



# ADVANTE~~X~~

## **ADVANTE~~X~~® MARKETING INTERNATIONAL INC.**

### **Management's Discussion and Analysis of Operating Results**

For the three and nine month periods ended March 31, 2021 and 2020

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 May 28, 2021. 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 nine month periods ended March 31, 2021 compared to the three and nine month periods ended March 31, 2020. 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, 2020, and the interim consolidated financial statements and the related notes for the three and nine months ended March 31, 2021 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.

The nine month period ended March 31, 2020 ("YTD Fiscal 2020") reflected the operation of the new business model, MCA program, following completion of transition to MCA during three months ended September 30, 2019 ("Q1 Fiscal 2020"). The three and nine month periods ended March 31, 2021 ("Q3 Fiscal 2021" and "YTD Fiscal 2021" respectively) were shaped by the devastating adverse impact of the Covid-19 pandemic on both programs - MCA and loyalty marketing - operated by the company.

### **Transition to MCA program and operating program**

For the better part of fiscal year ended June 30, 2019 ("Fiscal 2019") the company developed and managed merchant based loyalty programs for Canadian Imperial Bank of Commerce ("CIBC") and The Toronto Dominion Bank ("TD") through its CIBC/TD program. Given that the CIBC/TD program would wind-up by June 30, 2019 the company commenced during the latter half of Fiscal 2019 the transition to MCA program. The company completed this transition during the three months ended September 30, 2019.

In the MCA program the company provides merchants' with working capital through pre-purchase, at a discount, of merchants' future receivables and company earns its revenue, per contract terms, as it collects against the pre-purchased receivables. The working capital given to the merchants is the transaction credits on the consolidated statement of financial position.

MCA program was the core business of the company during YTD Fiscal 2020 and YTD Fiscal 2021.

## Impact of Covid-19 pandemic

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus, Covid-19, as a global pandemic. The government in Canada ordered the closure of all non-essential businesses. Practically all of the company's customers, small independent merchants, operate in the non-essential business segments. Since March 2020 until date hereof the restrictions have flexed between lockdowns and limited relaxation across Canada resulting in a devastating adverse impact on the company's Q3 Fiscal 2021 and YTD Fiscal 2021 performance and further deterioration of its financial position since June 30, 2020.

Restrictions led to decline in the ability of the company's merchants to pay the contracted amounts per MCA agreements. It also did not give significant additional advances – both on account of its diminished working capital availability and the credit environment and this in turn led to decline in MCA program transaction credits and participating merchants. The two factors led to a sharp decline in the company's MCA revenues. Average number of MCA merchants during Q3 Fiscal 2021 and YTD Fiscal 2021 were about 100 and 125 respectively compared to about 250 during corresponding periods in the previous year. Similarly the company's re-seller program ("Aeroplan program") dependent on agreement with Aeroplan Inc., operator of Aeroplan Loyalty Program owned by Air-Canada was impacted. Participating merchants either stopped or curtailed their loyalty marketing activities leading to decline in revenues from this program. Average number of merchants about 100 during YTD Fiscal 2021 and YTD 2020.

Q3 Fiscal 2021 and YTD Fiscal 2021 revenues at \$240,651 and \$939,349 respectively declined \$501,312 (67.6%) and \$1,492,593 (61.4%) respectively compared to corresponding periods in the previous year. Consequently the company was left with a weak balance sheet after further working capital deterioration during the Covid-19 pandemic.

Given the severe adverse economic effect on small independent businesses the company took a significant reserve during year ended June 30, 2020 ("Fiscal 2020"), specifically in three months ended March 31, 2020 ("Q3 Fiscal 2020"), against the amounts due from merchants in its MCA portfolio, and continued to monitor credit risk during Q3 Fiscal 2021 and YTD Fiscal 2021.

The company availed federal government Covid-19 pandemic relief measures during Fiscal 2020 and continues to do so as of date hereof. To manage its costs the company had to lay-off of some staff and the remaining staff including the management, since April 1, 2020, are receiving 85% of their pre pandemic remuneration with assistance from Canada Emergency Wage Subsidy. The company received \$40,000 under the Canada Emergency Business Account. In December 2020 the company applied for and received an additional \$20,000 under this program. The company's landlord applied for Canada Emergency Commercial Rent Assistance program. Since October 2020 the company is accessing the Canada Emergency Rent Subsidy.

Prior to Covid-19 the company entered discussions with two unrelated parties for loans to supplement its working capital and provide growth capital in order to expand the MCA business. Expansion was expected to lead to financial stability. The two parties terminated the discussions citing Covid-19 issues.

The company applied for working capital loans with the Business Development Bank of Canada, under the federal government pandemic support programs, and Canadian Imperial Bank of Commerce, the company's long-standing commercial banker but was unsuccessful in both cases. The reason was the weak balance sheet.

The upshot was the company: a) fell into arrears with monthly interest payments to Accord Financial Inc. ("Accord") provider, since 2007, of credit facility (see Section Loan Payable) which is the source of 90% of funds for the MCA program, and other suppliers/service providers, b) did not have the funds to pay for the audit so did not timely file the Fiscal 2020 annual financial statements and related documents by due date of October 28, 2020, and c) had diminished capacity – both in terms of access to capital and as a consequence of the credit environment to maintain its MCA portfolio.

Accord allowed the company to defer payment of interest from March to June. Subsequent to June 30, 2020, Accord provided the company an overdraft facility of \$460,000. As of March 31, 2021 and date hereof the company has fully utilized this facility.

The company has a decade old relationship with Aeroplan. The current five year term of the agreement ended April 30, 2019 which was extended to April 30, 2020 and thereafter – in July 2020 - further extended to April

30, 2021. As of date hereof the two parties continue to work together under the terms of the original agreement while discussing future terms and direction. The company is in arrears with respect to amounts due – for current invoices and balance due from prior payment plan - to Aeroplan. The company primarily fell into arrears on account of Covid-19. An important discussion matter is the establishment of a payment plan to address Advantex's arrears to Aeroplan. Merchants are able to leverage a powerful currency to market their business, specific products and services to the Aeroplan membership which is able to accelerate earning aeroplan points. Advantex earns its revenue in the Aeroplan program from selling aeroplan points, at an agreed price per aeroplan point, to participating merchants. During Q3 Fiscal 2021 and YTD Fiscal 2021 and corresponding periods in the previous year the company had about 100 participating merchants.

The company continued to be in default on the financial covenants and interest payments on its 9% Non convertible Debentures Payable ("9% debentures") with no ability to cure the default. In March 2021 the 9% debentures maturity date was extended to December 31, 2025 and 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. (see Sections 9% Non-convertible debentures payable and Capital Raise Developments).

Since the company was not in a financial position to timely file the Fiscal 2019 annual financial statements and related financial documents the Ontario Securities Commission ("OSC") issued a cease trade order on November 1, 2019. While the company remedied filing situation on May 21, 2020 by filing Fiscal 2019, three months ended September 30, 2019 and three and six months ended December 31, 2019 financial documents it did not, due to financial constraints outlined above, timely file its Fiscal 2020 annual financial statements and related financial documents. The company also did not timely file its interim financial statements and related financial documents for three months ended September 30, 2020 and three and six months ended December 31, 2020. As further discussed below in section Capital Raise Developments the company remedied outstanding filing requirements of continuous disclosure documents on March 31, 2021. In May 2021 the company applied to the OSC for a revocation of the failure to file cease trade order. Pending outcome of this application the company's common shares which are listed on the Canadian Securities Exchange ("CSE") under the symbol ADX continue to be under a cease trade order.

## **Capital Raise Developments**

Given its financial hardship, Covid-19, termination of alternative financing options described in Impact of Covid-19 pandemic under section Overall Performance the company negotiated a financing of up-to \$1.0 million with its principal holder of 9% debentures and common shares of the company (see section Related party transactions for information about principal holder). However, given the regulatory complications and delays connected to this financing the investors decided not to pursue the financing. Instead the company and investors agreed to pursue, subject to approval of OSC, a \$250,000 raise by way of senior secured non convertible debentures in order to enable the company to continue operating while it worked to obtain a full revocation of the failure-to-file cease trade order issued against the company on November 1, 2019 ("FFCTO") for failing to file certain outstanding continuous disclosure documents in a timely manner, and to canvass and consider other financing alternatives at the same time.

The company applied for the Partial Revocation Order to complete a financing (the "Financing") whereby, through its managed accounts and principals, Generation IACP Inc. ("GIACP") and Generation PMCA Corp. ("GPMCA" and together with GIACP, "Generation") would subscribe for \$200,000 of senior secured non-convertible debentures of the company bearing interest at 9% per annum and maturing on December 31, 2025 ("9% 2025 debentures") and Kelly Ambrose, the company's President and Chief Executive Officer and a director, would subscribe for \$50,000 of the 9% 2025 debentures.

The OSC issued an order dated February 25, 2021 partially revoking (the "Partial Revocation Order") the FFCTO.

The 9% 2025 debentures are on the same terms and rank pari passu with 9% debentures bearing interest at 9% per annum and maturing on December 31, 2021. The FFCTO continues to apply in all other respects.

The company previously obtained the requisite consents from the holders of the 9% debentures to complete the Financing.

As the Financing would constitute a related party transaction pursuant to Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions (“MI 61-101”), the company relied on the financial hardship exemption from both the formal valuation and minority approval requirements of such instrument.

The company completed the \$250,000 Financing on March 16, 2021.

The proceeds of the Financing are to be used to pay for: (i) the preparation and filing of the outstanding continuous disclosure documents and late filing fees with the applicable regulatory authorities; (ii) legal expenses incurred in connection with the Partial Revocation Order, the revocation of the FFCTO and the Financing; (iii) operational and general administrative expenses; (iv) payment of accounts payable incurred in the ordinary course of business; and (v) partial funding of its Merchant Cash Advance business as public health restrictions are gradually eased in Canada.

The company also received agreement of the 9% debentures to extend their maturity date from December 31, 2021 to December 31, 2025.

#### *Actions taken since March 16, 2021*

The company filed its audited year ended June 30, 2020, three months September 30, 2020, and three and six months ended December 31, 2020 disclosure documents on March 31, 2021 and paid the late filing fees with the applicable regulatory authorities.

In May 2021 the company applied to the OSC for a full revocation of the FFCTO and as of date hereof is dealing with initial comments of the OSC.

The company started to deploy a part of the proceeds raised in March 2021 as working capital advances to select merchants. The impact will be reflected in revenues from April onwards.

#### *Next steps*

The company is seeking growth capital.

The company requires continued access to its existing levels of debt and access to additional working capital in the form of debt and or equity to fund growth of MCA program. The 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 success.

