



# ADVANTEX

**ADVANTEX® MARKETING INTERNATIONAL INC.**  
**Management's Discussion and Analysis of Operating Results**  
For the three and six month periods ended December 31, 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 March 1, 2023. 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 and six month periods ended December 31, 2022 compared to the three and six month periods ended December 31, 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 and six months ended December 31, 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 and six months ended December 31, 2022 ("Q2 Fiscal 2023" and "YTD 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 from September 2022. Aeroplan program revenues continued to improve reflecting gradual return of travel post pandemic.

Three and six ended December 31, 2021 (“Q2 Fiscal 2022” and “YTD Fiscal 31, 2022”) financial performance reflected lingering effects of pandemic and the investment in the business post raise of \$1.0 million capital in early September 2021. 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 \$1.0 million proceeds were used to stabilize Advantex’s financial position, fund its MCA business and for general corporate purposes.

The key events of Q2 Fiscal 2023 and YTD Fiscal 2023 compared to Q2 Fiscal 2022 and YTD 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 YTD Fiscal 2023 compared to YTD Fiscal 2022.

However, the diminished ability, for want of capital, to deploy advances falling due for renewal from September 2022 are reflected in decreasing trend in MCA revenues. Consequently, Q2 Fiscal 2023 is flat compared to Q2 Fiscal 2022.

#### Agreements with partners

In September 2021 the company and Accord Financial Inc. (“Accord”) agreed to extend the term of their agreement respecting loan payable 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 commence gradual re-build of its MCA program.

In August 2022 the company and Aeroplan Inc. (“Aeroplan”) signed an extension until December 31, 2022 while discussing future terms and direction (Section Economic Dependence). Until then the two parties were working under the terms of the original agreement which ended April 30, 2021. Under this agreement the company operated as a reseller of aeroplan points. In January 2023 the agreement was extended until March 31, 2023.

#### Government pandemic subsidies

The federal government tapered down its pandemic subsidy programs to assist effected businesses. The company qualified for minimal support in Q2 Fiscal 2023 and YTD Fiscal 2023 compared to corresponding periods in previous periods.

#### Interest cost

Stated interest cost comprises interest cost on: 1) loan payable, and 2) 9% non convertible debentures payable (“9% 2025 debentures”).

The interest payable by the company for using the line of credit is 8.8% plus prime rate of a Canadian bank. Increase in interest cost during YTD Fiscal 2023 compared to YTD Fiscal 2022 is primarily due to increase in prime rate during calendar 2022. Q2 Fiscal 2023 was lower compared to Q2 Fiscal 2022 because of lower utilization of loan payable.

The 9% 2025 debentures increased by \$1.0 million in September 2021 and \$150,000 in March 2022 resulting in increase in interest.

Non-cash interest, primarily to do with accretion charges, increased on account of 9% 2025 debentures raise in September 2021 and March 2022.

### Financial Outcome

	<u>Q2 Fiscal 2023</u>	<u>Q2 Fiscal 2022</u>	<u>Inc./Dec</u>	<u>YTD Fiscal 2023</u>	<u>YTD Fiscal 2022</u>	<u>Inc./Dec</u>
	\$	\$	%	\$	\$	%
Revenues	\$ 437,551	\$ 367,196	19.2%	\$ 1,022,388	\$ 740,493	38.1%
Gross profit	\$ 342,344	\$ 287,794	19.0%	\$ 756,005	\$ 521,454	45.0%
Selling and General & administrative expenses prior to pandemic subsidies	\$ 441,920	\$ 460,265	-4.0%	\$ 862,940	\$ 910,771	-5.3%
Pandemic subsidies	\$ -	\$ (9,121)	-100.0%	\$ (1,888)	\$ (110,121)	-98.3%
(Loss) from operations before depreciation, amortization and interest	\$ (99,576)	\$ (163,350)	-39.0%	\$ (105,047)	\$ (279,196)	-62.4%
Stated interest - loan payable	\$ 107,889	\$ 124,386	-13.3%	\$ 219,823	\$ 195,087	12.7%
Stated interest - 9% 2025 debentures	\$ 202,142	\$ 199,055	1.6%	\$ 404,285	\$ 372,561	8.5%
(Loss) from operations before depreciation, amortization, non cash interest and non cash items	\$ (409,607)	\$ (486,791)	-15.9%	\$ (729,155)	\$ (846,844)	-13.9%
Non cash interest	\$ 217,924	\$ 195,994	11.2%	\$ 429,780	\$ 392,349	9.5%
Net (loss) and Comprehensive (loss)	\$ (627,531)	\$ (682,785)	-8.1%	\$ (1,158,935)	\$ (1,239,193)	-6.5%
Basic and Diluted loss per share	\$ (0.00)	\$ (0.00)		\$ (0.00)	\$ (0.01)	

### **Outlook**

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 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 end March 2023. 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, as of date hereof, by their additive investment of \$1.9 million – of which \$600,000 was completed in January 2023 - 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 pandemic, the company's MCA portfolio had declined significantly. The utilization of capital raised is to stabilize the company's financial position, fund re-build its MCA business and for general corporate purposes. The company is re-building its MCA portfolio by using available capital and as of date hereof it has about 130 merchants. The company believes with adequate capital it has the ability to initially go back to pre pandemic level of about 250 merchants and expand beyond significantly thereafter. The company needs access to capital to maintain its MCA portfolio at current 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 merchant business and consumer 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 and the company.

