ADVANTEX

Letter to Shareholders for the fiscal year ended June 30, 2019

Dear Shareholders,

Review of fiscal year

This has been a year of material transition. This transition is reflected in the financial performance of Advantex and has a bearing on the outlook. For the better part of the year our company, as it had done in prior years, developed and managed merchant based loyalty programs for two Canadian financial institutions, CIBC and TD. Our financial performance reflects the end of the company's CIBC/TD program, and the start and partial completion of the transition to a merchant cash advance ("MCA") business model.

Year ahead

The transition to MCA was complete by end August 2019. The company believes the MCA business is a growth industry because institutional lenders are not targeting independent merchants, 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. Our key to success is access to growth capital.

The company shall also continue to drive revenue from merchants participating in the Aeroplan program. It has a decade old relationship with Aeroplan which was recently purchased by Air-Canada. 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 miles.

The shock delivered to the Canadian economy by Covid-19 is being felt by Advantex. As of date hereof it is difficult to estimate the adverse effect on our company's business prospects. Our company is taking actions to: overcome the challenges of Covid-19, retain support of its financial partners and Aeroplan, and at the appropriate time to re-activate pre Covid-19 initiatives to raise growth capital on economic terms. While successful outcomes of the actions cannot be assured and the timing is uncertain, upon successful outcomes the company expects to achieve financial stability but cautions the road to recovery will be gradual and take considerable time.

I would like to thank you, merchants, staff, financial partners, Aeroplan, and the Board of directors for their support.

"Kelly E. Ambrose"
Kelly E. Ambrose
President and CEO
May 21, 2020

This letter to shareholders contains "forward-looking statements" within the meaning of applicable securities laws relating to the future business and operations of Advantex. Actual results and developments may differ materially from those contemplated by these statements. The business and operations of Advantex described herein is dependent on a number of factors and is subject to a number of risks and uncertainties. Factors that could cause actual results to differ material include, but are not limited to, changes in Advantex's economic and competitive conditions including but not limited to the industry sectors in which Advantex operates. The statements in this letter to shareholders are made of the date of this release. Forward-looking statements are made based on management's beliefs, estimates and opinions on the date the statements are made and Advantex undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change, except as required by applicable law.

This management's discussion and analysis has been prepared based on information available to Advantex Marketing International Inc. ("Advantex" or "the company") as at May 21, 2020. Management's Discussion and Analysis ("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 twelve months ended June 30, 2019, compared to the twelve months ended June 30, 2018. 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, 2019, and which are available on www.sedar.com. All dollar amounts are stated in Canadian Dollars, which is the company's presentation and functional currency, unless otherwise noted. Some dollar amounts have been rounded and may not tie directly to the 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 meets working capital needs of merchants. 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.

Fiscal year ended June 30, 2019 ("Fiscal 2019") was a year of material transition. This transition is reflected in the financial performance of Fiscal 2019 and has a bearing on the outlook. For the better part of Fiscal 2019 the company, as it had done in prior years, developed and managed merchant based loyalty programs for Canadian Imperial Bank of Commerce ("CIBC") and The Toronto Dominion Bank ("TD"). The financial performance reflects the end of CIBC/TD program, and the start and partial completion of transition to MCA program.

The company is a trusted name in the MCA space with a portfolio of about 250 merchants with an average merchant tenure of about five years. 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 company shall also continue to drive revenue from over 100 merchants participating in the Aeroplan program. It has a decade old relationship with Aeroplan which was recently purchased by Air-Canada. 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 miles. Advantex earns its revenue in the Aeroplan program from selling aeroplan miles, at an agreed price per consumer reward, to participating merchants.

The programs the company operated in partnership with CIBC and TD ("CIBC/TD program"), and Caesars ("Caesars program") and the revenue model are described in the Section Revenue in this document.

Since the company was providing working capital to merchants as part of its product offerings under the CIBC/TD program it was an easy transition to a merchant cash advance product and positioned the company for growth in a growth market. The transition started end February 2019 and was complete by end of August 2019. The MCA product and pricing were created to generate interest revenue and to minimize the loss of marketing revenues of the CIBC/TD program. The company was able to transition about 95% of merchants availing working capital as part of the CIBC/TD program to the MCA program. A high conversion ratio reflected the trusted relationship with merchants, higher credit limits, and transparency and pricing of Advantex's MCA business model. From transition to date hereof Advantex has managed it's delinquencies at historical five year trends, relying on the relationships of its account managers with the merchants combined with the robustness of its due diligence.

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 holders of 9% non-convertible debentures payable ("9% debentures") supported the company through the transition. The company did not pay the 9% debentures interest of $250,155, due June 15, 2019 for the period December 16, 2018 to June 15, 2019. The company obtained a waiver from the debenture holders to this event of default on June 21, 2019. As compensation, the company agreed to issue an aggregate of 75 million fully paid common shares to the debentures holders to be distributed on a pro-rata basis of the principal amount of the 9% debentures held by each holder, prior to July 15, 2019. The company issued the fully paid common shares on July 10, 2019. The company did not pay the interest of $250,155 due December 15, 2019 for the period June 16, 2019 to December 15, 2019. The company was in default on its interest coverage financial coverage at June 30, 2019 and subsequent to year ended June 30, 2019 is in default on all its financial covenants. The company is in discussion with the primary holder of the 9% debentures who is also the primary shareholder of the company (see Section Related Parties for details) to obtain waivers to the events of default. The primary holder of the 9% debentures and common shares holds the position on behalf of its managed accounts, is acting as the security agent for all 9% debenture holders and has a decade + relationship with the company.

In October 2019 the company raised $200,000 by way of issuance of 200 units of 9% debentures. The additional 200 units of 9% debentures was a related party transaction and the purchase was on terms and conditions applicable to the other subscribers of 9% debentures.

Advantex's common shares are listed on the Canadian Securities Exchange ("CSE") under the symbol ADX. Due to operational constraints - managing the transition being a significant factor - Advantex was not in a position to timely file the Fiscal 2019 annual financial statements and related financial documents and the Ontario Securities Commission ("OSC") issued a cease trade order. Upon completion of the filing the Fiscal 2019, three months ended September 30, 2019 and three and six months ended December 31, 2019 financial documents the company will apply to the OSC to lift the cease trade order.

Twelve months ended June 30, 2019

The financial performance reflects the transition described in the Section Overall Performance.

The significance of the CIBC/TD program to the company is tabulated.

	Fiscal 2019	Fiscal 2018
		$
Revenues		
CIBC/TD program - marketing component	$ 3,692,074	$ 5,266,747
CIBC/TD program - interest component	749,747	1,066,107
	4,441,821	6,332,854
MCA program	640,370	-
Aeroplan program	1,008,995	1,208,256
Caesars program	9,344	34,753
Misc	-	10,894
	$ 6,100,530	**$ 7,586,757**

In addition to the loss of revenues the company had to pay out severances ($55,204) to right-size its headcount to support the new business model and reduce the footprint of its IT infrastructure which supported the CIBC/TD program. The company has met its data destruction obligations to both CIBC and TD. In addition to the support, described in Section Overall Performance, of the 9% debentures, the company had the support of Accord Financial Inc. ("Accord") who relaxed some of their criteria for duration of the transition to MCA program. The company kept its operational cash payments to a minimal. All these factors played into the limited cash resources and enabled a partial transition to MCA program, albeit slower than desired, by June 30, 2019

The financial highlights for Fiscal 2019 compared to twelve months ended June 30, 2018 (“Fiscal 2018”) are summarized in the tabulation.

The results also reflect lower marketing costs on account of end of CIBC/TD program and write-back of provisions no longer required and these are the primary reason for improvement in Fiscal 2019 gross margin. Sharper decline in operating expenses compared to decline in gross profit helps lift Fiscal 2019 earnings from operations before depreciation, amortization, interest and restructuring despite lower revenues.

	Fiscal 2019	Fiscal 2018
		$
Revenues		
CIBC/TD program - marketing component	$ 3,692,074	$ 5,266,747
CIBC/TD program - interest component	749,747	1,066,107
	4,441,821	6,332,854
MCA program	640,370	-
Aeroplan program	1,008,995	1,208,256
Caesars program	9,344	34,753
Misc	-	10,894
	$ 6,100,530	**$ 7,586,757**
Gross profit	**$ 4,533,656**	**$ 5,211,787**
Gross margin. 74.3% - F 2019 vs. 68.7% - F 2018		
Earnings from operations before depreciation, amortization, interest and restructuring	**$ 963,068**	**$ 917,915**
(Loss) and comprehensive (loss) before non-recurring item	**$ (911,945)**	**$ (570,805)**
Net profit/(loss) and Comprehensive profit/(loss)	**$ (911,945)**	**$ 1,224,298**

Income Statement – Fiscal 2019 compared to Fiscal 2018

The revenues of Fiscal 2019 were $1,486,227 (19.6%) lower compared to Fiscal 2018 reflecting mainly a decline in the CIBC/TD program revenues of $1,891,033 (29.9%) offset by MCA program revenues of $640,370 (Fiscal 2018 $nil). The CIBC/TD program revenues accounted for 72.8% of Fiscal 2019 revenues (83.5% of Fiscal 2018).

The gross profit of Fiscal 2019 was $678,131 (13.0%) lower compared to Fiscal 2018 reflecting mainly decline in the CIBC/TD gross profit of $1,204,929 (26.0 %) offset by the MCA program gross profit of $640, 370 (Fiscal 2018 $nil). The CIBC/TD program gross profit accounted for 75.7%% of Fiscal 2019 gross profit (88.9% of Fiscal 2018). The decline in CIBC/TD program gross profit reflects primarily decline in revenues partially offset by lower marketing costs related to the program. The company’s Fiscal 2019 gross margin was 74.3% (Fiscal 2018 68.7%) reflecting lower marketing costs on account of end of CIBC/TD program, write-back of provisions no longer required, and there being no direct costs related to MCA program.

Selling, General and Administrative ("SG&A") expenses were $723,284 lower compared to Fiscal 2018. The lower SG&A expenses reflects rightsizing of headcount to adjust to termination of CIBC/TD program and start of MCA program, closure of Caesars program, and lower legal fees. While both fiscal years reflect restructuring of the organization and severances the cost of severances is higher in Fiscal 2018. Fiscal 2018 reflects rebate from Canada Revenue Agency ("CRA") and write-back of a portion of provision respecting directors' fees. These are explained in sections Selling Expenses and General & Administrative in this document.

Earnings from operations before depreciation, amortization and interest were up $45,153 for Fiscal 2019 at $963,068 compared to Fiscal 2018 at $917,915. The SG&A savings offset the decline in gross profit.

Stated interest cost was higher by $113,907. The increase reflects higher interest paid of $177,526 on loan payable (Fiscal 2019 $796,782 compared to $619,256 for Fiscal 2018) which is primarily a reflection of transition to the MCA program. Under the MCA program the working capital advances were refreshed to new higher credit limits and this required higher utilization of the loan payable. Fiscal 2019 reflects 9% interest on 9% debentures while Fiscal 2018 reflects 12% interest on debentures until they were re-stated and amended to 9% interest amongst other amendments from December 2017, and this resulted in savings of $63,619 on debenture interest which partially offset the increase in interest on the loan payable.

The non-cash interest expense comprising accretion charges and restructuring bonus relating to 9% debentures for Fiscal 2019 was $547,998 compared to $272,562 for Fiscal 2018. Fiscal 2018 charges are for the period from December 2017, when the 9% debentures were issued, to June 30, 2018 compared to full year for Fiscal 2019 Details are provided in the section Interest Expense.

Depreciation and amortization expense was flat compared to Fiscal 2018. The company believes capital expenditure needs are better served by leasing and using cloud based infrastructure vs. purchase. These expenditures are reflected in general & administrative.

The above components resulted in Fiscal 2019 loss before non-recurring item of $911,945 compared to Fiscal 2018 loss of $570,805.

The non-recurring item in Fiscal 2018, of $1,795,103, is to do with the restructuring, primarily the re-financing of the 12% debentures as 9% debentures. The components of the non-recurring item were (i) extinguishment of the unpaid interest and penalty, totaling $705,299, of the 12% debentures, (ii) since the inducement to the holders of the 12% debentures to accept the 9% debentures included common shares of the company and a performance bonus due at maturity it triggered an adjustment, of $1,283,611, to reflect the fair value of the 9% debentures, and (iii) costs to close the refinancing of $193,807. See section Non- recurring Item.

The above components resulted in a net loss for Fiscal 2019 of $911,945 compared to a net profit of 1,224,298 for Fiscal 2018.

Balance Sheet – Fiscal 2019 compared to Fiscal 2018

Transaction credits, which represent balance of working capital advanced to merchants, are about 97.0% of total assets at June 30, 2019 compared to 86.5% at June 30, 2018. Transaction credits, net of provision for delinquent accounts, of $9,473,999 at June 30, 2019 are $3,881,573 higher compared to $5,592,426 at June 30, 2018. The increase in transaction credits reflects transition of merchants participating in the CIBC/TD program to the MCA program. Under the MCA program the working capital advances of merchants being transitioned were refreshed to new higher credit limits. Hence the higher balances at June 30, 2019.

Loan payable of $8,416,076 at June 30, 2019 was $3,988,686 higher compared to $4,427,390 at June 30, 2018. 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 higher loan payable balance at June 30, 2019 compared to June 30, 2018 reflects the higher transaction credits at June 30, 2019. During Fiscal 2018 cash surplus to immediate requirements was applied to loan payable, reducing the loan payable and consequently the interest cost. Such cash at June 30, 2018 was $600,000. Timing of collection from and deployment of advances to merchants also effects the balance at period ends.

During Fiscal 2018 the liability of the 12% debentures was extinguished upon refinancing as 9% debentures which were recognized at fair value on initial recording and are reflected in Fiscal 2019 and 2018 at amortized cost in the consolidated financial statements. See section 9% Non-Convertible Debentures Payable.

Accounts payable and accrued liabilities at June 30, 2019 are lower compared to June 30, 2018 and reflect lower provision for direct costs on account of termination of CIBC/TD program, write-back of provisions no longer required but reflect a provision for accrued and unpaid 9% debenture interest of $249,470 for the period December 16, 2018 to June 15, 2019 (Fiscal 2018 interest was paid on due date June 15, 2018) and increase in advance payments made by merchants.

Outlook

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. 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.

