# ADVANTEX MARKETING INTERNATIONAL INC.
# CONSOLIDATED FINANCIAL STATEMENTS
# For the three and nine months ended March 31, 2022

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

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

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

| | Note | March 31, 2022 | June 30, 2021 |
|---|---|---|---|
| | | $ | $ |
| **Assets** | | | |
| **Current assets** | | | |
| Cash | | $ 93,593 | $ 82,606 |
| Accounts receivable | | 49,955 | 93,090 |
| Transaction credits | 5 | 4,492,442 | 1,726,663 |
| Prepaid expenses and sundry assets | | 41,590 | 43,675 |
| | | **$ 4,677,580** | **$ 1,946,034** |
| | | | |
| **Total assets** | | **$ 4,677,580** | **$ 1,946,034** |
| | | | |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Loan payable | 6 | $ 4,833,893 | $ 2,387,439 |
| Lease liability | 15 | 31,489 | 71,910 |
| Loan | 16 | 60,000 | 60,000 |
| Accounts payable and accrued liabilities | | 2,645,760 | 2,731,158 |
| 9% non convertible debentures payable | 7 | 6,472,274 | - |
| | | **$ 14,043,416** | **$ 5,250,507** |
| | | | |
| **Non-current liabilities** | | | |
| 9% non convertible debentures payable | 7 | $ - | $ 4,694,885 |
| Lease liability | 15 | - | 12,769 |
| | | **$ -** | **$ 4,707,654** |
| | | | |
| **Total liabilities** | | **$ 14,043,416** | **$ 9,958,161** |
| | | | |
| **Shareholders' deficiency** | | | |
| Share capital | 8 | $ 24,530,555 | $ 24,530,555 |
| Contributed surplus | | 7,811,710 | 7,364,720 |
| Accumulated other comprehensive loss | | (47,383) | (47,383) |
| Deficit | | (41,660,718) | (39,860,019) |
| **Total deficiency** | | **$ (9,365,836)** | **$ (8,012,127)** |
| | | | |
| **Total liabilities and deficiency** | | **$ 4,677,580** | **$ 1,946,034** |

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

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

**Approved by the Board**

**Director:** Signed "Marc Lavine"
Marc Lavine

**Director:** Signed "Kelly Ambrose"
Kelly Ambrose

Advantex Marketing International Inc.
Consolidated Statements of Loss and Comprehensive Loss (unaudited)
For the three and nine months ended March 31, 2022 and 2021
(expressed in Canadian dollars)

| | | 3 months ended March 31 | | 9 months ended March 31 | |
|---|---|---|---|---|---|
| | Note | 2022 | 2021 | 2022 | 2021 |
| | | $ | $ | $ | $ |
| | | | | | |
| **Revenues** | 14 | | | | |
| Marketing activities | | $ 114,953 | $ 90,013 | $ 404,020 | $ 397,093 |
| Interest income | | 337,150 | 150,638 | 788,576 | 542,256 |
| | | **$ 452,103** | **$ 240,651** | **$ 1,192,596** | **$ 939,349** |
| Direct expenses | 13/14 | 83,938 | 57,262 | 302,977 | 313,854 |
| | | 368,165 | 183,389 | 889,619 | 625,495 |
| **Operating expenses** | | | | | |
| Selling and marketing | 13/14 | 182,396 | 166,728 | 483,470 | 423,688 |
| General and administrative | 13/14 | 207,525 | 199,559 | 707,101 | 582,809 |
| **(Loss) from operations before depreciation, amortization and interest** | | **(21,756)** | **(182,898)** | **(300,952)** | **(381,002)** |
| | | | | | |
| Stated interest expense - loan payable, and 9% non convertible debentures payable | 6/7 | 338,629 | 205,250 | 906,277 | 677,215 |
| Interest - Lease | 15 | 1,201 | 3,090 | 5,065 | 10,582 |
| Non-cash interest expense - accretion charges, restructuring bonus and amortization of transaction costs related to 9% non convertible debentures payable | 7 | 199,920 | 132,141 | 588,405 | 449,793 |
| Depreciation of right of use asset | 15 | - | 11,372 | - | 34,118 |
| **Net (loss) and comprehensive (loss)** | | **$ (561,507)** | **$ (534,751)** | **$ (1,800,699)** | **$ (1,552,710)** |
| | | | | | |
| **(Loss) per share** | | | | | |
| Basic and Diluted | 12 | **$ (0.00)** | **$ (0.00)** | **$ (0.00)** | **$ (0.00)** |