### **Summary – Three and six months ended December 31, 2022**

The financial highlights for Q2 Fiscal 2023 and YTD Fiscal 2023 compared to Q2 Fiscal 2022 and YTD Fiscal 2022 are summarized in the tabulation:

	<u>Q2 Fiscal 2023</u>	<u>Q2 Fiscal 2022</u>	<u>YTD Fiscal 2023</u>	<u>YTD Fiscal 2022</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Revenues</b>				
MCA program	\$ 283,655	\$ 275,597	\$ 651,915	451,426
Aeroplan program	153,896	91,599	370,473	289,067
	<b>\$ 437,551</b>	<b>\$ 367,196</b>	<b>\$ 1,022,388</b>	<b>\$ 740,493</b>
<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>
<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>

### **Income Statement – Q2 Fiscal 2023 compared to Q2 Fiscal 2022**

Q2 Fiscal 2023 MCA program revenues at \$283,655 were flat compared to Q2 Fiscal 2022 at \$275,597. The diminished ability, for want of capital, to deploy advances falling due for renewal from September 2022 was reflected in Q2 Fiscal 2023 MCA program revenues. Q2 Fiscal 2022 revenues reflected the gradual re-build of MCA portfolio following the raise of \$1.0 million capital in September 2021. Aeroplan program revenues during Q2 Fiscal 2023 at \$153,896 compared to \$91,599 during Q2 Fiscal 2022 showed growth reflecting gradual return of consumer travel and spending.

The company's Q2 Fiscal 2023 gross profit at \$342,344 was higher by \$54,550 (19.0%) compared to Q2 Fiscal 2022. The gross margin for Q2 Fiscal 2023 at 78.2% was flat to Q2 Fiscal 2022 at 78.4%. The MCA program gross profit at \$282,560 was flat compared to Q2 Fiscal 2022 at \$271,140 and reflected flat revenues. Aeroplan program gross profit for Q2 Fiscal 2023 at \$59,784 improved 259.0% compared to Q2 Fiscal 2022 at \$16,654.

The improvement reflected the growth in Aeroplan revenues, margin mix of participating merchants, and write-back of certain cost provisions.

Selling expenses were \$12,787 lower – Q2 Fiscal 2023 \$140,389 compared to Q2 Fiscal 2022 \$153,176. Remuneration/expenses of sales staff are the primary selling expenses (over 80% 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. The primary reason for the decline was web marketing for MCA program - \$nil for Q2 Fiscal 2023 compared to \$23,930 for Q2 Fiscal 2022.

Save for pandemic subsidy of \$9,121 received in Q2 Fiscal 2022 (\$nil in Q2 Fiscal 2023), General & Administrative expenses (“G&A”) at \$301,531 for Q2 Fiscal 2023 were flat compared to \$297,968 for Q2 Fiscal 2022.

The above revenues less costs are reflected in \$63,774 lower loss from operations before depreciation, amortization and interest. Q2 Fiscal 2023 \$99,576 compared to Q2 Fiscal 2022 \$163,350.

Stated interest cost was flat. Q2 Fiscal \$310,031 compared to \$323,441 for Q2 Fiscal 2022.

- Interest paid on loan payable was \$16,497 lower (Q2 Fiscal 2023 \$107,889 compared to Q2 Fiscal 2022 \$124,386), a reflection of lower utilization of loan payable and increase in the interest rate due to rate increases by the Bank of Canada. Average loan payable balance during Q2 Fiscal 2023 was \$2,810,922 compared to \$4,627,578 during Q2 Fiscal 2022. The lower utilization reflects lower MCA program receivables (transaction credits – stated net of provision for delinquent accounts - on the balance sheet) during Q2 Fiscal 2023; and
- Interest on 9% 2025 debentures was \$3,087 higher. The increase in Q2 Fiscal 2023 reflects higher principal amount - \$7,159,000 during Q2 Fiscal 2023 compared to \$7,009,000 during Q2 Fiscal 2022.

Q2 Fiscal 2023 non cash interest at \$217,924 is higher by \$21,930 compared to Q2 Fiscal 2022 at \$195,994. The increase was primarily from accretion charges - \$193,608 in Q2 Fiscal 2023 compared to \$172,327 in Q2 Fiscal 2022 – partially to do with issuance of additional 9% 2025 debentures in March 2022.

The above factors are reflected in a \$55,254 lower net loss. Q2 Fiscal 2023 \$627,531 compared to Q2 Fiscal 2022 \$682,785.

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

YTD Fiscal 2023 MCA program revenues at \$1,022,388 were \$281,895 (38.1%) higher compared to YTD Fiscal 2022 at \$740,493. Respecting MCA program both YTD Fiscal 2023 at \$651,915 and YTD Fiscal 2022 at \$451,426 reflect two situations. YTD Fiscal 2022 revenues reflected growth after gradual commencement of re-build of MCA portfolio after capital raise of \$1.0 million in September 2021. YTD Fiscal 2023 reflected revenues from gradually re-built MCA portfolio since September 2021 and decrease in the MCA portfolio following the diminished ability, for want of capital, to deploy advances falling due for renewal from September 2022. Aeroplan program revenues during YTD Fiscal 2023 at \$370,473 compared to \$289,067 during YTD Fiscal 2022 showed growth reflecting gradual return of consumer travel and spending during Q2 Fiscal 2023.

The company’s YTD Fiscal 2023 gross profit at \$756,005 was higher by \$234,551 (45.0%) compared to YTD Fiscal 2022 at \$521,454. The gross margin for Fiscal 2023 at 73.9% improved from 70.4% in YTD Fiscal 2022. The MCA program gross profit at \$644,640 was \$199,137 higher compared to YTD Fiscal 2022 at \$445,503 and reflected growth in MCA revenues. Aeroplan program gross profit for YTD Fiscal 2023 at \$111,365 improved \$35,414 (46.6%) compared to YTD Fiscal 2022 at \$75,951. The improvement reflected the growth in Aeroplan revenues and write-back of certain cost provisions during Q2 Fiscal 2023 compared to Q2 Fiscal 2022.

Selling expenses were \$25,938 lower – YTD Fiscal 2023 \$275,136 compared to YTD Fiscal 2022 \$301,074. Remuneration/expenses of sales staff are the primary selling expenses (over 80% 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. The primary reason for the decline was web marketing for MCA program - \$nil for YTD Fiscal 2023 compared to \$31,275 for YTD Fiscal 2022.