The Aeroplan program the company operates is dependent on its agreement with Aeroplan, operator of Aeroplan Loyalty Program owned by Air-Canada. The current agreement ended April 30, 2020. The two parties continue to work while discussing future terms and direction and the company believes it shall be able to secure a multi-year renewal. 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 Covid-19 pandemic is a challenge and an opportunity for the company. Challenge because it has created additional uncertainty to the company's business continuity and also put on hold discussions which were underway with some parties to raise growth capital. Opportunity because merchant's will need the company's products even more once life returns to normal - marketing to bring customers to their establishments and working capital to help re-start and re-build their operations.

To fund growth of MCA program beyond where the portfolio is as of date hereof and thereby continue its current operations, 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 on economic terms. While the company believes it has the support of the holders of 9% debentures and Accord, there can be no assurance of their continued support and the terms of such support if the company cannot attract debt and or equity to grow the MCA portfolio and move towards break-even and profitability. While the company believes it has a scale-able and profitable MCA business model in a growth industry, has years of experience in the MCA industry, low delinquency and it offers an attractive opportunity for investors there can be no guarantee of a successful outcome, the economic terms, the time-line to the outcome.

In the event of on-going support from its financial partners, Aeroplan, timely raise of growth capital on terms that the company can accommodate, the company expects to achieve financial stability and provide value to the 9% debenture holders and shareholders but cautions that the road to recovery, made more arduous by Covid-19 pandemic, will be take time and will be gradual.

Results of Operations

	Fiscal 2019	Fiscal 2018
		$
Revenue	**$ 6,100,530**	**$ 7,586,757**
Direct Expenses - Cost of cardholder rewards and marketing merchants to cardholders	1,279,228	2,085,541
Direct Expenses - Expense for provision against delinquent accounts	287,646	289,429
Gross profit	**$ 4,533,656**	**$ 5,211,787**
Selling and General & Administrative	3,570,588	4,293,872
Earnings from operations before depreciation, amortization, interest and restructuring	**$ 963,068**	**$ 917,915**
Cash interest on loan payable and debentures	1,297,092	1,183,185
Earnings (loss) from operations before depreciation, amortization and non-cash interest on debentures (accretion charges and restructuring bonus)	**$ (334,024)**	**$ (265,270)**
Depreciation and amortization	29,923	32,973
Non cash interest expense on debentures	547,998	272,562
(Loss) and comprehensive (loss) before non-recurring item	**$ (911,945)**	**$ (570,805)**
Gain on debt restructuring	$ -	$ 1,795,103
Net profit/(loss) and comprehensive profit/(loss)	**$ (911,945)**	**$ 1,224,298**
Basic and Diluted profit/(loss) per share	**$ -**	**$ -**

Extract from the Statement of Financial Position

	At June 30, 2019	At June 30, 2018	Increase/ (Decrease)
		$	$
Current assets	$ 9,756,497	$ 6,419,933	$ 3,336,564
Total assets	$ 9,771,752	$ 6,463,902	$ 3,307,850
Shareholders' deficiency	$ (6,267,102)	$ (5,355,157)	$ (911,945)

The change in current assets primarily reflects an increase in transaction credit, net of provision for delinquent accounts, of $3,881,573 offset by decline in cash and cash equivalents of $516,200.

The increase in transaction credits reflects transition of merchants participating in the CIBC/TD program to the MCA program.

The decline in cash and cash equivalents partially represents investment of 10% which the company has to put into each $ of working capital advanced to merchants and partially the use of cash for rightsizing the cost structure including paying severances following termination of CIBC/TD program and meeting operational needs. The cash balances also reflect the timing difference between the company’s ongoing collection of transaction credits from and deploying advances to merchants, payments of accounts payable, and in Fiscal 2018 support from CIBC/TD towards marketing initiatives.

The change in the total assets primarily reflects increase in the current assets.

Accounts payable and accrued liabilities of $2,526,829 show a drop of $316,889 compared to Fiscal 2018. The drop reflects payments to suppliers in the first half of Fiscal 2019, write-back of provisions no longer required, offset by 9% debenture interest for six months ended June 16, 2019 not paid on due date and increase in advance payments made by merchants.

The loan payable balance at June 30, 2018 of $4,427,390 reflected $600,000 which was surplus to company's immediate requirements and applied towards the Fiscal 2018 balance. The balance at end of June 30, 2019 was $8,416,076, an effective increase of $3,388,688 compared to June 30, 2018. This increase supported the growth in transaction credits compared to June 30, 2018.

The movement in the shareholders' deficit reflects net loss during Fiscal 2019.

Extracts from the Statement of Cash Flow

	Fiscal 2019	Fiscal 2018	Change
		$	$
Net profit/(loss)	$ (911,945)	$ 1,224,298	$ (2,136,243)
Adjustments for non cash expenses	577,921	(978,076)	1,555,997
Income after adjustments for non cash expenses	$ (334,024)	$ 246,222	$ (580,246)
Changes in working capital	(4,169,653)	(324,833)	(3,844,820)
Net cash generated from/(used in) financing activities	3,988,686	350,969	3,637,717
Net cash generated from/(used in) operations	$ (514,991)	$ 272,358	$ (787,349)
Net cash (used in) investing activities	(1,209)	(3,879)	2,670
Increase/(Decrease) in cash and cash equivalents	(516,200)	268,479	$ (784,679)
Cash and cash equivalents at start of year	$ 635,836	$ 367,357	$ 268,479
Cash and cash equivalents at end of year	$ 119,636	$ 635,836	$ (516,200)

Changes in working capital. Transaction credits, accounts receivable, accounts payable and accrued liabilities and other working capital items. During Fiscal 2019 the significant item is the increase in transaction credits reflecting transition of merchants participating in the CIBC/TD program to the MCA program. During Fiscal 2018 the significant item is decrease in accounts payable and accrued liabilities of $388,416 and this reflects cancellation of interest, on 12% debentures for period January 1, 2017 to December 21, 2017, consequent to the close of the restructuring; provision for professional fees connected to the restructuring; settlement of severances resulting from the restructuring of the organization; and settlement of accounts payable and accrued liabilities following the restructuring.

Financing activities. During Fiscal 2019 the primary change is the increase in loan payable to support the growth in transaction credits. Fiscal 2018 reflects the new investment of $400,000 in the 9% debentures and the change in the loan payable balance consequent to 1. change in the co-funding arrangement, 2. cash surplus to immediate requirements being used to reduce loan payable utilization, and 3. changes in transaction credits purchased from existing merchant portfolio and change in merchant population.

Investing activities. The company expects to either secure lease arrangements for significant IT expenditures or use services in the cloud during Fiscal year ending June 30, 2020. The financial commitments on existing leases is provided in the section Contractual Obligations in this document. The lease costs are reflected in expenses. The capital expenditures during Fiscal 2019 and 2018 were nominal and the company expects capital expenditures for Fiscal 2020 to be similar to the prior two fiscal years.

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 audited consolidated financial statements for the fiscal year ended June 30, 2019, and have been included to provide additional analysis for the reader.

Revenue

As of date hereof the company's revenue is derived from merchants participating in the MCA program, launched in early part of Fiscal 2019, and the Aeroplan program which the company has been operating for about a decade.

During Fiscal 2019 and 2018 the company also operated CIBC/TD and Caesars programs.

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 credit 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 operates the Re-seller and Processing products.

> Re-seller. The company sells aeroplan miles to small and mid-sized retailers and service providers. Revenue is recognized, at the agreed price per aeroplan mile, when the participating merchant issues aeroplan miles to an Aeroplan member completing a qualifying transaction at the merchant.
>
> Processing. The company processes issuance of aeroplan miles for Aeroplan customers. Revenue is recognized at the agreed price per aeroplan mile processed by the company.

The CIBC/TD program operated the following two products:

> Advance Purchase Marketing ("APM"): The company acquired the rights to cash flow from future designated CIBC and TD credit card transactions at a discount from participating merchants (transaction credits on consolidated statement of financial position) and promoted the merchant by way of targeted marketing to holders of designated CIBC/TD credit cards, issued consumer rewards to consumers when they completed purchases at participating merchants, and provided merchants with business intelligence connected to the spending behaviour of consumers. The company's revenue was from the purchases completed at the participating merchants using designated CIBC and TD credit cards, net of the company's costs to acquire the transaction credits. Proceeds from the amount spent on above noted CIBC/TD credit cards at participating merchants were received by the company and a predetermined portion applied to reduce the transaction credit balance.
>
> Marketing Only: The company did not acquire the rights to cash flows of merchants. In all other respects Marketing Only was similar to APM. Revenue was earned in the form of an agreed marketing fee for every purchase completed using CIBC/TD credit card (as defined under APM) at participating merchants.

The Caesars program operated the Participation fee product. The company marketed participating merchants to Caesars Total Rewards members and the merchant issued total rewards loyalty points to Total Rewards members completing a qualifying transaction at the merchant. The merchant paid an agreed monthly fee to Advantex.

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 Re-seller product 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.

The drivers for revenues from the CIBC/TD program were:

1. Number of participating merchants;
2. Market penetration of the CIBC/TD credit cards;

3. Economic environment;
4. Mix of merchants in terms of their volume of CIBC/TD credit card transactions; and
5. Participation levels in APM and Marketing Only. The fees that a merchant would pay for participation in the APM product was higher compared to Marketing Only.

The revenues from the Caesars program were dependent on the number of participating merchants.

The revenue trends are provided in the tabulation.

	Fiscal 2019	Fiscal 2018	Inc./(Dec)
	$	$	$
Revenues			
CIBC/TD program	$ 4,441,821	$ 6,332,854	$ (1,891,033)
MCA program	640,370	-	640,370
Aeroplan program	1,008,995	1,208,256	(199,261)
Caesars program	9,344	34,753	(25,409)
Misc	-	10,894	(10,894)
	$ 6,100,530	**$ 7,586,757**	**$ (1,486,227)**

CIBC/TD program

Fiscal 2019 revenues are lower reflecting the termination of the program.

Fiscal 2018 reflected a gradual re-build of the sales organization and merchant participation post completion of restructuring in December 2017. Merchant count at June 30, 2017 was 640 and at December 31, 2017 it was 594. Post restructuring the company had begun to stabilize merchant participation (583 at June 30, 2018).

MCA program

The revenue was earned from merchants transitioned from primarily the CIBC/TD APM product as of June 30, 2019.

Aeroplan program

	Fiscal 2019	Fiscal 2018	Inc./(Dec)
Revenues			
Re-seller	$ 905,190	$ 1,029,183	$ (123,993)
Processing	103,805	179,073	(75,268)
	$ 1,008,995	**$ 1,208,256**	**$ (199,261)**

Decline in Fiscal 2019 re-seller revenues are reflective of change in merchant participation and the engagement of participating merchants in the program. The company re-organized the sales and account management towards end of calendar 2019 to drive sales and merchant engagement in the program.

The company processes issuance of aeroplan miles for an Aeroplan customer. This is the source of processing revenue. Aeroplan's contract with the customer ended May 2019 which ended this revenue stream.

Direct Expenses

The MCA direct expenses are provision against transaction credits.

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.

The CIBC/TD program direct expenses included costs of consumer rewards which the company purchased from CIBC and TD, the cost of marketing and advertising on behalf of merchants, cost of sales of digital marketing services and provision against receivables.

Caesars program direct expenses were costs of consumer rewards which the company purchased from Caesars and provision against receivables.

CIBC/TD program

The consumer rewards declined by $355,300, a 32.5% decline and in line with revenues.

Expense for delinquent accounts increased a marginal $10,248, a 3.8% increase partially reflecting inclusion for Fiscal 2019, in compliance with IFRS, of an estimate of expected loss for unimpaired transaction based on historical loss rates. Expense for delinquent accounts was 6.3% of revenues (Fiscal 2018 4.3% of revenues). Fiscal 2019 experience was marginally higher compared to the 4-5% range expectations reported in Q3 in May 2018.

Marketing and advertising declined $271,350, decline of 64.3%, steeper than decline in revenues and reflective of termination of the program.

Write-back of $156,331 in Fiscal 2019 of provisions no longer required further reduced the direct costs.

Aeroplan program

There are no direct costs related to processing revenue.

The consumer rewards declined $98,723, a 15.5% decline, in line with decline of 12.0% in re-seller revenues.

Gross Profit

The gross profit of Fiscal 2019 was $678,131 (13.0%) lower compared to Fiscal 2018 reflecting mainly decline in the CIBC/TD gross profit of $1,204,929 (26.0 %) offset by the MCA program gross profit of $640, 370 (Fiscal 2018 $nil). The CIBC/TD program gross profit accounted for 75.7% of Fiscal 2019 gross profit (88.9% of Fiscal 2018).

The company's Fiscal 2019 gross margin was 74.3% (Fiscal 2018 68.7%) reflecting lower marketing costs on account of end of CIBC/TD program, write-back of provisions no longer required, and no direct costs related to MCA program.

Selling Expenses

Selling expenses include expenses arising from remuneration of sales staff, transaction processing and other selling activities. The significant component is cost of the sales staff.

The sales organization of the CIBC/TD program was, as required, transitioned to the MCA and Aeroplan programs and is focused on these two programs.

Caesars program was terminated by the company in December 2018.

	Fiscal 2019	Fiscal 2018	Inc./(Dec)	Inc./(Dec)
	$	$	$	%
Revenues				
CIBC/TD program and MCA program	$ 5,082,191	$ 6,332,854	$ (1,250,664)	-19.7%
Aeroplan program	1,008,995	1,208,256	(199,261)	-16.5%
Caesars program	9,344	34,753	(25,409)	-73.1%
Misc	-	10,894	(10,894)	-100.0%
	$ 6,100,530	**$ 7,586,757**	**$ (1,486,228)**	**-19.6%**
Selling expenses				
CIBC/TD program and MCA program	$ 1,272,031	$ 1,711,965	$ (439,934)	-25.7%
Aeroplan program	1,582	25,434	(23,852)	-93.8%
Caesars program	55,690	143,987	(88,297)	-61.3%
	$ 1,329,303	**$ 1,881,386**	**$ (552,083)**	**-29.3%**
Remuneration of sales staff	$ 1,235,415	$ 1,567,852		
Remuneration as % of selling expenses	92.9%	83.3%		

Fiscal 2019. The selling expenses moved in line with revenues. The company balanced cost control and the headcount/sales organization required to transition the business to MCA.

Fiscal 2018. The company was focused on re-building its sales organization during Fiscal 2018. Fiscal 2018 cost of the sales organization also reflects a company-wide salary reduction of between 10% and 20% implemented from mid-August 2017 and its partial reinstatement during the January – March 2018 quarter.