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

Advantex Marketing International Inc.
Consolidated Statements of Changes in Shareholders' Deficiency (unaudited)
For the three and nine months ended March 31, 2022 and 2021
(expressed in Canadian dollars)

| | Class A preference shares | Common shares | Contributed surplus | Accumulated other comprehen - sive loss | Deficit | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| | | | | | | |
| **Balance - July 1, 2020** | **$ 3,815** | **$ 24,526,740** | **$ 4,117,170** | **$ (47,383)** | **$ (37,768,052)** | **$ (9,167,710)** |
| Recording of contributed surplus - 9% Non convertible debentures payable | - | - | 3,033,105 | - | - | 3,033,105 |
| Net (loss) and comprehensive (loss) | - | - | - | - | (1,552,710) | (1,552,710) |
| **Balance - March 31, 2021** | **$ 3,815** | **$ 24,526,740** | **$ 7,150,275** | **$ (47,383)** | **$ (39,320,762)** | **$ (7,687,315)** |
| | | | | | | |
| **Balance - July 1, 2021** | **$ 3,815** | **$ 24,526,740** | **$ 7,364,720** | **$ (47,383)** | **$ (39,860,019)** | **$ (8,012,127)** |
| Issuance of 9% non convertible debentures payable (note 7) | - | - | 446,990 | - | - | 446,990 |
| Net (loss) and comprehensive (loss) | - | - | - | - | (1,800,699) | (1,800,699) |
| **Balance - March 31, 2022** | **$ 3,815** | **$ 24,526,740** | **$ 7,811,710** | **$ (47,383)** | **$ (41,660,718)** | **$ (9,365,836)** |

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

Advantex Marketing International Inc.
Consolidated Statements of Cash Flow (unaudited)
For the three and nine months ended March 31, 2022 and 2021
(expressed in Canadian dollars)

| | Note | 2022 | 2021 |
|---|---|---|---|
| | | $ | $ |
| **Operational activities** | | | |
| Net (loss) for the period | | $ (1,800,699) | $ (1,552,710) |
| Adjustments for: | | | |
| Accrued and unpaid 9% non convertible debentures payable interest | 7 | 571,590 | 394,243 |
| Interest - Lease | 15 | 5,065 | 10,582 |
| Depreciation of right of use asset | 15 | - | 34,118 |
| Accretion charge - 9% non convertible debentures payable | 7 | 524,215 | 248,797 |
| Restructuring bonus - 9% non convertible debentures payable | 7 | 53,759 | 187,689 |
| Amortization of transaction costs - 9% non convertible debentures payable | 7 | 10,431 | 13,307 |
| | | (635,639) | (663,974) |
| Changes in items of working capital | | | |
| Accounts receivable | | 43,135 | 40,347 |
| Transaction credits | | (2,765,779) | 1,831,135 |
| Prepaid expenses and sundry assets | | 2,085 | 12,410 |
| Accounts payable and accrued liabilities | | (85,398) | 218,063 |
| | | (2,805,957) | 2,101,955 |
| **Net cash (used)/generated - operating activities** | | **$ (3,441,596)** | **$ 1,437,981** |
| | | | |
| **Financing activities** | | | |
| Gross proceeds - 9% non convertible debentures payable | 7 | $ 1,150,000 | $ 250,000 |
| Transaction costs - 9% non convertible debentures payable | 7 | (85,616) | (62,925) |
| Proceeds from loan - Canada Emergency Business Account | | - | 20,000 |
| Payment for lease | | (58,255) | (58,253) |
| Increase/(Decrease) of loan payable | 6 | 2,446,454 | (1,649,224) |
| **Net cash generated/(used) - financing activities** | | **$ 3,452,583** | **$ (1,500,402)** |
| | | | |
| **Increase/(Decrease) in cash during the period** | | **$ 10,987** | **$ (62,421)** |
| Cash at beginning of the period | | 82,606 | 166,601 |
| **Cash at end of the period** | | **$ 93,593** | **$ 104,180** |
| | | | |
| **Additional information** | | | |
| Interest paid | | $ 334,687 | $ 282,972 |
| | | | |
| Cash | | $ 93,593 | $ 104,180 |

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

## 1 General information

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

During periods ended March 31, 2022 and 2021 the company's core business was its merchant cash advance program. Under this program, the company provides merchants with working capital through the pre-purchase, at a discount, of merchants' future cash flows.

