ADVANTEX

ADVANTEX® MARKETING INTERNATIONAL INC.
Management's Discussion and Analysis of Operating Results
For the three month periods ended September 30, 2021 and 2020

This management's discussion and analysis ("MD&A") has been prepared based on information available to Advantex Marketing International Inc. ("Advantex" or "the company") as at November 25, 2021. MD&A is a narrative explanation to enable the reader to assess material changes in the financial condition and results of operations of the company during the three month period ended September 30, 2021 compared to the three month period ended September 30, 2020. This MD&A should be read in conjunction with the company's audited consolidated financial statements and the related notes for the twelve months ended June 30, 2021, and the interim consolidated financial statements and the related notes for the three months ended September 30, 2021 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. Certain dollar amounts have been rounded and may not tie directly to the interim and audited consolidated financial statements.

Overall Performance

Advantex is an aggregator of independent merchants, and currently provides merchant cash advance ("MCA") and loyalty marketing services to its community of merchants. MCA program meets working capital needs of merchants. It is the core business of the company. Loyalty marketing provides merchants an economic way to market their establishments to about 5 million consumers. Loyalty marketing services are delivered through its re-seller relationship with Aeroplan loyalty program owned by Air-Canada.

The company's merchants operate across Canada in diverse business segments: restaurants; independent inns, resorts and selected hotels; spas; retailers of men's and ladies fashion, footwear and accessories; florists and garden centres; health and beauty centres; gift stores; and home décor, many of which are leaders in their respective business segment.

In the MCA program the company provides merchants' with working capital through pre-purchase, at a discount, of merchants' future cash flows and company earns its revenue, per contract terms, as it collects against the pre-purchased cash flows. The amount collected against the pre-purchased cash flows less of revenue is applied to reduce the working capital advances. The balance of working capital advances given to the merchants, less of provision for delinquent accounts, is the transaction credits on the consolidated statement of financial position.

In the loyalty marketing program the company is a re-seller of aeroplan points. Participating merchants are able to leverage a powerful currency – aeroplan points - to market their business, specific products and services to the Aeroplan membership which is able to accelerate earning aeroplan points. Advantex earns its revenue from selling aeroplan points, at an agreed price per aeroplan point.

Covid-19 pandemic was the event driving three months ended September 30, 2021 ("Q1 Fiscal 2022") and September 30, 2020 ("Q1 Fiscal 2021") financial performance. Covid-19 pandemic had an adverse economic impact on Advantex's customer base and consequently this negatively affected Advantex's revenues from both programs, its earnings, and its financial position. During both periods the company's survival was dependent on its ability to adjust to the sharp decline in revenues and liquidity, support of its financial partners, and receipt of government subsidies.

The company had been pursuing raise of capital to address the erosion of working capital and its continuity, and in March 2021 and in September 2021 it raised $250,000 and $1.0 million respectively by issuing 9% non convertible debentures payable (section 9% Non Convertible Debentures Payable). Both of these were related party transaction (section Related Party Transactions) where the purchasers were led by the existing primary shareholder and primary holder of 9% non convertible debentures payable. The $1.0 million proceeds will be used to stabilize Advantex's financial position, fund its MCA business and for general corporate purposes. Soon after, in September 2021, the company and Accord Financial Inc. ("Accord") agreed to extend the term of their agreement, due to expire December 2021, to June 30, 2022 (section Loan Payable). Accord provides line of credit facility which the company utilizes to fund its MCA program.

The company has a decade old relationship with Aeroplan. The extension of the original multi-year agreement ended April 30, 2021. As of date hereof the two parties continue to work together under the terms of the original agreement while discussing future terms and direction (section Economic Dependence).

The company's common shares are listed on the Canadian Securities Exchange ("CSE"). By June 24, 2021 the company was back in compliance with Ontario Securities Commission ("OSC") regulatory requirements. The next step to commencement of trading of its common shares on CSE requires the completion of a share consolidation, a CSE requirement. The company secured approval of its shareholders at the August 26, 2021 special meeting of its shareholders to consolidate the issued and outstanding common shares of the company, on the basis of a consolidation ratio of not more than one hundred (100) pre-consolidation common shares for one (1) post-consolidation common share. The company expects to complete the share consolidation process in due course and apply to the CSE for commencement of trading.