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).

	Fiscal 2019	Fiscal 2018	Inc./(Dec)	Inc./(Dec)
	$	$	$	%
Change in revenues				**-19.6%**
G&A				
Compensation for non-sales staff	$ 1,385,700	$ 1,444,294	$ (58,594)	
Severances	46,998	138,419	(91,421)	
Write-back of Directors fees	-	(105,566)	105,566	
Refund from CRA	-	(91,186)	91,186	
All other G&A expenses	808,587	1,026,525	(217,938)	
	$ 2,241,285	**$ 2,412,486**	**$ (171,201)**	**-7.1%**

Compensation

1. Fiscal 2019 reflects the roll back in August 2018 of the company-wide salary reduction of between 10% and 20% implemented from mid-August 2017.
2. Fiscal 2018 reflects company-wide salary reduction of between 10% and 20% implemented mid-August 2017 and its partial roll-back from January 2018 onward.

Severances

Reflect provision for payments to ex-staff consequent to the restructuring of the organization. All severances were settled prior to June 30, 2019.

Write-back of Directors Fees

As part of the restructuring in December 2017 the directors agreed to forego a portion of their fees which were in arrears and take the balance over an extended period. The forgiven portion of fees is reflected in above tabulation.

Refund from CRA

Fiscal 2018 reflects a refund of $102,028 (including interest of $10,846 which is reflected in Misc. revenue) by CRA. In December 2003 the company completed a tax assisted financing transaction with a promoter of the transaction whereby it raised funds from the sale of its tax losses. Subsequent to the transaction the CRA and tax payers participating in the promoter's structure were in dispute and while the company was not a party to the dispute its share of tax losses solely consequent to the transaction were disallowed and this resulted in nominal annual tax liability which the company settled. Upon resolution of the dispute the previously disallowed tax losses were partially allowed and this resulted in the refund.

All other expenses

Fiscal 2019 and Fiscal 2018 reflect focus on cost management.

Interest Expense

Interest expense on loan payable reflects 1. utilization of funds under this line of credit facility, and 2. facility interest rate and the prime rate of Bank of Nova Scotia ("prime rate") which together determine the loan payable interest rate (see section Loan Payable in this document). Average month end utilization of loan payable was higher during Fiscal 2019 ($6,078,000) compared to Fiscal 2018 ($4,084,000). Effective January 1, 2018 the facility interest rate was reduced to 9.05% from 11.5%. The increase in prime rate in August 2017, October 2017 and January 2018 resulted in increasing the loan payable interest rate. The impact of the foregoing factors are reflected in the loan payable interest cost – see below the tabulation.

On December 22, 2017 the company announced it re-financed the 12% debentures with the approval of existing holders of the 12% debentures. The 12% debentures were re-financed as units comprising 9% debentures and common shares of the company. There was $400,000 of new investment in the 9% debentures. The terms of the refinancing are set out in Section 9% Non-Convertible Debentures Payable.

Unless noted otherwise the above is reflected in the tabulation of interest expense:

	Fiscal 2019	Fiscal 2018	Inc./(Dec)
	$	$	$
Stated ("Cash") interest expense			
Loan payable	$ 796,782	$ 619,256	$ 177,526
12% debentures	-	295,123	(295,123)
9% debentures	500,310	261,806	238,504
9% debentures charges	-	7,000	(7,000)
	$ 1,297,092	$ 1,183,185	$ 113,907
Non-cash interest expense			
Restructuring bonus - 9% debentures	$ 248,284	$ 129,924	$ 118,360
Accretion charge on 9% debentures	$ 299,714	$ 142,638	$ 157,076
	$ 547,998	$ 272,562	$ 275,436
Total interest expense	**$ 1,845,090**	**$ 1,455,747**	**$ 389,343**

The company deployed the funds available to it under loan payable and 9% debentures with merchants activated under its CIBC/TD program's APM product and MCA program. The funds deployed are reflected as transaction credits on the consolidated statement of financial position. The funds available under the 9% debentures were also used for general working capital purposes.

Non-recurring Item

Fiscal 2018. A gain on debt restructuring of $1,795,103 was recognized on the refinancing. This consisted of the book value of the 12% debentures of $5,864,299, including accrued interest and penalties, plus the cash proceeds on the refinancing of $400,000 less the fair value of the 9% debentures of $4,275,389 and financing costs of $193,807.

	9% debentures
	Non-recurring item
Costs to close the refinancing	$ (193,807)
Extinguishment of interest and penalty of 12% debentures	705,299
Adjustment to reflect fair value of 9% debentures	1,283,611
	$ 1,795,103

Net Profit/(Loss)

Highlights of Fiscal 2019 compared to Fiscal 2018 are tabulated:

	Fiscal 2019	Fiscal 2018	Inc./(Dec)
	$	$	$
Revenues	$ 6,100,530	$ 7,586,757	$ (1,486,227)
Gross margin	74.3%	68.7%	
Gross profit	$ 4,533,656	$ 5,211,787	$ (678,131)
Earnings (loss) from operations before depreciation, amortization and interest	$ 963,068	$ 917,915	$ 45,153
(Loss) and comprehensive (loss) before non-recurring item	$ (911,945)	$ (570,805)	$ 341,140
Net profit/(loss) and Comprehensive profit/(loss)	$ (911,945)	$ 1,224,298	$ (2,136,243)
Basic and Diluted loss per share	$ (0.00)	$ 0.00	

The detailed analysis of the above tabulated items is provided in Sections Twelve months ended June 30, 2019 - *Income Statement – Fiscal 2019 compared to Fiscal 2018,* Revenue, Direct Expenses, Gross Profit, Selling Expenses, G&A, Interest Expense, Non-recurring Item.

Highlights are provided here.

The revenues of Fiscal 2019 were $1,486,227 (19.6%) lower compared to Fiscal 2018 reflecting mainly a decline in the CIBC/TD program revenues of $1,891,033 (29.9%) offset by MCA program revenues of $640,370 (Fiscal 2018 $nil). The gross profit of Fiscal 2019 was $678,131 (13.0%) lower compared to Fiscal 2018 reflecting mainly decline in the CIBC/TD gross profit of $1,204,929 (26.0%) offset by the MCA program gross profit of $640,370 (Fiscal 2018 $nil) and write-back of provisions no longer required. Selling, General and Administrative ("SG&A") expenses were $723,284 lower compared to Fiscal 2018. The lower SG&A expenses reflects rightsizing of headcount to reflect termination of CIBC/TD program, start of MCA program, closure of Caesars program, and lower legal fees. While both fiscal years reflect restructuring of the organization and severances the cost of severances is higher in Fiscal 2018. Fiscal 2018 reflects rebate from Canada Revenue Agency ("CRA") and write-back of a portion of provision respecting directors' fees. Earnings from operations before depreciation, amortization and interest were up $45,153 for Fiscal 2019 at $963,068 compared to Fiscal 2018 at $917,915. The SG&A savings offset the decline in gross profit. There is an increase in stated interest cost ($113,907) a combination of loan payable (up $177,526) and debenture interest (down $63,619) and an increase in non-cash interest ($275,436) – see Interest Expense section - resulting in a net increase in interest cost of $389,343. Depreciation and amortization expense is flat. The result is a Fiscal 2019 loss before non-recurring item of $911,945 compared to $570,805 loss for Fiscal 2018.

After accounting for the Fiscal 2018 non-recurring item ($1,795,103) Fiscal 2018 reported a net profit of $1,224,298.

Working Capital and Liquidity Management

The utilization of liquidity during Fiscal 2019 compared to Fiscal 2018 is illustrated in the tabulation:

Context for Fiscal 2019 is provided in Section Overall Performance in this document.

Context for Fiscal 2018

In December 2017 the company completed a restructuring of its financial partnership. The restructuring is explained in sections Loan Payable and 9% Non-Convertible Debentures Payable in this document. Post restructuring cash and cash equivalents surplus to immediate operating requirements were used to reduce the loan payable and consequently the interest paid. Balance of such cash and cash equivalents at June 30, 2018 was $600,000.

	Fiscal 2019	Fiscal 2018
	$	$
Funds available to expand the CIBC/TD program's APM product and its successor MCA program (Transaction credits on the balance sheet) and meet working capital needs		
Net profit/(loss)	$ (911,945)	$ 1,224,298
Adjustments for non cash expenses	577,921	(978,076)
Profit/(Loss) after adjustment for non cash expenses	(334,024)	246,222
Cash balances at start of the period	635,836	367,357
Increase in loan payable	3,988,686	(49,031)
Increase in funds from 9% debentures	-	400,000
Decrease in accounts receivable	1,692	68,195
	$ 4,292,190	**$ 1,032,743**
Utilization of funds		
Cash balances at end of periods	$ 119,636	$ 635,836
Increase in transaction credits	3,881,573	42,714
Decrease in accounts payable and accrued liabilities	316,889	388,416
Changes in all other working capital items	(27,117)	(38,102)
Capital expenditures	1,209	3,879
	$ 4,292,190	**$ 1,032,743**

Changes in working capital. Transaction credits, accounts receivable, accounts payable and accrued liabilities and other working capital items. During Fiscal 2019 the significant item is the increase in transaction credits reflecting transition of merchants participating in the CIBC/TD program to the MCA program. During Fiscal 2018 the significant item is decrease in accounts payable and accrued liabilities of $388,416 and this reflects cancellation of interest, on 12% debentures for period January 1, 2017 to December 21, 2017, consequent to the close of the restructuring; provision for professional fees connected to the restructuring; settlement of severances resulting from the restructuring of the organization; and settlement of accounts payable and accrued liabilities following the restructuring.

Financing activities. During Fiscal 2019 the primary change is the increase in loan payable to support the growth in transaction credits. Fiscal 2018 reflects the new investment of $400,000 in the 9% debentures and the change in the loan payable balance consequent to 1. change in the co-funding arrangement, 2. cash surplus to immediate requirements being used to reduce loan payable utilization, and 3. changes in transaction credits purchased from existing merchant portfolio and change in merchant population.

Investing activities. The company expects to either secure lease arrangements for significant IT expenditures or use services in the cloud during Fiscal year ending June 30, 2020. The financial commitments on existing leases is provided in the section Contractual Obligations in this document. The lease costs are reflected in expenses. The capital expenditures during Fiscal 2019 and 2018 were nominal and the company expects capital expenditures for Fiscal 2020 to be similar to the prior two fiscal years.

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 has payment plans in place with suppliers critical to ongoing operations.

Cash balances at the end of a quarter/year reflect cash generated/(used) by operations [profit/(loss) before depreciation of property, plant and equipment, and amortization of intangible assets; and non-cash interest on debentures], the other factors are timing difference between the company's ongoing collection of transaction credits from and deploying advances to merchants, payments of accounts payable, funds from Affinity partners towards marketing initiatives. The additional consideration at June 30, 2018 is the cash raised by the company following the close of restructuring with its financial partners and where cash surplus to immediate operating requirements was used to reduce the loan payable and consequently the interest cost. Balance of such cash at June 30, 2018 was $600,000.

The company's operations are funded by debt – loan payable and 9% debentures (see Sections Loan Payable and 9% Non-Convertible Debentures Payable) in this document. Both the partnerships are set-up for maturity/expiry in December 2021.

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 does not have the 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% debenture holders.

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.

The company's future success is dependent on retaining its existing relationships with Aeroplan, Accord and holders of 9% debentures and it believes it has their support, and access to additional working capital in the form of debt and or equity.

Except for the leasing arrangements the company does not participate in off balance sheet financing arrangements.

The consolidated financial statements for year ended June 30, 2019 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 in the normal course 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 $6,267,102 and negative working capital of $6,282,357 as at June 30, 2019. The company is also in breach of its covenants on its debentures (section 9% Non-Convertible Debentures Payable). Also, due to the termination of its agreements with CIBC and TD described in section Overall Performance as well as the potential financial impact from COVID-19 there is uncertainty surrounding the company's ability to generate cash flows sufficient to meet its operational needs including payments to its suppliers and payment of interest on the 9% debentures. These material uncertainties cast significant doubt on the validity of the going concern assumption and 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.

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 will 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% debentures, Air-Canada, ability to attract growth capital in the form of either debt or equity; and continuity as a going concern. The company is exploring its eligibility to secure relief provided by various government programs but no assurance can be given on a successful outcome.

Contractual Obligations

Contractual obligations as at June 30, 2019 were due as follow:

Contractual obligations		Total	Less than 1 year	1 to 3 years	4 to 5 years
		$	$	$	$
Loan payable		$ 8,416,076	$ 8,416,076	$ -	$ -
9% debentures		$ 5,559,000	$ -	$ 5,559,000	$ -
Operating leases		$ 37,808	$ 23,594	$ 14,214	$ -
		$ 14,012,884	**$ 8,439,670**	**$ 5,573,214**	**$ -**

In addition, there is a contractual obligation to holders of 9% debenture for interest of $1,522,399 payable for the period December 16, 2018 to maturity on December 31, 2021. The company also has a liability of restructuring bonus for $1,000,620 to the holders of the 9% debentures payable on December 31, 2021.

The company issued additional $200,000 9% debentures on October 28, 2019 on terms and conditions applicable to the $5,559,000 issued in December 2017. Interest payable for the period to October 28, 2019 to December 31, 2021 is $39,750 and the liability of restructuring bonus is $36,000.

The expense related to above leases is expensed in selling and marketing, and general and administrative expenses in the consolidated statements of income.

Furthermore, in August 2017 the company renewed its lease for the company's head office for five year term ending August 31, 2022. The commitment from July 2019 to August 2022 is $245,958.

Loan Payable

The loan payable is a line of credit facility with Accord to be used exclusively to fund the merchants participating in the APM product in the business segments available to the company under its agreements with CIBC, TD and Aimia, and MCA product. As security, Accord has first charge to all amounts due from merchants funded from the loan payable.

The loan payable was established in December 2007. The current term of the loan payable was due to expire in December 2017.

On January 4, 2018 the company announced it secured a renewal for a term ending 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.

During the renewal term commencing January 1, 2018 the interest rate is equivalent to prime rate of a certain Canadian bank plus 9.05% (compared to prime rate plus 11.5% until December 31, 2017). Furthermore, during the renewal term the co-funding arrangement is amended to 90:10, whereby Accord funds 90% of each dollar of amounts funded to merchants. The company funds 10%. This compares to 85:15 arrangement until December 28, 2017.

The facility has a limit of $8.5 million.

Interest is calculated daily on the amount outstanding and charged monthly.

