's historical experience on recoveries.

Due to the uncertainties created by pandemic, for the unimpaired transaction credits the company has estimated loss based on historical loss rate supplemented by a forecast loss rate. The historical loss ratio is based on the losses experienced over the seven year period prior to start of the pandemic.

The forecast loss rate is based on the company's knowledge of its customers and its evaluation of the impact of the pandemic on individual customers' ability to operate. Location of the merchant business, past and current payment history, current economic activity, duration of the public health restrictions, time-line of return to pre-pandemic economic activity levels are the inputs into the forecast loss ratio.

The company collects its dues through pre-authorized debits. The company's past experience is that recurring rejections of payments by a merchant – unless due to administration or clerical oversight and rapidly rectified - is the likely indication of the merchant not being able to operate, pay the company's dues leading to a credit loss. The risk management processes of the company in determining the expected credit losses review: a) the unimpaired portfolio for merchants with recurring rejections, b) reason(s) for the rejection(s) and the time-line within which satisfactorily resolved, c) location of the merchant and number of years in business, and d) likelihood of continuation of business for the period until the dues are paid to the company.

Recoveries are only recorded when objective verifiable evidence supports the change in the original provision.

The pandemic restrictions have impacted economic activity. There is uncertainty related to the pace and extent of economic recovery in the business segments the company operates in and hence the evaluation of collectability of transaction credits.

The maximum exposure to credit risk is the balance, net of provision for impaired accounts, of the transaction credits, and accounts receivable.

The accounts receivable, transaction credits, and the allowance is as follows:

	September 30, 2022	June 30, 2022
	\$	\$
Transaction credits	\$ 3,019,616	\$ 4,692,121
Accounts receivable	77,488	87,705
Allowance	<u>(1,384,238)</u>	<u>(1,384,238)</u>
<b>Per Consolidated statement of financial position</b>	<b><u>\$ 1,712,866</u></b>	<b><u>\$ 3,395,588</u></b>
<b>Maximum exposure to credit risk</b>	<b>\$ 1,712,866</b>	<b>\$ 3,395,588</b>

The transaction credits that are considered impaired and the related allowance is as follows:

	September 30, 2022	June 30, 2022
	\$	\$
Impaired transaction credits	\$ 1,310,831	\$ 1,246,397
Allowance	<u>(1,310,831)</u>	<u>(1,246,397)</u>
<b>Impaired transaction credits not allowed for</b>	<b>\$ -</b>	<b>\$ -</b>
The company carries a general allowance towards transaction credits. This allowance at September 30, 2022 and June 30, 2022 is the historical loss ratio. At September 30, 2021 this allowance is the historical loss ratio and a forecast loss ratio to estimate for recovery issues on account of pandemic	\$ 69,022	\$ 133,456

### Stock Options

The company has a stock option plan for directors, officers, employees and consultants. The stock options are non-assignable, the stock option price is to be fixed by the Board of Directors, term of the stock options may not exceed five years and payment for the optioned shares is required to be made in full on the exercise of the stock options. All stock options are equity settled. The stock options are subject to various vesting provisions, determined by the Board of Directors, ranging from immediately to four years.

The number of employee stock options issuable per the company's stock option plan is 556,285.

There were no stock options outstanding during Q1 Fiscal 2023 and Q1 Fiscal 2022.

There was no stock based compensation expense during Q1 Fiscal 2023 and Q1 Fiscal 2022.

### Restricted Share Unit Plan

On December 18, 2017, the Board of Directors ("Board") authorized the creation of a restricted share unit plan (the "RSU Plan"), pursuant to which the Board may grant restricted share units (the "RSUs") to eligible persons where the eligible persons are directors, officers, employees and consultants of the company designated by the Board.

On August 26, 2021 at a special meeting of the shareholders the company received approval from its shareholders to increase the maximum number of common shares of the company which may be made subject to issuance under RSUs granted under the RSU Plan.

Following the consolidation of common shares in May 2022 the maximum number of common shares of the company which may be made subject to issuance under RSUs granted under the RSU Plan is 13,733,333.

The company has not granted any RSUs under the RSU plan as at September 30, 2022 and 2021.

## **Outstanding Share Data**

No change in the authorized share capital since June 30, 2022.

No change in issued and outstanding Class A preference shares since June 30, 2022. Issued and outstanding 461,887 Class A preference shares.

No change in issued and outstanding common shares since June 30, 2022. Issued and outstanding 253,392,507.

## **Potentially Dilutive Securities**

As of date hereof, there are no potentially dilutive securities exercisable into common shares of the company.