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

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

Advantex is incorporated and domiciled in Canada, and the address of its registered office is Suite 606, 600 Alden Road, Markham, Ontario, L3R 0E7.

## 2 Going concern

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

The company has a shareholders' deficiency of $9,365,856 and negative working capital of $9,365,856 as at March 31, 2022. The company is in breach of certain 9% non convertible debentures payable financial covenants at March 31, 2022 and as of date hereof does not have a waiver to this event of default. During the period ended March 31, 2022 the company closed two financings (notes 7 and 10), $1.0 million in September 2021 and $150,000 in March 2022. The pandemic has created a more highly uncertain economic environment. More so for small independent businesses operating in the hospitality segment, especially restaurants. The company's customers are primarily small independent restaurants. Consequently, there is uncertainty surrounding the company's ability in the foreseeable future to generate cash flows sufficient to meet its operational needs and meet its obligations on due dates. Failure to meet obligations on due dates may lead to company being unable to continue operations due to: denial by suppliers of products and services; loss of access to: 1) loan payable (note 6) which supports the company's merchant cash advance program, and 2) general working capital provided by 9% non convertible debentures payable (note 7); and inability to access alternative economically viable sources to replace existing capital. These material uncertainties cast significant doubt on the company's ability to continue as a going concern.

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

## 3 Basis of preparation

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

These interim consolidated financial statements do not include all the information and notes required by IFRS for annual financial statements and therefore, should be read in conjunction with the audited consolidated financial statements and notes for the company's year ended June 30, 2021, which are available on SEDAR at www.sedar.com.

These interim consolidated financial statements and related notes have been reviewed by the company's audit committee and approved by the company's board of directors on May 19, 2022.

## 4 Summary of significant accounting policies

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

Details of accounting policies are available in note 3 to the audited consolidated financial statements for year ended June 30, 2021.

## 5 Transaction credits

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

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

Under the MCA program the company acquires the rights to receive future cash flows, associated with future business activity, at a discount from participating establishments ("transaction credits"). These 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 seven year period prior to start of the Covid-19 pandemic. The forecast loss rate is based on the company's knowledge of its customers and its evaluation of the impact of the pandemic on individual customers' ability to operate. Location of the merchant business, past and current payment history, current economic activity, duration of the public health restrictions, time-line of return to pre-pandemic economic activity levels are the inputs into the forecast loss ratio.

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

The Covid-19 pandemic restrictions have impacted economic activity. There is uncertainty related to the pace and extent of economic recovery in the business segments the company operates in and hence the evaluation of collectability of transaction credits.

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

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

The transaction credits and the allowance is as follows:

| | March 31, 2022 | June 30, 2021 |
|---|---|---|
| | $ | $ |
| | | |
| Transaction credits | $ 5,554,294 | $ 2,787,958 |
| Allowance | (1,061,852) | (1,061,295) |
| **Per Consolidated statement of financial position** | **$ 4,492,442** | **$ 1,726,663** |
| | | |
| **Maximum exposure to credit risk on Transaction credits** | **$ 4,492,442** | **$ 1,726,663** |

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

| | March 31, 2022 | June 30, 2021 |
|---|---|---|
| | $ | $ |
| | | |
| Impaired transaction credits | $ 854,826 | $ 896,059 |
| Allowance | (854,826) | (896,059) |
| **Impaired transaction credits not allowed for** | **$ -** | **$ -** |
| | | |
| The company carries a general allowance towards transaction credits. This allowance at March 31, 2022 is the historical loss ratio. At June 30, 2021 this allowance is the historical loss ratio and a forecast loss ratio to estimate for recovery issues on account of Covid-19 pandemic | $ 207,026 | $ 165,236 |

Movement on allowance for impaired transaction credits:

| | March 31, 2022 | December 31, 2020 |
|---|---|---|
| | $ | $ |
| | | |
| **Balance brought forward at start of period** | **$ 1,061,295** | **$ 994,198** |
| Allowance created during the period | - | 67,500 |
| Impaired accounts written back against allowance | 557 | 477 |
| **Balance carried forward at end of period** | **$ 1,061,852** | **$ 1,062,175** |