The company is aware given the FFCTO and the financial difficulties it faces there is no guarantee that capital will be available to the company at economic terms, if at all, once the FFCTO has been revoked or at all.

#### **Outlook**

The company believes its core business - MCA - is a growth industry because institutional lenders are not available to independent merchants, likely even more so because of Covid-19 pandemic. Independent merchants are the engines of significant economic activity. Although there are several competitors in the MCA space the company believes the transparency, pricing and its go-to market strategy give it an ability to grow its MCA portfolio if it has access to growth capital.

As of date hereof, primarily due to Covid pandemic, the company’s MCA portfolio has declined to about 100 merchants. The company believes if it has capital to grow this business it has the ability to initially go back to pre Covid-19 pandemic level of about 250 merchants and expand beyond significantly thereafter. This belief of the company was enhanced as it started to deploy a part of the proceeds raised in March 2021 as working capital

advances to select merchants. Although the company had limited funds to deploy there was demand from merchants setting themselves up for the gradual lifting of the public health restrictions. The growth of company's MCA portfolio is essential to bring financial stability and success.

The loyalty marketing service the company provides is dependent on its agreement with Aeroplan, operator of Aeroplan Loyalty Program. The current agreement ended April 30, 2021. As of date hereof the two parties continue to work while discussing future terms and direction and the company expects to secure a multi-year renewal upon raising capital and attaining financial stability. Operating this program gives the company a significant secondary business line and an advantage over competition in the MCA space. The company can offer loyalty marketing opportunities to merchants which the competition cannot.

The funds raised through 9% 2025 debentures (see section Capital Raise Developments in this document) were used to bring to current status the company's public disclosure record, apply for a full revocation of the cease trade order, operate and maintain its client base at existing level while it seeks growth capital.

The company shall be looking to timely raise growth capital raise by way of either debt and or equity which it believes is necessary to secure the on-going support from its current partners, grow the MCA program, achieve financial stability followed by a gradual growth phase

The company's consolidated financial statements for Fiscal 2020, three and nine months ended March 31, 2021 and Section Working Capital and Liquidity Management in this document carry a going concern note. In the event the company cannot secure growth capital in a timely manner it will cease operations.

### **Summary – Three and nine months ended March 31, 2021**

Q3 Fiscal 2021 and YTD Fiscal 2021 financial performance reflects impact of Covid-19.

During Q3 Fiscal 2021, YTD Fiscal 2021 and corresponding periods in the previous year the company operated MCA and Aeroplan programs.

Amendments were made at year end June 30, 2020 to initial computations on adoption of IFRS 16 Leases at July 1, 2019 and initial recording on issuance of \$200,000 9% debentures in October 2019. This resulted in adjustments to amounts reported at March 31, 2020; increase in the reported net loss for three and nine months ended March 31, 2020 of \$4,076 and \$15,122 respectively, decrease in reported total assets by \$101,073, decrease in total liabilities by \$147,957, and increase of \$26,788 in contributed surplus and decrease in shareholders deficit of \$46,884. The consolidated financial statements for three and nine months ended March 31, 2021 reflect amended amounts for March 31, 2020. Additional details are provided in the management discussion and analysis for year ended June 30, 2020 under section Amendments to Amounts Reported in Interim Financial Statements of Fiscal 2020. All comparisons in this document are to amended amounts for three and nine months ended March 31, 2020.

Following the issuance of \$250,000 9% 2025 debentures and extension of 9% debentures and their replacement with 9% 2025 debentures (for details see section 9% Non convertible debentures payable in this document) the issuance of 9% 2025 debentures is considered a transaction with holders of 9% debentures in their capacity as debtholders and accounted for as an exchange of the 9% debentures for 9% 2025 debentures. The value of the 9% 2025 debentures is determined as the amount required to extinguish the 9% debentures. The fair value of the 9% 2025 debentures issued was determined to be \$4,581,336 based on a discounted cash flow of the principal, interest and restructuring bonus of the 9% 2025 debentures. As a result, a gain of \$3,033,105 has been recognized in the contributed surplus (reflected in consolidated financial statements for three and nine months ended March 31, 2021 under section consolidated statements of changes in shareholder deficiency) which consists of the book value of the 9% debentures of \$7,427,366, plus fresh cash proceeds of \$250,000 less the fair value of the 9% 2025 debentures of \$4,581,336 and financing costs of \$62,925.

The financial highlights for Q3 Fiscal 2021 and YTD Fiscal 2021 compared to corresponding periods in the previous year are summarized in the tabulation:

|  | <u>Q3 Fiscal 2021</u> | <u>Q3 Fiscal 2020</u> | <u>YTD Fiscal 2021</u> | <u>YTD Fiscal 2020</u> |
|--|-----------------------|-----------------------|------------------------|------------------------|
|  | \$                    | \$                    | \$                     | \$                     |
| <b>Revenues</b>  |                       |                       |                        |                        |
| MCA program  | \$ 150,638            | \$ 525,120            | \$ 542,256             | \$ 1,798,436           |
| Aeroplan program   | 90,013                | 216,843               | 397,093                | 633,506                |
|  | <b>\$ 240,651</b>     | <b>\$ 741,963</b>     | <b>\$ 939,349</b>      | <b>\$ 2,431,942</b>    |
| <b>Gross profit</b>  | <b>\$ 183,389</b>     | <b>\$ 49,070</b>      | <b>\$ 625,495</b>      | <b>\$ 1,331,028</b>    |
| Gross margin   | 76.2%                 | 6.6%                  | 66.6%                  | 54.7%                  |
| <b>(Loss) from operations before depreciation, amortization and interest</b> | <b>\$ (182,898)</b>   | <b>\$ (557,391)</b>   | <b>\$ (381,002)</b>    | <b>\$ (519,456)</b>    |
| <b>Net (loss) and Comprehensive (loss)</b>                                   | <b>\$ (534,751)</b>   | <b>\$ (1,034,983)</b> | <b>\$ (1,552,710)</b>  | <b>\$ (2,100,762)</b>  |

### **Income Statement – Q3 Fiscal 2021 and YTD Fiscal 2021 compared to Q3 Fiscal 2020 and YTD Fiscal 2020**

#### **Q3 Fiscal 2021 compared to Q3 Fiscal 2020**

The \$501,312 drop in the company's revenues to \$240,651 reflects the impact of Covid-19. MCA program revenues declined \$374,482 (71.3%) and Aeroplan program revenues declined \$126,830 (58.5%).

Gross profit. Q3 Fiscal 2020 reflects a higher expense for provision for delinquencies against MCA program transaction credits. An outcome of Covid-19. This compressed the Q3 Fiscal 2020 gross profit to \$49,070. Q3 Fiscal 2021 gross profit at \$183,389 primarily reflects decline in revenues due to effects of Covid-19.

Selling expenses were \$37,120 lower, a 18.2% drop. To offset some of the financial impact of Covid-19 since April 1, 2020, sales staff are receiving 85% of their pre pandemic remuneration with assistance from Canada Emergency Wage Subsidy ("CEWS"). The CEWS received for sales and administration staff is reflected in G&A (see Section G&A). In addition, the headcount was lower by three, two of whom was on lay-off.

General & Administrative ("G&A") were \$203,054 lower, a 50.4% drop. To offset some of the financial impact of Covid-19 pandemic, administration staff including management, since April 1, 2020, are receiving 85% of their pre pandemic remuneration with assistance from CEWS. In addition, two staff are on lay-off. The results for Q3 Fiscal 2021 reflect CEWS of \$105,260. Staff remuneration including travel expenses are the main component of SG&A. The company also received Canada Emergency Rent Subsidy ("CERS") during Q3 Fiscal 2021 of \$27,325.

Q3 Fiscal 2021 reflects a loss from operations before depreciation, amortization and interest of \$182,898. Q3 Fiscal 2020 reflects loss from operations before depreciation, amortization and interest of \$557,391. Q3 Fiscal 2020 reflects Covid-19 driven expense of \$528,777 for provision against transaction credits due from merchants participating in MCA program.

Stated interest. The lower interest on loan payable is primarily a reflection of lower utilization of loan payable. Loan payable supports 90% investment in transaction credits. Average loan payable balance during Q3 Fiscal 2021 was \$2,613,583 compared to \$5,441,099 in the corresponding period previous year. The lower utilization reflects lower MCA program receivables (transaction credits on the balance sheet) during Q3 Fiscal 2021. While the company reduced the collections from merchants so as not to stress the merchants' cash flows during Covid-19 it also did not give significant additional advances – both on account of its diminished working capital availability and the credit environment. The interest rate charged on the loan payable is at 9.05% + prime rate, so the reduction in prime rate in March 2020 also was a factor in the lower interest cost. Interest on 9% non convertible debentures was flat.

9% Non convertible debentures payable charges for accretion, restructuring bonus and amortization of transaction costs for Q3 Fiscal 2021 were \$132,141 (2020 \$154,595).

The depreciation for right of use asset was lower reflecting write-off due to its partial impairment at June 30, 2020. At end of Fiscal 2020 the property, plant and equipment were fully depreciated. Consequently depreciation and amortization expense was lower.

The above factors are reflected in a lower net loss. Q3 Fiscal 2021 \$534,751 vs. Q3 Fiscal 2020 \$1,034,983.

#### YTD Fiscal 2021 compared to YTD Fiscal 2020

The \$1,492,593 drop in the company's revenues to \$939,349 reflects the impact of Covid-19. MCA program revenues declined \$1,256,180 (69.8 %) and Aeroplan program revenues declined \$236,413 (37.3 %).

Gross profit. YTD Fiscal 2020 reflects a higher expense for provision for delinquencies against MCA program transaction credits. An outcome of Covid-19. This compressed the YTD Fiscal 2020 gross profit to \$1,331,028. YTD Fiscal 2021 gross profit at \$625,495 primarily reflects decline in revenues due to effects of Covid-19.

Selling expenses were \$158,858 lower, a 27.3% drop. To offset some of the financial impact of Covid-19 since April 1, 2020, sales staff are receiving 85% of their pre pandemic remuneration with assistance from CEWS. The CEWS received for sales and administration staff is reflected in G&A (see Section G&A). In addition, the headcount was lower reflecting lay-off and termination.

General & Administrative ("G&A") were \$685,129 lower, a 54.0% drop. To offset some of the financial impact of Covid-19 pandemic, administration staff including management, since April 1, 2020, are receiving 85% of their pre pandemic remuneration with assistance from CEWS. In addition lower headcount reflecting lay-off. The results for YTD Fiscal 2021 reflect CEWS of \$335,480. Staff remuneration including travel expenses are the main component of SG&A. The company also received CERS during YTD Fiscal 2021 of \$49,606. The company in partnership with its landlord availed Canada Emergency Commercial Rent Assistance ("CECRA") since the start of the program until its termination September 30, 2020.