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

The company had utilized $8.4 million of the facility at June 30, 2019 (at June 30, 2018 $4.4 million).

With the change in the loan payable terms effective January 1, 2018, the company and Accord did not renew the temporary overdraft facility of $100,000 which expired December 31, 2017.

9% Non-Convertible Debentures Payable

On December 30, 2013, the company issued 12% non-convertible debentures ("12% debentures"), by way of a private placement, in the principal amount of $5,159,000. The 12% debentures were issued as units. Each unit comprised (i) $1,000 face value secured non-convertible debentures of the company bearing interest at 12% per annum, payable semi-annually, and with an initial maturity date of September 30, 2016, and (ii) 8,150 common shares in the capital of the company. The company issued 5,159 units and 42,045,850 common shares. The maturity date went through several extensions with the latest maturity date of December 31, 2017. The company was in breach of all its financial covenants since September 30, 2016, had not paid the interest since January 1, 2017 and was not in a position to re-pay the 12% debentures.

On December 22, 2017 the company announced it re-financed the new 12% debentures with the approval of existing holders of the 12% debentures. The terms of the refinancing are as follows:

1. Holders of existing 12% debentures were issued, on dollar for dollar basis, 9% non-convertible debentures payable ("9% debentures") with maturity date of December 31, 2021;
2. The 9% debentures bear interest rate of 9% per annum payable semi-annually;
3. Cancelation of accrued and unpaid interest on 12% debentures for period January 1, 2017 to December 21, 2017;
4. Cancelation of penalty of $103,180 payable to holders of 12% debentures;
5. Restructuring bonus payment of $180 for each $1,000 of 9% debentures on December 31, 2021; and
6. 108,244 common shares of the company for each $1,000 of 9% debentures.

The 9% debentures and common shares were issued as units. The company issued 5,559 units comprising principal amount of $5,559,000 9% debentures and 601,728,396 common shares of the company, comprising:

1. Principal amount of $5,159,000 9% debentures and 558,430,796 common shares of the company issued to holders of 12% debentures; and
2. Principal amount of $400,000 new investment in 9% debentures and 43,297,600 common shares of the company.

Under the agreement, the proceeds of the 9% debentures are to be used for working capital purposes.

The 9% debentures are secured by a general security interest over the assets of the company and its subsidiaries. The significant financial covenants of the 9% debentures require the company to meet (i) commencing the quarter ended March 31, 2018, on a quarterly basis, a defined level of designated current assets, and (ii) commencing December 31, 2018, on a quarterly basis, a defined level of interest coverage. In October 2018 the 9% debentures holders amended and re-set certain financial covenants for quarters ending December 31, 2018 to June 30, 2020. 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% debentures agreement and, as a result, the 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% 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% debentures, the 9% debentures holders would have the right to realize upon a part or all of the security held by them.

The company did not pay the interest due June 15, 2019 for the period December 16, 2018 to June 15, 2018. The company obtained a waiver to this event of default on June 21, 2019. As compensation, the company agreed to issue an aggregate of 75 million fully paid common shares to the debentures holders to be distributed on a pro-rata basis of the principal amount of the 9% debentures held by each holder, prior to July 15, 2019. The company issued the fully paid common shares on July 10, 2019. The common shares were valued at $nil based on the estimated market value of the common shares at the date of the agreement.

The company was in default on its interest coverage financial coverage at June 30, 2019 and subsequent to year ended June 30, 2019 is in default on all its financial covenants. As a result the 9% debentures have been classified as a current liability at June 30, 2019.

The company did not pay the interest of $250,155 due December 15, 2019 for the period June 16, 2019 to December 15, 2019. The company is in discussion with the primary holder of the 9% debentures who is also the primary shareholder of the company (see Section Related Parties for details) to obtain waivers to the events of default connected to payment of interest due December 15, 2019 and breach of financial covenants.

Selected Annual and Quarterly Information

The following financial data has been derived from the company's annual audited consolidated financial statements for the past three fiscal years ended June 30, 2019, June 30, 2018, and June 30, 2017.

(In millions of dollars except per share amounts)			
	Fiscal 2019	Fiscal 2018	Fiscal 2017
	$	$	$
Revenues	6.1	7.6	9.2
Net income/(loss) *	(0.9)	1.2	(1.2)
Loss per share - Basic and Diluted	-	-	(0.01)
Total assets	9.8	6.5	6.3
Current liabilities	16.0	7.3	12.9
Long-term liabilities	-	4.6	-
No cash dividend declared per common share			
* Fiscal 2018 net profit includes non-recurring item, gain on debt restructuring of $1.8 million			

Working capital represented by current assets less current liabilities as at June 30 for the past three fiscal years was:

	Fiscal 2019	Fiscal 2018	Fiscal 2017
	$	$	$
Working capital	(6,282,357)	(851,175)	(6,652,518)

Composition of total assets is tabulated:

	Fiscal 2019	Fiscal 2018	Fiscal 2017
	$	$	$
Cash and cash equivalents	120,000	636,000	367,000
Accounts receivable	111,000	112,000	181,000
Transaction credits	9,474,000	5,592,000	5,550,000
Inventory	-	-	35,000
Prepaid expenses and sundry assets	52,000	79,000	82,000
Property, plant and equipment	15,000	44,000	72,000
Intangibles	-	-	1,000
	9,772,000	6,463,000	6,288,000

Transaction credits, and cash and cash equivalents account for the significant share of total assets, representing over 85% for each of the above fiscal years. Fiscal 2019 - The increase in transaction credits reflects transition of merchants participating in the CIBC/TD program to the MCA program. Under the MCA program the working capital advances of merchants being transitioned were refreshed to new higher credit limits. For Fiscal 2018 and Fiscal 2017 the change in transaction credits, net of provision for delinquent accounts, primarily reflects the decline in the number of merchants participating in the APM product of the company's CIBC/TD program. CIBC/TD program accounts for the significant portion of the company's revenues and gross profit for the two fiscal years.

Cash balances at the end of a quarter/year reflect cash generated/(used) by operations [profit/(loss) before depreciation of property, plant and equipment, and amortization of intangible assets; and non-cash interest on debentures], the other factors are timing difference between the company's ongoing collection of transaction credits from and deploying advances to merchants, payments of accounts payable, funds from CIBC and TD towards marketing initiatives. The additional consideration at June 30, 2018 is the cash raised by the company following the close of restructuring with its financial partners and where cash surplus to immediate operating requirements was used to reduce the loan payable and consequently the interest cost. Balance of such cash at June 30, 2018 was $600,000.

The company's transaction credits are primarily funded by its loan payable, and debentures. Loan payable carries a first charge against the merchant transaction credits funded by its proceeds. The debentures have a general security agreement over all the assets of the company and its subsidiaries.

Please refer to the section on Results of Operations section in this document for an analysis of Fiscal 2019 and Fiscal 2018.

Fiscal 2018 compared to Fiscal 2017

The results for Fiscal 2018 and Fiscal 2017 were:

		Fiscal 2018	Fiscal 2017
Net profit/(loss) and Comprehensive profit/(loss)		$ 1,224,298	$ (1,206,347)

Highlights of Fiscal 2018 compared to Fiscal 2017 (in millions of dollars):

Operational Highlights.

	Revenues	Gross profit	SG&A	Earnings from operations before depreciation, amortization and interest	Stated and Non cash interest	Non-recurring item	Net profit/(loss)
Fiscal 2018	7.6	5.2	4.3	0.9	1.5	1.8	1.2
Fiscal 2017	9.2	6.0	5.7	0.3	1.3	-	- 1.2

Income Statement – Fiscal 2018 compared to Fiscal 2017

Revenues

- CIBC/TD program. Fiscal 2018 revenues are lower reflecting the decline during Fiscal 2018 in merchant participation. Until close of the restructuring in December 2017 there was deficiency of working capital. This severely limited the company's ability to re-build its sales organization and to pre-purchase future sales from new merchants wishing to enroll in the company's APM product. Consequently, the company was unable to arrest the decline in merchant participation during the first half of Fiscal 2018; merchant count at June 30, 2017 was 640 and at December 31, 2017 it was 594. Post restructuring the company has begun to stabilize merchant participation (583 at June 30, 2018). The company started to re-build its sales organization from middle of March 2017. The goal was to create a sales organization that would, post restructuring, enable a gradual and sustained growth in merchant count and revenues. The company expected to re-build the sales organization by end of May 2018 but it is expected to take a couple of iterations before the ideal team is in place. Expectation of completion during the course of fiscal year ending June 30, 2019.
- Aeroplan program. Fiscal 2018 re-seller revenues are lower primarily reflecting the decline during Fiscal 2018 in merchant participation. The company processes issuance of aeroplan miles for an Aimia customer. This is the source of processing revenue. Fiscal 2018 processing revenues were 14.8% of program revenues compared to 4.2% of Fiscal 2017 program revenues.

Direct expenses

- CIBC/TD program. Direct costs include consumer rewards, marketing and advertising, provision for delinquencies on receivables. The Fiscal 2018 decline in cost of consumer rewards primarily reflects decline in merchant population and revenues. Decrease in marketing and advertising costs relative to merchant participation and revenues primarily reflects timing of marketing expenditures which vary in a fiscal year. Timing is driven by marketing needs of the merchant portfolio and the marketing calendars of Affinity partners.

- Aeroplan program. Fiscal 2018. The decline in consumer rewards reflects decline in re-seller revenues (which have direct expenses in the form of consumer rewards). Processing revenues do not attract direct expenses.

Gross profit

- CIBC/TD program. Improvement in gross margins of CIBC/TD and Aeroplan programs reflects lower direct expenses.

- The company gross profit was lower ($789,151) in Fiscal 2018 compared to Fiscal 2017 reflecting a decline in revenues of CIBC/TD and Aeroplan programs partially offset by higher program gross margins.

Selling and Marketing expenses

- Fiscal 2018. The company started to re-build its sales organization from middle of March 2017. The goal was to create a sales organization that would, post restructuring, enable a gradual and sustained growth in merchant count and revenues. The company expected to re-build the sales organization by end of May 2018 but it is expected to take a couple of iterations before the ideal team is in place. Expectation of completion during fiscal year ending June 30, 2019. Fiscal 2018 cost of the sales organization also reflects a company-wide salary reduction of between 10% and 20% implemented from mid-August 2017 and its partial reinstatement during the January – March 2018 quarter.

- Fiscal 2017. The development of the optimal sales team was held back due to deficiency of working capital and this hampered the company's ability to stabilize and re-build its merchant portfolio. In order to conserve resources during the low season, January to March, it was only towards the middle of March 2017 the company started to fill vacant positions, starting with hire of a VP of Sales. Due to the deficiency in working capital this re-building process took longer than expected and the company expects a delay in bounce back of merchant participation until the optimal sales team is in place and it has sufficient working capital to pre-purchase future sales from merchants wishing to enroll in the company's APM product.

General and Administration ("SG&A")

- *Compensation*

  a. Fiscal 2018 reflects company-wide salary reduction of between 10% and 20% implemented mid-August 2017;
  b. Fiscal 2018 also reflects a partial roll-back, from January 2018 onwards, of company-wide salary reduction of between 10% and 20% implemented mid-August 2017; and
  c. Restructuring of the organization to support a gradual and sustained growth in CIBC/TD program merchant count and related revenues. Restructuring in terms of 1. right size the headcount, and 2. create the optimal organization staffed with proven performers.

- *Severances*

Reflect provision for payments to ex-staff consequent to the restructuring of the organization. By June 30, 2018 the amounts payable stood at $57,000 (At June 30, 2017 $126,601).

- *Write-back of Directors Fees*

As part of the restructuring the directors agreed to forego a portion of their fees which were in arrears and take the balance over an extended period. The forgiven portion of fees is reflected in above tabulation.

- *Refund from CRA*

Fiscal 2018 reflects a refund of $102,028 (including interest of $10,846 which is reflected in Misc. revenue) by CRA. In December 2003 the company completed a tax assisted financing transaction with a promoter of the transaction whereby it raised funds from the sale of its tax losses. Subsequent to the transaction the CRA and tax payers participating in the promoter's structure were in dispute and while the company was not a party to the dispute its share of tax losses solely consequent to the transaction were disallowed and this resulted in nominal annual tax liability which the company settled. Upon resolution of the dispute the previously disallowed tax losses were partially allowed and this resulted in the refund.

➢ *All other expenses*

Fiscal 2017 reflect legal costs primarily connected to the company's efforts to refinance its 12% debentures and working capital. Fiscal 2018 reflects legal costs connected with merchant litigation.

Fiscal 2018 and Fiscal 2017 periods reflect focus on cost management.

Interest cost

Interest expense on loan payable reflects 1. utilization of funds under this line of credit facility, and 2. facility interest rate and the prime rate of Bank of Nova Scotia ("prime rate") which together determine the loan payable interest rate (see section Loan Payable in this document). Average month end utilization of loan payable was lower during Fiscal 2018 ($4,084,000) compared to Fiscal 2017 ($4,652,000). Effective January 1, 2018 the facility interest rate was reduced to 9.05% from the 11.5% which was applicable during Fiscal 2017. The increase in prime rate in August 2017, October 2017 and January 2018 resulted in increasing the loan payable interest rate. The impact of the foregoing factors are reflected in the loan payable interest cost.

On December 22, 2017 the company announced it re-financed the 12% debentures with the approval of existing holders of the 12% debentures. The 12% debentures were re-financed as units comprising 9% debentures and common shares of the company. The terms of the refinancing are as available in the section 9% Non-Convertible Debentures Payable in this document.

There was $400,000 of new investment in the 9% debentures.

Unless noted otherwise the above is reflected in the tabulation of interest expense:

	Fiscal 2018	Fiscal 2017	Inc./(Dec)
	$	$	%
Stated ("Cash") interest expense			
Loan payable	$ 619,256	$ 686,744	
12% debentures	295,123	618,227	
9% debentures	261,806	-	
9% debentures charges	7,000	-	
	$ 1,183,185	$ 1,304,971	-9.3%
Non-cash interest expense			
Restructuring bonus - 9% debentures	$ 129,924	$ -	
Accretion charge on 9% debentures (Fiscal 2018) and 12% debentures (Fiscal 2017)	$ 142,638	$ 60,227	
	$ 272,562	$ 60,227	
Total interest expense	**$ 1,455,747**	**$ 1,365,198**	**6.6%**

The company deployed the funds available to it under loan payable and debentures with merchants activated under its CIBC/TD program's APM product. The funds deployed are reflected as transaction credits on the consolidated statement of financial position. The funds available under the debentures were also used for other working capital purposes.