## **Related Party Transactions**

### 9% 2025 debentures

Related parties were issued units of 9% debentures on terms and conditions applicable to other recipients of 9% debentures. Effective March 15, 2021 the 9% debentures held by all debenture holders were replaced by 9% 2025 debentures on a dollar for dollar basis with respect to the principal amount, restructuring bonus, and interest rate as such terms are defined in the 9% debentures.

On March 15, 2021, the company closed a \$250,000 financing by way of 9% 2025 debentures. Through managed accounts and principals, related parties Generation IACP Inc. and Generation PMCA Corp. purchased \$200,000, and Kelly Ambrose, the company's President and Chief Executive Officer and a director purchased \$50,000 of the 9% 2025 debentures.

On September 7, 2021, the company closed a \$1.0 million financing by way of 9% 2025 debentures. Through managed accounts and principals, related parties Generation IACP Inc. and Generation PMCA Corp. purchased \$975,000, and Kelly Ambrose, the company's President and Chief Executive Officer and a director purchased \$25,000 of the 9% 2025 debentures.

On March 24, 2022, the company closed a \$150,000 financing by way of 9% 2025 debentures. Related parties, principals of Generation IACP Inc. and Generation PMCA Corp. purchased \$150,000 of the 9% 2025 debentures.

9% debentures and 9% 2025 debentures are described in Section 9% Non-Convertible Debentures Payable.

### Common shares

On September 7, 2021 the company issued common shares. The common shares disclosed hereunder reflect conversion at consolidation ratio used in the share consolidation completed in June 2022.

- a. For purchase of \$200,000 and \$975,000 9% 2025 debentures on March 15, 2021 and September 7, 2021 respectively the company issued 175,270,833 common shares to managed accounts and principals of Generation IACP Inc. and Generation PMCA Corp. For purchase of \$50,000 and \$25,000 9% 2025 debentures on March 15, 2021 and September 7, 2021 respectively the company issued 11,187,500 common shares to Kelly Ambrose the company's President and

Chief Executive Officer;

- b. Kelly Ambrose, the company's President and Chief Executive Officer was issued 10,833,333 common shares as a retention bonus and 219,621 common shares in lieu of a portion of vacation pay due to him; and
- c. Mukesh Sabharwal, the company's Vice President and Chief Financial Officer was issued 4,166,667 common shares as a retention bonus and 114,312 common shares in lieu of a portion of vacation pay due to him.

On March 24, 2022 for purchase of \$150,000 9% 2025 debentures the company issued 22,375,000 common shares to the principals of Generation IACP Inc. and Generation PMCA Corp.

The holdings of 9% 2025 debentures and common shares by related parties are summarized below:

	September 30, 2022		June 30, 2022	
	9% 2025 debentures	Common shares	9% 2025 debentures	Common shares
Director, Chief Executive Officer - K. Ambrose	\$ 575,000	25,424,582	\$ 575,000	25,424,582
Director - M. Lavine	500,000	2,450,494	500,000	2,450,494
Director - D. Moscovitz	9,000	38,966	9,000	38,966
Chief Financial Officer - M. Sabharwal	115,000	5,197,599	115,000	5,197,599
R. Abramson, GIACP, GPMCA (a)	3,208,650	151,409,008	3,543,650	158,137,414
Herbert Abramson (b)	431,000	48,864,527	431,000	48,864,527
	<u>\$ 4,838,650</u>	<u>233,385,176</u>	<u>\$ 5,173,650</u>	<u>240,113,582</u>
Total issued and outstanding 9% 2025 debentures and common shares	\$ 7,159,000	253,392,507	\$ 7,159,000	253,392,507
% held by parties in tabulation	67.6%	92.1%	72.3%	94.8%
(a) Randall Abramson ("R. Abramson"), along with Generation IACP Inc. ("GIACP") and Generation PMCA Corp. ("GPMCA") in their capacity as portfolio managers on behalf of their respective fully managed accounts, beneficially own (directly or indirectly) or exercise control or direction over, in aggregate, the above securities of the company. R. Abramson indirectly controls both GIACP and GPMCA and is a portfolio manager of both firms				
(b) Herbert Abramson, Chairman and a portfolio manager of both GIACP and GPMCA, beneficially owns the securities of the company				

### Economic Dependence

The company's has two business units. Its core business is MCA program and the secondary business is operating as a re-seller of aeroplan points as part of Aeroplan program.