YTD Fiscal 2021 reflects a loss from operations before depreciation, amortization and interest of \$1,552,710. YTD Fiscal 2020 reflects loss from operations before depreciation, amortization and interest of \$2,100,762. YTD Fiscal 2020 reflects Covid -19 driven expense of \$528,777 for provision against transaction credits due from merchants participating in MCA program.

Stated interest. The lower interest on loan payable is primarily a reflection of lower utilization of loan payable. Loan payable supports 90% investment in transaction credits. Average loan payable balance during YTD Fiscal 2021 was \$3,307,731 compared to \$6,842,010 in the corresponding period previous year. The lower utilization reflects lower MCA program receivables (transaction credits on the balance sheet) during and YTD Fiscal 2021. While the company reduced the collections from merchants so as not to stress the merchants' cash flows during Covid-19 it also did not give significant additional advances – both on account of its diminished working capital availability and the credit environment. The interest rate charged on the loan payable is at 9.05% + prime rate, so the reduction in prime rate in March 2020 also was a factor in the lower interest cost. Interest on Non convertible debentures was flat.

9% Non convertible debentures payable charges for accretion, restructuring bonus and amortization of transaction costs for YTD Fiscal 2021 were \$449,793 (2020 \$442,753).

The depreciation for right of use asset was lower reflecting write-off due to its partial impairment at June 30, 2020. At end of Fiscal 2020 the property, plant and equipment were fully depreciated. Consequently depreciation and amortization expense was lower.

The above factors are reflected in a lower net loss. YTD Fiscal 2021 \$1,552,710 vs. YTD Fiscal 2020 \$2,100,762.

#### **Balance Sheet – March 31, 2021 compared to March 31, 2020**

Transaction credits (net of provision for delinquent accounts) were about 87.7% of total assets at end of YTD Fiscal 2021 (YTD Fiscal 2020 90.1%). Transaction credits represent balance receivable of working capital advanced to merchants. Transaction credits, net of provision for delinquent accounts, of \$2,092,782 at March 31 were \$2,666,202 lower compared to \$4,758,984 at March 31, 2020. Since the start of Covid-19 pandemic while the company reduced the collections from merchants so as not to stress the merchants' cash flows it also

did not give significant additional advances – both on account of its diminished working capital availability and the credit environment. In addition, the balance at March 31, 2021 reflects an additional general reserve for potential delinquent transaction credits on account of Covid-19. The general reserve at March 31, 2021 is \$502,950 (March 31, 2020 \$528,777). Consequently the total provision for delinquent transaction credits at March 31, 2021 was \$1,062,175 (March 31 2020 \$744,004). Both of the foregoing factors are reflected in lower transaction credits at March 31, 2021. March 31, 2020 reflects transition of merchants participating in the CIBC/TD program to the MCA program (commenced during year ended June 30, 2019 and completed during Q1 Fiscal 2020) and collections during YTD Fiscal 2020. Under the MCA program the working capital advances of merchants being transitioned were refreshed to new higher credit limits.

Loan payable of \$2,719,782 at March 31, 2021 was \$2,069,986 lower compared to \$4,789,768 at March 31, 2020. 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. The loan payable balance at March 31, 2021 also includes amounts payable under the working capital overdraft provided by Accord. The loan payable balance at March 31, 2021 (net of working capital overdraft) and March 31, 2020 primarily reflects the change in transaction credits (grossed up for general reserve) at the end of the two periods.

March 31, 2021 reflects 9% 2025 debentures. March 31, 2020 reflects 9% debentures and the book value reflects accrued and unpaid interest of \$655,515 for the period December 16, 2018 until March 31, 2020. The company did not have the ability to pay the interest. The maturity date of the 9% debentures was extended to December 31, 2025 and they were replaced with 9% 2025 debentures. Details are provided in section 9% Non convertible debentures payable in this document.

## Results of Operations

|   | <u>Q3 Fiscal 2021</u> | <u>Q3 Fiscal 2020</u> | <u>YTD Fiscal 2021</u> | <u>YTD Fiscal 2020</u> |
|---|-----------------------|-----------------------|------------------------|------------------------|
|   | <u>\$</u>             | <u>\$</u>             | <u>\$</u>              | <u>\$</u>              |
| <b>Revenues</b>   | <b>\$ 240,651</b>     | <b>\$ 741,963</b>     | <b>\$ 939,349</b>      | <b>\$ 2,431,942</b>    |
| Direct Expenses - Cost of cardholder rewards and marketing in connection with merchant based loyalty program  | 55,284                | 110,125               | 239,134                | 329,048                |
| Direct Expenses - Expense for provision against delinquent accounts   | 1,978                 | 582,768               | 74,720                 | 771,866                |
| <b>Gross profit</b>   | <b>\$ 183,389</b>     | <b>\$ 49,070</b>      | <b>\$ 625,495</b>      | <b>\$ 1,331,028</b>    |
| Selling and General & Administrative  | 366,287               | 606,461               | 1,006,497              | 1,850,484              |
| <b>(Loss) from operations before depreciation, amortization and interest</b>  | <b>\$ (182,898)</b>   | <b>\$ (557,391)</b>   | <b>\$ (381,002)</b>    | <b>\$ (519,456)</b>    |
| Cash interest on loan payable and 9% non convertible debentures payable   | 205,250               | 301,059               | 677,215                | 1,059,413              |
| <b>(Loss) from operations before depreciation, amortization, non-cash interest, and other non cash expenses</b>   | <b>\$ (388,148)</b>   | <b>\$ (858,450)</b>   | <b>\$ (1,058,217)</b>  | <b>\$ (1,578,869)</b>  |
| Depreciation - Right of use asset   | 11,372                | 16,333                | 34,118                 | 49,001                 |
| Depreciation and amortization   | -                     | 629                   | -                      | 15,210                 |
| Interest - Lease  | 3,090                 | 4,976                 | 10,582                 | 14,929                 |
| Non cash expense on 9% non convertible debentures payable - accretion charges, restructuring bonus, amortization of transaction costs on issuance of debentures | 132,141               | 154,595               | 449,793                | 442,753                |
| <b>Net (loss) and Comprehensive (loss)</b>  | <b>\$ (534,751)</b>   | <b>\$ (1,034,983)</b> | <b>\$ (1,552,710)</b>  | <b>\$ (2,100,762)</b>  |
| <b>Basic and Diluted (loss) per share</b>   | <b>\$ (0.00)</b>      | <b>\$ (0.00)</b>      | <b>\$ (0.00)</b>       | <b>\$ (0.00)</b>       |



Extract from the Statement of Financial Position

|                          | At March<br>31, 2021 | At June<br>30, 2020 | Increase/<br>(Decrease) |
|--------------------------|----------------------|---------------------|-------------------------|
|                          | \$                   | \$                  | \$                      |
| Current assets           | \$ 2,321,887         | \$ 4,268,200        | \$ (1,946,313)          |
| Total assets             | \$ 2,386,331         | \$ 4,366,762        | \$ (1,980,431)          |
| Shareholders' deficiency | \$ (7,687,315)       | \$ (9,167,710)      | \$ (1,480,395)          |

The change in current assets primarily reflected decrease in transaction credit, net of provision for delinquent accounts, of \$1,831,135.

Since the start of Covid-19 pandemic while the company reduced the collections from merchants so as not to stress the merchants' cash flows it also did not give significant additional advances – both on account of its diminished working capital availability and the credit environment. This is the primary reason for the decline in transaction credits.

The change in the total assets primarily 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 March 31, 2021 also includes amounts payable under the working capital overdraft provided by Accord (March 31, 2021 \$460,000 vs. June 30, 2020 \$184,098). The loan payable balance at March 31, 2021 at \$2,712,782 was down \$1,649,224 compared to June 30, 2020. The loan payable balance at March 31, 2021 and June 30, 2020 (net of working capital overdraft) primarily reflects the change in transaction credits (grossed up for general reserve – see credit risk under section Critical Accounting Estimates) at the end of the two periods.

June 30, 2020 reflects book value of the 9% debentures as current liability. The company was in default with respect to its financial covenants and interest payments. Included in the book value was accrued and unpaid interest of \$784,385. March 31, 2021 reflects book value of 9% 2025 debentures as a non-current liability. See section 9% Non convertible debentures payable for additional information on 9% debentures and 8% 2025 debentures.

The movement in the shareholders' deficit reflects net loss during YTD Fiscal 2021 and recording of contributed surplus upon the issuance of 9% 2025 debentures (see section 9% Non convertible debentures payable).

Extracts from the Statement of Cash Flow

|   | YTD Fiscal 2021 | YTD Fiscal 2020 | Change       |
|---|-----------------|-----------------|--------------|
|   | \$              | \$              | \$           |
| Net (loss)  | \$ (1,552,710)  | \$ (2,100,762)  | \$ 548,052   |
| Adjustments for non cash expenses                     | 888,736         | 905,829         | (17,093)     |
| (Loss) after adjustments for non cash expenses        | \$ (663,974)    | \$ (1,194,933)  | \$ 530,959   |
| Changes in working capital                            | 2,101,955       | 4,815,073       | (2,713,118)  |
| Net (used by) financing activities                    | (1,500,402)     | (3,525,264)     | 2,024,862    |
| Net cash (used in) generated by operations            | \$ (62,421)     | \$ 94,876       | \$ (157,297) |
| Net cash provided by / (used in) investing activities | -               | -               | -            |
| (Decrease) Increase in cash                           | (62,421)        | \$ 94,876       | \$ (157,297) |
| Cash at start of period                               | \$ 166,601      | \$ 119,636      | \$ 46,965    |
| Cash at end of period                                 | \$ 104,180      | \$ 214,512      | \$ (110,332) |

*Adjustments for non cash expenses.* A significant item for YTD Fiscal 2021 and YTD Fiscal 2020 is accrued and unpaid 9% debentures and also for YTD Fiscal 2021 9% 2025 debentures interest (YTD Fiscal 2021 \$394,243

vs. YTD Fiscal 2020 \$383,891). Furthermore, charges for Accretion and Restructuring bonus respecting 9% debentures were \$436,486 (YTD Fiscal 2020 \$434,936).