Save for pandemic subsidy of \$110,121 received in YTD Fiscal 2022 (YTD Fiscal 2023 \$1,888) and write-back of extinguishment of a portion of CEO and CFO vacation pay of \$35,063 during YTD Fiscal 2022, General & Administrative expenses (“G&A”) at \$587,804 for YTD Fiscal 2023 were \$56,956 lower compared to \$644,760 for YTD Fiscal 2022.

The above revenues less costs are reflected in \$174,149 lower loss from operations before depreciation, amortization and interest. YTD Fiscal 2023 \$105,047 compared to YTD Fiscal 2022 \$279,196.

Stated interest cost was higher by \$56,460. YTD Fiscal \$624,108 compared to \$567,648 for YTD Fiscal 2022.

- Interest paid on loan payable was \$24,736 higher (YTD Fiscal 2023 \$219,823 compared to YTD Fiscal 2022 \$195,087), a reflection of lower utilization of loan payable and increase in the interest rate due to rate increases by the Bank of Canada during calendar 2022. Average loan payable balance during YTD Fiscal 2023 was \$3,056,335 compared to \$3,404,343 during YTD Fiscal 2022. The lower utilization reflects lower MCA program receivables (transaction credits – stated net of provision for delinquent accounts - on the balance sheet) during YTD Fiscal 2023; and
- Interest on 9% 2025 debentures was \$31,274 higher. The increase in YTD Fiscal 2023 reflects higher principal amount - \$7,159,000 throughout YTD Fiscal 2023 compared to \$7,009,000 from early September 2021 and \$6,009,000 during July and August 2021 during YTD Fiscal 2022.

YTD Fiscal 2023 non cash interest at \$429,780 is higher by \$37,431 compared to YTD Fiscal 2022 at \$392,349. The increase was primarily from accretion charges - \$380,968 in YTD Fiscal 2023 compared to \$346,271 in YTD Fiscal 2022 – partially to do with to do with issuance of additional 9% 2025 debentures in September 2021 and March 2022 respectively.

The above factors are reflected in a \$80,258 lower net loss. YTD Fiscal 2023 \$1,158,935 compared to YTD Fiscal 2022 \$1,239,193.

Balance Sheet – December 31, 2022 compared to December 31, 2021

	December 31, 2022	December 31, 2021	Change
	\$	\$	\$
<b>Current assets</b>			
Transaction credits (net of provision for delinquent accounts)	\$ 1,779,377	\$ 4,869,486	\$ (3,090,109)
Cash	35,063	148,148	(113,085)
All others	97,313	97,467	(154)
	<u>\$ 1,911,753</u>	<u>\$ 5,115,101</u>	<u>\$ (3,203,348)</u>
Transaction credits as % of Current assets	93.1%	95.2%	
<b>Total assets</b>	<b>\$ 1,911,753</b>	<b>\$ 5,115,101</b>	<b>\$ (3,203,348)</b>
<b>Current liabilities</b>			
Loan payable	\$ 2,494,508	\$ 5,250,429	\$ (2,755,921)
Accounts payable and accrued liabilities	3,070,300	2,627,856	442,444
All others	60,000	109,706	(49,706)
9% non convertible debentures payable	-	5,975,705	(5,975,705)
	<u>\$ 5,624,808</u>	<u>\$ 13,963,696</u>	<u>\$ (8,338,888)</u>
<b>Non-current liabilities</b>			
9% non convertible debentures payable	\$ 7,787,763	\$ -	\$ 7,787,763
Principal amount at December 31, 2022 \$7,159,00 vs. \$7,009,000 at December 31, 2021			
<b>Shareholders' deficiency</b>	<b>\$ (11,500,818)</b>	<b>\$ (8,848,595)</b>	<b>\$ (2,652,223)</b>
<b>Total liabilities and deficiency</b>	<b>\$ 1,911,753</b>	<b>\$ 5,115,101</b>	<b>\$ (3,203,348)</b>

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 from September 2022. Thirdly, provision for delinquent accounts - \$1,379,853 at December 31, 2022 vs. \$1,061,852 at December 31, 2021 – reflected the company's policy to provide for credit risk. The above factors are reflected in the balance of transaction credits at December 31, 2022 and December 31, 2021.

Cash. Balances at December 31, 2021 reflects \$1.0 m from capital raise in September 2021 and its utilization in operation during period September to December 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 December 31, 2022 and December 31, 2021 includes amounts payable under the working capital overdraft provided by Accord (2022 \$387,025 vs 2021 \$442,805). The loan

payable balance at December 31, 2022 and December 31, 2021 (net of working capital overdraft) reflects the change in transaction credits.

The 9% 2025 debentures balances at December 31, 2022 and December 31, 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 December 31, 2022 was \$1,366,909 compared \$561,452 at December 31, 2021. The company was not in compliance with certain financial covenant at December 31, 2021 and hence it was treated as a current liability at December 31, 2021. (Section 9% Non-Convertible Debentures Payable).

## Results of Operations

	<u>Q2 Fiscal 2023</u>	<u>Q2 Fiscal 2022</u>	<u>YTD Fiscal 2023</u>	<u>YTD Fiscal 2022</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Revenues</b>	<b>\$ 437,551</b>	<b>\$ 367,196</b>	<b>\$ 1,022,388</b>	<b>\$ 740,493</b>
Costs of loyalty rewards, and marketing in connection with Advantex's merchant based loyalty program	94,112	74,945	259,108	213,116
Expense for provision against delinquent accounts, credit/collection expense	1,095	4,457	7,275	5,923
<b>Gross profit</b>	<b>\$ 342,344</b>	<b>\$ 287,794</b>	<b>\$ 756,005</b>	<b>\$ 521,454</b>
Selling and General & Administrative	441,920	460,265	862,940	910,771
Federal Covid-19 wage and rent subsidies	-	(9,121)	(1,888)	(110,121)
<b>(Loss) from operations before depreciation, amortization, interest</b>	<b>\$ (99,576)</b>	<b>\$ (163,350)</b>	<b>\$ (105,047)</b>	<b>\$ (279,196)</b>
Cash interest on loan payable and debentures	310,031	323,441	624,108	567,648
<b>(Loss) from operations before depreciation, amortization, non-cash interest, and other non cash expenses</b>	<b>\$ (409,607)</b>	<b>\$ (486,791)</b>	<b>\$ (729,155)</b>	<b>\$ (846,844)</b>
Interest - Lease	-	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	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>Basic and Diluted (loss) per share</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>