## 6 Loan payable

| | March 31, 2022 | June 30, 2021 |
|---|---|---|
| | $ | $ |
| | | |
| **Balance at start of period** | **$ 2,387,439** | **$ 4,369,006** |
| Increase/(Decrease) in borrowing | 2,446,454 | (1,981,567) |
| **Balance at end of period** | **$ 4,833,893** | **$ 2,387,439** |

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

In September 2021 the company and Accord agreed to: 1) extend the term of their agreement, which was due to end in December 2021, to June 30, 2022, 2) amend, effective September 1, 2021, the interest rate which was equivalent to the prime rate of a certain Canadian bank plus 9.05% during period January 1, 2018 until August 31, 2021 to prime rate of a certain Canadian bank plus 8.80%, and 3) give Accord the option to convert the overdraft facility (described later in this section) into an equity or quasi equity investment on to be agreed terms and conditions. If Accord did not exercise this option, the overdraft would be repayable by the company in equal monthly instalments between January 2022 and June 2022.

In December 2021 Accord informed the company it would not exercise the conversion option. Accord deferred the start of the re-payment to April 1, 2022.

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

Due to Covid-19 pandemic restrictions and their impact on the company's business, Accord allowed the company to defer payment of interest from March 2020 to June 2020. Subsequent to June 30, 2020, Accord provided the company an overdraft facility of $460,000. This is a general working capital facility. The interest rate is similar to the loan payable. As of March 31, 2022 the company has utilized $438,000 from this overdraft facility (June 30, 2021 $454,000).

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

In certain circumstances the loan payable is repayable on demand to Accord.

The interest cost during three and nine month periods ended March 31, 2022 was $139,600 and $334,687 (2021 $71,578 and $282,972).

## 7 9% Non convertible debentures payable

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

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

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

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

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

The 9% 2025 debentures are secured by a general security interest over the assets of the company and its subsidiaries. The 9% 2025 debentures require the company to meet financial covenants. The company was in compliance with financial covenants at March 31, 2021, June 30, 2021, and September 30, 2021. The company was offside of a financial covenant at December 31, 2021. The company is offside two of the three financial covenants at March 31, 2022. Consequently the 9% 2025 debentures are treated as a current liability at December 31, 2021 and March 31, 2022. 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 shall be seeking a waiver to the default at December 31, 2021 and March 31, 2022.

The issuance of 9% 2025 debentures in March 2021 was considered a transaction with holders of 9% debentures in their capacity as shareholders and accounted for as an exchange of the 9% debentures for 9% 2025 debentures. The value of the 9% 2025 debentures was determined as the amount required to extinguish the 9% debentures. The fair value of the 9% 2025 debentures issued was determined to be $4,310,989 based on a discounted cash flow of the principal, interest and restructuring bonus of the 9% 2025 debentures.

The fair value of the $1.0 million 9% 2025 debentures issued in September 2021 was determined to be $597,275 based on a discounted cash flow of the interest and principal obligations of the 9% 2025 debentures. As a result, a gain of $402,725 has been recognized in the contributed surplus (consolidated statements of changes in shareholder deficiency). In addition, the company incurred $77,501 of transaction costs related to the transaction and these are being amortized to maturity date.

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

Movement on 9% 2025 debentures is tabulated hereunder:

| | Debt portion | Accrued and Unpaid interest | Total |
|---|---|---|---|
| | $ | $ | $ |
| **Fair value of 9% 2025 debentures in the principal amount of $6,009,000 on issuance March 15, 2021** | **$ 4,310,989** | **$ -** | **$ 4,310,989** |
| Accretion charge for the period | 204,239 | - | 204,239 |
| Restructuring bonus for the period | (9,234) | - | (9,234) |
| Interest for the period | - | 188,891 | 188,891 |
| **Balance at June 30, 2021** | **$ 4,505,994** | **$ 188,891** | **$ 4,694,885** |
| Fair value of 9% 2025 debentures issued in September 2021 | 597,275 | - | 597,275 |
| Transaction costs related to September 2021 raise | (77,501) | - | (77,501) |
| Fair value of 9% 2025 debentures issued in March 2022 | 105,735 | | 105,735 |
| Transaction costs related to March 2022 raise | (8,115) | | (8,115) |
| Accretion charge for the period | 524,215 | - | 524,215 |
| Restructuring bonus for the period | 53,759 | - | 53,759 |
| Amortization of transaction costs for the period | 10,431 | - | 10,431 |
| Interest for the period | - | 571,590 | 571,590 |
| **Balance at March 31, 2022** | **$ 5,711,793** | **$ 760,481** | **$ 6,472,274** |