Outlook

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

As of date hereof, primarily due to Covid-19 pandemic, the company's MCA portfolio has declined to about 115 merchants. The company believes with adequate capital it has the ability to initially go back to pre Covid pandemic level of about 250 merchants and expand beyond significantly thereafter. The $1.0 million the company raised in September 2021 will be used to stabilize its financial position, fund its MCA business and for general corporate purposes. However, the pace at which it can expand its MCA portfolio depends on the return of merchant business confidence and the availability of funds from the recent money raise to expand MCA portfolio. Return of merchant business confidence depends on the pace of roll back of public health restrictions and belief a return of restrictions is a low probability. The growth of company's MCA portfolio is essential to bring financial stability.

The loyalty marketing program the company provides is dependent on its agreement with Aeroplan, operator of Aeroplan Loyalty Program. The current agreement ended April 30, 2021. The two parties continue to work while discussing future terms and direction and the company expects to secure a 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 company believes it has the support of the primary holder of 9% non convertible debentures payable, evidenced by their investment in September 2021. The company believes it has the support of Accord, evidenced by extension of the term of the loan payable agreement - to June 30, 2022 - amongst other accommodations.

There is reason to be cautiously optimistic about Advantex's future. Several reasons to be optimistic - the Canadian economy is on the mend, a substantial number of Advantex's merchants although weakened by the Covid-19 pandemic have survived, Advantex believes merchant cash advance is a growth industry because institutional lenders are not focused on independent merchants, even more so because of the Covid-19 pandemic. Caution comes from an uncertain economic environment, withdrawal of certain government Covid-19 pandemic support programs for individuals and businesses, Covid-19 continuing to be a cloud and these are likely to dampen consumer confidence and diminish Advantex's ability to raise additional growth capital.

Summary – Three months ended September 30, 2021

The financial highlights for Q1 Fiscal 2022 compared to Q1 Fiscal 2021 are summarized in the tabulation:

	Q1 Fiscal 2022	Q1 Fiscal 2021
	$	$
Revenues		
MCA program	175,829	198,814
Aeroplan program	197,468	112,958
	$ 373,297	**$ 311,772**
Earnings/(loss) from operations before depreciation, amortization, interest	**$ (115,846)**	**$ (88,534)**
Net (loss) and Comprehensive (loss)	**$ (556,408)**	**$ (508,821)**

Income Statement – Q1 Fiscal 2022 compared to Q1 Fiscal 2021

Covid-19 pandemic was the event driving Q1 Fiscal 2022 and Q1 Fiscal 2021 financial performance.

Q1 Fiscal 2022 MCA program revenues continued their decline ($22,985 lower - 11.6% lower compared to Q1 Fiscal 2021). Aeroplan program revenues saw an uptick from a wholesale merchant (Q1 Fiscal 2022 revenues of $88,000 compared to $8,000 for Q1 Fiscal 2021) and controlling for this the revenues were flat.

The company's gross profit was marginally higher – Q1 Fiscal 2022 $233,660 compared to Q1 Fiscal 2021 $221,328. The decline in MCA program revenues ($22,985 lower) was more than offset by lower direct costs ($27,261 lower) on account of expense for provision for delinquent accounts. Aeroplan program gross profit was $8,056 higher – Q1 Fiscal 2022 $59,297 compared to Q1 Fiscal 2021 $51,241. The pick-up in gross profit from the low margin wholesale business in Q1 Fiscal 2022 is partially offset by decline in gross profit from retail business.

Selling expenses were flat - Q1 Fiscal 2022 $147,898 compared to Q1 Fiscal 2021 $147,165. Both periods reflect sales staff receiving, since April 1, 2020, 85% of their pre pandemic remuneration with assistance from Canada Emergency Wage Subsidy ("CEWS"). The cost saving measure was implemented to address some of the financial impact of Covid -19 pandemic on the company. Remuneration/expenses of sales staff are the primary selling expenses (just over 94% in both periods). The CEWS received for sales and administration staff is reflected in G&A (Section G&A).