Extract from the Statement of Financial Position

	At December 31, 2022	At June 30, 2022	Change
	\$	\$	\$
<b>Current assets</b>			
Transaction credits (net of provision for delinquent accounts)	\$ 1,779,377	\$ 3,312,268	\$ (1,532,891)
All others	132,376	218,094	(85,718)
	<b>\$ 1,911,753</b>	<b>\$ 3,530,362</b>	<b>\$ (1,618,609)</b>
<b>Total assets</b>	<b>\$ 1,911,753</b>	<b>\$ 3,530,362</b>	<b>\$ (1,618,609)</b>
<b>Current liabilities</b>			
Loan payable	\$ 2,494,508	\$ 4,019,685	\$ (1,525,177)
Accounts payable and accrued liabilities	3,070,300	2,825,914	244,386
All others	60,000	72,768	(12,768)
	<b>\$ 5,624,808</b>	<b>\$ 6,918,367</b>	<b>\$ (1,293,559)</b>
<b>Non-current liabilities</b>			
9% non convertible debentures payable	\$ 7,787,763	\$ 6,953,878	\$ 833,885
Principal amount at December 31, 2022 and June 30, 2022 \$7,159,00			
<b>Shareholders' deficiency</b>	<b>\$ (11,500,818)</b>	<b>\$ (10,341,883)</b>	<b>\$ (1,158,935)</b>
<b>Total liabilities and deficiency</b>	<b>\$ 1,911,753</b>	<b>\$ 3,530,362</b>	<b>\$ (1,618,609)</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 from September 2022, the transaction credits at December 31, 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 December 31, 2022 also includes amounts payable under the working capital overdraft provided by Accord (December 31, 2022 \$387,025 vs. June 30, 2022 \$492,750). The loan payable balance at December 31, 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 December 31, 2022 was \$1,366,909 compared to \$962,624 at June 30, 2022. (Section 9% Non-Convertible Debentures Payable).

The movement in the shareholders' deficit reflects net loss of \$1,158,935 during YTD Fiscal 2023.

Extracts from the Statement of Cash Flow

	YTD Fiscal 2023	YTD Fiscal 2022	Change
	\$	\$	\$
Net (loss)	\$ (1,158,935)	\$ (1,239,193)	\$ 80,258
Adjustments for non cash expenses	834,065	764,910	69,155
(Loss) after adjustments for non cash expenses	\$ (324,870)	\$ (474,283)	\$ 149,413
Changes in working capital	1,804,873	(3,206,827)	5,011,700
Net cash generated from/(used in) financing activities	(1,538,125)	3,746,652	(5,284,777)
Increase/(Decrease) in cash during the period	\$ (58,122)	\$ 65,542	\$ (123,664)
Cash at start of year	\$ 93,185	\$ 82,606	\$ 10,579
Cash at end of year	\$ 35,063	\$ 148,148	\$ (113,085)

*Adjustments for non-cash expenses.* A significant item for both periods was accrued and unpaid 9% 2025 debentures interest, for YTD Fiscal 2023 \$404,285 compared to YTD Fiscal 2022 \$372,561. Furthermore, charges for Accretion and Restructuring bonus respecting 9% 2025 debentures were \$419,576 for YTD Fiscal 2023 compared to \$382,525 for YTD Fiscal 2022.

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

During YTD Fiscal 2023 the primary item was decrease in transaction credits, net of provision for delinquent accounts, of \$1,532,891. Due to the company's diminished ability, for want of capital, to deploy advances falling due for renewal from September 2022, the transaction credits at December 31, 2022 were lower compared to June 30, 2022. During YTD Fiscal 2022 the primary item was increase of \$3,142,823 in transaction credits, net of provision for delinquent accounts. Following 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. This is reflected in the increase in transaction credits during YTD Fiscal 2022. 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 critical payment plans are with Aeroplan and Accord. The company was in 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 to end in December 2022. As of date hereof the company met its obligations under the payment plan and the arrears are fully cleared. 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.*

YTD 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 YTD Fiscal 2023 the decrease of \$1,525,177 is primarily due to above movement on transaction credits. During YTD Fiscal 2022 the increase of \$2,862,990 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 YTD Fiscal 2023 the company continued gradual move of its entire IT infrastructure into the cloud. The company expects to complete the migration to the cloud by end of its fiscal year ending June 30, 2023. 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 and six months ended December 31, 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.

	Q2 Fiscal 2023	Q2 Fiscal 2022	Inc./Dec)	YTD Fiscal 2023	YTD Fiscal 2022	Inc./Dec)
	\$	\$	%	\$	\$	%
<b>Revenues</b>						
MCA program	\$ 283,655	\$ 275,597	2.9%	\$ 651,915	\$ 451,426	44.4%
Aeroplan program	153,896	91,599	68.0%	370,473	289,067	28.2%
	<b>\$ 437,551</b>	<b>\$ 367,196</b>	19.2%	<b>\$ 1,022,388</b>	<b>\$ 740,493</b>	38.1%

### Q2

The diminished ability, for want of capital, to deploy advances falling due for renewal from September 2022 was reflected in Q2 Fiscal 2023 MCA program revenues. Q2 Fiscal 2022 revenues reflected the gradual re-build of MCA portfolio following the raise of \$1.0 million capital in September 2021. Aeroplan program revenues during Q2 Fiscal 2023 compared to Q3 Fiscal 2022 showed growth reflecting gradual return of consumer travel and spending.