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

| | Period ended March 31, 2022 | | | Period ended March 31, 2021 | | |
|---|---|---|---|---|---|---|
| | Stated interest | Accretion charge | Restructuring bonus | Stated interest | Accretion charge | Restructuring bonus |
| | $ | $ | $ | $ | $ | $ |
| Three Months ended March 31, 2022 | | | | | | |
| 9% debentures | $ - | $ - | $ - | $ 133,672 | $ 53,834 | $ 74,393 |
| 9% 2025 debentures | 199,029 | 177,944 | 17,505 | - | - | - |
| | $ 199,029 | $ 177,944 | $ 17,505 | $ 133,672 | $ 53,834 | $ 74,393 |
| Nine months ended March 31, 2022 | | | | | | |
| 9% debentures | $ - | $ - | $ - | $ 394,243 | $ 248,797 | $ 187,689 |
| 9% 2025 debentures | 571,590 | 524,215 | 53,759 | - | - | - |
| | $ 571,590 | $ 524,215 | $ 53,759 | $ 394,243 | $ 248,797 | $ 187,689 |

In addition, three and nine months ended March 31, 2022 include amortization of transaction coats ($4,471 and $10,431) compared to corresponding periods in the previous year ($3,914 and $13,307)

## 8 Share capital

No change in the authorized share capital since June 30, 2021.

No change in issued Class A preference shares since June 30, 2021.

Common shares:

In September 2021 the company issued common shares to: 1) purchasers of 9% 2025 debentures, 2) CEO and CFO as retention bonus, and 3) CEO and CFO in lieu of a portion of vacation pay due to them. Details provided in notes 7 and 10.

In March 2022 the company issued common shares to purchasers of 9% 2025 debentures, Details provided in notes 7 and 10.

| | Number of common shares | $ |
|---|---|---|
| | | |
| No par value. At June 30, 2021 | **878,948,414** | **$ 24,526,740** |
| No par value. Issuance in September 2021 | 6,053,768,037 | - |
| No par value. Issuance in March 2022 | 671,250,000 | - |
| No par value. At March 31, 2022 | **7,603,966,451** | **$ 24,526,740** |

## 9 Share-based payments

Stock Option Plan

The company has a stock option plan for employees, directors, officers and consultants. The number of stock options issuable per the company's stock option plan is 16,688,546.

There were nil stock options under the stock option plan outstanding at March 31, 2022, June 30, 2021, and March 31, 2021.

The number of stock options available for future issuance as at March 31, 2022, June 30, 2021 and March 31, 2021 was 16,688,546.

Restricted Share Unit Plan

The company has a restricted share unit plan (the "RSU Plan"), pursuant to which the Board may grant restricted share units (the "RSUs") to eligible persons. The eligible persons are employees, directors, officers, and consultants of the company designated by the Board.

On August 26, 2021 at a special meeting of the shareholders the company received approval from its shareholders to increase to 412,000,000, from 32,000,000, as the maximum number of common shares of the company which may be made subject to issuance under RSUs granted under the RSU Plan.

The company has not granted any RSUs under the RSU plan as at March 31, 2022, June 30, 2021 and March 31, 2021.

Potentially Dilutive Securities

No potentially dilutive securities exist as at March 31, 2022 and March 31, 2021.

## 10 Related party transactions

9% 2025 debentures

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

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

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

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

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

<u>Common shares</u>

On September 7, 2021 the company issued common shares:

a. For purchase of $200,000 and $975,000 9% 2025 debentures on March 15, 2021 and September 7, 2021 respectively the company issued 5,258,125,000 common shares to managed accounts and principals of Generation IACP Inc. and Generation PMCA Corp. For purchase of $50,000 and $25,000 9% 2025 debentures on March 15, 2021 and September 7, 2021 respectively the company issued 335,625,000 common shares to Kelly Ambrose the company's President and Chief Executive Officer;

b. Kelly Ambrose, the company's President and Chief Executive Officer was issued 325,000,000 common shares as a retention bonus and 6,588,653 common shares in lieu of a portion of vacation pay due to him; and

c. Mukesh Sabharwal, the company's Vice President and Chief Financial Officer was issued 125,000,000 common shares as a retention bonus and 3,429,384 common shares in lieu of a portion of vacation pay due to him.