Non-recurring Item

Fiscal 2018. A gain on debt restructuring of $1,795,103 has been recognized on the refinancing. This consists of the book value of the 12% debentures of $5,864,299, including accrued interest and penalties, plus the cash proceeds on the refinancing of $400,000 less the fair value of the 9% debentures of $4,275,389 and financing costs of $193,807.

Net Profit/(Loss)

The above factors are reflected in profit of $1,224,298 for Fiscal 2018 compared to net loss of $1,206,347 for Fiscal 2017.

Cash and Working capital movement during Fiscal 2018

	Cash	Working capital
	$	$
As at July 1, 2017	**$ 367,357**	**$ (6,652,518)**
Movement during the year		
Income before non-cash expenses *	246,222	-
Change in non-cash working capital items	(324,833)	324,833
Financing activities - loan payable	(49,031)	49,031
Re-financing of debentures		5,159,000
Financing activities - 9% debentures	400,000	-
Investing activities	(3,879)	-
Change in cash balance	-	268,479
	$ 268,479	$ 5,801,343
As at June 30, 2018	**$ 635,836**	**$ (851,175)**

* Income before non-cash expenses is a non-GAAP financial measure which does not have any standardized meaning prescribed by the issuer's GAAP and is unlikely to be comparable to similar measures presented by other issuers. It is provided as additional information to assist readers in understanding a component of the company's financial performance; as it is the company's assessment of the cash generated from its operating activities prior to changes in working capital items. Income before non-cash expenses during Fiscal 2018 is arrived after adding back expenses not affecting cash - depreciation of property, plant and equipment, and amortization of intangible assets; accretion charge for debentures; restructuring bonus for debentures; and non-cash portion of gain on debt restructuring – to net profit for the year, which is disclosed in the audited consolidated financial statements for year ended June 30, 2019 and June 30, 2018 under the section consolidated statements of cash flow.

Summary of Quarterly Results

In millions of dollars, except per share amounts						
Fiscal 2019						
		Q1	Q2	Q3	Q4	Total
		Sep 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019	
		$	$	$	$	$
Revenues		1.8	1.8	1.4	1.1	6.1
% of annual revenues		29.5%	29.5%	23.0%	18.0%	100.0%
Net income/(loss)		-	-	(0.4)	(0.5)	(0.9)
Loss per share - Basic and Diluted		-	-	-	-	-
Fiscal 2018						
		Q1	Q2	Q3	Q4	Total
		Sep 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	
		$	$	$	$	$
Revenues		2.0	2.0	1.7	1.9	7.6
% of annual revenues		26.3%	26.3%	22.4%	25.0%	100.0%
Net income/(loss)		(0.2)	1.8	(0.1)	(0.3)	1.2
Profit/(Loss) per share - Basic and Diluted		-	0.1	-	-	-

The fluctuations in the company's quarterly revenues partially reflects seasonal consumer behavior at participating merchants , as well as the other factors described under section Revenue in this document.

The fluctuations in the company's quarterly results reflect revenues and the costs to earn the revenues.

Fourth Quarter of Fiscal 2019 (Q4 F2019) vs. Fourth Quarter of Fiscal 2018 (Q4 F2018)

Overview

The Q4 F2019 revenues and gross profit decline reflect the transition from CIBC/TD program to MCA program. The Selling & marketing and G&A reflect rightsizing of the costs to adjust and support the transition to MCA program. The higher stated interest reflects the higher utilization of loan payable to support the transition to MCA.

Tabulation of financial performance- Q4 F2019 vs. Q4 F2018

F2019						
	CIBC/TD program	MCA program	Aeroplan program	Caesars program	Corporate	Total
	$		$	$	$	$
Revenues	264,519	441,355	347,985	32	-	1,053,891
Direct expenses	139,208	-	212,344	53	-	351,605
Gross profit	125,311	441,355	135,641	(21)	-	702,286
Gross margin	47.4%	100.0%	39.0%	-65.6%		66.6%
Selling & marketing *	56,897	94,933	-	1,853	-	153,683
General & administrative						510,711
Earnings from operations before depreciation, amortization and interest						37,892
Stated interest						404,577
						(366,685)
Accretion charges and restructuring bonus						138,683
Depreciation and amortization						10,127
Net loss						(515,495)

F2018						
	CIBC/TD program	MCA program	Aeroplan program	Caesars program	Corporate	Total
	$	$	$	$	$	$
Revenues	1,533,761	-	408,874	7,030	-	1,949,665
Direct expenses	425,700	-	236,628	17,804	-	680,132
Gross profit	1,108,061	-	172,246	(10,774)	-	1,269,533
Gross margin	72.2%	0.0%	42.1%	-153.3%		65.1%
Selling & marketing	501,249	-	4,632	52,472	-	558,353
General & administrative						604,145
Earnings from operations before depreciation, amortization and interest						107,035
Stated interest						273,394
						(166,359)
Accretion charges and restructuring bonus						133,805
Depreciation and amortization						7,333
Net loss						(307,497)

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, 2019.

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 support growth of its MCA program, renewal of its agreement with Aeroplan which ended April 2020, 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 settlement accommodation with suppliers, and the estimated impact of Covid-19 to its business The company's audited consolidated financial statements for year ended June 30, 2019 carry a going concern note (Note 2).

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 the fair value of the 9% debentures. 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 CIBC/TD program's APM product the company acquired the rights to cash flow from future designated credit card transactions at a discount from participating merchants ("transaction credits" on consolidated statement of financial position).

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 180-365 days. Until these transaction credits have been extinguished through collections from participating merchants, there is a credit risk, and an increase in credit risk associated with the longer time frame approaching and/or exceeding 365 days. 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 merchant and the company's historical experience on recoveries.

For the unimpaired transaction credits the company estimates an expected loss based on historical loss rates. Recoveries are only recorded when objective verifiable evidence supports the change in the original provision.

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:

	June 30, 2019	June 30, 2018
	$	$
Transaction credits	$ 9,713,908	$ 5,668,489
Accounts receivable	115,550	117,322
Allowance	(244,829)	(81,063)
Per Consolidated statement of financial position	**$ 9,584,629**	**$ 5,704,748**
Maximum exposure to credit risk	**$ 9,584,629**	**$ 5,704,748**

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

	June 30, 2019	June 30, 2018
	$	$
Impaired transaction credits	$ 111,463	$ 74,630
Allowance	(105,616)	(66,559)
Impaired transaction credits not allowed for	**$ 5,847**	**$ 8,071**
The company carries a general allowance towards transaction credits of	$ 134,293	$ 9,504

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.

The number of employee stock options issuable per the Company's stock option plan is 16,688,546.

Movement during Fiscal 2019 and Fiscal 2018 is tabulated.

	Fiscal 2019	Fiscal 2018
	Number of options	
Outstanding at start of the year	-	1,490,000
Expired	-	(1,200,000)
Forfeited	-	(290,000)
Outstanding at end of the year	-	-

The number of stock options available for future issuance as at June 30, 2019 compared to June 30, 2018 is as follows:

	Fiscal 2019	Fiscal 2018
	Number of options	
Maximum number of shares reserved and available for issuance	16,688,546	16,688,546

There was no stock based compensation expense during Fiscal 2019 and 2018.

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 June 30, 2019.

Outstanding Share Data

As of June 30, 2019 and 2018 the number of issued and outstanding common shares of the company was 782,299,614.

Pursuant to the restructuring completed on December 22, 2017, which included the refinancing of the 12% debentures, the company issued 643,228,396 common shares. The 643,228,396 common shares comprised 601,728,396 issued pursuant to the refinancing and 41,500,000 common shares were issued as retention bonus to Chief Executive Officer (29,000,000 common shares) and Chief Financial Officer (12,500,000 common shares).

The number of common shares is provided by the company's transfer agent AST Trust Company (Canada).

Potentially Dilutive Securities

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

Related party transactions

Directors and Officers

In December 2017 the related parties holding 12% debentures were issued units comprising 9% debentures and common shares of the company, on terms and conditions applicable to the other holders of 12% debentures. The 12% debentures were purchased by the related parties on terms and conditions applicable to the other subscribers.

The holdings of debentures are tabulated.

	June 30, 2019	June 30, 2018
	$	$
	9% debentures	9% debentures
Director, Chief Executive Officer - K. Ambrose	$ 500,000	$ 500,000
Director - W.Polley - Chairman of the Board of Directors	50,000	50,000
Director - M. Lavine	500,000	500,000
Chief Financial Officer - M.Sabharwal	115,000	115,000
	$ 1,165,000	**$ 1,165,000**

W. Polley resigned from his position effective December 31, 2019.

Related parties holdings at June 30, 2019 represent about 24% of the company's issued and outstanding common shares.

Generation PMCA Corp and Generation IACP Inc. (together "Generation") [formerly Trapeze Capital Corp. and Trapeze Asset Management Inc.]

Generation is the principal shareholder of the company by virtue of their holding as of June 30, 2019 approximately 36% common shares of the company (as of February 29, 2020 approximately 37%) and approximately 49% of the 9% debentures (as of February 29, 2020 approximately 48%), on behalf of their managed accounts.

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% debentures which is the source of general working capital, the MCA program is dependent on the support of Accord which provides the loan payable enabling the company to use it to fund 90% of each $ of merchant cash advance, and Aeroplan agreement which was due to expire April 30, 2019 and was extended to April 30, 2020; the two parties continue to work while discussing future terms and direction.

The company was in default on its interest coverage financial coverage at June 30, 2019 and subsequent to year ended June 30, 2019 is in default on all its financial covenants. The company did not pay the interest of $250,155 due December 15, 2019 for the period June 16, 2019 to December 15, 2019. The company is in discussion with the primary holder of the 9% debentures who is also the primary shareholder of the company (see Section Related Parties for details) to obtain waivers to the events of default connected to payment of interest due December 15, 2019 and breach of financial covenants. The primary holder of the 9% debentures and common shares holds the position on behalf of its managed accounts, is acting as the security agent for all 9% debenture holders and has a decade + relationship with the company.

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

The Aeroplan agreement can be terminated by Air- Canada – owner of the Aeroplan Loyalty - under certain conditions during its term.

The company's audited consolidated financial statements carry a going concern note (Note 2). The note is also carried in the Working Capital and Liquidity Management Section in this document.

Covid-19 pandemic has created additional uncertainty to the company's business continuity and this could affect its relationships with Accord, holders of 9% debentures and Air-Canada.

General Risks and Uncertainties

As explained in the Section Economic Dependence the company's operations are funded by debt – loan payable and 9% debentures (see sections Loan Payable and 9% Non-Convertible Debentures Payable in this document). Both the partnerships are set-up for maturity/expiry in December 2021. The risks connected to the two sources of debt are explained in Section Economic Dependence.

To fund growth and thereby continue its current operations, 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 does not have the 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% debenture holders. The 9% 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% debentures agreement and, as a result, the 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% 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% debentures, the 9% debentures holders would have the right to realize upon a part or all of the security held by them. Consequently, general market conditions or the financial status of the company in terms of its profitability, cash flows and strength of its consolidated balance sheet 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. Any debt structure would need to recognize the general security interest over the company's assets held by the 9% debentures holders.

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 180-365 days. Until these transaction credits have been extinguished through collections from participating merchants, there is a credit risk, and an increase in credit risk associated with the longer time frame approaching and/or exceeding 365 days. 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 merchant and the company's historical experience on recoveries. Deterioration in either the credit environment or the company's monitoring processes and a resulting increase in bad debts would adversely impact the financial status of the company thereby affecting 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% 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% 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. As disclosed under the section Interest Expense in this document, for the year ended June 30, 2019, the company incurred interest expense of $796,782 on utilization of loan payable. Had the interest rate, for the year ended June 30, 2019, been 10% higher the interest expense on loan payable would have been $876,460, an increase of $79,678.

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, pricing and its go-to market strategy give it an ability to grow its MCA portfolio if it has access to growth capital.
Both competition and regulation, however carry the possibility of adversely affecting the company's 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 dependent on its agreement with Aeroplan, operator of Aeroplan Loyalty Program owned by Air-Canada. The current agreement ended April 30, 2020. The company believes it shall be able to secure a multi-year renewal.

The Aeroplan program the company develops and manages for Aeroplan 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 coronavirus 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 loyalty systems, 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.

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 will 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% debentures, Air-Canada; ability to attract growth capital in the form of either debt or equity; and continuity as a going concern. The company is exploring its eligibility to secure relief provided by various government programs but no assurance can be given on a successful outcome.

In addition to those factors noted above, 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 the MCA business is a growth industry; belief it has a competitive MCA product; belief it can growth its MCA portfolio provided it has growth capital available to it; belief it has a scale-able and profitable MCA business mode; belief it has the ability to manage delinquencies at Fiscal 2019 levels during growth mode; belief it has the support of its current providers of capital; belief merchant participation is primary driver of growth across all programs; belief that timely and economic access to growth capital alone is adequate for growth of the business and achieve financial stability; belief it offers an attractive opportunity for investors; expectation of time-line to recovery, financial stability and providing value to 9% debenture holders and shareholders; belief it can pass on a portion of any significant adverse interest rate movement on its loan payable to merchants; belief it will be able to secure a multi-year renewal of its agreement with Aeroplan; belief Aeroplan program gives it a competitive advantage in MCA space; expectation of capital expenditures during fiscal year ending June 30, 2020; belief capital expenditure needs are better served by leasing and using could vs. purchasing; 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% debentures; renewal of its agreement with Aeroplan and 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 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, and may also be obtained by request by telephone or facsimile or at the company’s website at www.advantex.com.

® ADVANTEX and ® ADVANCE PURCHASING MARKETING are Registered Trademarks of Advantex Marketing International Inc.

® Aeroplan is a Registered Trademark of Aeroplan Inc.

ADVANTEX MARKETING INTERNATIONAL INC.
CONSOLIDATED FINANCIAL STATEMENTS
For the years ended June 30, 2019, and June 30, 2018

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To Our Shareholders:

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 the Annual Report for year ended June 30, 2019.

The company maintains appropriate processes to ensure that relevant and reliable financial information is produced. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) using the accounting policies described therein. The significant accounting policies which management believes are appropriate for the company are described in note 4 to the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing management's performance of its financial reporting responsibilities. An Audit Committee, whose membership currently consists of two members, a non-management Director, and President & CEO, is appointed by the Board. The Audit Committee reviews the consolidated financial statements, adequacy and internal controls, the audit process and financial reporting with management and the external auditors. The Audit Committee reports to the Directors prior to the approval of the audited consolidated financial statements for publication.