## YTD

YTD Fiscal 2022 revenues reflected growth after gradual commencement of re-build of MCA portfolio after capital raise of \$1.0 million in September 2021. YTD Fiscal 2023 reflected revenues from the gradually re-built MCA portfolio since September 2021 and decrease in the MCA portfolio following the diminished ability, for want of capital, to deploy advances falling due for renewal from September 2022. Aeroplan program revenues during YTD Fiscal 2023 compared to during YTD Fiscal 2022 showed growth reflecting gradual return of consumer travel and spending during Q2 Fiscal 2023.

## **Direct Expenses**

MCA direct expenses are expense for provision for delinquencies against transaction credits (\$nil for Q2 Fiscal 2023-YTD Fiscal 2023 and Q2 Fiscal 2022-YTD Fiscal 2022), and credit /collection expense.

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.

	<u>Q2 Fiscal 2023</u>	<u>Q2 Fiscal 2022</u>	<u>Inc./Dec</u>	<u>YTD Fiscal 2023</u>	<u>YTD Fiscal 2022</u>	<u>Inc./Dec</u>
	\$	\$	%	\$	\$	%
<b>Revenues</b>						
MCA program	\$ 283,655	\$ 275,597	2.9%	\$ 651,915	\$ 451,426	44.4%
Aeroplan program	153,896	91,599	68.0%	370,473	289,067	28.2%
	<b>\$ 437,551</b>	<b>\$ 367,196</b>	19.2%	<b>\$ 1,022,388</b>	<b>\$ 740,493</b>	38.1%
<b>Direct expenses</b>						
MCA program	\$ 1,095	\$ 4,457	-75.4%	\$ 7,275	\$ 5,923	22.8%
Aeroplan program	94,112	74,945	25.6%	259,108	213,116	21.6%
	<b>\$ 95,207</b>	<b>\$ 79,402</b>	19.9%	<b>\$ 266,383</b>	<b>\$ 219,039</b>	21.6%

## MCA program.

While the company believes it has adequate provision for delinquencies as at December 31, 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 Q2 Fiscal 2023-YTD Fiscal 2023 and Q2 Fiscal 2022-YTD Fiscal 2022.

## Aeroplan program

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

Q2 Fiscal 2023 reflected write-back of certain cost provisions (\$12,500). This was reflected in YTD Fiscal 2023.

## Gross Profit

The gross profit is tabulated:

	<u>Q2 Fiscal 2023</u>	<u>Q2 Fiscal 2022</u>	<u>Inc./Dec</u>	<u>YTD Fiscal 2023</u>	<u>YTD Fiscal 2022</u>	<u>Inc./Dec</u>
	\$	\$	%	\$	\$	%
MCA program	\$ 282,560	\$ 271,140	4.2%	\$ 644,640	\$ 445,503	44.7%
Aeroplan program	59,784	16,654	259.0%	111,365	75,951	46.6%
	<u>\$ 342,344</u>	<u>\$ 287,794</u>	19.0%	<u>\$ 756,005</u>	<u>\$ 521,454</u>	45.0%
Company gross margin	78.2%	78.4%		73.9%	70.4%	

### Q2

The MCA program gross profit was flat compared to Q2 Fiscal 2022 and reflected flat revenues. Aeroplan program gross profit for Q2 Fiscal 2023 improved compared to Q2 Fiscal 2022. The improvement reflected the growth in Aeroplan revenues, margin mix of participating merchants, and write-back of certain cost provisions.

### YTD

The MCA program gross profit for YTD Fiscal 2023 was higher compared to YTD Fiscal 2022 and reflected growth in MCA revenues. Aeroplan program gross profit for YTD Fiscal 2023 improved compared to YTD Fiscal 2022. The improvement reflected the growth in Aeroplan revenues, margin mix of participating merchants, and write-back of certain cost provisions during Q2 Fiscal 2023 compared to Q2 Fiscal 2022.

## 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 were common to MCA and Aeroplan programs.

	<u>Q2 Fiscal 2023</u>	<u>Q2 Fiscal 2022</u>	<u>Inc./Dec)</u>	<u>YTD Fiscal 2023</u>	<u>YTD Fiscal 2022</u>	<u>Inc./Dec)</u>
	\$	\$	%	\$	\$	%
<b>Revenues</b>						
MCA program	\$ 283,655	\$ 275,597	2.9%	\$ 651,915	\$ 451,426	44.4%
Aeroplan program	<u>153,896</u>	<u>91,599</u>	68.0%	<u>370,473</u>	<u>289,067</u>	28.2%
	<u>437,551</u>	<u>367,196</u>	19.2%	<u>1,022,388</u>	<u>740,493</u>	38.1%
<b>Selling expenses</b>						
MCA Remuneration/expenses of sales staff	\$ 121,042	\$ 126,416		\$ 237,706	\$ 265,523	
Aeroplan Remuneration/expenses - staff	16,185	-		32,370	-	
Web marketing for MCA program	-	23,930		-	31,275	
All other	<u>3,162</u>	<u>2,830</u>		<u>5,060</u>	<u>4,276</u>	
	<u>\$ 140,389</u>	<u>\$ 153,176</u>	-8.3%	<u>\$ 275,136</u>	<u>\$ 301,074</u>	-8.6%
Remuneration/expenses as % of selling expenses	97.7%	82.5%		98.2%	88.2%	

Both periods reflected 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 Q2 Fiscal 2022-YTD Fiscal 2022 the Aeroplan staff remuneration/expenses was included in G&A. Due to primary nature of this staff changing to sales the cost was included in selling expenses in Q2 Fiscal 2023-YTD 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).

