

**ADVANTEX MARKETING INTERNATIONAL INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three and six months ended December 31, 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 | December 31,<br>2022   | June 30,<br>2022       |
|--|------|------------------------|------------------------|
|  |      | \$                     | \$                     |
| <b>Assets</b>                            |      |                        |                        |
| <b>Current assets</b>                    |      |                        |                        |
| Cash                                     |      | \$ 35,063              | \$ 93,185              |
| Accounts receivable                      |      | 95,896                 | 83,320                 |
| Transaction credits                      | 5    | 1,779,377              | 3,312,268              |
| Prepaid expenses and sundry assets       |      | 1,417                  | 41,589                 |
|  |      | <u>\$ 1,911,753</u>    | <u>\$ 3,530,362</u>    |
| <b>Total assets</b>                      |      | <b>\$ 1,911,753</b>    | <b>\$ 3,530,362</b>    |
| <b>Liabilities</b>                       |      |                        |                        |
| <b>Current liabilities</b>               |      |                        |                        |
| Loan payable                             | 6    | \$ 2,494,508           | \$ 4,019,685           |
| Lease liability                          | 15   | -                      | 12,768                 |
| Loan                                     | 16   | 60,000                 | 60,000                 |
| Accounts payable and accrued liabilities |      | 3,070,300              | 2,825,914              |
|  |      | <u>\$ 5,624,808</u>    | <u>\$ 6,918,367</u>    |
| <b>Non-current liabilities</b>           |      |                        |                        |
| 9% non convertible debentures payable    | 7    | \$ 7,787,763           | \$ 6,953,878           |
|  |      | <u>\$ 7,787,763</u>    | <u>\$ 6,953,878</u>    |
| <b>Total liabilities</b>                 |      | <b>\$ 13,412,571</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                                  |      | (43,726,792)           | (42,567,857)           |
| <b>Total deficiency</b>                  |      | <b>\$ (11,500,818)</b> | <b>\$ (10,341,883)</b> |
| <b>Total liabilities and deficiency</b>  |      | <b>\$ 1,911,753</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 and six months ended December 31, 2022 and 2021  
(expressed in Canadian dollars)

|   | Note  | 3 months ended December 31 |                     | 6 months ended December 31 |                       |
|---|-------|----------------------------|---------------------|----------------------------|-----------------------|
|   |       | 2022                       | 2021                | 2022                       | 2021                  |
|   |       | \$                         | \$                  | \$                         | \$                    |
| <b>Revenues</b>   | 14    |                            |                     |                            |                       |
| Marketing activities  |       | \$ 153,896                 | \$ 91,599           | \$ 370,473                 | \$ 289,067            |
| Interest income   |       | 283,655                    | 275,597             | 651,915                    | 451,426               |
|   |       | <u>\$ 437,551</u>          | <u>\$ 367,196</u>   | <u>\$ 1,022,388</u>        | <u>\$ 740,493</u>     |
| Direct expenses   | 13/14 | 95,207                     | 79,402              | 266,383                    | 219,039               |
|   |       | 342,344                    | 287,794             | 756,005                    | 521,454               |
| <b>Operating expenses</b>   |       |                            |                     |                            |                       |
| Selling and marketing   | 13/14 | 140,389                    | 153,176             | 275,136                    | 301,074               |
| General and administrative  | 13/14 | 301,531                    | 297,968             | 585,916                    | 499,576               |
| <b>(Loss) from operations before depreciation, amortization and interest</b>  |       | <b>(99,576)</b>            | <b>(163,350)</b>    | <b>(105,047)</b>           | <b>(279,196)</b>      |
| Stated interest expense - loan payable, and 9% non convertible debentures payable   | 6/7   | 310,031                    | 323,441             | 624,108                    | 567,648               |
| Interest - Lease  | 15    | -                          | 1,692               | 180                        | 3,864                 |
| Non-cash interest expense - accretion charges, restructuring bonus and amortization of transaction costs related to 9% non convertible debentures payable | 7     | 217,924                    | 194,302             | 429,600                    | 388,485               |
| <b>Net (loss) and comprehensive (loss)</b>  |       | <b>\$ (627,531)</b>        | <b>\$ (682,785)</b> | <b>\$ (1,158,935)</b>      | <b>\$ (1,239,193)</b> |
| <b>(Loss) per share</b>   |       |                            |                     |                            |                       |
| Basic and Diluted   | 12    | <u>\$ (0.00)</u>           | <u>\$ (0.00)</u>    | <u>\$ (0.00)</u>           | <u>\$ (0.01)</u>      |