BDO Canada LLP, the company's external auditors, audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express their opinion on the consolidated financial statements.

(Signed) – "Kelly E. Ambrose"	(Signed) - "Mukesh Sabharwal"
Kelly E. Ambrose President and Chief Executive Officer	Mukesh Sabharwal V.P. and Chief Financial Officer

Tel: 905 946 1066
Fax: 905 946 9524
www.bdo.ca

BDO Canada LLP
60 Columbia Way, Suite 300
Markham ON L3R 0C9 Canada

To the Shareholders of Advantex Marketing International Inc.

Opinion

We have audited the consolidated financial statements of Advantex Marketing International Inc. (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2019 and 2018, and the consolidated statements of profit/(loss) and comprehensive profit/(loss), shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company has current liabilities in excess of current assets of $6,282,357 as at June 30, 2019 and, as of that date, had an accumulated deficit of $34,840,656. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainties exists that casts significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

(signed) BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
May 21, 2020

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

	Note	June 30, 2019 $	June 30, 2018 $
Assets			
Current assets			
Cash and cash equivalents		$ 119,636	$ 635,836
Accounts receivable	11 a	110,630	112,322
Transaction credits	11 a	9,473,999	5,592,426
Prepaid expenses and sundry assets		52,232	79,349
		$ 9,756,497	**$ 6,419,933**
Non-current assets			
Property, plant and equipment	5	$ 15,255	$ 43,969
		$ 15,255	**$ 43,969**
Total assets		**$ 9,771,752**	**$ 6,463,902**
Liabilities			
Current liabilities			
Loan payable	6	$ 8,416,076	$ 4,427,390
Accounts payable and accrued liabilities		2,526,829	2,843,718
9% Non-convertible debentures payable	7	5,095,949	-
		$ 16,038,854	**$ 7,271,108**
Non-current liabilities			
9% Non-convertible debentures payable	7	$ -	$ 4,547,951
		$ -	**$ 4,547,951**
Total liabilities		**$ 16,038,854**	**$ 11,819,059**
Shareholders' deficiency			
Share capital	8	$ 24,530,555	$ 24,530,555
Contributed surplus		4,090,382	4,090,382
Accumulated other comprehensive loss		(47,383)	(47,383)
Deficit		(34,840,656)	(33,928,711)
Total deficiency		**$ (6,267,102)**	**$ (5,355,157)**
Total liabilities and deficiency		**$ 9,771,752**	**$ 6,463,902**

Going concern (note 2), Commitments and contingencies (note 13)

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 Profit/(Loss) and Comprehensive Profit/(Loss)
For the years ended June 30, 2019 and 2018
(expressed in Canadian dollars)

	Note	2019	2018
		$	$
Revenues	17		
Marketing activities		$ 4,710,413	$ 6,509,756
Interest income		1,390,117	1,077,001
		6,100,530	**$ 7,586,757**
Direct expenses	16/17	1,566,874	2,374,970
		4,533,656	5,211,787
Operating expenses			
Selling and marketing	16/17	1,329,303	1,881,386
General and administrative	16/17	2,241,285	2,412,486
Earnings from operations before depreciation, amortization and interest		**963,068**	**917,915**
Interest expense:			
Stated interest expense - loan payable, and debentures	6/7	1,297,092	1,183,185
Non-cash interest expense (accretion charges) and restructuring bonus related to debentures	7	547,998	272,562
		(882,022)	(537,832)
Depreciation of property, plant and equipment, and amortization of intangible assets	5	29,923	32,973
(Loss) and comprehensive (loss) before non-recurring item		**$ (911,945)**	**$ (570,805)**
Gain on debt restructuring	7	$ -	$ 1,795,103
Net profit/(loss) and comprehensive profit/(loss)		**$ (911,945)**	**$ 1,224,298**
Profit/(Loss) per share			
Basic and Diluted	15	**$ -**	**$ -**

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

Advantex Marketing International Inc.
Consolidated Statements of Changes in Shareholders' Deficiency
For the years ended June 30, 2019 and June 30, 2018
(expressed in Canadian dollars)

	Class A preference shares	Common shares	Contributed surplus	Accumulated other comprehen - sive loss	Deficit	Total
	$	$	$	$	$	$
Balance - July 1, 2017	**$ 3,815**	**$ 24,526,740**	**$ 4,090,382**	**$ (47,383)**	**$ (35,153,009)**	**$ (6,579,455)**
Net profit and comprehensive profit	-	-	-	-	1,224,298	1,224,298
Balance - June 30, 2018	**$ 3,815**	**$ 24,526,740**	**$ 4,090,382**	**$ (47,383)**	**$ (33,928,711)**	**$ (5,355,157)**
Balance - July 1, 2018	**$ 3,815**	**$ 24,526,740**	**$ 4,090,382**	**$ (47,383)**	**$ (33,928,711)**	**$ (5,355,157)**
Net (loss) and comprehensive (loss)	-	-	-	-	(911,945)	(911,945)
Balance - June 30, 2019	**$ 3,815**	**$ 24,526,740**	**$ 4,090,382**	**$ (47,383)**	**$ (34,840,656)**	**$ (6,267,102)**

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

Advantex Marketing International Inc.
Consolidated Statements of Cash Flow
For the years ended June 30, 2019 and 2018
(expressed in Canadian dollars)

	Note	June 30, 2019	June 30, 2018
		$	$
Operational activities			
Net profit/(loss) for the year		$ (911,945)	$ 1,224,298
Adjustments for:			
Depreciation of property, plant and equipment, and amortization of intangible assets	5	29,923	32,973
Accretion charge for debentures	7	299,714	142,638
Restructuring bonus for debentures	7	248,284	129,924
Non-cash portion of gain on debt restructuring	7	-	(1,283,611)
		(334,024)	246,222
Changes in items of working capital			
Accounts receivable		1,692	68,195
Transaction credits		(3,881,573)	(42,714)
Inventory		-	35,038
Prepaid expenses and sundry assets		27,117	3,064
Accounts payable and accrued liabilities		(316,889)	(388,416)
		(4,169,653)	(324,833)
Net cash (used in) operating activities		**$ (4,503,677)**	**$ (78,611)**
Investing activities			
Purchase of property, plant and equipment, and intangible assets		$ (1,209)	$ (3,879)
Net cash (used in) investing activities		**$ (1,209)**	**$ (3,879)**
Financing activities			
Proceeds - 9% Non-convertibles debentures	7	$ -	$ 400,000
Increase/(Decrease) of loan payable	6	$ 3,988,686	$ (49,031)
Net cash generated from financing activities		**$ 3,988,686**	**$ 350,969**
Increase/(Decrease) in cash and cash equivalents during the year		**$ (516,200)**	**$ 268,479**
Cash and cash equivalents at beginning of the year		635,836	367,357
Cash and cash equivalents at end of the year		**$ 119,636**	**$ 635,836**
Additional information			
Interest paid		$ 1,046,810	$ 859,720
Cash and cash equivalents		$ 119,636	$ 635,836

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). The company operated its CIBC/TD program in partnership with Canadian Imperial Bank of Canada ("CIBC") and Toronto Dominion Bank ("TD"). The CIBC/TD program was the company's core business until the end of the company's partnership with CIBC on March 31, 2019 and TD on June 15, 2019. The company developed and managed loyalty programs for CIBC and TD and through which their customers earned frequent flyer miles or points on purchases at participating merchants. Under the program the company provided participating merchants with marketing and customer incentives. At its sole discretion the company pre-purchased merchants' future sales through its Advance Purchase Marketing (APM) product.

During year ended June 30, 2019 the company started to transition merchants participating in the CIBC/TD program to its merchant cash advance program. In this program the company provides merchants' with working capital through pre-purchase, at a discount, of merchants' future receivables.

The company has an agreement with Air Canada ("AC") to operate as a re-seller of aeroplan miles to merchants. Aeroplan members are eligible to earn aeroplan miles on purchases at merchants buying aeroplan miles from the company. The five year term of the agreement ended April 30, 2019 and was extended to April 30, 2020; the two parties continue to work 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 17.

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 in the normal course 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 $6,267,102 and negative working capital of $6,282,357 as at June 30, 2019. The company is also in breach of its covenants on its debentures (note 7). Also, due to the termination of its agreements with CIBC and TD described above as well as the potential financial impact from COVID-19 there is uncertainty surrounding the company's ability to generate cash flows sufficient to meet its operational needs including payments to its suppliers and payment of interest on the 9% debentures. These material uncertainties cast significant doubt on the validity of the going concern assumption and 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 consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These 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 21, 2020.

Accounting standards issued but not yet applied

The IASB has issued the following applicable standards which have not yet been adopted by the company.

IFRS 16, Leases

In January 2016, IASB issued IFRS 16, Leases which replaces IAS 17, Leases, IFRIC 4, Determining whether an Agreement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 will be effective for the company's fiscal year beginning on July 1, 2019. Management expects the adoption of IFRS 16 to result in a material adjustment to its financial statements to recognize the asset and lease obligation related to the lease of its premises.

4 Summary of significant accounting policies

The significant policies used in the preparation of these consolidated financial statements are described below.

Basis of measurement
The consolidated financial statements have been prepared under the historical cost convention.

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing the performance of the operating segments and has been identified as the Chief Executive Officer of the company. The company has four operating segments (note 17).

Significant estimation uncertainties
The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. These significant estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities.

Significant estimates used in the preparation of these consolidated financial statements include, but are not limited to the recoverability of transaction credits, determining the initial fair value of the 9% debentures, and the disclosure of contingent liabilities at the date of the consolidated financial statements, which are described hereunder.

Transaction credits
The company reviews transaction credits quarterly for indication of the amounts that might be impaired. A significant amount of estimation is applied in determining allowance for transaction credits, which is established based on the specific credit risk associated with the customer and other relevant information.

The net realizable amount of transaction credits is disclosed in note 11 a.
9% debentures

A significant amount of estimation was applied to the evaluation of the initial fair value of the 9% debentures in fiscal 2018. Estimates applied by management in the determination of fair value were reflective of the company's overall cost of equity capital.

Basis of consolidation

The financial statements of the company consolidate the accounts of Advantex and its wholly owned subsidiaries including Advantex Dining Corporation, Advantex Marketing Corporation, Advantex Marketing International Inc. (US), Advantex Marketing International (Maryland) Inc., 1600011 Ontario Limited, Advantex Systems Limited Partnership, Advantex GP Inc. and Advantex Smartadvance Inc.

All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each consolidated entity in the Advantex group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the functional currency of each of the entities in the Advantex group.

(ii) Translation of transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the consolidated statements of financial position date. Non-monetary assets and liabilities, expenses and other income arising from foreign currency transactions are translated at the approximate exchange rate in effect at the date of the transaction. Exchange gains or losses arising from the translation are included in the determination of income in the current year. The foreign currency loss for year ended June 30, 2019 is $2,347 (June 30, 2018 loss of $6,073).

Cash and cash equivalents

Cash and cash equivalents represent cash on hand.

Financial instruments

Financial assets and liabilities are recognized when the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following categories: amortized cost, fair value through profit or loss, or fair value through other comprehensive income. The Company does not have any assets recorded at fair value through other comprehensive income.

Amortized cost

These assets arise principally from the provision of goods and services to customers, but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely the payments of principal and interest. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issues, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions for transaction credits is determined based on the company' assessment of the collectability of outstanding transaction credits using the simplified approach as prescribed by IFRS 9. The evaluation of collectability of transaction credits is done on an individual customer basis. For the unimpaired transaction credits the company estimates an expected loss based on historical loss rates. Recoveries are only recorded when objective verifiable evidence supports the change in the original provision.

The Company's financial assets measured at amortized cost comprise cash and cash equivalents, accounts receivable and transaction credits.

Financial liabilities

The Company's liabilities are classified as Other financial liabilities and include the following items:
Loan payable and 9% Non-convertible debentures payable are initially recognized at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position.

Accounts payable and accrued liabilities which are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

Transaction credits
While it operated the CIBC/TD program the company purchased at a discount the rights to receive future cash flows associated with designated credit card purchases from participating establishments. Under the merchant cash advance product the company purchases at a discount the rights to receive future cash flows associated with receivables from participating establishments. The company continuously reviews its transaction credits and records an estimated allowance for amounts deemed uncollectible.

Inventory
Inventory is stated at the lower of cost and net realizable value. Cost is determined using the first in, first out (FIFO) method. Net realizable value is the estimated selling price less applicable selling expenses.

Cost is the purchase price paid by the company.

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statement of income (loss) during the period in which they are incurred.

The major categories of property, plant and equipment are depreciated as follows:

Computer equipment	30% using declining balance method
Furniture and equipment	20% using declining balance method
Leasehold Improvements	Over the life of the lease

Residual values, methods of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the consolidated statement of income (loss).

Identifiable intangible assets
The company's intangible assets consist of:

(i) computer software with finite useful lives. These assets include those purchased from external vendors in which case they are capitalized and amortized on a straight-line basis in the consolidated statement of income over 3-5 years, and those developed in-house to support the company's loyalty programs in which case they are capitalized and amortized over their useful life or the term of the affinity partner agreement, whichever is shorter;

(ii) other assets which represents cost of an acquisition the company completed in January 2013. The company acquired all of Futura Loyalty Group Inc.'s ("Futura") Aeroplan Channel Marketing assets ("assets") as per Futura's restructuring under the Companies' Creditors Arrangement Act. Other assets consisted of Futura's (i) channel program agreement with Aeroplan; (ii) agreements with merchants covering about 700 locations, and (iii) inventory of point of purchase and marketing material. The assets are amortized on a straight-line basis over the expected useful life covering 47 months through December 2016.

Impairment of non-financial assets
Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generated units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The impairment loss, if any, is charged to the consolidated statements of income (loss) and comprehensive income (loss) in the year it arises. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Non-convertible debentures
The non-convertible debentures described in note 7 were issued as units which included debt and common shares. The proceeds received upon issue of the non-convertible debentures are allocated into their liability and equity components on initial recognition in accordance with IAS 32, Financial Instruments: Presentation. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include common shares. Subsequently, the debt component is accounted for as a financial liability measured at amortized cost until extinguished on maturity. The remainder of the proceeds is allocated to the common shares within shareholders' deficiency.