*Changes in working capital.* Transaction credits, accounts receivable, accounts payable and accrued liabilities and other working capital items. Transaction credits net of provision for delinquencies - During YTD Fiscal 2021 the significant item was the decrease of \$1,831,135 in transaction credits. Since the start of Covid-19 pandemic while the company reduced the collections from merchants so as not to stress the merchants' cash flows it also did not give significant additional advances – both on account of its diminished working capital availability and the credit environment. This is the primary reason for the decline in transaction credits. During YTD Fiscal 2020 the significant item was the decrease of \$4,715,015 in transaction credits – net of provision for delinquencies- and reflected a combination of transition of merchants participating in the CIBC/TD program to the MCA program (MCA program advance levels were higher vs CIBC/TD program) and collection of dues from merchants transitioned as at June 30, 2019 and post June 30, 2019 to MCA. Collection was the primary activity between completion of transition to MCA during Q1 Fiscal 2020 until March 31, 2020. The collections exceeded the issuance of advances to the merchants transitioned during the three and nine months ended March 31, 2020. An additional factor at March 31, 2020 was the creation of an additional reserve for delinquencies against transaction credits on account of Covid-19 pandemic.

From time to time the company enters into payment plans to settle its dues. As of date hereof there are payment plans with certain vendors. The company agreement with Aeroplan ended April 30, 2021. As of date hereof they continue to work while discussing future terms and direction. The company is in arrears with respect to amounts due – for current invoices and balance due from prior payment plan - to Aeroplan. The company primarily fell into arrears on account of Covid-19. An important discussion matter is the establishment of a payment plan to address Advantex's arrears to Aeroplan.

*Financing activities.* During YTD Fiscal 2021 the primary change was: a) the decrease of \$1,649,224 in loan payable which is primarily due to above noted decrease in transaction credits and raise of gross proceeds of \$250,000 through issuance of 9% 2025 debentures on March 16, 2021. Furthermore, the loan payable balance during YTD Fiscal 2021 also includes amounts payable under the working capital overdraft provided by Accord (March 31, 2020 \$460,000 vs. June 30, 2020 \$184,098). During YTD Fiscal 2020 the primary change was the decrease in loan payable of \$3,626,308 which is primarily due to above noted decrease in transaction credits.

*Investing activities.* The company is frugal with capital expenditures given its financial situation. In the event the company is successful in capital raise it would continue a gradual move of its entire IT infrastructure into the cloud. The company does not expect significant capital expenditures in the next twelve months.

*The presentations in Results of Operations section are not set out in accordance with International Financial Reporting Standards (“IFRS”). The presentations are extracts from the interim consolidated financial statement for the three and nine months ended March 31, 2021, 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 receivables and company earns its revenue, per contract terms, as it collects against the pre-purchased receivables. The working capital given to the merchants is the transaction credits on the consolidated statement of financial position. The amount collected against the pre-purchased receivables less of revenue is applied to reduce the transaction credit balance.

The Aeroplan program. Here the company is a re-seller. The company sells aeroplan points to 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 number of participating merchants, the amount of working capital advances deployed with merchants and the discount at which future receivables are purchased from merchants.

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

Economic activity and Covid-19 restrictions have an impact on both MCA and Aeroplan programs.

A significant factor in the Q3 Fiscal 2021 and YTD Fiscal 2021 revenues was the Covid-19 pandemic.

The revenue trends are provided in the tabulation.

|                  | Q3 Fiscal 2021    | Q3 Fiscal 2020    | Inc./Dec)           | YTD Fiscal 2021   | YTD Fiscal 2020     | Inc./Dec)             |
|------------------|-------------------|-------------------|---------------------|-------------------|---------------------|-----------------------|
|                  | \$                | \$                | \$                  | \$                | \$                  | \$                    |
| <b>Revenues</b>  |                   |                   |                     |                   |                     |                       |
| MCA program      | \$ 150,638        | \$ 525,120        | \$ (374,482)        | \$ 542,256        | \$ 1,798,436        | \$ (1,256,180)        |
| Aeroplan program | 90,013            | 216,843           | (126,830)           | 397,093           | 633,506             | (236,413)             |
|                  | <b>\$ 240,651</b> | <b>\$ 741,963</b> | <b>\$ (501,312)</b> | <b>\$ 939,349</b> | <b>\$ 2,431,942</b> | <b>\$ (1,492,593)</b> |

### MCA program

Since the start of the Covid-19 pandemic on an on and off basis most of the participating merchants either were mandated by the law to close operations or operate with restrictions. The company reduced the contracted collections from merchants so as not to stress the merchants' cash flows. Furthermore the company did not give any significant additional working capital advances to merchants - both on account of its diminished working capital availability and the credit environment - leading to reduction in transaction credits and participating merchants. Average number of MCA merchants during Q3 Fiscal 2021 and YTD Fiscal 2021 were about 100 and 125 respectively compared to about 250 during corresponding periods in the previous year.

The above two factors led to a sharp decline in revenues.

During March 2021 the company started to deploy a part of the proceeds raised in March 2021 as working capital advances to select merchants. The impact will be reflected from April onwards.

### Aeroplan program

In both periods the revenue was from re-seller activity. Revenue decline primarily reflects economic impact of Covid-19 pandemic on participating merchants and their ability to carry on with loyalty marketing activity using this program. Average number of merchants about 100 during YTD Fiscal 2021 and YTD 2020.

### **Direct Expenses**

The MCA direct expenses are provision for delinquencies against transaction credits. Q3 Fiscal 2020 and YTD Fiscal 2020 reflects Covid-19 driven expense of \$528,777 for provision against transaction credits due from merchants participating in MCA program.

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

|                        | <u>Q3 Fiscal 2021</u> | <u>Q3 Fiscal 2020</u> | <u>Inc./Dec</u> | <u>YTD Fiscal 2021</u> | <u>YTD Fiscal 2020</u> | <u>Inc./Dec</u> |
|------------------------|-----------------------|-----------------------|-----------------|------------------------|------------------------|-----------------|
|                        | \$                    | \$                    | %               | \$                     | \$                     | %               |
| <b>Revenues</b>        |                       |                       |                 |                        |                        |                 |
| MCA program            | \$ 150,638            | \$ 525,120            | -71.3%          | \$ 542,256             | \$ 1,798,436           | -69.8%          |
| Aeroplan program       | 90,013                | 216,843               | -58.5%          | 397,093                | 633,506                | -37.3%          |
|                        | <u>\$ 240,651</u>     | <u>\$ 741,963</u>     | <u>-67.6%</u>   | <u>\$ 939,349</u>      | <u>\$ 2,431,942</u>    | <u>-61.4%</u>   |
| <b>Direct expenses</b> |                       |                       |                 |                        |                        |                 |
| MCA program            | \$ 1,978              | \$ 582,768            | -99.7%          | \$ 74,720              | \$ 771,866             | -90.3%          |
| Aeroplan program       | 55,284                | 110,125               | -49.8%          | 239,134                | 329,048                | -27.3%          |
|                        | <u>\$ 57,262</u>      | <u>\$ 692,893</u>     | <u>-91.7%</u>   | <u>\$ 313,854</u>      | <u>\$ 1,100,914</u>    | <u>-71.5%</u>   |

### MCA program

Covid-19 is 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 continued to monitor credit risk along above methodology during Q3 Fiscal 2021 and YTD Fiscal 2021.

### Aeroplan program

The decline in direct costs reflects decline in revenues. The changes in direct costs vs. changes in revenues is primarily attributable to the mix of gross margins the company earns from transacting merchants.

### **Gross Profit**

As described in section Direct Expenses the Q3 Fiscal 2020 and YTD Fiscal 2020 reflect a higher expense for provision for delinquencies against transaction credits. An outcome of Covid-19. This compressed the gross profit.

Q3 Fiscal 2021 and YTD Fiscal 2021 gross profits primarily reflect decline in revenues due to effects of Covid-19.

|                  | <u>Q3 Fiscal 2021</u> | <u>Q3 Fiscal 2020</u> | <u>Inc./Dec</u> | <u>YTD Fiscal 2021</u> | <u>YTD Fiscal 2020</u> | <u>Inc./Dec</u> |
|------------------|-----------------------|-----------------------|-----------------|------------------------|------------------------|-----------------|
|                  | \$                    | \$                    | %               | \$                     | \$                     | %               |
| MCA program      | \$ 148,660            | \$ (57,648)           |                 | \$ 467,536             | \$ 1,026,570           |                 |
| Aeroplan program | 34,729                | 106,718               |                 | 157,959                | 304,458                |                 |
|                  | <u>\$ 183,389</u>     | <u>\$ 49,070</u>      | <u>273.7%</u>   | <u>\$ 625,495</u>      | <u>\$ 1,331,028</u>    | <u>-53.0%</u>   |

### **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.

To offset some of the financial impact of Covid-19 since April 1, 2020, sales staff are receiving 85% of their pre pandemic remuneration with assistance from CEWS. The CEWS received for sales and administration staff is reflected in G&A (see Section G&A). In addition, the headcount was lower, two staff on lay-off – one since March 2020 and the second since September 2020. One staff previously on administrative function was assigned to sales and account management and is part of selling expenses in Q3 Fiscal 2021 and YTD Fiscal 2021.

The company's sales force is common to both programs.

|                               | <u>Q3 Fiscal 2021</u> | <u>Q3 Fiscal 2020</u> | <u>Inc./Dec</u> | <u>YTD Fiscal 2021</u> | <u>YTD Fiscal 2020</u> | <u>Inc./Dec</u> |
|-------------------------------|-----------------------|-----------------------|-----------------|------------------------|------------------------|-----------------|
|                               | \$                    | \$                    | %               | \$                     | \$                     | %               |
| <b>Revenues</b>               |                       |                       |                 |                        |                        |                 |
| MCA program                   | \$ 150,638            | \$ 525,120            |                 | \$ 542,256             | \$ 1,798,436           |                 |
| Aeroplan program              | 90,013                | 216,843               |                 | 397,093                | 633,506                |                 |
|                               | <u>\$ 240,651</u>     | <u>\$ 741,963</u>     | <b>-67.6%</b>   | <u>\$ 939,349</u>      | <u>\$ 2,431,942</u>    | <b>-61.4%</b>   |
| <b>Selling expenses</b>       |                       |                       |                 |                        |                        |                 |
| MCA and Aeroplan programs     | \$ 166,728            | \$ 203,848            |                 | \$ 423,688             | \$ 582,546             |                 |
|                               | <u>\$ 166,728</u>     | <u>\$ 203,848</u>     | <b>-18.2%</b>   | <u>\$ 423,688</u>      | <u>\$ 582,546</u>      | <b>-27.3%</b>   |
| Cost of sales staff           | \$ 154,783            | \$ 200,989            | <b>-23.0%</b>   | \$ 401,645             | \$ 571,284             | <b>-29.7%</b>   |
| Cost as % of selling expenses | 92.8%                 | 98.6%                 |                 | 94.8%                  | 98.1%                  |                 |