While both programs are dependent on the continuity of the support of the 9% 2025 debentures which is the source of general working capital, the MCA program is dependent on the support of asset-based lenders, such as Accord, which provide the financing enabling the company to fund up to 90% of each \$ of merchant cash advance.

The 9% 2025 debentures are secured by a general security interest over the assets of the company and its subsidiaries. If the company were to breach a financial covenant or were unable to pay its debts as they came due, it would be in default under the 9% 2025 debentures agreement and, as a result, the 9% 2025 debentures holders would have the right to waive the event of default, demand immediate payment of the 9% 2025 debentures in full or modify the terms and conditions of the 9% 2025 debentures including key terms such as repayment terms, interest rates and security. If the company is unable to secure alternative financing to repay the 9% 2025 debentures, the 9% 2025 debentures holders would have the right to realize upon a part or all of the security held by them. On June 26, 2022 the company received waiver of the events of default with respect to financial covenants at December 31, 2021 and March 31, 2022. In addition, the company received agreement of the debenture holders to defer the payment of interest payable September 15, 2022 and re-set financial covenants for quarters ended June 30, 2022 until June 30, 2023. The company was in compliance with financial covenants at September 30, 2022. The company has a 15 year + relationship with the principal holder of the 9% 2025 debentures and the principal holders invested \$1,325,000 through 9% 2025 debentures in the company (\$200,000 in March 2021, \$975,000 in September 2021 and \$150,000 in March 2022) - Section Related Party Transactions.

In March 2022 the company and Accord agreed to: 1) extend the term of their loan payable agreement, which was due to end June 30, 2022, to July 31, 2024, and 2) a payment plan for the company to re-pay the general working capital overdraft facility – provided to enable the company to cope with the adverse impacts of the pandemic - by July 31, 2024. The agreement is subject to automatic renewal after July 31, 2024 for periods of one year unless terminated by either party by giving 180 days written notice prior to end of the term. The loan payable is repayable on demand to Accord pursuant to an event of default defined in the agreement. As of date hereof the company was in compliance with the payment plan which commenced October 31, 2022. The company has a 10 year + relationship with Accord.

The Aeroplan program is dependent on agreement with Aeroplan. Until August 2022 the company and Aeroplan continued to work together under the terms of the original agreement which ended April 30, 2021. In August 2022 the two parties signed an extension until December 31, 2022 while discussing future terms and direction. The agreement can be terminated by Aeroplan under certain circumstances, one of which is if the company is in arrears on its payment obligations to Aeroplan. As of date hereof the company is current on its payment obligations. The company expects to secure a multi-year renewal of the agreement. The company has a 10 year + relationship with Aeroplan.

## **General Risks and Uncertainties**

The company has a going concern issue as explained in Section Working Capital and Liquidity Management in this document.

As explained in the Section Economic Dependence the company's operations are funded by debt – loan payable and 9% 2025 debentures (Sections Loan Payable and 9% Non-Convertible Debentures Payable). The loan payable agreement term ends July 31, 2024. The 9% 2025 debentures mature December 31, 2025. The company's secondary business of re-seller of aeroplan points depends on its agreement with Aeroplan. The risks connected to the continuity of the two sources of debt and agreement with Aeroplan are explained in Section Economic Dependence.

The pandemic created additional uncertainty to the company's business continuity. The uncertainty stems from unknown duration and quantum of the after effects of the pandemic – which currently are manifesting in inflationary and rising interest rate environment - on the economy in general, and the company and company's merchants' in particular. This may adversely affect the company's: collection of accounts receivable and transaction credits; revenues, cash flows and liquidity; ability to meet obligations on due dates; ability to retain relationships with Accord, holders of 9% 2025 debentures;

renew agreement with Aeroplan; ability to attract growth capital in the form of either debt or equity; and continuity as a going concern.

To continue its current operations and fund growth, the company requires continued access to its existing levels of debt and obtain access to additional working capital in the form of debt and or equity.

The company needs to fund growth of MCA program beyond where the MCA portfolio is as of the date hereof. The MCA portfolio works on a co-funding formula which requires the company to fund 10% of each \$ of merchant cash advance and a loan payable facility to fund the balance. However, for access to a loan payable facility in excess of the current \$8.5 million provided by Accord the company needs to put in higher % as co-fund. The company has limited ability to fund and consequently retain the MCA portfolio at June 30, 2022 levels using the Accord loan payable facility. The retention of June 30, 2022 level of MCA portfolio and thereafter growth of MCA portfolio is essential to the company being able to initially break-even and then generate surplus cash from its operating activities and move towards financial stability and being able to meet its obligations to 9% 2025 debenture holders and other critical suppliers. The MCA portfolio at September 30, 2022 is significantly below June 30, 2022 balance. General market conditions; the financial status of the company in terms of its profitability, cash flows and strength of its consolidated balance sheet, general security interest held by 9% 2025 debentures over the assets of the company and its subsidiaries may eliminate or limit access to existing sources of debt, and / or may limit access to additional financing and / or alternative funding to replace existing debt, or the terms of accessible debt may be uneconomic and this could materially and adversely affect the company.