	<u>Q2 Fiscal 2023</u>	<u>Q2 Fiscal 2022</u>	<u>Inc./Dec</u>	<u>YTD Fiscal 2023</u>	<u>YTD Fiscal 2022</u>	<u>Inc./Dec</u>
	\$	\$	%	\$	\$	%
<b>Revenues</b>	\$ 437,551	\$ 367,196	19.2%	\$ 1,022,388	\$ 740,493	38.1%
<b>G&amp;A</b>						
Compensation for non-sales staff including staff travel	\$ 209,399	\$ 202,986		\$ 402,888	\$ 412,444	
Compensation for Aeroplan staff	-	16,931		-	34,283	
Extinguishment of part of vacation pay dues of CEO and CFO	-	-		-	(35,063)	
CEWS - for sales and non-sales staff	-	(7,209)		-	(87,713)	
Head Office lease	3,584	25,302		28,453	63,655	
CERS	-	(1,912)		(1,888)	(22,408)	
All other G&A expenses	88,548	61,869		156,463	134,377	
	<u>\$ 301,531</u>	<u>\$ 297,968</u>	1.2%	<u>\$ 585,916</u>	<u>\$ 499,576</u>	17.3%

Controlling for the following significant exceptional items the G&A for the two periods was lower vs growth in revenues.

- 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; and
- Subsidy from Canada Emergency Wage Subsidy (“CEWS”) and Canada Emergency Rent Subsidy (“CERS”). CEWS was for sales and non-sales/administrative staff.

	<u>Q2 Fiscal 2023</u>	<u>Q2 Fiscal 2022</u>	<u>Inc./Dec</u>	<u>YTD Fiscal 2023</u>	<u>YTD Fiscal 2022</u>	<u>Inc./Dec</u>
	\$	\$	%	\$	\$	%
G&A prior to subsidies (CEWS, CERS), extinguishment of part of vacation pay	\$ 301,531	\$ 307,089	-1.8%	\$ 587,804	\$ 644,760	-8.8%
Subsidies	-	(9,121)		(1,888)	(110,121)	
Extinguishment of part of vacation pay	-	-		-	(35,063)	
	<u>\$ 301,531</u>	<u>\$ 297,968</u>		<u>\$ 585,916</u>	<u>\$ 499,576</u>	

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:

	Q2 Fiscal 2023	Q2 Fiscal 2022	Inc./Dec)	YTD Fiscal 2023	YTD Fiscal 2022	Inc./Dec)
	\$	\$	%	\$	\$	%
Stated ("Cash") interest expense						
Loan payable	\$ 107,889	\$ 124,386		\$ 219,823	\$ 195,087	
9% non convertible debentures payable	202,142	199,055		404,285	372,561	
	\$ 310,031	\$ 323,441	-4.1%	\$ 624,108	\$ 567,648	9.9%
Non-cash interest expense						
Interest - Lease	\$ -	\$ 1,692		\$ 180	\$ 3,864	
Accretion charge on 9% non convertible debentures payable	193,608	172,327		380,968	346,271	
Restructuring bonus on 9% non convertible debentures payable	19,304	17,505		38,608	36,254	
Amortization of transaction costs on 9% non convertible debentures payable	5,012	4,470		10,024	5,960	
	\$ 217,924	\$ 195,994	11.2%	\$ 429,780	\$ 392,349	9.5%
Total interest expense	\$ 527,955	\$ 519,435	1.6%	\$ 1,053,888	\$ 959,997	9.8%

### Q2

Stated interest cost was flat.

- Interest paid on loan payable was lower, a reflection of lower utilization of loan payable and increase in the interest rate due to rate increases by the Bank of Canada. Average loan payable balance during Q2 Fiscal 2023 was \$2,810,922 compared to \$4,627,578 during Q2 Fiscal 2022. The lower utilization reflects lower MCA program receivables (transaction credits – stated net of provision for delinquent accounts - on the balance sheet) during Q2 Fiscal 2023; and
- Interest on 9% 2025 debentures was higher. The increase in Q2 Fiscal 2023 reflects higher principal amount - \$7,159,000 during Q2 Fiscal 2023 compared to \$7,009,000 during Q2 Fiscal 2022.

Q2 Fiscal 2023 non cash interest is higher compared to Q2 Fiscal 2022. The increase was primarily from accretion charges partially to do with to do with issuance of additional 9% 2025 debentures in March 2022.

### YTD

Stated interest cost was higher.

- Interest paid on loan payable was higher, a reflection of lower utilization of loan payable and increase in the interest rate due to rate increases by the Bank of Canada during calendar 2022. Average loan payable balance during YTD Fiscal 2023 was \$3,056,335 compared to \$3,404,343 during YTD Fiscal 2022. The lower utilization reflects lower MCA program receivables (transaction credits – stated net of provision for delinquent accounts - on the balance sheet) during YTD Fiscal 2023; and



- Interest on 9% 2025 debentures was higher. The increase in YTD Fiscal 2023 reflects higher principal amount - \$7,159,000 throughout YTD Fiscal 2023 compared to \$7,009,000 from early September 2021 and \$6,009,000 during July and August 2021 during YTD Fiscal 2022.

YTD Fiscal 2023 non cash interest was higher compared to YTD Fiscal 2022. The increase was primarily from accretion charges partially to do with to do with issuance of additional 9% 2025 debentures in September 2021 and March 2022 respectively.