### **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>Q3 Fiscal 2021</u> | <u>Q3 Fiscal 2020</u> | <u>Inc./Dec</u> | <u>YTD Fiscal 2021</u> | <u>YTD Fiscal 2020</u> | <u>Inc./Dec</u> |
|---|-----------------------|-----------------------|-----------------|------------------------|------------------------|-----------------|
|   | \$                    | \$                    | %               | \$                     | \$                     | %               |
| <b>Change in revenues</b>                 |                       |                       | <b>-67.6%</b>   |                        |                        | <b>-61.4%</b>   |
| <b>G&amp;A</b>                            |                       |                       |                 |                        |                        |                 |
| Compensation for non-sales staff          | \$ 187,390            | \$ 299,523            | -37.4%          | \$ 652,136             | \$ 856,014             | -23.8%          |
| Directors fees                            | 16,250                | 8,125                 |                 | 32,500                 | 40,625                 |                 |
| CEWS - for sales and non-sales staff      | (105,260)             | -                     |                 | (335,480)              | -                      |                 |
| CERS                                      | (27,325)              | -                     |                 | (49,606)               | -                      |                 |
| All other G&A expenses, incl staff travel | 128,504               | 94,964                |                 | 283,259                | 371,299                |                 |
|   | <u>\$ 199,559</u>     | <u>\$ 402,613</u>     | <b>-50.4%</b>   | <u>\$ 582,809</u>      | <u>\$ 1,267,938</u>    | <b>-54.0%</b>   |

To offset some of the financial impact of Covid-19 pandemic, administration staff including management, since April 1, 2020, are receiving 85% of their pre pandemic remuneration.

The CEWS reflected in tabulation is received for sales and non-sales staff.

#### All other G&A expenses

Reduction in expenses is primarily a reflection of the minimization of costs to cope with the sharp decline in revenues due to Covid-19 pandemic. It also reflects receipt of CERS of \$27,325 and \$49,606 during Q3 Fiscal 2021 and YTD Fiscal 2021. The company in partnership with its landlord availed CECRA since the start of the program until its termination September 30, 2020.

### **Interest Expense**

The interest expense is tabulated:

|   | Q3 Fiscal 2021 | Q3 Fiscal 2020 | Inc./Dec) | YTD Fiscal 2021 | YTD Fiscal 2020 | Inc./Dec) |
|---|----------------|----------------|-----------|-----------------|-----------------|-----------|
|   | \$             | \$             | %         | \$              | \$              | %         |
| Stated ("Cash") interest expense  |                |                |           |                 |                 |           |
| Loan payable  | \$ 71,578      | \$ 172,190     |           | \$ 282,972      | \$ 675,522      |           |
| 9% 2025 debentures  | 133,672        | 128,869        |           | 394,243         | 383,891         |           |
|   | \$ 205,250     | \$ 301,059     | -31.8%    | \$ 677,215      | \$ 1,059,413    | -36.1%    |
| Non-cash interest expense   |                |                |           |                 |                 |           |
| Interest - Lease  | \$ 3,090       | \$ 4,976       |           | \$ 10,582       | \$ 14,929       |           |
| Accretion charges on 9% non convertible debentures payable                | 74,393         | 83,698         |           | 248,797         | 242,098         |           |
| Restructuring bonus on 9% non convertible debentures                      | 53,834         | 66,200         |           | 187,689         | 192,827         |           |
| Amortization of transaction costs - 9% non convertible debentures payable | 3,914          | 4,696          |           | 13,307          | 7,828           |           |
|   | \$ 135,231     | \$ 159,571     |           | \$ 460,375      | \$ 457,682      |           |
|   | \$ 340,481     | \$ 460,630     | -26.1%    | \$ 1,137,590    | \$ 1,517,095    | -25.0%    |

Stated interest. The lower interest on loan payable is primarily a reflection of lower utilization of loan payable. Loan payable supports 90% investment in transaction credits. Average loan payable balance during Q3 Fiscal 2021 and YTD Fiscal 2021 was \$2,613,583 and \$3,307,731 respectively compared to \$5,441,099 and \$6,842,010 respectively in the corresponding periods previous year. The lower utilization reflects lower MCA program receivables (transaction credits on the balance sheet) during Q3 Fiscal 2021 and YTD Fiscal 2021. While the company reduced the collections from merchants so as not to stress the merchants' cash flows during Covid-19 it also did not give significant additional advances – both on account of its diminished working capital availability and the credit environment. The interest rate charged on the loan payable is at 9.05% + prime rate, so the reduction in prime rate in March 2020 also was a factor in the lower interest cost.

## Net Profit/(Loss)

Highlights are tabulated:

|   | Q3 Fiscal 2021 | Q3 Fiscal 2020 | Inc./Dec)    | YTD Fiscal 2021 | YTD Fiscal 2020 | Inc./Dec)      |
|---|----------------|----------------|--------------|-----------------|-----------------|----------------|
|   | \$             | \$             | \$           | \$              | \$              | \$             |
| Revenues  | \$ 240,651     | \$ 741,963     | \$ (501,312) | \$ 939,349      | \$ 2,431,942    | \$ (1,492,593) |
| Gross margin  | 76.2%          | 6.6%           |              | 66.6%           | 54.7%           |                |
| Gross profit  | \$ 183,389     | \$ 49,070      | \$ 134,319   | \$ 625,495      | \$ 1,331,028    | \$ (705,533)   |
| (Loss) from operations before depreciation, amortization and interest | \$ (182,898)   | \$ (557,391)   | \$ (374,493) | \$ (381,002)    | \$ (519,456)    | \$ (138,454)   |
| Net (loss) and comprehensive (loss)                                   | \$ (534,751)   | \$ (1,034,983) | \$ (500,232) | \$ (1,552,710)  | \$ (2,100,762)  | \$ (548,052)   |
| Basic and Diluted profit/(loss) per share                             | \$ (0.00)      | \$ (0.00)      |              | \$ (0.00)       | \$ (0.00)       |                |

## Q3 Fiscal 2021 and YTD Fiscal 2021 compared to corresponding periods in the previous year

The detailed analysis of the above tabulated items is provided in Sections - Income Statement – Q3 Fiscal 2021 and YTD Fiscal 2021 compared to Q3 Fiscal 2020 and YTD Fiscal 2020, and in Sections Revenue, Direct Expenses, Gross Profit, Selling Expenses, G&A, and Interest Expense.

Highlights are provided:

- The decline in revenues reflects impact of Covid-19 pandemic.
- Q3 Fiscal 2020 and YTD Fiscal 2020 reflect a higher expense for provision for delinquencies against transaction credits. An outcome of Covid-19. This compressed the gross profit. Controlling for the higher

delinquency provision expense, Q3 Fiscal 2021 and YTD Fiscal 2021 gross profit is significantly lower and reflects the decline in revenues.

- Selling, General and Administrative (“SG&A”) expenses were lower. The lower SG&A expenses primarily reflect Covid-19 pandemic lay-off of some staff and the remaining staff including the management, since April 1, 2020, receiving 85% of their pre pandemic remuneration with assistance from CEWS. Receipt of CERS was a factor during Q3 Fiscal 2021 and YTD Fiscal 2021 while CECRA was a factor in YTD Fiscal 2021. Staff remuneration including travel expenses are the main component of SG&A.
- (Loss) from operations before depreciation, amortization and interest. Q3 Fiscal 2020 and YTD Fiscal 2020 reflect higher expense for provision for delinquencies against transaction credits thereby compressing the gross profit and consequently increased the loss. Q3 Fiscal 2021 and YTD Fiscal 2021 reflect the outcome of decline in revenues partially offset by lower SG&A.
- Stated interest cost was significantly lower reflecting lower utilization of loan payable which is used to fund 90% of the MCA program advances (transaction credits).
- 9% Non convertible debentures payable charges for accretion, restructuring bonus and amortization of transaction costs for Q3 Fiscal 2021 were \$132,141 (2020 \$154,595) and for YTD Fiscal 2021 \$449,793 (2020 \$442,753).
- The depreciation for right of use asset was lower reflecting write-off due to its partial impairment at June 30, 2020. At end of Fiscal 2020 the property, plant and equipment were fully depreciated. Consequently depreciation and amortization expense was lower.
- The above factors are reflected in the reported Q3 Fiscal 2021 and YTD Fiscal 2021 losses vs. Q3 Fiscal 2020 and YTD Fiscal 2020.

## Working Capital and Liquidity Management

|  | <u>Q3 Fiscal 2021</u> | <u>Q3 Fiscal 2020</u> | <u>YTD Fiscal 2021</u> | <u>YTD Fiscal 2020</u> |
|--|-----------------------|-----------------------|------------------------|------------------------|
|  | \$                    | \$                    | \$                     | \$                     |
| <b>Funds available to expand the MCA program (Transaction credits on the balance sheet) and meet working capital needs</b> |                       |                       |                        |                        |
| Net (loss)   | \$ (534,751)          | \$ (1,034,983)        | \$ (1,552,710)         | \$ (2,100,762)         |
| Adjustments for non cash expenses  | <u>280,275</u>        | <u>305,403</u>        | <u>888,736</u>         | <u>905,829</u>         |
| (Loss) after adjustment for non cash expenses  | (254,476)             | (729,580)             | (663,975)              | (1,194,933)            |
| Cash balances at start of the period   | 39,585                | 54,208                | 166,601                | 119,636                |
| Inc. 9% 2025 debentures  | 187,075               | -                     | 187,075                | 159,297                |
| Proceeds from loan - Canada Emergency Business Account   | -                     | -                     | 20,000                 | -                      |
| Inc./dec) in loan payable  | <u>(124,107)</u>      | <u>(1,260,301)</u>    | <u>(1,649,224)</u>     | <u>(3,626,308)</u>     |
|  | <b>\$ (151,923)</b>   | <b>\$ (1,935,673)</b> | <b>\$ (1,939,522)</b>  | <b>\$ (4,542,308)</b>  |
|  |                       |                       |                        |                        |
| <b>Utilization of funds</b>  |                       |                       |                        |                        |
| Cash balances at end of periods  | \$ 104,180            | \$ 214,512            | \$ 104,180             | \$ 214,512             |
| Inc./dec) in transaction credits   | (158,007)             | (2,062,930)           | (1,831,135)            | (4,715,015)            |
| Decrease in Accounts payable   | 43,839                | (98,788)              | (218,063)              | (89,608)               |
| Changes in all other working capital items   | (161,351)             | (7,885)               | (52,757)               | (10,450)               |
| Investing activities   | -                     | -                     | -                      | -                      |
| Change in other financing items  | <u>19,416</u>         | <u>19,418</u>         | <u>58,253</u>          | <u>58,253</u>          |
|  | <b>\$ (151,923)</b>   | <b>\$ (1,935,673)</b> | <b>\$ (1,939,522)</b>  | <b>\$ (4,542,308)</b>  |

*Adjustments for non cash expenses.* A significant item for YTD Fiscal 2021 and YTD Fiscal 2020 is accrued and unpaid 9% debentures and also for YTD Fiscal 2021 9% 2025 debentures interest (YTD Fiscal 2021 \$394,243 vs. YTD Fiscal 2020 \$383,891). Furthermore, charges for Accretion and Restructuring bonus respecting 9% debentures were \$436,486 (YTD Fiscal 2020 \$434,936).