General & Administrative expenses ("G&A") were $38,911 higher, a 23.9% increase. To offset some of the financial impact of Covid-19 pandemic, administration staff including management, since April 1, 2020, are receiving 85% of their pre pandemic remuneration with assistance from CEWS. Staff remuneration, net of CEWS and extinguishment of part of vacation pay dues, was marginally higher (Q1 Fiscal 2022 $111,243 compared to Q1 Fiscal 2021 $103,662) and is the primary component of G&A (55% during Q1 Fiscal 2022 compared to 64% during Q1 Fiscal 2021). Cost of head office lease, net of rent subsidy, was higher (Q1 Fiscal 2022 $17,857 compared to Q1 Fiscal 2021 $10,376). Another factor for increase in Q1 Fiscal 2022 G&A is to do with cost of special meeting of shareholders held in August 2021 to seek shareholder approval to: issuance of common shares of the company in connection with a financing; a consolidation of the issued and outstanding common shares of the company; and increase the number of issuable units pursuant to the restricted share unit plan of the company. The requisite shareholder approval was received and the company closed the $1.0 million financing noted in section Overall Performance.

The above revenues less costs are reflected in higher loss from operations before depreciation, amortization and interest of $27,312. Q1 Fiscal 2022 $115,846 compared to Q1 Fiscal 2021 $88,534.

Stated interest cost was flat.

- Interest paid on loan payable was $45,854 lower (Q1 Fiscal 2022 $70,701 compared to Q1 Fiscal 2022 $116,555), a reflection of lower utilization of loan payable. Average loan payable balance during Q1 Fiscal 2021 was $2,486,917 compared to $4,018,357 during Q1 Fiscal 2021. The lower utilization reflects lower MCA program receivables (transaction credits on the balance sheet) during Q1 Fiscal 2022 which in turn is a reflection of Covid-19 pandemic on the MCA portfolio. During both periods the company reduced the collections from merchants so as not to stress the merchants' cash flows during Covid-19 but it also did not give significant additional advances – both on account of the diminished working capital availability and the credit environment leading to declining MCA portfolio.
- Interest on 9% non convertible debentures payable was $43,220 higher. Two factors. Firstly, the principal amount during Q1 Fiscal 2022 was higher – During July and August 2021 $6,009,000 and $7,009,000 from September 7, 2021 compared to $5,759,000 during Q1 Fiscal 2021. The higher principal is reflected in the stated interest – Q1 Fiscal 2022 $142,232 compared to Q1 Fiscal 2021 $130,286. Secondly, Q1 Fiscal 2022 reflects $31,274 of interest on unpaid 9% non convertible debentures payable interest (Q1 Fiscal 2021 $nil). The company has not paid interest since December 16, 2018.

Q1 Fiscal 2022 non cash interest at $196,355 is higher by $34,282 compared to Q1 Fiscal 2021. Accretion charges and restructuring bonus relating to 9% non convertible debentures payable for Q1 Fiscal 2022 was higher by $39,277 primarily reflecting amendment of terms in March 2021 of 9% non convertible debentures payable, raise of additional 9% non convertible debentures payable of $250,000 and $1.0 million in March 2021 and September 2021 respectively.

The depreciation for right of use asset was lower by $11,373 (Q1 Fiscal 2022 $nil compared to Q1 Fiscal 2021 $11,373) reflecting write-off due to its impairment at June 30, 2021.

The above factors are reflected in a higher net loss. Q1 Fiscal 2022 $556,408 compared to Q1 Fiscal 2021 $508,821.

Balance Sheet – Q1 Fiscal 2022 compared to Q1 Fiscal 2021

Transaction credits, which represent balance due of working capital advanced to merchants, are about 78.6% of total assets at September 30, 2021 compared to 91.1% at September 30, 2020. Transaction credits, net of provision for delinquent accounts, of $2,880,956 at September 30, 2021 compared to $3,190,042 at September 30, 2020. During both periods under review the company's merchants – many of whom operate in the non-essential sectors – were either mandated by the law to close operations or operate with restrictions. Since the start of Covid-19 pandemic while the company reduced the collections from merchants so as not to stress the merchants' cash flows it also did not give significant additional advances – both on account of diminished working capital availability and the credit environment. With the gradual easing of Covid-19 pandemic public health restrictions commencing late June 2021 onwards and availability of capital upon raise of $1.0 million in September 2021 the company started to re-build its MCA portfolio and arrest the continuing decline in the MCA portfolio since the start of the Covid-19 pandemic. Furthermore, the Covid-19 pandemic called for additional reserves for potential delinquencies (at end of Q1 Fiscal 2022 $1,061,369 compared to $1,021,698 at end of Q1 Fiscal 2021). The above factors are reflected in the balance of transaction credits at the end of Q1 Fiscal 2022 and Q1 Fiscal 2021.