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 and six months ended December 31, 2022 and 2021  
(expressed in Canadian dollars)

|  | Class A<br>preference<br>shares | Common<br>shares | Contributed<br>surplus | Accumulated<br>other<br>comprehen -<br>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)                        | -                               | -                | -                      | -  | (1,239,193)     | (1,239,193)     |
| <b>Balance at December 31, 2021</b>                        | \$ 3,815                        | \$ 24,526,740    | \$ 7,767,445           | \$ (47,383)                                      | \$ (41,099,212) | \$ (8,848,595)  |
| <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)                        | -                               | -                | -                      | -  | (1,158,935)     | (1,158,935)     |
| <b>Balance at December 31, 2022</b>                        | \$ 3,815                        | \$ 24,526,740    | \$ 7,742,802           | \$ (47,383)                                      | \$ (43,726,792) | \$ (11,500,818) |

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 and six months ended December 31, 2022 and 2021  
(expressed in Canadian dollars)

|   | Note | 2022                  | 2021                  |
|---|------|-----------------------|-----------------------|
|   |      | \$                    | \$                    |
| <b>Operational activities</b>   |      |                       |                       |
| Net (loss) for the period   |      | \$ (1,158,935)        | \$ (1,239,193)        |
| Adjustments for:  |      |                       |                       |
| Accrued and unpaid 9% non convertible debentures payable interest         | 7    | 404,285               | 372,561               |
| Interest - Lease  | 15   | 180                   | 3,864                 |
| Accretion charge - 9% non convertible debentures payable                  | 7    | 380,968               | 346,271               |
| Restructuring bonus - 9% non convertible debentures payable               | 7    | 38,608                | 36,254                |
| Amortization of transaction costs - 9% non convertible debentures payable | 7    | 10,024                | 5,960                 |
|   |      | <u>(324,870)</u>      | <u>(474,283)</u>      |
| Changes in items of working capital                                       |      |                       |                       |
| Accounts receivable   |      | (12,576)              | 39,881                |
| Transaction credits   |      | 1,532,891             | (3,142,823)           |
| Prepaid expenses and sundry assets  |      | 40,172                | (583)                 |
| Accounts payable and accrued liabilities                                  |      | <u>244,386</u>        | <u>(103,302)</u>      |
|   |      | 1,804,873             | (3,206,827)           |
| <b>Net cash generated/(used) - operating activities</b>                   |      | <b>\$ 1,480,003</b>   | <b>\$ (3,681,110)</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)              | (38,837)              |
| Proceeds of loan payable  | 6    | 2,320,821             | 5,724,570             |
| (Repayment) of loan payable   |      | (3,845,998)           | (2,861,580)           |
| <b>Net cash generated/(used) - financing activities</b>                   |      | <b>\$ (1,538,125)</b> | <b>\$ 3,746,652</b>   |
| <b>Increase/(Decrease) in cash during the period</b>                      |      | <b>\$ (58,122)</b>    | <b>\$ 65,542</b>      |
| Cash at beginning of the period   |      | <u>93,185</u>         | <u>82,606</u>         |
| <b>Cash at end of the period</b>  |      | <b>\$ 35,063</b>      | <b>\$ 148,148</b>     |
| <b>Additional information</b>   |      |                       |                       |
| Interest paid   |      | \$ 219,823            | \$ 195,087            |

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

Advantex Marketing International Inc.  
Notes to the Consolidated Financial Statements (unaudited)  
For the three and six months ended December 31, 2022 and 2021  
(expressed in Canadian dollars)

## **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 December 31, 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, the agreement has been through extensions and current extension is to March 31, 2023. 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 \$11,500,818 and negative working capital of \$3,713,055 as at December 31, 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 March 1, 2023.