On March 24, 2022 for purchase of $150,000 9% 2025 debentures the company issued 671,250,000 common shares to the principals of Generation IACP Inc. and Generation PMCA Corp.

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

| | March 31, 2022 | | June 30, 2021 | |
|---|---|---|---|---|
| | 9% 2025 debentures | Common shares | 9% 2025 debentures | Common shares |
| | | | | |
| Director, Chief Executive Officer - K. Ambrose | $ 575,000 | 762,737,471 | $ 550,000 | 95,523,818 |
| Director - M. Lavine | 500,000 | 73,514,818 | 500,000 | 73,514,818 |
| Director - D. Moscovitz | 9,000 | 1,168,971 | 9,000 | 1,168,971 |
| Chief Financial Officer - M. Sabharwal | 115,000 | 155,927,960 | 115,000 | 27,498,576 |
| R. Abramson, GIACP, GPMCA (a) | 3,587,650 | 4,782,033,660 | 2,815,229 | 321,629,458 |
| Herbert Abramson (b) | 431,000 | 1,465,935,814 | 159,891 | 11,560,814 |
| | $ 5,217,650 | 7,241,318,694 | $ 4,149,120 | 530,896,455 |
| | | | | |
| Total issued and outstanding 9% 2025 debentures and common shares | $ 7,159,000 | 7,603,966,451 | $ 6,009,000 | 878,948,414 |
| % held by parties in tabulation | 72.9% | 95.2% | 69.0% | 60.4% |
| | | | | |

(a) Randall Abramson ("R. Abramson"), along with Generation IACP Inc. ("GIACP") and Generation PMCA Corp. ("GPMCA") in their capacity as portfolio managers on behalf of their respective fully managed accounts, beneficially own (directly or indirectly) or exercise control or direction over, in aggregate, the above securities of the company. R. Abramson indirectly controls both GIACP and GPMCA and is a portfolio manager of both firms

(b) Herbert Abramson, Chairman and a portfolio manager of both GIACP and GPMCA, beneficially owns the securities of the company

## 11 Commitments and contingencies

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.

## 12 Earnings per share

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

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

| | Three months ended March 31, 2022 | Three months ended March 31, 2021 | Nine months ended March 31, 2022 | Nine months ended March 31, 2021 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| | | | | |
| Net (loss) and comprehensive (loss) | $ (561,507) | $ (534,751) | $ (1,800,699) | $ (1,552,710) |
| | | | | |
| **Basic and Diluted EPS** | | | | |
| | | | | |
| Average number of issued common shares during the period | 6,992,383,118 | 878,948,414 | 5,449,920,004 | 878,948,414 |
| | | | | |
| **Basic EPS** | **$ (0.00)** | **$ (0.00)** | **$ (0.00)** | **$ (0.00)** |
| | | | | |
| There are no potentially dilutive common shares outstanding at March 31, 2022 and 2021. Hence Diluted EPS not computed | | | | |

## 13 Nature of expenses

| | | Nine months ended March 31, 2022 | Six months ended March 31, 2021 |
|---|---|---|---|
| | | $ | $ |
| **Direct expenses** | | | |
| Costs of loyalty rewards, and marketing in connection with Advantex's merchant based loyalty program | | $ 296,402 | $ 239,134 |
| Expense for provision against impaired accounts receivable and transaction credits, and credit/collection expense | | 6,575 | 74,720 |
| | | **$ 302,977** | **$ 313,854** |
| | | | |
| **Selling and Marketing, and General & Administrative** | | | |
| Salaries and wages including travel | | $ 908,285 | $ 750,801 |
| Professional fees | | 140,258 | 141,563 |
| Facilities, processing, and office expenses | | 77,713 | 85,848 |
| Other | | 64,315 | 28,285 |
| | | **$ 1,190,571** | **$ 1,006,497** |

Selling and Marketing, and General & Administrative reflect:

1. Receipt of Federal wage and rent subsidies during nine months ended March 31, 2022 of $139,753 (2021 $385,086); and
2. Salaries and wages expense during nine months ended March 31, 2022 period reflects write-back of $35,063 (in September 2021) resulting from extinguishment of a portion of vacation pay dues to CEO and CFO of the company upon issuance to them of common shares in September 2021 (note 10).