If the company is not successful in raising additional debt financing and or equity, its ability to retain and expand its MCA program and increase revenue may be impeded, resulting in reduced growth in cash flows from operations. This could affect the company's liquidity and working capital position, and ability to continue as a going concern.

The company has certain business risks linked to the collection of its transaction credits. Under the MCA program the company acquires the rights to cash flow, from future business activity, at a discount from participating merchants ("transaction credits" on consolidated statement of financial position). The majority of the transaction credits are estimated to be fully extinguishable within 365 days. Until these transaction credits have been extinguished through collections from participating merchants there is a credit risk. The evaluation of collectability of transaction credits requires making assumptions and estimates which are explained under Credit risk in Section Critical Accounting Estimates. Actual results could differ materially from the estimates. Adverse recovery outcome could have a material effect on the company's cash flows, its credit environment, its attractiveness as a borrower and its ability to access existing or additional or alternative debt or debt at economic terms and this could materially and adversely affect the company.

The company's activities are funded by two sources of debt. The 9% 2025 debentures has a fixed interest rate, and loan payable which carries a floating interest rate. While the company is not exposed to interest rate risk on account of 9% 2025 debentures, its future cash flows and profitability are exposed to interest risk from the floating interest rate payable, calculated as prime rate of a certain Canadian bank plus 8.80%, effective September 1, 2021 on loan payable. The current inflationary and resulting interest rate environment has heightened this risk to the company's future cash flows and profitability. While the company does not use derivative instruments to reduce its exposure to interest rate risk, it believes it may be able to pass on, to merchants participating in its programs, a portion of a significant adverse interest rate movement on its loan payable. During the three months ended September 30, 2022 the company incurred interest expense of \$111,934 on utilization of loan payable. During the three months ended September 30, 2022 the prime rate from July 1, 2022 until July 13, 2022 was 3.70%, increasing to 4.70% on July 14, 2022, 5.45% on September 8, 2022. Had the prime rate been 10% higher during the three months ended September

30, 2022 the interest cost would be approximately \$11,000 higher.

The company believes the MCA business is a growth industry because institutional lenders are not focused on independent merchants, the engines of significant economic activity. There are several competitors in the MCA space. Currently there is no legislation governing the MCA business. The company believes the transparency of its pricing and its go-to market strategy give it an ability to grow its MCA portfolio if it has access to growth capital. Competition, regulation, and the as yet undeterminable adverse impact of pandemic and inflationary environment on economic activity however carry the possibility of adversely affecting the company's ability to expand its MCA program and this in turn could have a material effect on its revenue, costs, cash flows and profitability.

The company's operations are dependent on the abilities, experience and efforts of its management and highly skilled workforce. While the company has entered into employment agreements with key management personnel and other employees, and each of these agreements includes confidentiality and non-competition clauses, the business prospects of the company could be adversely affected if any of these people were unable or unwilling to continue their employment with the company.

The Aeroplan program the company operates is its secondary line of business and is dependent on its agreement with Aeroplan, operator of Aeroplan Loyalty Program owned by Air-Canada. The agreement expires December 31, 2022. The company expects to secure a multi-year renewal. If the company cannot secure a renewal it could have a material effect on its revenues, liquidity position, and ability to retain existing financial partners and or attract growth capital.

Under the Aeroplan program the company operates as a re-seller for Aeroplan and is dependent upon ongoing consumer interest in accumulating frequent flyer miles for the purpose of obtaining reward air travel on Air-Canada. Due to the rising cost of travel and the security difficulties being experienced by the airline industry overall, and in general the continuous devaluation of frequent flyer miles, there is a risk that the underlying frequent flyer currency used in this program could become unavailable to the company, or that consumer interest in accumulating these awards could decline. This, in turn, may result in difficulties in acquiring and retaining merchants and may adversely affect the company's revenue and direct costs.