## Net Loss

Highlights are tabulated:

	<u>Q2 Fiscal 2023</u>	<u>Q2 Fiscal 2022</u>	<u>Inc./Dec</u>	<u>YTD Fiscal 2023</u>	<u>YTD Fiscal 2022</u>	<u>Inc./Dec</u>
	\$	\$	%	\$	\$	%
Revenues	\$ 437,551	\$ 367,196	19.2%	\$ 1,022,388	\$ 740,493	38.1%
Gross profit	\$ 342,344	\$ 287,794	19.0%	\$ 756,005	\$ 521,454	45.0%
Selling and General & administrative expenses prior to pandemic subsidies	\$ 441,920	\$ 460,265	-4.0%	\$ 862,940	\$ 910,771	-5.3%
Pandemic subsidies	\$ -	\$ (9,121)	-100.0%	\$ (1,888)	\$ (110,121)	-98.3%
(Loss) from operations before depreciation, amortization and interest	\$ (99,576)	\$ (163,350)	-39.0%	\$ (105,047)	\$ (279,196)	-62.4%
Stated interest - loan payable	\$ 107,889	\$ 124,386	-13.3%	\$ 219,823	\$ 195,087	12.7%
Stated interest - 9% 2025 debentures	\$ 202,142	\$ 199,055	1.6%	\$ 404,285	\$ 372,561	8.5%
(Loss) from operations before depreciation, amortization, non cash interest and non cash items	\$ (409,607)	\$ (486,791)	-15.9%	\$ (729,155)	\$ (846,844)	-13.9%
Non cash interest	\$ 217,924	\$ 195,994	11.2%	\$ 429,780	\$ 392,349	9.5%
Net (loss) and Comprehensive (loss)	\$ (627,531)	\$ (682,785)	-8.1%	\$ (1,158,935)	\$ (1,239,193)	-6.5%
Basic and Diluted loss per share	\$ (0.00)	\$ (0.00)		\$ (0.00)	\$ (0.01)	

\* 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

The detailed analysis of the above tabulated items is provided in Sections - Income Statement – Q2 Fiscal 2023-YTD Fiscal 2023 compared to Q2 Fiscal 2022-YTD Fiscal 2022, and in Sections Revenue, Direct Expenses, Gross Profit, Selling Expenses, G&A, and Interest Expense.

## Working Capital and Liquidity Management

	<u>Q2 Fiscal 2023</u>	<u>Q2 Fiscal 2022</u>	<u>YTD Fiscal 2023</u>	<u>YTD Fiscal 2022</u>
	\$	\$	\$	\$
<b>Funds available to expand MCA program (Transaction credits on the balance sheet) and meet working capital needs</b>				
Net (loss)	\$ (627,531)	\$ (682,785)	\$ (1,158,935)	\$ (1,239,193)
Adjustments for non cash expenses	420,066	395,049	834,065	764,910
(Loss) after adjustment for non cash expenses	(207,465)	(287,736)	(324,870)	(474,283)
Cash balances at start of the period	156,938	635,402	93,185	82,606
Change in loan payable	74,268	1,851,356	(1,525,177)	2,862,990
Net proceeds from raise of 9% non convertible debentures payable	-	-	-	922,499
Change in accounts receivable	(22,793)	48,267	(12,576)	39,881
	<b>\$ 948</b>	<b>\$ 2,247,289</b>	<b>\$ (1,769,438)</b>	<b>\$ 3,433,693</b>
<b>Utilization of funds</b>				
Cash balances at end of periods	\$ 35,063	\$ 148,148	\$ 35,063	\$ 148,148
Change in transaction credits	139,614	1,988,530	(1,532,891)	3,142,823
Change in accounts payable & accrued liabilities	(173,557)	92,608	(244,386)	103,302
Change in all other working capital items	(172)	(1,415)	(40,172)	583
Change in other financing items	-	19,418	12,948	38,837
	<b>\$ 948</b>	<b>\$ 2,247,289</b>	<b>\$ (1,769,438)</b>	<b>\$ 3,433,693</b>

### Working Capital and Liquidity Management

#### Q2

*Adjustments for non-cash expenses.* A significant item for both periods was accrued and unpaid 9% 2025 debentures interest, for Q2 Fiscal 2023 \$202,142 compared to Q2 Fiscal 2022 \$199,055. Furthermore, charges for Accretion and Restructuring bonus respecting 9% 2025 debentures were \$212,912 for Q2 Fiscal 2023 compared to \$189,832 for Q2 Fiscal 2022.

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

During Q2 Fiscal 2023 the primary item was increase in transaction credits, net of provision for delinquent accounts, of \$139,614. However, due to the company's diminished ability, for want of capital, to deploy advances falling due for renewal from September 2022, the transaction credits at December 31, 2022 were lower compared to June 30, 2022 and December 31, 2021. During Q2 Fiscal 2022 the primary item was increase of \$1,988,530 in transaction credits, net of provision for delinquent accounts. Following 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. This is reflected in the increase in

transaction credits during Q2 Fiscal 2022. There was nominal movement on provision for delinquent accounts during the two periods.

#### YTD

*Adjustments for non-cash expenses.* A significant item for both periods was accrued and unpaid 9% 2025 debentures interest, for YTD Fiscal 2023 \$404,285 compared to YTD Fiscal 2022 \$372,561. Furthermore, charges for Accretion and Restructuring bonus respecting 9% 2025 debentures were \$419,576 for YTD Fiscal 2023 compared to \$382,525 for YTD Fiscal 2022.

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

During YTD Fiscal 2023 the primary item was decrease in transaction credits, net of provision for delinquent accounts, of \$1,532,891. Due to the company's diminished ability, for want of capital, to deploy advances falling due for renewal from September 2022, the transaction credits at December 31, 2022 were lower compared to June 30, 2022. During YTD Fiscal 2022 the primary item was increase of \$3,142,823 in transaction credits, net of provision for delinquent accounts. Following 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. This is reflected in the increase in transaction credits during YTD Fiscal 2022. 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 critical payment plans are with Aeroplan and Accord. The company was in 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 to end in December 2022. As of date hereof the company met its obligations under the payment plan and the arrears are fully cleared. 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.*

YTD 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 YTD Fiscal 2023 the decrease of \$1,525,177 is primarily due to above movement on transaction credits. During YTD Fiscal 2022 the increase of \$2,862,990 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 YTD Fiscal 2023 the company continued gradual move of its entire IT infrastructure into the cloud. The company expects to complete the migration to the cloud by end of its fiscal year ending June 30, 2023. 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 (in this section see *Changes in working capital*).

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 the company's 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 December 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.