To the extent there are changes to the terms of the outstanding non-convertible debentures these changes may be recorded as a modification or an exchange of debt instruments. A substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

Provisions
Provisions for legal claims, where applicable, are recognized in other liabilities when the company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Income taxes
Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of income (loss) except to the extent that it relates to items recognized directly in other comprehensive income (loss) or directly in equity, in which case the income tax is also recognized directly in other comprehensive income (loss) or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated statement of financial position date and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred income tax assets and liabilities are presented as non-current.

Revenue

Revenue is recognized using the five step model prescribed by IFRS 15.

CIBC/TD program

Step 1: Identifying the contract

The company's contracts with participating merchants identify the terms, rights and obligations of each party, and payment terms. Before recognizing revenue the company reviews merchants' status to ensure that it is probable that the company will collect the consideration in exchange for the services as stated in the contract.

Step 2: Identifying performance obligations

The company provides marketing services to participating establishments and provides awards to designated customers who make purchases at participating establishments.

There are two types of products provided to participating merchants:

(i) Under its APM product the company provides marketing and loyalty services, and also provides working capital through the pre-purchase of merchants' future designated credit card sales. With this product the company acquires the rights to future designated credit card transactions at a discount from the face value from participating establishments.

(ii) Under its Marketing Only product, the company provides marketing and loyalty services to participating establishments.

Step 3: Identifying the transaction price

Both the APM and Marketing Only contracts state the fee that the merchant will pay to the company. The fee is a percentage of purchases at merchants paid for the merchant's customers using their CIBC and TD aeroplan credit cards.

Step 4: Allocating the transaction price to performance obligations

The Marketing Only product provides a single product, loyalty marketing for a single fee rate.

APM product provides two products, loyalty marketing and working capital for a single fee rate. The company uses directly observable data to estimate allocation of transaction price to performance obligations. Pursuant to IFRS 9 the revenue related to working capital is treated as interest income.

Step 5: Recognizing revenue upon satisfaction of performance obligations

Per the contract terms the company earns its revenue in the form of fee as and when customers complete purchases at participating merchants using their CIBC and TD aeroplan credit cards.

Aeroplan program

Step 1: Identifying the contract

The company's contracts with participating merchants identify the terms, rights and obligations of each party, and payment terms. Before recognizing revenue the company reviews merchants' status to ensure that it is probable that the company will collect the consideration in exchange for the services as stated in the contract.

Step 2: Identifying performance obligations

The company sells aeroplan miles to merchants and this gives merchants the ability to reward aeroplan miles to their eligible customers.

Step 3: Identifying the transaction price

The contract identifies the price a merchant will pay for each aeroplan mile.

Step 4: Allocating the transaction price to performance obligations

The company provides a single product.

Step 5: Recognizing revenue upon satisfaction of performance obligations

Per the contract terms the company earns its revenue when a merchant purchases an aeroplan mile.

Merchant Cash Advance ("MCA") program

Per the contract terms the company earns its revenue as it collects against the pre-purchased receivables. The collection is specified in the contract and could be either once or twice a week. Pursuant to IFRS 9 the company treats the revenue as interest income.

Share capital
Common shares, and preference shares are classified as equity. Incremental costs directly attributable to the issuance of common shares or preference shares are recognized as a deduction from equity. Share capital is described in note 8 to these consolidated financial statements.

Stock option plan
The company has a stock option plan which is described in note 9 a. The company uses the Black-Scholes option pricing model to determine the fair value of stock options and expenses the fair value over the estimated vesting periods. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest. Any consideration paid by employees or directors on the exercise of stock options is credited to share capital together with any previously recognized compensation expense in contributed surplus.

Restricted Share Unit Plan
The company has a restricted share unit plan which is described in note 9 b.

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

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. As at June 30, 2019 and 2018 the company did not have any outstanding stock options or restricted share grants.

5 Property, plant and equipment

	Computer equipment	Furniture and equipment	Leasehold Improvements	Total
	$	$	$	$
Year ended June 30, 2018				
Opening net book value	$ 44,682	$ 27,460	$ -	$ 72,142
Additions during the year	$ 2,342	$ 1,537	$ -	$ 3,879
Depreciation for the year	$ 26,375	$ 5,677	$ -	$ 32,052
Closing net book value	$ 20,649	$ 23,320	-	$ 43,969
At June 30, 2018				
Cost	**$ 414,641**	**$ 161,626**	**$ 31,874**	**$ 608,141**
Accumulated depreciation	**$ 393,992**	**$ 138,306**	**$ 31,874**	**$ 564,172**
Year ended June 30, 2019				
Opening net book value	$ 20,649	$ 23,320	$ -	$ 43,969
Additions during the year	$ 2,809	$ -	$ -	$ 2,809
Disposal	$ -	-$ 1,600	$ -	-$ 1,600
Depreciation for the year	$ 16,827	$ 13,096	$ -	$ 29,923
Closing net book value	$ 6,631	$ 8,624	$ -	$ 15,255
At June 30, 2019				
Cost	**$ 417,450**	**$ 160,026**	**$ -**	**$ 577,476**
Accumulated amortization	**$ 410,819**	**$ 151,402**	**$ -**	**$ 562,221**

Amortization charge for intangible assets for year ended June 30, 2019 was $nil (2018 - $921. The computer software was fully amortized).

6 Loan payable

	June 30, 2019	June 30, 2018
	$	$
Balance at start of year	**$ 4,427,390**	**$ 4,476,421**
Increase/(Decrease) in borrowing	3,988,686	(49,031)
Balance at end of year	**$ 8,416,076**	**$ 4,427,390**

The Loan payable is a line of credit facility provided by Accord Financial Inc. ("Accord"), and was established in December, 2007. The Loan payable 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.

On January 4, 2018, the term of the Loan payable facility was renewed for a term ending 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.

During the renewal term, the interest rate is equivalent to the prime rate of a certain Canadian bank plus 9.05%. Prior to the renewal the interest rate was the prime rate plus 11.5%. In addition, effective December 29, 2017, Accord decreased the rate of co-funding in the arrangement from 15% to 10%. That is, Accord funds 90% of each dollar of transaction credits acquired by the company and the company funds 10%. The company is responsible for all delinquencies on amounts due from establishments funded from the loan payable.

The facility limit is $8.5 million. In May 2019 Accord increased the limit to $9.2 million for a 45 day period ending June 28, 2019 to ease the company's transition of merchants' to merchant cash advance product following wind-down of the CIBC/TD program (Note 1)

The total interest cost during the year ended June 30, 2019 was $796,782 (2018 $619,256).

7 9% Non-convertible debentures payable

In a prior year, the company issued 12% non-convertible debentures payable ("12% debentures") with a maturity date of December 31, 2017.

In December, 2017 the company re-financed the 12% debentures. The terms of the refinancing were as follows:

1. Holders of existing 12% debentures were issued, on dollar for dollar basis, 9% non-convertible debentures payable ("9% debentures") with a maturity date of December 31, 2021;
2. The 9% debentures bear interest of 9% per annum payable semi-annually;
3. Cancelation of accrued and unpaid interest on 12% debentures for period January 1, 2017 to December 21, 2017;
4. Cancelation of penalty of $103,180 payable to holders of 12% debentures;
5. Restructuring bonus payment of $180 for each $1,000 of 9% debentures payable on December 31, 2021; and
6. 108,244 common shares of the company for each $1,000 of 9% debentures.

The 9% debentures and common shares were issued as units. The company issued 5,559 units consisting of principal amount of $5,559,000 9% debentures and 601,728,396 common shares of the company.

The units were issued as follows:

3. Principal amount of $5,159,000 9% debentures and 558,430,796 common shares of the company issued to holders of 12% debentures; and

4. Principal amount of $400,000 new investment in 9% debentures and 43,297,600 common shares of the company.

The refinancing was considered a transaction with original debtholders in their capacity as debtholders and accounted for as an exchange of the original debt for units of 9% debentures and common shares. The value of the 9% debentures and common shares was determined as the amount required to extinguish the original loan, with the difference resulting in a gain on the exchange of the debt. The fair value of the 9% debentures issued was determined to be $4,275,389 based on a discounted cash flow of the interest and principal obligations of the 9% debentures. The common shares were valued at $nil based on the estimated market value of the common shares at the date of the refinancing. As a result, a gain of $1,795,103 was recognized on the refinancing. The gain consisted of the book value of the 12% debentures of $5,864,299, including accrued interest and penalties, plus the cash proceeds on the refinancing of $400,000 less the fair value of the 9% debentures of $4,275,389 and financing costs of $193,807.

Movement on 9% debentures

		Debt portion
		$
Fair value of 9% debentures on issuance	$	4,275,389
Restructuring bonus - due 2021 - charge for the year	$	129,924
Accretion charge for the year	$	142,638
Balance at June 30, 2018	**$**	**4,547,951**
Restructuring bonus - due 2021 - charge for the year	$	248,284
Accretion charge for the year	$	299,714
Balance at June 30, 2019	**$**	**5,095,949**

The 9% debentures are secured by a general security interest over the assets of the company and its subsidiaries. The 9% debentures require the company to meet financial covenants. The significant financial covenants of the 9% debentures require the company to meet, on a quarterly basis, (i) a defined level of designated current assets, and (ii) a defined level of interest coverage. The company is also required to meet a defined level of designated assets supported by a third party valuation every 60 days.

The company was in default on its interest coverage financial coverage at June 30, 2019 and subsequent to year end. As a result the 9% debentures have been classified as a current liability.

In addition, the company did not pay the interest due June 15, 2019 for the period December 16, 2018 to June 15, 2018. The company obtained a waiver to this event of default on June 21, 2019. As compensation, the company agreed to issue an aggregate of 75 million fully paid common shares to the debentures holders to be distributed on a pro-rata basis of the principal amount of the 9% debentures held by each holder, prior to July 15, 2019. The company issued the fully paid common shares on July 10, 2019. The common shares were valued at $nil based on the estimated market value of the common shares at the date of the agreement.

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

	Year ended June 30, 2019			Year ended June 30, 2018		
	Cash Interest	Restructuring bonus	Accretion charge	Cash Interest	Restructuring bonus	Accretion charge
	$	$	$	$	$	$
12% debentures	$ -	$ -	$ -	$ 295,123	$ -	$ -
9% debentures	500,310	248,284	299,714	261,806	129,924	142,638
Fees - 9% debentures	-	-	-	7,000	-	-
Total	**$ 500,310**	**$ 248,284**	**$ 299,714**	**$ 563,929**	**$ 129,924**	**$ 142,638**

8 Share capital

(a) Authorized

Class A preference – 500,000 shares without par value, non-voting, non-participating, redeemable at the company's option (at an amount not exceeding the per-share stated capital amount and any dividends declared but not paid), 8% (of stated capital amount) non-cumulative dividend rate.

Class B preference – Unlimited number of shares, without par value, issuable in series with rights, privileges, restrictions and conditions determined by the Board of Directors at time of issue.

Class C preference - 125,000 shares without par value, non-voting, non-participating, redeemable at the option of either the holder or the company (at an amount not exceeding the per-share stated capital amount and any dividends declared but not paid), 8% (of stated capital amount) non-cumulative dividend rate.

Common – Unlimited number of shares without par value.

(b) Issued Class A preference shares

	Number of shares	$
No par value. At June 30, 2019 and 2018	461,887	$ 3,815

(c) Issued common shares

	Number of shares	$
No par value. At June 30, 2018	782,299,614	$ 24,526,740
No par value. At June 30, 2019	782,299,614	$ 24,526,740

During year ended June 30, 2018 pursuant to the restructuring completed on December 22, 2017 (Note 7), the company issued 643,228,396 common shares. The 643,228,396 common shares comprised 601,728,396 issued pursuant to the refinancing and 41,500,000 common shares were issued as retention bonus to Chief Executive Officer (29,000,000 common shares) and Chief Financial Officer (12,500,000 common shares).

9 Share-based payments

a. Employee 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 Canadian Securities Exchange regulations), 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. All stock options are equity settled. The stock options are subject to various vesting provisions, determined by the Board of Directors, ranging from immediately to four years.

The number of employee stock options issuable per the company's stock option plan is 16,688,546.

Movement on stock option plan:

	Number of employee stock options	Weighted average exercise price - $
Outstanding at July 1, 2017	**1,490,000**	**0.050**
Forfeited	(290,000)	0.050
Expired	(1,200,000)	0.050
Outstanding at June 30, 2018 and 2019	-	
Exercisable at June 30, 2018	-	-
Exercisable at June 30, 2019	-	-

The company has recorded $nil of stock-based compensation expense during year ended June 30, 2019 (2018 - $nil).

b. Restricted Share Unit Plan

On December 18, 2017, the Board of Directors ("Board") authorized the creation of a restricted share unit plan (the "RSU Plan"), pursuant to which the Board may grant restricted share units (the "RSUs") to eligible persons. The eligible persons are directors, officers, employees and consultants of the company designated by the Board. 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 June 30, 2019 and 2018.

c. Potentially Dilutive Securities

No potentially dilutive securities exist as at June 30, 2019 and 2018.

d. Retention bonus

As discussed above in Note 8 c, in December 2017, 41,500,000 common shares were issued as retention bonuses to the Chief Executive Officer (29,000,000 common shares) and Chief Financial Officer (12,500,000 common shares). The fair value of the common shares at that time was determined to be nominal.

10 Related party transactions

Directors and Officers

In December 2017 the related parties holding 12% debentures were issued units comprising 9% debentures and common shares of the company (notes 7), on terms and conditions applicable to the other holders of 12% debentures. The holdings of debentures are tabulated below. The 12% debentures were purchased by the related parties on terms and conditions applicable to the other subscribers.

The holdings of debentures by related parties are tabulated:

	June 30, 2019	June 30, 2018
	$	$
	9% debentures	9% debentures
Director, Chief Executive Officer - K. Ambrose	$ 500,000	$ 500,000
Director - W.Polley - Chairman of the Board of Directors	50,000	50,000
Director - M. Lavine	500,000	500,000
Chief Financial Officer - M.Sabharwal	115,000	115,000
	$ 1,165,000	**$ 1,165,000**

Generation PMCA Corp and Generation IACP Inc. (together "Generation") [formerly Trapeze Capital Corp. and Trapeze Asset Management Inc.]

Generation is the principal shareholder of the company by virtue of their holding as of June 30, 2019 approximately 36% common shares of the company (as of February 29, 2020 approximately 37%) and approximately 49% of the 9% debentures (as of February 29, 2020 approximately 48%), on behalf of their managed accounts.