Loan payable of $3,399,073 at September 30, 2021 compared to $3,661,636 at September 30, 2020. The loan payable is used exclusively to fund transaction credits deployed with merchants. The company funds 10% of each dollar of transaction credit and the loan payable funds the balance 90%. The company back-stops all delinquencies. To support the company during Covid-19 pandemic Accord provided the company with a working capital overdraft. The loan payable balance at September 30, 2021 and September 30, 2020 includes amounts payable under the working capital overdraft provided by Accord (2021 $451,000 vs 2020 $460,000). The loan payable balance at September 30, 2021 and September 30, 2020 (net of working capital overdraft) primarily reflects the change in transaction credits (grossed up for general reserve) at the end of the two periods.

September 30, 2020 reflects 9% debentures (section 9% Non Convertible Debentures Payable) and the book value reflects accrued and unpaid interest of $914,671 for the period December 16, 2018 until September 30, 2020. The company did not have the ability to pay the interest. In March 2021 the 9% debentures were replaced with 9% 2025 debentures (section 9% Non Convertible Debentures Payable) with maturity date of December 31, 2025. The company issued $250,000 of additional 9% 2025 debentures in March 2021 and $1.0 million of additional 9% 2025 debentures in September 2021. September 30, 2021 reflects 9% 2025 debentures. Details are provided in section 9% Non Convertible Debentures Payable.

The balance sheet at September 30, 2021 reflects cash of $635,402 post raise of $1.0 million noted above compared to $56,799 at September 30, 2020.

Results of Operations

	Q1 Fiscal 2022	Q1 Fiscal 2021
	$	$
Revenue	$ **373,297**	$ **311,772**
Costs of loyalty rewards, and marketing in connection with Advantex's merchant based loyalty program	138,171	61,717
Direct Expenses - Expense for provision against delinquent accounts	1,466	28,727
Gross profit	$ **233,660**	$ **221,328**
Selling and General & Administrative	349,506	309,862
Earnings/(loss) from operations before depreciation, amortization, interest	$ **(115,846)**	$ **(88,534)**
Cash interest on loan payable and debentures	244,207	246,841
(Loss) from operations before depreciation, amortization, non-cash interest, and other non cash expenses	$ **(360,053)**	$ **(335,375)**
Interest - Lease	2,172	3,960
Non-cash interest expense - accretion charges, restructuring bonus and amortization of transaction costs related to 9% non convertible debentures payable	194,183	158,113
Depreciation of right of use asset	-	11,373
Net (loss) and comprehensive (loss)	$ **(556,408)**	$ **(508,821)**
Basic and Diluted (loss) per share	$ **-**	$ **-**

Extract from the Statement of Financial Position

	At September 30, 2021	At June 30, 2021	Increase/ (Decrease)
	$	$	$
Current assets	$ 3,663,507	$ 1,946,034	$ 1,717,473
Total assets	$ 3,663,507	$ 1,946,034	$ 1,717,473
Shareholders' deficiency	$ (8,165,810)	$ (8,012,127)	$ 153,683

The change in current assets primarily reflects:

- increase in transaction credits, net of provision for delinquent accounts, of $1,154,293. With the gradual easing of Covid-19 pandemic public health restrictions commencing late June 2021 onwards and availability of capital upon raise of $1.0 million in September 2021 the company started to re-build its MCA portfolio and arrest the continuing decline in the MCA portfolio since the start of the Covid-19 pandemic; and
- increase in cash of $552,796. This reflects raise in September 2021 of $1.0 million via 9% 2025 debentures less of utilization for MCA portfolio and general corporate purposes.

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

On the current liabilities side, the main change is on account of loan payable. Loan payable supports 90% investment in transaction credits. The loan payable balance at September 30, 2021 also includes amounts payable under the working capital overdraft provided by Accord (September 30, 2021 $451,000 vs. June 30, 2021 $460,000). The loan payable balance at September 30, 2021 at $3,399,073 was up $1,011,634 compared to June 30, 2021 balance of $2,387,439. The loan payable balance at September 30, 2021 and June 30, 2021 (net of working capital overdraft) primarily reflects the change in transaction credits (grossed up for general reserve – Credit Risk under section Critical Accounting Estimates) at the end of the two periods.