On January 5, 2023 the company closed a private placement of 9% 2025 debentures for gross proceeds of \$600,000. These 9% 2025 debentures were on the same terms and rank pari passu with the existing 9% 2025 debentures in the principal amount of \$7,159,000. Purchasers of the \$600,000 9% 2025 debentures were issued 12 million common shares of the company. The transaction was with related parties. This capital shall be used to stabilize the company's financial position, funds its MCA business and for general corporate purposes. The company requires additional working capital in the form of debt and equity to re-build and grow its MCA business and therefore stabilize its financial position.

As of December 31, 2022 the company did not have any off-balance sheet financing arrangements.

#### Going Concern

The consolidated financial statements for the three and six months ended December 31, 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 \$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, \$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 (section Loan Payable) which supports the company's merchant cash advance program, and b) general working capital provided by 9% 2025 debentures (section Non-Convertible Debentures Payable); 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.

The consolidated financial statements for the three and six month ended December 31, 2022 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 the 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 December 31, 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	\$ 2,494,508	\$ 2,494,508	\$ -	\$ -
9% 2025 debentures	7,159,000	-	7,159,000	-
Canada Emergency Business Account	60,000	-	60,000	-
	<u>\$ 9,713,508</u>	<u>\$ 2,494,508</u>	<u>\$ 7,219,000</u>	<u>\$ -</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 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 \$387,025 from this overdraft facility (at June 30, 2022 \$492,750 and at December 31, 2021 \$442,805).

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, 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.

The principal amount of the 9% 2025 debentures at December 31, 2022 and June 30, 2022 was \$7,159,000 (December 31, 2021 \$7,009,000).

## Summary of Quarterly Results

In millions of dollars, except per share amounts						
<u>12 month period ended December 31, 2022</u>						
	Q3	Q4	Q1	Q2	Total	
	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022	Dec 31, 2022		
	\$	\$	\$	\$	\$	
Revenues	0.5	0.5	0.6	0.4	2.0	
% of annual revenues	25.0%	25.0%	30.0%	20.0%	100.0%	
Net (loss)	(0.6)	(0.9)	(0.5)	(0.6)	(2.6)	
(Loss) per share - Basic and Diluted	-	-	-	-	(0.01)	
<u>12 month period ended December 31, 2021</u>						
	Q3	Q4	Q1	Q2	Total	
	Mar 21, 2021	Jun 30, 2021	Sep 30, 2021	Dec 31, 2021		
	\$	\$	\$	\$	\$	
Revenues	0.2	0.3	0.4	0.4	1.3	
% of annual revenues	15.4%	23.0%	30.8%	30.8%	100.0%	
Net (loss)	(0.5)	(0.6)	(0.6)	(0.7)	(2.4)	
(Loss) per share - Basic and Diluted	-	-	-	-	(0.01)	

From Q2 Fiscal 2022 the results reflected gradual re-build of MCA business following capital raises in September 2021 and March 2022, and from Q2 Fiscal 2023 diminished capital availability to deploy MCA advances falling due for renewal from September 2022.

Pandemic was the primary factor driving performance during Q1 Fiscal 2022.

## Capital Resources

The company did not incur material capital expenditures or enter into any material equipment leases during the two periods under review. During Q2 Fiscal 2023 and YTD Fiscal 2023 the company continued gradual move of its entire IT infrastructure into the cloud. The company expects to complete migration to the cloud by year ending June 30, 2023. 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, three months ended September 30, 2022, and three and six months ended December 31, 2022 carry a going concern note (note 2a for year ended June 30, 2022 and note 2 for September 30, 2022 and December 31, 2022). 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 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 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:

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

	December 31, 2022	June 30, 2022
	\$	\$
Transaction credits	\$ 3,159,230	\$ 4,692,121
Accounts receivable	100,281	87,705
Allowance	<u>(1,384,238)</u>	<u>(1,384,238)</u>
<b>Per Consolidated statement of financial position</b>	<b>\$ 1,875,273</b>	<b>\$ 3,395,588</b>
<b>Maximum exposure to credit risk</b>	<b>\$ 1,875,273</b>	<b>\$ 3,395,588</b>

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

	December 31, 2022	June 30, 2022
	\$	\$
Impaired transaction credits	\$ 1,098,291	\$ 1,246,397
Allowance	<u>(1,098,291)</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. 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

### 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 YTD Fiscal 2023 and YTD Fiscal 2022.

There was no stock based compensation expense during YTD Fiscal 2023 and YTD 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 December 31, 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 as at December 31, 2022.

No change in issued and outstanding common shares since June 30, 2022. Issued and outstanding 253,392,507 as at December 31, 2022. The company issued 12 million common shares upon issuance of \$600,000 9% 2025 debentures in January 2023 (additional details Related Party Transactions)

## **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:

	<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)	<u>431,000</u>	<u>48,864,527</u>	<u>431,000</u>	<u>48,864,527</u>
	<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				

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. Purchasers of the \$600,000 9% 2025 debentures were issued 12 million common shares of the company. The transaction was with related parties, R. Abramson and Herbert Abramson and they each purchased \$300,000 of 9% 2025 debentures.

### **Economic Dependence**

The company 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 and December 31, 2022. The company has a 15 year + relationship with the principal holder – portfolio managers on behalf of managed accounts and the principals of portfolio managers – who 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. The principals invested \$600,000 in 9% 2025 debentures in January 2023.

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. 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. In January 2023 the two parties signed an extension until March 31, 2023. 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 aftereffects 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 current 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 December 31, 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 six months ended December 31, 2022 the company incurred interest expense of \$219,823 on utilization of loan payable. During the six months ended December 31, 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, 5.95% on October, 2022, and 6.45% from December 8, 2022. Had the prime rate been 10% higher during the six months ended December 31, 2022 the interest cost would be approximately \$22,000 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 March 31, 2023. 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 including 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 timing on migration to cloud; 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 it has support of its existing financial partners; 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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