*Changes in working capital.* Transaction credits, accounts receivable, accounts payable and accrued liabilities and other working capital items. Transaction credits net of provision for delinquencies - During YTD Fiscal 2021 the significant item was the decrease of \$1,831,135 in transaction credits. Since the start of Covid-19 pandemic while the company reduced the collections from merchants so as not to stress the merchants' cash flows it also did not give significant additional advances – both on account of its diminished working capital availability and the credit environment. This is the primary reason for the decline in transaction credits. During YTD Fiscal 2020 the significant item was the decrease of \$4,715,015 in transaction credits – net of provision for delinquencies- and reflected a combination of transition of merchants participating in the CIBC/TD program to the MCA program (MCA program advance levels were higher vs CIBC/TD program) and collection of dues from merchants transitioned as at June 30, 2019 and post June 30, 2019 to MCA. Collection was the primary activity between completion of transition to MCA during Q1 Fiscal 2020 until March 31, 2020. The collections exceeded the issuance of advances to the merchants transitioned during the three and nine months ended March 31, 2020. An additional factor at March 31, 2020 was the creation of an additional reserve for delinquencies against transaction credits on account of Covid-19 pandemic.

From time to time the company enters into payment plans to settle its dues. As of date hereof there are payment plans with certain vendors. The company agreement with Aeroplan ended April 30, 2021. As of date hereof they continue to work while discussing future terms and direction. The company is in arrears with respect to



amounts due – for current invoices and balance due from prior payment plan - to Aeroplan. The company primarily fell into arrears on account of Covid-19. An important discussion matter is the establishment of a payment plan to address Advantex’s arrears to Aeroplan.

*Financing activities.* During YTD Fiscal 2021 the primary change was: a) the decrease of \$1,649,224 in loan payable which is primarily due to above noted decrease in transaction credits and raise of gross proceeds of \$250,000 through issuance of 9% 2025 debentures on March 16, 2021. Furthermore, the loan payable balance during YTD Fiscal 2021 also includes amounts payable under the working capital overdraft provided by Accord (March 31, 2020 \$460,000 vs. June 30, 2020 \$184,098). During YTD Fiscal 2020 the primary change was the decrease in loan payable of \$3,626,308 which is primarily due to above noted decrease in transaction credits.

*Investing activities.* The company is frugal with capital expenditures given its financial situation. In the event the company is successful in capital raise it would continue a gradual move of its entire IT infrastructure into the cloud. The company does not expect significant capital expenditures in the next twelve months.

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

Cash balances at the end of periods reflect cash (used) by operations [(loss) after adjustment for non cash expenses – see above tabulation], payments of accounts payable, collection of transactions, and deployment of advances with merchants (YTD Fiscal 2020. Not significant activity YTD Fiscal 2021 due to diminished availability of working capital).

The company’s operations are funded by debt – loan payable and effective March 16, 2021 9% 2025 debentures (see Sections Loan Payable and 9% Non-Convertible Debentures Payable) in this document.

#### Impact of Covid-19 pandemic

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus, Covid-19, as a global pandemic. The government in Canada ordered the closure of all non-essential businesses. Practically all of the company’s customers, small independent merchants, operate in the non-essential business segments. Since March 2020 until date hereof the restrictions have flexed between lockdowns and limited relaxation across Canada resulting in a devastating adverse impact on the company’s Q3 Fiscal 2021 and YTD Fiscal 2021 performance and further deterioration of its financial position since June 30, 2020.

Restrictions led to decline in the ability of the company’s merchants to pay the contracted amounts per MCA agreements. It also did not give significant additional advances – both on account of its diminished working capital availability and the credit environment and this in turn led to decline in MCA program transaction credits and participating merchants. The two factors led to a sharp decline in the company’s MCA revenues. Average number of MCA merchants during Q3 Fiscal 2021 and YTD Fiscal 2021 were about 100 and 125 respectively compared to about 250 during corresponding periods in the previous year. Similarly the company’s re-seller program (“Aeroplan program”) dependent on agreement with Aeroplan Inc., operator of Aeroplan Loyalty Program owned by Air-Canada was impacted. Participating merchants either stopped or curtailed their loyalty marketing activities leading to decline in revenues from this program. Average number of merchants about 100 during YTD Fiscal 2021 and YTD 2020.

Q3 Fiscal 2021 and YTD Fiscal 2021 revenues at \$240,651 and \$939,349 respectively declined \$501,312 (67.6%) and \$1,492,593 (61.4%) respectively compared to corresponding periods in the previous year. Consequently the company was left with a weak balance sheet after further working capital deterioration during the Covid-19 pandemic.

Given the severe adverse economic effect on small independent businesses the company took a significant reserve during year ended June 30, 2020 (“Fiscal 2020”), specifically in three months ended March 31, 2020 (“Q3 Fiscal 2020”), against the amounts due from merchants in its MCA portfolio, and continued to monitor credit risk during Q3 Fiscal 2021 and YTD Fiscal 2021.

The company availed federal government Covid-19 pandemic relief measures during Fiscal 2020 and continues to do so as of date hereof. To manage its costs the company had to lay-off of some staff and the remaining staff

including the management, since April 1, 2020, are receiving 85% of their pre pandemic remuneration with assistance from Canada Emergency Wage Subsidy. The company received \$40,000 under the Canada Emergency Business Account. In December 2020 the company applied for and received an additional \$20,000 under this program. The company's landlord applied for Canada Emergency Commercial Rent Assistance program. Since October 2020 the company is accessing the Canada Emergency Rent Subsidy.

Prior to Covid-19 the company entered discussions with two unrelated parties for loans to supplement its working capital and provide growth capital in order to expand the MCA business. Expansion was expected to lead to financial stability. The two parties terminated the discussions citing Covid-19 issues.

The company applied for working capital loans with the Business Development Bank of Canada, under the federal government pandemic support programs, and Canadian Imperial Bank of Commerce, the company's long-standing commercial banker but was unsuccessful in both cases. The reason was the weak balance sheet.

The upshot was the company: a) fell into arrears with monthly interest payments to Accord Financial Inc. ("Accord") provider, since 2007, of credit facility (see Section Loan Payable) which is the source of 90% of funds for the MCA program, and other suppliers/service providers, b) did not have the funds to pay for the audit so did not timely file the Fiscal 2020 annual financial statements and related documents by due date of October 28, 2020, and c) had diminished capacity – both in terms of access to capital and as a consequence of the credit environment to maintain its MCA portfolio.

Accord allowed the company to defer payment of interest from March to June. Subsequent to June 30, 2020, Accord provided the company an overdraft facility of \$460,000. As of March 31, 2021 and date hereof the company has fully utilized this facility.

The company has a decade old relationship with Aeroplan. The current five year term of the agreement ended April 30, 2019 which was extended to April 30, 2020 and thereafter – in July 2020 - further extended to April 30, 2021. As of date hereof the two parties continue to work together under the terms of the original agreement while discussing future terms and direction. The company is in arrears with respect to amounts due – for current invoices and balance due from prior payment plan - to Aeroplan. The company primarily fell into arrears on account of Covid-19. An important discussion matter is the establishment of a payment plan to address Advantex's arrears to Aeroplan. Merchants are able to leverage a powerful currency to market their business, specific products and services to the Aeroplan membership which is able to accelerate earning aeroplan points. Advantex earns its revenue in the Aeroplan program from selling aeroplan points, at an agreed price per aeroplan point, to participating merchants. During Q3 Fiscal 2021 and YTD Fiscal 2021 and corresponding periods in the previous year the company had about 100 participating merchants.

The company continued to be in default on the financial covenants and interest payments on its 9% Non convertible Debentures Payable ("9% debentures") with no ability to cure the default. In March 2021 the 9% debentures maturity date was extended to December 31, 2025 and 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. (see Sections 9% Non-convertible debentures payable and Capital Raise Developments).

Due to lack of funds to pay for the audit the company did not timely file its financial statements and related financial documents for year ended June 30, 2020.

#### Capital raise developments

Given its financial hardship, Covid-19, termination of alternative financing options described in Impact of Covid-19 pandemic under section Overall Performance the company negotiated a financing of up-to \$1.0 million with its principal holder of 9% debentures and common shares of the company (see section Related party transactions for information about principal holder). However, given the regulatory complications and delays connected to this financing the investors decided not to pursue the financing. Instead the company and investors agreed to pursue, subject to approval of OSC, a \$250,000 raise by way of senior secured non convertible debentures in order to enable the company to continue operating while it worked to obtain a full revocation of the failure-to-file cease trade order issued against the company on November 1, 2019 ("FFCTO") for failing to file certain outstanding continuous disclosure documents in a timely manner, and to canvass and consider other financing alternatives at the same time.

The company applied for the Partial Revocation Order to complete a financing (the “Financing”) whereby, through its managed accounts and principals, Generation IACP Inc. (“GIACP”) and Generation PMCA Corp. (“GPMCA” and together with GIACP, “Generation”) would subscribe for \$200,000 of senior secured non-convertible debentures of the company bearing interest at 9% per annum and maturing on December 31, 2025 (“9% 2025 debentures”) and Kelly Ambrose, the company’s President and Chief Executive Officer and a director, would subscribe for \$50,000 of the 9% 2025 debentures.

The OSC issued an order dated February 25, 2021 partially revoking (the “Partial Revocation Order”) the FFCTO.

The 9% 2025 debentures are on the same terms and rank pari passu with 9% debentures bearing interest at 9% per annum and maturing on December 31, 2021. The FFCTO continues to apply in all other respects.

The company previously obtained the requisite consents from the holders of the 9% debentures to complete the Financing.

As the Financing would constitute a related party transaction pursuant to Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions (“MI 61-101”), the company relied on the financial hardship exemption from both the formal valuation and minority approval requirements of such instrument.

The company completed the \$250,000 Financing on March 16, 2021.