### **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 period ended June 30, 2022, for the unimpaired transaction credits the company estimated loss based on historical loss rate. Due to the uncertainties created by the current inflationary and high interest environment, for period ended December 31, 2022, 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. During periods ended December 31, 2022 the 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 with respect to transaction credits is the net balance of the transaction credits.

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

|   | December 31,<br>2022 | June 30,<br>2022    |
|---|----------------------|---------------------|
|   | \$                   | \$                  |
| Transaction credits                                     | \$ 3,159,230         | \$ 4,692,121        |
| Allowance   | <u>(1,379,853)</u>   | <u>(1,379,853)</u>  |
| <b>Per Consolidated statement of financial position</b> | <b>\$ 1,779,377</b>  | <b>\$ 3,312,268</b> |
| <b>Maximum exposure to credit risk</b>                  | <b>\$ 1,779,377</b>  | <b>\$ 3,312,268</b> |



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

|  | December 31,<br>2022 | June 30,<br>2022 |
|--|----------------------|------------------|
|  | \$                   | \$               |
| Impaired transaction credits   | \$ 1,098,291         | \$ 1,246,397     |
| Allowance  | (1,098,291)          | (1,246,397)      |
| <b>Impaired transaction credits not allowed for</b>  | <b>\$ -</b>          | <b>\$ -</b>      |
| The company carries a general allowance towards transaction credits. The general allowance at December 31, 2022 is the historical loss ratio and a forecast loss ratio to estimate for recovery issues on account of prevailing economic uncertainty consequent to inflationary and high interest environment. At June 30, 2022 the general allowance is the historical loss ratio | \$ 281,562           | \$ 133,456       |

Movement on allowance for impaired transaction credits:

|   | December 31,<br>2022 | December 31,<br>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  | -                    | 557                  |
| <b>Balance carried forward at end of period</b>   | <b>\$ 1,379,853</b>  | <b>\$ 1,061,852</b>  |

## 6 Loan payable

|                                   | December 31,<br>2022 | June 30,<br>2022    |
|-----------------------------------|----------------------|---------------------|
|                                   | \$                   | \$                  |
| <b>Balance at start of period</b> | <b>\$ 4,019,685</b>  | <b>\$ 2,387,439</b> |
| (Decrease)/Increase in borrowing  | (1,525,177)          | 1,632,246           |
| <b>Balance at end of period</b>   | <b>\$ 2,494,508</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 December 31, 2022, the company has utilized \$387,035 from this overdraft facility (at June 30, 2022 \$492,750 and at December 31, 2021 \$443,000).

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 and six months ended December 31, 2022 was \$107,889 and \$219,823 respectively (2021 \$124,386 and \$195,087).

Tabulation of re-payment of overdraft facility

|   | <u>At December 31, 22</u> |
|---|---------------------------|
| 9 months ended June 30, 2023                          | \$ 45,492                 |
| 12 months ended June 30, 2024                         | 124,086                   |
| 12 months ended June 30, 2025 - Payment due July 2024 | <u>217,457</u>            |
|   | <u>\$ 387,035</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, September 30, 2022, and December 31, 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> |
| Accretion charge for the period                  | 193,608             | -                   | 193,608             |
| Restructuring bonus for the period               | 19,304              | -                   | 19,304              |
| Amortization of transaction costs for the period | 5,012               | -                   | 5,012               |
| Interest for the period                          | -                   | 202,142             | 202,142             |
| <b>Balance at December 31, 2022</b>              | <b>\$ 6,420,854</b> | <b>\$ 1,366,909</b> | <b>\$ 7,787,763</b> |