## 14 Segment reporting

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

The programs are described in Note 1.

Financial information by reportable segment for period ended March 31 2022 and March 31, 2021 is tabulated.

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

| For nine months ended March 31, 2022 | | | |
|---|---|---|---|
| | | | |
| | MCA program | Aeroplan program | Total |
| | $ | $ | $ |
| | | | |
| Revenues | 788,576 | 404,020 | 1,192,596 |
| Direct expenses | 6,575 | 296,402 | 302,977 |
| | 782,001 | 107,618 | 889,619 |
| Selling & marketing | 319,683 | 163,787 | 483,470 |
| General & administrative | 467,554 | 239,547 | 707,101 |
| (Loss) from operations before depreciation, amortization and interest | (5,236) | (295,717) | (300,952) |
| Stated Interest - loan payable | 334,687 | - | 334,687 |
| Stated Interest - 9% non convertible debentures payable | 377,950 | 193,640 | 571,590 |
| Interest - Lease | 3,349 | 1,716 | 5,065 |
| Non-cash interest - 9% non convertible debentures payable - accretion charges, restructuring bonus and amortization of transaction costs | 389,069 | 199,336 | 588,405 |
| Segment (loss) | (1,110,291) | (690,408) | (1,800,699) |

| For nine months ended March 31, 2021 | | | |
|---|---|---|---|
| | MCA program | Aeroplan program | Total |
| | $ | $ | $ |
| Revenues | 542,256 | 397,093 | 939,349 |
| Direct expenses | 74,720 | 239,134 | 313,854 |
| | 467,536 | 157,959 | 625,495 |
| Selling & marketing | 244,581 | 179,107 | 423,688 |
| General & administrative | 336,437 | 246,372 | 582,809 |
| (Loss) from operations before depreciation, amortization and interest | (113,482) | (267,520) | (381,002) |
| Stated Interest - loan payable | 282,972 | - | 282,972 |
| Stated Interest - 9% non convertible debentures payable | 227,584 | 166,659 | 394,243 |
| Interest - Lease | 6,109 | 4,473 | 10,582 |
| Non-cash interest - 9% non convertible debentures payable - accretion charges, restructuring bonus and amortization of transaction costs | 259,651 | 190,142 | 449,793 |
| Depreciation of right of use asset | 19,695 | 14,423 | 34,118 |
| Segment (loss) | (909,493) | (643,217) | (1,552,710) |

## 15 Leases

The company adopted IFRS 16 with respect to its head office lease (note 1). The lease ends August 31, 2022.

Movement is tabulated:

| | Right of use asset | Lease liability |
|---|---|---|
| | $ | $ |
| Balance as at June 30, 2021 | $ - | $ 84,679 |
| Interest payments | - | 5,065 |
| Lease payments | - | (58,255) |
| Balance as at March 31, 2022 | $ - | $ 31,489 |
| Current | | $ 31,489 |

The undiscounted lease liability from April 2022 until August 2022 is $ $32,362.

For nine months ended March 31, 2021 the interest payment was $10,582, lease payments were $58,253, and depreciation of right of use asset was $34,118.

## 16 Government subsidies

The company has availed Covid-19 pandemic relief measures.

Amount of $114,639 received during the nine months ended March 31, 2022 (2021 $335,480) under the Federal wage subsidy programs is reflected as a reduction of the salaries and wages expense disclosed in note 13.

Amount of $25,114 received during nine months ended March 31, 2022 (2021 - $49,606) under the Federal rent subsidy programs is reflected as a reduction of the facilities expense disclosed in note 13.

The company's landlord applied for Canada Emergency Commercial Rent Assistance program. This covered the period ended September 30, 2020.

The company received $60,000 under the Canada Emergency Business Account. $20,000 of this loan of $60,000 is forgivable provided the loan is re-paid by December 31, 2022. There is no interest on the $60,000 loan provided it is re-paid by December 31, 2022. Beginning on January 1, 2023, interest will accrue on the balance of the loan at the rate of 5% per annum.