The proceeds of the Financing are to be used to pay for: (i) the preparation and filing of the outstanding continuous disclosure documents and late filing fees with the applicable regulatory authorities; (ii) legal expenses incurred in connection with the Partial Revocation Order, the revocation of the FFCTO and the Financing; (iii) operational and general administrative expenses; (iv) payment of accounts payable incurred in the ordinary course of business; and (v) partial funding of its Merchant Cash Advance business as public health restrictions are gradually eased in Canada.

The company also received agreement of the 9% debentures to extend their maturity date from December 31, 2021 to December 31, 2025.

#### *Actions taken since March 16, 2021*

The company filed its audited year ended June 30, 2020, three months September 30, 2020, and three and six months ended December 31, 2020 disclosure documents on March 31, 2021 and paid the late filing fees with the applicable regulatory authorities.

In May 2021 the company applied to the OSC for a full revocation of the FFCTO and as of date hereof is dealing with initial comments of the OSC.

The company started to deploy a part of the proceeds raised in March 2021 as working capital advances to select merchants. The impact will be reflected in revenues from April onwards.

#### *Next steps*

The company is seeking growth capital.

The company requires continued access to its existing levels of debt and access to additional working capital in the form of debt and or equity to fund growth of MCA program. The 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 success.

The company is aware given the FFCTO and the financial difficulties it faces there is no guarantee that capital will be available to the company at economic terms, if at all, once the FFCTO has been revoked or at all.

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.

### Off Balance sheet financing arrangements

The company has adopted IFRS 16, Leases from July 1, 2019 with respect to its head office.

There are leases for equipment which are primarily due within the next 12 months. The details are provided in document under Contractual obligations. Except for these leasing arrangements the company does not participate in off balance sheet financing arrangements.

### Going Concern

The consolidated financial statements for three and nine months ended March 31, 2021 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 \$7,687,315 and negative working capital of \$3,110,684 as at March 31, 2021. There is uncertainty surrounding the company's ability to generate cash flows sufficient to meet its operational needs including meeting payroll, payments to its suppliers, payment of interest on the 9% non-convertible debentures payable ("9% 2025 debentures") and payment of interest on the loan payable. Failure to make supplier payments may lead to inability to secure a renewal of agreement with Aeroplan and to termination by suppliers of agreements resulting in the denial of services required by the company to operate. The 9% 2025 debentures are secured by a general security interest over the assets of the company and its subsidiaries and if the debentures are in default, the holders of the 9% 2025 debentures have the right to demand re-payment and realize upon a part or all of the security held by them. The loan payable supports the company's merchant cash advance program, is a demand facility and if the company cannot pay interest it would be in default and the provider has the right to demand re-payment. These material uncertainties cast significant doubt on the company's ability to continue as a going concern.

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

### **Contractual Obligations**

Contractual obligations as at March 31, 2021 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>        |
|-----------------------------------|----------------------------|----------------------------|-------------------------|----------------------------|
|                                   | <u>\$</u>                  | <u>\$</u>                  | <u>\$</u>               | <u>\$</u>                  |
| Loan payable                      | \$ 2,719,782               | \$ 2,719,782               | \$ -                    | \$ -                       |
| 9% 2025 debentures                | 6,009,000                  | -                          | -                       | 6,009,000                  |
| Canada Emergency Business Account | 60,000                     | -                          | 60,000                  | -                          |
| Head office lease                 | 110,032                    | 77,671                     | 32,361                  | -                          |
| Operating leases                  | 1,818                      | 1,818                      | -                       | -                          |
|                                   | <b><u>\$ 8,900,632</u></b> | <b><u>\$ 2,799,271</u></b> | <b><u>\$ 92,361</u></b> | <b><u>\$ 6,009,000</u></b> |

In addition, there is a contractual obligation to holders of 9% 2025 debenture for interest of: a) \$1,150,382 payable for the period December 16, 2018 to March 15, 2021, as holders of 9% debentures b) \$2,591,381 for the period March 16, 2021 to December 31, 2025 as holders of 9% 2025 debentures, and c) interest on interest of \$617,784 (interest on interest is described in section 9% Non convertible debentures payable). The company

also has a liability of restructuring bonus for \$1,081,620 to the holders of the 9% 2025 debentures payable on maturity. The features of 9% 2025 debentures are described in section 9% Non convertible debentures payable.

The company adopted IFRS 16 Leases in Fiscal 2020 with respect to its head office lease. The expense related to above operating leases, and to head office lease in Fiscal 2019 is expensed in selling and marketing, and general and administrative expenses in the consolidated statements of income.

The company's head office lease is for a five year term ending August 31, 2022

### **Loan Payable**

The loan payable is a line of credit facility provided by Accord. It was established in December, 2007.

The facility has a limit of \$8.5 million and is only available to the company for acquisition of transaction credits under its MCA and Aeroplan programs, and was until end of Fiscal 2019 under CIBC/TD program. As security, Accord has first charge to all amounts due from establishments funded from the loan payable.

The current term ends in December 2021. The agreement is subject to automatic renewal thereafter for periods of one year unless earlier terminated by either party prior to end of term.

The interest rate is equivalent to the prime rate of a certain Canadian bank plus 9.05%. Accord funds 90% of each dollar of transaction credits acquired by the company and the company funds 10%. Interest is calculated daily on the amount outstanding and charged monthly. The company is responsible for all delinquencies on amounts due from establishments funded from the loan payable.

The company had utilized \$2.7 million of the facility at March 31, 2021 (at June 30, 2020 \$4.4 million).

Due to Covid-19 pandemic restrictions and their impact on the company's business, Accord allowed the company to defer payment of interest from March to June. Subsequent to June 30, 2020, Accord provided the company an overdraft facility of \$460,000. This is a general working capital facility. The interest rate is similar to the loan payable. As of March 31, 2021 and date hereof the company has fully utilized this facility.

Non-payment of interest on due date if not cured within time period stipulated in the agreement would constitute an event of default and would be one, amongst certain other circumstances, where the loan payable is repayable on demand to Accord.

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

The company closed a \$250,000 financing on March 16, 2021 by way of senior secured non-convertible debentures ("9% 2025 debentures"). The 9% 2025 debentures were issued on the same terms and rank pari passu with existing 9% Non-convertible debentures payable ("9% debentures") bearing interest at 9% per annum and maturing on December 31, 2021. The financing was conducted in accordance with the terms of the partial revocation order issued by the Ontario Securities Commission. The financing was a related party transaction (note 10).

The company also received agreement of the 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. The 9% debentures were replaced by 9% 2025 debentures on a dollar for dollar basis with respect to the principal amount, restructuring bonus, and interest rate as such terms are defined in the 9% debentures. The unpaid interest from December 16, 2018 until March 15, 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.

The amounts payable by the company with respect to the 9% 2025 debentures are available under section Contractual Obligations.

The company did not issue common shares upon issuance of 9% 2025 debentures.

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 March 31, 2021. 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 2025 9% debentures holders would have the right to waive the event of default, demand immediate payment of the 9% 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.

The issuance of 9% 2025 debentures is considered a transaction with holders of 9% debentures in their capacity as debtholders and accounted for as an exchange of the 9% debentures for 9% 2025 debentures. The value of the 9% 2025 debentures is determined as the amount required to extinguish the 9% debentures. The fair value of the 9% 2025 debentures issued was determined to be \$4,581,336 based on a discounted cash flow of the principal, interest and restructuring bonus of the 9% 2025 debentures. As a result, a gain of \$3,033,105 has been recognized in the contributed surplus (reflected in consolidated financial statements for three and nine months ended March 31, 2021 under section consolidated statements of changes in shareholder deficiency) which consists of the book value of the 9% debentures of \$7,427,366, plus fresh cash proceeds of \$250,000 less the fair value of the 9% 2025 debentures of \$4,581,336 and financing costs of \$62,925.

## Summary of Quarterly Results

| <b>12 month period ended March 31, 2021</b> |                     |                     |                     |                     |          |
|---|---------------------|---------------------|---------------------|---------------------|----------|
| In \$ millions except for per share amounts | Q4                  | Q1                  | Q2                  | Q3                  | Total    |
|   | <u>Jun 30, 2020</u> | <u>Sep 30, 2020</u> | <u>Dec 31, 2020</u> | <u>Mar 31, 2021</u> |          |
| Revenue                                     | \$ 0.2              | \$ 0.3              | \$ 0.4              | \$ 0.2              | \$ 1.1   |
| Percent of annual revenue                   | 18.2%               | 27.3%               | 36.4%               | 18.1%               | 100.0%   |
| Net (loss)                                  | \$ (0.9)            | \$ (0.5)            | \$ (0.5)            | \$ (0.5)            | \$ (2.4) |
| (Loss) per share - Basic and Diluted        | \$ -                | \$ -                | \$ -                | \$ -                | \$ -     |
|   |                     |                     |                     |                     |          |
| <b>12 month period ended March 31, 2020</b> |                     |                     |                     |                     |          |
| In \$ millions except for per share amounts | Q4                  | Q1                  | Q2                  | Q3                  | Total    |
|   | <u>Jun 30, 2019</u> | <u>Sep 30, 2019</u> | <u>Dec 31, 2019</u> | <u>Mar 31, 2020</u> |          |
|   |                     | <u>Amended</u>      | <u>Amended</u>      | <u>Amended</u>      |          |
| Revenue                                     | \$ 1.1              | \$ 0.8              | \$ 0.9              | \$ 0.7              | \$ 3.5   |
| Percent of annual revenue                   | 31.4%               | 22.8%               | 25.7%               | 20.1%               | 99.9%    |
| Net (loss)                                  | \$ (0.5)            | \$ (0.5)            | \$ (0.5)            | \$ (1.0)            | \$ (2.5) |
| (Loss) per share - Basic and Diluted        | \$ -                | \$ -                | \$ -                | \$ -                | \$ -     |

## Capital Resources

The company did not incur material capital expenditures or enter into any material equipment leases during the two periods under review. The company's plan is to continue a gradual move of its entire IT infrastructure into the cloud. The company does not expect significant capital expenditures during 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 4 to the audited consolidated financial statements for year ended June 30, 2020.

### *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 ability to access additional sources of working capital in the form of either debt or equity to stabilize its financial situation and support growth of its core business, the MCA program, renewal of its agreement with Aeroplan which ended April 30, 2021 and where as of date hereof the two parties continue to work while discussing future terms and direction, market for its programs and its ability to expand its existing MCA and Aeroplan programs upon access to additional working capital, continued access to existing sources of debt, obtaining waivers and debt amendments, ability to reach and fulfil settlement accommodation with suppliers, the estimated impact of Covid-19 to its business.