Stated interest ("Interest" or "Stated interest"), Accretion charge, Performance bonus, Amortization of transaction costs for three and six months ended December 31, 2022 are disclosed in the above tabulation

Stated interest ("Interest" or "Stated interest"), Accretion charge, Performance bonus, Amortization of transaction costs for three and six months ended December 31, 2021 are disclosed in the below tabulation

|                    | <u>Three months ended December 31, 2021</u> |                         |                            | <u>Six months ended December 31, 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 | 199,055                                     | 172,327                 | 17,505                     | 372,561                                   | 346,271                 | 36,254                     |
|                    | <u>\$ 199,055</u>                           | <u>\$ 172,327</u>       | <u>\$ 17,505</u>           | <u>\$ 372,561</u>                         | <u>\$ 346,271</u>       | <u>\$ 36,254</u>           |

## 8 Share capital

As at December 31, 2022:

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 issued 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 and six months ended December 31, 2022 and 2021.

The company has recorded \$nil of stock-based compensation expense during three and six months ended December 31, 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 December 31, 2022 and 2021.

### Potentially Dilutive Securities

No potentially dilutive securities exist as at December 31, 2022 and December 31, 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:

|   | <u>December 31, 2022</u>  |                      | <u>June 30, 2022</u>      |                      |
|---|---------------------------|----------------------|---------------------------|----------------------|
|   | <u>9% 2025 debentures</u> | <u>Common shares</u> | <u>9% 2025 debentures</u> | <u>Common shares</u> |
| 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.

|   | Three months<br>ended December<br>31, 2022 | Three months<br>ended December<br>31, 2021 | Six months ended<br>December 31,<br>2022 | Six months ended<br>December 31,<br>2021 |
|---|--|--|--|--|
|   | \$   | \$   |  |  |
| Net (loss) and comprehensive (loss)   | \$ (627,531)                               | \$ (682,785)                               | \$ (1,158,935)                           | \$ (1,239,193)                           |
| <b><u>Basic and Diluted EPS</u></b>   |  |  |  |  |
| Average number of issued post consolidation common shares during the period * | 253,392,507                                | 231,090,548                                | 253,392,507                              | 156,515,145                              |
| <b>Basic EPS</b>  | <b>\$ (0.00)</b>                           | <b>\$ (0.00)</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 3 and 6 month periods ended December 31, 2021 was 6,932,716,451 and 4,695,454,350 and based on this the reported basic EPS for both periods in 2021 was \$0.00

There are no potentially dilutive common shares outstanding at December 31, 2022 and 2021. Hence Diluted EPS not computed

### 13 Nature of expenses

|   | Period ended<br>December 31,<br>2022 | Period ended<br>December 31,<br>2021 |
|---|--------------------------------------|--------------------------------------|
|   | \$                                   | \$                                   |
| <b>Direct expenses</b>  |                                      |                                      |
| Costs of loyalty rewards, and marketing in connection with the company's merchant based loyalty program         | \$ 259,108                           | \$ 213,116                           |
| Expense for provision against impaired accounts receivable and transaction credits, credit & collection expense | <u>7,275</u>                         | <u>5,923</u>                         |
|   | <b>\$ 266,383</b>                    | <b>\$ 219,039</b>                    |
| <b>Selling and Marketing, and General &amp; Administrative</b>  |                                      |                                      |
| Salaries and wages including travel   | \$ 671,864                           | \$ 586,413                           |
| Professional fees   | 92,837                               | 98,395                               |
| Facilities, processing, and office expenses   | 79,893                               | 61,041                               |
| Other   | <u>16,458</u>                        | <u>54,801</u>                        |
|   | <b>\$ 861,052</b>                    | <b>\$ 800,650</b>                    |

Selling and Marketing, and General & Administrative reflect receipt of wage and rent subsidies during period ended December 31, 2022 of \$1,888 (2021 \$110,121). Salaries and wages expense during period ended December 31, 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 December 31, 2022 and December 31, 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 December 31, 2022.