Key management includes the company's directors and members of the Executive Committee. The members of the Executive Committee are the Chief Executive Officer and Chief Financial Officer. Compensation awarded to key management included:

	Year ended June 30, 2019	**Year ended June 30, 2018**
	$	**$**
Salaries, management bonuses and directors fees	528,995	352,617
Share based compensation – Retention bonus (note 9 d) – nominal value	-	-
	$528,995	**$352,617**

11 Financial instruments

(a) Credit risk

Credit risk is the risk of financial loss to the company if a customer fails to meet its contractual obligations. The company, in the normal course of business, is exposed to credit risk on its accounts receivable and transaction credits from customers. The company generally acquires the rights to receive future cash flows associated with either designated credit card purchases under the CIBC/TD program or receivables under the merchant cash advance product at a discount from participating establishments ("transaction credits"). These transaction credits are estimated to be fully extinguishable within 365 days. Accounts receivable and transaction credits are net of applicable allowance, which is established based on the specific credit risk associated with the customer and other relevant information.

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

For the unimpaired transaction credits the company estimates an expected loss based on historical loss rates. Recoveries are only recorded when objective verifiable evidence supports the change in the original provision.

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

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

	June 30, 2019	June 30, 2018
	$	$
Transaction credits	$ 9,713,908	$ 5,668,489
Accounts receivable	115,550	117,322
Allowance	(244,829)	(81,063)
Per Consolidated statement of financial position	**$ 9,584,629**	**$ 5,704,748**
Maximum exposure to credit risk	**$ 9,584,629**	**$ 5,704,748**

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

	June 30, 2019	June 30, 2018
	$	$
Impaired transaction credits	$ 111,463	$ 74,630
Allowance	(105,616)	(66,559)
Impaired transaction credits not allowed for	**$ 5,847**	**$ 8,071**
The company carries a general allowance towards transaction credits of	$ 134,293	$ 9,504

Movement on allowance for impaired transaction credits

	June 30, 2019	June 30, 2018
	$	$
Balance brought forward at start of year	**$ 76,063**	**$ 529,160**
Allowance created during the year	294,132	312,888
Impaired accounts written off against allowance	(130,286)	(765,985)
Balance carried forward at end of year	**$ 239,909**	**$ 76,063**

(b) Currency risk

Currency risk arises due to fluctuations in foreign currency rates.

Until December 2018 the company operated the Caesars program in the US through its subsidiary Advantex Marketing International (Maryland) Inc. The subsidiary carried accounts receivables and accounts payable that were denominated in US dollars. The accounts receivable and accounts payable balances were nominal.

Included in the undernoted accounts are the following amounts (in USD):

	June 30, 2019 $	June 30, 2018 $
Cash and cash equivalents	510	4,045
Accounts receivable	-	2,782
Accounts payable and accrued liabilities	5,879	10,498

(c) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity when operational obligations, comprising payroll; accounts payable; interest payable; and capital expenditures, are due.

The company deploys available funds to merchants under its merchant cash advance product, which are disclosed as transaction credits on the consolidated statements of financial position.

The contractual maturities of the company's financial liabilities at June 30, 2019 are as follows:

	Total $	Payable within 1 year $	Payable after 1 year – 3 years $
Loan payable – (note 6)	$8,416,076	$8,416,076	$$-
Accounts payable and accrued liabilities	2,526,829	2,526,829	-
9% debentures – face amount – maturing December 31, 2021 (note 7)	5,559,000		5,559,000
9% debentures cash interest (note 7)	1,522,399	771,934	750,465
9% debentures restructuring bonus (note 7)	1,000,620	-	1,000,620
Total	$19,024,924	$11,714,839	$7,310,085

The contractual maturities of the company's financial liabilities at June 30, 2018 are as follows:

	Total $	Payable within 1 year $	Payable after 1 year – 3 years $
Loan payable (note 6)	$4,427,390	$4,427,390	$-
Accounts payable and accrued liabilities	2,843,718	2,843,718	-
9% debentures – face amount – maturing December 31, 2021 (note 7)	5,559,000	-	5,559,000
9% debentures interest (note 7)	1,751,085	500,310	1,250,775
9% debentures restructuring bonus (note 7)	1,000,620	-	1,000,620
Total	$15,581,813	$7,771,418	$7,810,395

(d) Fair value

The company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

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

The 9% debentures were recognized at fair value on initial recording and are now reflected at amortized cost in the consolidated financial statements. A significant amount of estimation was applied in evaluation of the initial fair value of the 9% debentures. Estimates applied by management in the determination of fair value are reflective of the company's overall cost of equity capital. The carrying value of the 9% debentures reflect their fair value. The fair value is a level 3 determination.

(e) Interest rate risk

The company's activities are funded by two sources of debt; the non-convertible debentures (note 7) which have fixed interest rates, and the loan payable (note 6) which carries a floating interest rate. While the company is not exposed to interest rate risk on account of its non-convertible debenture, its future cash flows are exposed to interest rate risk from the floating interest rate payable on its loan payable. The company does not use derivative instruments to reduce its exposure to interest rate risk.

As disclosed in note 6, during year ended June 30, 2019, the company paid annual interest of $796,782. Interest is calculated daily on the amount outstanding on loan payable and charged monthly. The interest rate is equivalent to prime rate of a certain Canadian bank plus 9.05% per annum. For the year ended June 30, 2019, a 10% increase in interest rates would lead to an additional annual interest cost of $79,678.

12 Capital management

The company's objective is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The company manages its Loan payable, Non-convertible Debentures Payable, and Shareholder deficiency. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year over year sustainable growth in revenues and net income.

Tabulation of capital base

	At June 30, 2019	At June 30, 2018
	$	$
Loan payable – note 6	8,416,076	4,427,390
Non-convertible debentures – Principal – note 7	5,559,000	5,559,000
Share capital – note 8	24,530,555	24,530,555
Contributed surplus and deficit	(30,797,657)	(29,885,712)
	$7,707,974	$4,631,233

13 Commitments and contingencies

Commitments

As at June 30, 2019, the company is committed to minimum payments with respect to existing leases for equipment and premises:

	Equipment	Premises	Total
Not later than one year	$23,594	$77,671	$101,265-
Later than one year and not later than five years	$14,214	$168,287	$182,501-
Later than five years	$-	$-	$-
Total	**$37,808**	**$245,958**	**$283,766**

The expense related to above leases is expensed in selling and marketing, and general and administrative expenses in the consolidated statements of income (loss).

In August 2017 the company renewed its lease for the company's head office for a five year term ending August 31, 2022. The lease payments over the five years total $388,355.

Legal matters

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

14 Income taxes

Income tax recognized in Statement of Profit/(Loss) and Comprehensive Profit/(loss) are as follows:

	2019 **$**	**2018** **$**
Current income taxes	-	-
Deferred income taxes	-	-
	$-	$-

The average combined federal and provincial statutory income rate applicable to the company in Canada for 2019 and 2018 was 26.5% and in the USA for 2019 and 2018 was 21.0%.

Since the company does not have an income tax expense there is no reconciliation between the company's effective income tax rate and the combined statutory income tax rate.

In assessing the ability to realize deferred income tax assets, the company considers whether it is more likely or not that some portion or all of the deferred income tax assets will be utilized in the foreseeable future. The ultimate realization of deferred income tax assets is dependent on the generation of future taxable income during the years in which those temporary differences become deductible. As at June 30, 2019, there is no certainty that such deferred income tax assets will be utilized and, therefore, such assets have not been recognized on the consolidated statements of financial position. The components of deferred income tax are as follows:

	2019 $	2018 $
Non capital losses carried forward	3,766,000	3,744,000
Property, plant and equipment due to amortization	31,000	40,000
Other	-	4,000
	$3,797,000	$3,788,000
Deferred income tax assets not recognized	(3,797,000)	(3,788,000)
	$-	$-

As at June 30, 2019, the company has gross non-capital income tax losses of approximately $15,045,000 (2018 $14,999,000), which may be carried forward to reduce future income for income tax purposes. The benefit of these losses has not been recognized in these consolidated financial statements. These losses expire between 2020 and 2039, and are tabulated hereunder:

Year ending June 30, 2020	$ 125,000
Year ending June 30, 2021	$ 284,000
Year ending June 30, 2022 and thereafter	$ 14,686,000
	$ 15,045,000

15 Earnings (loss) 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. Basic and Diluted EPS are tabulated.

	2019	2018	
	$	$	
Net profit/(loss) and comprehensive profit/(loss)	$ (911,945)	$ 1,224,298	
Basic and Diluted EPS			
Average number of issued common shares during the year	782,299,614	475,664,707	
Basic EPS	**$ (0.00)**	**$ 0.00**	
There are no potentially dilutive common shares outstanding at June 30, 2019 and 2018. Hence Diluted EPS not computec			

16 Nature of Expenses

		Year ended June 30, 2019	Year ended June 30, 2018
		$	$
Direct expenses			
Costs of a) cardholders awards, and marketing and advertising in connection with the company's merchant based loyalty programs; and b) cost of sales of digital marketing services		$ 1,279,228	$ 2,085,541
Expense for provision against impaired accounts receivable and transaction credits		287,646	289,429
		$ 1,566,874	**$ 2,374,970**
Selling and Marketing, and General & Administrative			
Salaries and wages including travel		$ 2,770,167	$ 3,162,620
Professional fees		200,053	496,559
Facilities, processing, and office expenses		530,349	687,341
Other		70,019	(52,648)
		$ 3,570,588	**$ 4,293,872**

17 Segment reporting

The company's reportable segments include: (1) CIBC/TD program, (2) Aeroplan program and (3) Caesars program. Where applicable, corporate and other activities are reported separately as Corporate. The CIBC/TD program ended June 15, 2019 and operated in Canada. The Aeroplan program operates in Canada. Caesars program operated in the U.S. and ended in December 2018.

During year ended June 30, 2019 and 2018 the CIBC/TD program related to the merchant-based loyalty program the company developed and managed respectively for CIBC and TD.

The company operates Air Canada's Aeroplan loyalty program in the independent merchant business segment, primarily as a re-seller of aeroplan miles.

The company completed the transition of CIBC/TD program to merchant cash advance by end of August 2019 and will be reporting this as a segment from July 1, 2019. The revenues earned and the costs incurred in merchant cash advance are reported as part of CIBC/TD program.

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

Financial information by reportable segment for period ended June 30, 2019 and 2018 is tabulated.

Year ended June 30, 2019

	CIBC/TD program	Aeroplan program	Caesars program	Corporate	Total
	$	$	$	$	$
Revenues	5,082,191	1,008,995	9,344	-	6,100,530
Direct expenses	1,011,833	539,823	15,218	-	1,566,874
	4,070,358	469,172	(5,874)	-	4,533,656
Selling & marketing	1,272,031	1,582	55,690	-	1,329,303
General & administrative	1,867,156	370,697	3,433	-	2,241,285
Earnings (loss) from operations before depreciation, amortization and interest	931,171	96,893	(64,997)	-	963,068
Stated Interest - loan payable	796,782	-	-	-	796,782
Stated Interest - Non convertible debentures payable	416,795	82,749	766	-	500,310
Non-cash interest - Non convertible debentures payable - accretion charges and restructuring bonus	456,523	90,636	839	-	547,998
	(738,928)	(76,492)	(66,602)	-	(882,022)
Depreciation and amortization	24,928	4,949	46	-	29,923
Segment (loss)	(763,856)	(81,441)	(66,648)	-	(911,945)

Year ended June 30, 2018

	CIBC/TD program	Aeroplan program	Caesars program	Corporate	Total
	$	$	$	$	$
Revenues	6,332,854	1,208,256	34,753	10,894	7,586,757
Direct expenses	1,697,937	642,230	34,803	-	2,374,970
	4,634,917	566,026	(50)	10,894	5,211,787
Selling & marketing	1,711,965	25,434	143,987	-	1,881,386
General & administrative	2,016,658	384,762	11,067	-	2,412,486
Earnings (loss) from operations before depreciation, amortization and interest	906,294	155,830	(155,104)	10,894	917,915
Stated Interest - loan payable	619,256	-	-	-	619,256
Stated Interest - Non convertible debentures payable	471,402	89,940	2,587	-	563,929
Non-cash interest - Non convertible debentures payable - accretion charges and restructuring bonus	227,841	43,470	1,250	-	272,562
	(412,205)	22,420	(158,941)	10,894	(537,832)
Depreciation and amortization	27,563	5,259	151	-	32,973
Gain on debt restructuring	-	-	-	1,795,103	1,795,103
Segment profit/(loss)	(439,768)	17,161	(159,092)	1,805,997	1,224,298

18 Subsequent events

a. On October 28, 2019 the company closed a financing whereby it issued additional $200 units of 9% debentures for gross proceeds of $200,000. The additional 200 units of 9% debentures was a related party transaction and the purchase was on terms and conditions applicable to the other subscribers of 9% debentures. Pursuant to the financing the company issued 21,648,800 fully paid common shares. The funds are to be used to assist in funding: a. the pivot in its announced business strategy following the termination of the CIBC and TD programs, b. funding the completion of its year ended June 30, 2019 audit, and 3. meeting operational requirements.

b. The company is under a cease trade order issued by the Ontario Securities Commission for not filing its year ended June 30, 2019, three months ended September 30, 2019, and three and six months ended December 31, 2019 documents by the due dates of October 28, 2019, November 29, 2019, and February 29, 2020 respectively.

c. On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a global pandemic, which continues to spread throughout Canada and around the world. The government in Canada has ordered the closure of all non-essential businesses and this partial disruption, even if temporary, may impact the Company's future sales, ability to raise capital, and it's overall business by delaying receipt of principal and fee payments from merchants. Although the disruption from the virus is expected to be temporary, given the dynamic nature of these circumstances, the duration of business disruption and the related financial impact cannot be reasonably estimated at this time.

® Aeroplan is a Registered Trademark of Aeroplan Inc.

Head Office:

606-600 Alden Road
Markham, Ontario, Canada, L3R 0E7
Telephone: (905) 470-9558
Fax: (905) 946-2984
www.advantex.com

Board of Directors:

Kelly Ambrose
Marc Lavine

Senior Management:

Kelly Ambrose
President and Chief Executive Officer

Mukesh Sabharwal
VP and Chief Financial Officer

Listing:

Canadian Securities Exchange
Trading symbol ADX

Auditors:

BDO Canada LLP

Transfer Agent:

AST Trust Company (Canada)
1 Toronto Street,
Suite 1200
Toronto, ON
M5C 2V6
1-800-387-0825