The company's audited consolidated financial statements for year ended June 30, 2020, three months ended September 30, 2020, three and six months ended December 31, 2020, three and nine months ended March 31, 2021 carry a going concern note (Note 2). 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% non convertible debentures payable. Estimates applied by management in the determination of fair value are reflective of the company's overall cost of equity capital.

### *Credit risk*

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 receivables at a discount from participating merchants ("transaction credits" on consolidated statement of financial position).

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

The evaluation of collectability of transaction credits is done on an individual customer basis. For specifically identified transaction credit balances that are impaired an expected loss is estimated. The amount of the

estimates is determined based on the status of the customer and the company's historical experience on recoveries.

Due to the uncertainties created by Covid-19 pandemic, for the unimpaired transaction credits the company has estimated loss based on historical loss rate supplemented by a forecast loss rate. The historical loss ratio is based on the losses experienced over the five 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.

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

The Covid-19 pandemic restrictions have impacted economic activity and this will affect the collectability of the transaction credits. As of date hereof the federal and provincial governments are easing the restrictions in phases and laying out re-opening plans. Although the vaccinations are picking pace there is considerable uncertainty related to the pace and extent of economic recovery 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:

|                                     | At March 31,<br>2021 | At June 30,<br>2020 |
|-------------------------------------|----------------------|---------------------|
|                                     | \$                   | \$                  |
| Transaction credits                 | \$ 3,154,957         | \$ 4,918,115        |
| Accounts receivable                 | 82,939               | 123,286             |
| Allowance                           | <u>(1,066,560)</u>   | <u>(998,583)</u>    |
| Per statement of financial position | <u>\$ 2,171,336</u>  | <u>\$ 4,042,818</u> |
|                                     |                      |                     |
| Maximum exposure to credit risk     | \$ 2,171,336         | \$ 4,042,818        |



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

|  | At March 31,<br>2021 | At June 30,<br>2020 |
|--|----------------------|---------------------|
|  | \$                   | \$                  |
| Impaired transaction credits   | \$ 559,225           | \$ 353,108          |
| Allowance  | <u>(559,225)</u>     | <u>(353,108)</u>    |
| Impaired transaction credits not allowed for   | <u>\$ -</u>          | <u>\$ -</u>         |
|  |                      |                     |
| The company carries a general allowance towards transaction credits. This provision at March 31, 2021 and June 30, 2020 includes a forecast loss ratio to estimate for recovery issues on account of Covid-19 pandemic | \$ 502,950           | \$ 641,090          |

### 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 but may not be less than the regulations of the stock exchange on which the company's common shares are listed; the 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. The stock options are subject to various vesting provisions, determined by the Board of Directors, ranging from immediate to four years.

There was nil outstanding employee stock options at March 31, 2021 and March 31, 2020.

16,688,546 stock options were available for future issuance at March 31, 2021 and March 31, 2020.

There was no stock based compensation expense during Q3 Fiscal 2021 and YTD Fiscal 2021 and corresponding periods in the previous year.

### Restricted Share Unit Plan

On December 18, 2017, the Board of Directors ("Board") authorized, subject to approval by the shareholders of the company, 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. The eligible persons are directors, officers, employees and consultants of the company designated by the Board.

The shareholders of the company approved the RSU Plan at the Annual and Special Meeting of the Shareholders held on February 28, 2018.

The maximum number of common shares of the company which may be made subject to issuance under RSUs granted under the RSU Plan shall not exceed 32,000,000 common shares.

The company has not granted any RSUs under the RSU plan as at March 31, 2021.

### Outstanding Share Data

There is no change since June 30, 2020.

At March 31, 2021 issued and outstanding: 461,887 Class A preference shares and 878,948,414 common shares.

Additional details on share capital provided in note 8 to the audited consolidated financial statements for year ended June 30, 2020.

### Potentially Dilutive Securities

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

### Related party transactions

The following related parties beneficially own or exercise direction and control over the securities of the company:

|  | March 31, 2021            | March 31, 2021       | June 30, 2020        | June 30, 2020        |
|--|---------------------------|----------------------|----------------------|----------------------|
|  | \$                        |                      | \$                   |                      |
|  | <u>9% 2025 debentures</u> | <u>Common shares</u> | <u>9% debentures</u> | <u>Common shares</u> |
| Director, Chief Executive Officer - K. Ambrose   | \$ 550,000                | 95,523,818           | \$ 500,000           | 95,523,818           |
| Director - M. Lavine   | 500,000                   | 73,514,818           | 500,000              | 73,514,818           |
| Director - D. Moscovitz (c)  | 9,000                     | 1,168,971            | -                    | -                    |
| Chief Financial Officer - M.Sabharwal  | 115,000                   | 27,498,576           | 115,000              | 27,498,576           |
| R. Abramson, GIACP, GPMCA (a)  | 2,815,229                 | 321,629,458          | 2,669,120            | 321,629,458          |
| Herbert Abramson (b)   | <u>159,891</u>            | <u>11,560,814</u>    | <u>106,000</u>       | <u>11,560,814</u>    |
|  | <u>\$ 4,149,120</u>       | <u>530,896,455</u>   | <u>\$ 3,890,120</u>  | <u>529,727,484</u>   |
| Total issued and outstanding 9% debentures and common shares   | \$ 6,009,000              | 878,948,414          | \$ 5,759,000         | 878,948,414          |
| % held by parties in tabulation  | 69.0%                     | 60.4%                | 67.5%                | 60.3%                |
| <p>(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 following securities of the company. R. Abramson indirectly controls both GIACP and GPMCA and is a portfolio manager of both firms</p> <p>(b) Herbert Abramson, Chairman and a portfolio manager of both GIACP and GPMCA, beneficially owns the securities of the company</p> <p>(c) David Moscovitz was elected director of the company at the annual and special meeting of shareholders held on December 24, 2020</p> |                           |                      |                      |                      |

### Economic Dependence

The company's has two business units. MCA program and 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. The company has a 15 year + relationship with the principal holder of the 9% 2025 debentures – see section Related party transactions.

Due to Covid-19 pandemic restrictions and their impact on the company's business, Accord allowed the company to defer payment of interest from March 2020 to June 2020. Subsequent to June 30, 2020, Accord provided the company an overdraft facility of \$460,000. As of date hereof the company has fully utilized this facility. Non-payment of interest on due dates, if not cured within time period stipulated in the agreement, would constitute an event of default and would be one, amongst certain other circumstances, where the loan payable is repayable on demand to Accord. The company has a 10 year + relationship with Accord.

The Aeroplan program is dependent on agreement with Aeroplan. The term of the agreement was due to expire April 30, 2019, was extended to April 30, 2020 and thereafter further extended to April 30, 2021. As of date hereof the two parties continue to work together under the terms of the original agreement while discussing future terms and direction. An important discussion matter is the establishment of a payment plan to address Advantex's arrears with respect to amounts due – for current invoices and balance due from prior payment plan - to Aeroplan. The company has a 10 year + relationship with Aeroplan.

The company's consolidated financial statements for three months ended September 30, 2020, three and six months ended December 31, 2020, three and nine months ended March 31, 2021, and audited consolidated financial statements for Fiscal 2020 carry a going concern note (Note 2). The note is also carried in the Working Capital and Liquidity Management Section in this document. The company also carried a going concern note for Fiscal 2019. Covid-19 pandemic has created additional uncertainty to the company's business continuity. The going concern and Covid-19 issues could affect the company's relationships with holders of 9% 2025 debentures, Accord and 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 (see sections Loan Payable and 9% Non-Convertible Debentures Payable in this document). The loan payable agreement term ends in December 2021. The 9% 2025 debentures mature December 31, 2025. . The risks connected to the continuity of the two sources of debt are explained in Section Economic Dependence.

Covid-19 pandemic has created additional uncertainty to the company's business continuity. The uncertainty stems from unknown duration of the crisis and its adverse effect on the economy in general and the 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. As of date hereof the company has applied for and received relief under some government programs, and continues to explore its eligibility under various other government programs but no assurance can be given on successful outcomes.

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 the growth of MCA at 10%. The 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. General market conditions; the financial status of the company in terms of its profitability, cash flows

and strength of its consolidated balance sheet, it being under a FFCTO and there being no assurance that the FFCTO may be revoked; 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 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 receivables 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 are exposed to interest risk from the floating interest rate payable, calculated as prime rate of a certain Canadian bank plus 9.05%, on loan payable. 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 year ended June 30, 2020, the company incurred interest expense of \$807,189 on utilization of loan payable. Had the interest rate, for the year ended June 30, 2020, been 10% higher the interest expense on loan payable would have been \$887,908, an increase of \$80,719.

The company believes the MCA business is a growth industry because institutional lenders are not available to 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 Covid-19 pandemic on economic activity however carry the possibility of adversely affecting the company's ability to expand its MCA program and in turn its revenue and costs.

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 current agreement ended April 30, 2021. As of date hereof the two parties continue to work while discussing future terms and direction of their commercial relationship. An important discussion matter is the establishment of a payment plan to address Advantex's arrears with respect to amounts due – for current invoices and balance due from prior payment plan - to Aeroplan. If the company cannot secure a renewal it could have a material effect on its revenues, liquidity position, 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 current Covid-19 concerns 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 currencies used in these programs 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.

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. In the past, other companies have attempted to develop similar merchant-based coalitions on their own and failed, making the company, with its established merchant coalition and proven programs, a reputable outsourced partner in the Canadian marketplace. 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 grow its MCA program in a competitive environment upon availability of capital; belief it can secure a full revocation of the cease trade order; ability to raise growth capital; expectation of growth capital required and the timing of its raise; belief that upon availability of capital it can secure support of its partners; expectation of financial stability and growth from expansion of MCA program; expectation of timing of financial stability and growth phase; expectation of securing a multi-year agreement with Aeroplan; expectation of capital expenditures required to operate the business in the next twelve months; expectation of adequacy of reserve created for delinquent transaction credits; belief it has the ability to manage delinquencies consequent to Covid-19 and during growth mode; belief drivers of revenues across all programs are those set out in the Revenue section; belief it may be able to pass on a portion of any significant adverse interest rate movement on its loan payable to merchants; belief Aeroplan program gives it a competitive advantage in MCA space; expectation of negotiating economic settlement accommodation with its suppliers; belief it has support of its staff; belief in the appropriateness of its tax filings; and other information regarding financial and business prospects and financial outlook is forward-looking information.

Forward-looking information reflects the current expectations or beliefs of the company based on information currently available to the company, including certain assumptions and expectations of Management. With respect to the forward-looking information contained in this Management Discussion and Analysis, the company has made assumptions regarding, among other things, continued support from its provider of loan payable and holders of 9% 2025 debentures; 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 growth capital; 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 Covid-19 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.

All forward-looking information speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. Although the company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

### **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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