|  | MCA<br>program   | Aeroplan<br>program | Total              |
|--|------------------|---------------------|--------------------|
|  | \$               | \$                  | \$                 |
| Revenues   | 651,915          | 370,473             | 1,022,388          |
| Direct expenses  | <u>7,275</u>     | <u>259,108</u>      | <u>266,383</u>     |
|  | 644,640          | 111,365             | 756,005            |
| Selling & marketing  | 175,438          | 99,698              | 275,136            |
| General & administrative   | <u>373,603</u>   | <u>212,313</u>      | <u>585,916</u>     |
| Earnings/(Loss) from operations<br>before depreciation, amortization<br>and interest   | 95,599           | (200,646)           | (105,047)          |
| Stated Interest - loan payable   | 219,823          | -                   | 219,823            |
| Stated Interest - 9% non convertible<br>debentures payable   | 257,788          | 146,497             | 404,285            |
| Interest - Lease   | 115              | 65                  | 180                |
| Non-cash interest - 9% non<br>convertible debentures payable -<br>accretion charges, restructuring<br>bonus and amortization of<br>transaction costs | <u>273,930</u>   | <u>155,670</u>      | <u>429,600</u>     |
| Segment (loss)   | <u>(656,057)</u> | <u>(502,878)</u>    | <u>(1,158,935)</u> |

For the period ended December 31, 2021.

|  | MCA<br>program   | Aeroplan<br>program | Total              |
|--|------------------|---------------------|--------------------|
|  | \$               | \$                  | \$                 |
| Revenues   | 451,426          | 289,067             | 740,493            |
| Direct expenses  | <u>5,923</u>     | <u>213,116</u>      | <u>219,039</u>     |
|  | 445,503          | 75,951              | 521,454            |
| Selling & marketing  | 183,543          | 117,531             | 301,074            |
| General & administrative   | <u>304,556</u>   | <u>195,020</u>      | <u>499,576</u>     |
| (Loss) from operations before<br>depreciation, amortization and<br>interest  | (42,596)         | (236,600)           | (279,196)          |
| Stated Interest - loan payable   | 195,087          | -                   | 195,087            |
| Stated Interest - 9% non convertible<br>debentures payable   | 81,724           | 290,837             | 372,561            |
| Interest - Lease   | 1,023            | 2,841               | 3,864              |
| Non-cash interest - 9% non<br>convertible debentures payable -<br>accretion charges, restructuring<br>bonus and amortization of<br>transaction costs | <u>236,832</u>   | <u>151,653</u>      | <u>388,485</u>     |
| Segment (loss)   | <u>(557,262)</u> | <u>(681,931)</u>    | <u>(1,239,193)</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:

|   | Right of use asset | Lease liability |
|---|--------------------|-----------------|
|   | \$                 | \$              |
| Balance at June 30, 2022                            | \$ -               | \$ 12,768       |
| Interest payments                                   | -                  | 180             |
| Lease payments                                      | -                  | (12,948)        |
| Balance at September 30, 2022 and December 31, 2022 | \$ -               | \$ -            |

## 16 Government subsidies

The company availed Covid-19 pandemic relief measures during periods ended December 31, 2022 and December 31, 2021 under Federal wage and rent subsidies.

Amount of rent subsidy of \$1,888 received during period ended December 31, 2022 is reflected as a reduction of the facilities expense disclosed in note 13 (2021 - \$22,408). Amount of wage subsidy of \$87,713 received during period ended December 31, 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.

## 17 Subsequent events

On January 5, 2023, the company closed a private placement of 9% 2025 debentures for gross proceeds of \$600,000. These 9% 2025 debentures are on the same terms and rank pari passu with the existing 9% 2025 debentures in the principal amount of \$7,159,000 (note 7). Purchasers of the \$600,000 9% 2025 debentures were issued 12 million common shares of the company. The transaction was with related parties.

On January 17, 2023, the company announced it had agreed with Aeroplan on an extension until March 31, 2023 of their agreement which expired December 31, 2022.

Aeroplan is a Registered Trademark of Aeroplan Inc.