Through its operation as re-seller for Aeroplan the company provides loyalty marketing services to retail organizations and, in more general terms, the company could be considered competitive with other advertising and promotional programs for a portion of a client's total marketing budget. If client promotional spending levels decrease, this could have a material adverse effect on the company's revenue. In addition, there are additional operators of either loyalty programs or merchant cash advance in Canada, targeting the same merchant base as the company. The company believes its substantial client equity, proprietary systems, provide a strong platform for the company to compete effectively and respond to competition in Canada.

In addition to those risk factors noted above and risk factors noted in the Working Capital and Liquidity Management Section, the financial condition and profitability of the company is also subject to a number of additional risk factors including: state of the economy, its ability to negotiate settlement accommodation with its suppliers and changes in taxation regulations.

In the ordinary course of business, the company is subject to ongoing audits by tax authorities. While the company believes that its tax filing positions are appropriate and supportable, from time to time, certain matters are reviewed and challenged by the tax authorities. The company regularly reviews the potential for adverse outcomes in respect of tax matters and believes that any ultimate disposition of a reassessment will not have a material adverse impact on its liquidity, consolidated financial position or results of operations due to adequate provisioning for these tax matters. Should an outcome materially differ from existing provisions, the company's effective tax rate, its earnings, and its liquidity and working capital position could be affected positively or negatively in the period in which



matters are resolved.

### **Forward-Looking Information**

This Management's Discussion and Analysis contains certain "forward-looking information". All information, other than information comprised of historical fact, that addresses activities, events or developments that the company believes, expects or anticipates will or may occur in the future constitutes forward-looking information. Forward-looking information is typically identified by words such as: anticipate, believe, expect, goal, intend, plan, will, may, should, could and other similar expressions. Such forward-looking information relates to, without limitation, information regarding the company's: belief MCA is growth industry; belief in its ability to maintain and grow its MCA program, in a competitive environment, upon availability of capital; ability to raise growth capital; expectation of growth capital required and the timing of its raise; expectation of financial stability from expansion of MCA program; expectation of timing of achieving financial stability; expectation of financial impact of pandemic on economic activity, company's customers and the company; expectation of being able to meet its payment plans, with Aeroplan and with respect to the working capital overdraft facility, with Accord; expectation of securing a multi-year agreement with Aeroplan; expectation of capital expenditures required to operate the business in the next twelve months; expectation of adequacy of reserve created for delinquent transaction credits; belief it has the ability to manage delinquencies consequent to pandemic and during growth mode; belief drivers of revenues across all programs are those set out in the Revenue Section; belief it may be able to pass on a portion of any significant adverse interest rate movement on its loan payable to merchants; belief Aeroplan program gives it a competitive advantage in MCA space; expectation of negotiating economic settlement accommodation with its suppliers; belief it has support of its staff; belief in the appropriateness of its tax filings; and other information regarding financial and business prospects and financial outlook is forward-looking information.

Forward-looking information reflects the current expectations or beliefs of the company based on information currently available to the company, including certain assumptions and expectations of Management. With respect to the forward-looking information contained in this Management Discussion and Analysis, the company has made assumptions regarding, among other things, continued support from its provider of loan payable and holders of 9% 2025 debentures; securing waiver to default from holders of 9% 2025 debentures; meeting payment plan with respect to the working capital overdraft facility advanced by Accord; renewal of its agreement with Aeroplan; its ability to access additional working capital in the form of debt and or equity to meet operational needs and to support the growth of the company; its expectation to timely raise of capital to continue operations and for growth; its ability to manage risks connected to collection of transaction credits; current and future economic and market conditions and the impact of same on its business; ongoing consumer interest in accumulating frequent flyer miles; the size of the market for its programs; its ability to expand and grow its programs; future introductions of regulations to MCA; future business levels, and the cost structure, capital expenditures and working capital required to operate at those levels; future interest rates; impact of the pandemic, inflationary and interest rate environment on Canadian economy, company's merchants and company's business prospects; and the appropriateness of its tax filing position.

Forward-looking information is subject to a number of risks, uncertainties and assumptions that may cause the actual results of the company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, those listed under "Working Capital and Liquidity Management", "Economic Dependence" and "General Risks and Uncertainties" in this Management Discussion and Analysis.

## **Disclosure Controls and Procedures, and Internal Controls Over Financial Reporting**

Management is responsible for external reporting. The company maintains appropriate processes to ensure that relevant and reliable financial information is produced.

### **Additional Information**

Additional information relating to the company is available at [www.sedar.com](http://www.sedar.com), and may also be obtained by request by telephone or facsimile or at the company's website at [www.advantex.com](http://www.advantex.com).

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