Non-current liabilities primarily reflect 9% 2025 debentures. June 30, 2021 reflects book value of the 9% 2025 debentures with a principal amount outstanding of $6,009,000. September 30, 2021 reflects book value of the 9% 2025 debentures with a principal amount outstanding of $7,009,000 on account of $1.0 million additional 9% 2025 debentures issued in September 2021; see section 9% Non Convertible Debentures Payable.

The movement in the shareholders' deficit reflects net loss of $556,408 during Q1 Fiscal 2022 and recording of contributed surplus of $402,725 upon the issuance of 9% 2025 debentures (section 9% Non Convertible Debentures Payable).

Extracts from the Statement of Cash Flow

	Q1 Fiscal 2022	Q1 Fiscal 2021	Change
	$	$	$
Net (loss)	$ (556,408)	$ (508,821)	$ (47,587)
Adjustments for non cash expenses	369,861	303,732	66,129
(Loss) after adjustments for non cash expenses	$ (186,547)	$ (205,089)	$ 18,542
Changes in working capital	(1,175,371)	822,075	(1,997,446)
Net cash generated from/(used in) financing activities	1,914,714	(726,788)	2,641,502
Net cash generated from/(used in) operations	$ 552,796	$ (109,802)	$ 662,598
Cash at start of year	$ 82,606	$ 166,601	$ (83,995)
Cash at end of year	$ 635,402	$ 56,799	$ 578,603

Adjustments for non cash expenses. A significant item for Q1 Fiscal 2022 and Q1 Fiscal 2021 is accrued and unpaid 9% non convertible debentures payable interest (Q1 Fiscal 2022 $173,506 vs. Q1 Fiscal 2021 $130,286). Furthermore, charges for Accretion and Restructuring bonus respecting 9% non convertible debentures payable were $192,693 (Q1 Fiscal 2021 $153,416).

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

During Q1 Fiscal 2022 the primary item was increase of $1,154,293 in transaction credits, net of provision for delinquent accounts. With the gradual easing of Covid-19 pandemic public health restrictions commencing late June 2021 onwards and availability of capital upon raise of $1.0 million in September 2021 the company started to re-build its MCA portfolio and arrest the continuing decline in the MCA portfolio since the start of the Covid-19 pandemic. During Q1 Fiscal 2021 the significant item was the decrease of $733,875 in transaction credits, net of provision in delinquent accounts. Since the start of Covid-19 pandemic while the company reduced the collections from merchants so as not to stress the merchants' cash flows it also did not give significant additional advances – both on account of diminished working capital availability and the credit environment. This is the primary reason for the Q1 Fiscal 2021 decline in transaction credits.

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

Financing activities.
Q1 Fiscal 2022 reflects raise of $1.0 million gross proceeds via issuance of 9% 2025 debentures. Net of transaction costs $922,499.

Loan payable. Loan payable supports 90% investment in transaction credits. The loan payable balance also includes amounts payable under the working capital overdraft provided by Accord (September 30, 2021 $451,000 vs. $460,000 at September 30, 2020). During Q1 Fiscal 2022 the change – an increase - of $1,011,634 is primarily due to above noted increase in transaction credits. During Q1 Fiscal 2021 the decrease of $707,370 is primarily due to above noted decrease in transaction credits.

Investing activities. $nil in both periods. The company is frugal with capital expenditures given its financial situation. The company plans to continue a gradual move of its entire IT infrastructure into the cloud. The company does not expect significant capital expenditures in the next twelve months.

The presentations in Results of Operations section are not set out in accordance with International Financial Reporting Standards ("IFRS"). The presentations are extracts from the interim consolidated financial statement for the three months ended September 30, 2021, and have been included to provide additional analysis for the reader.

Revenue

The company's revenues were derived from merchants participating in the MCA program, and the Aeroplan program which the company has been operating for about a decade.

In the MCA program the company provides merchants' with working capital through pre-purchase, at a discount, of merchants' future cash flows and company earns its revenue, per contract terms, as it collects against the pre-purchased cash flows. The amount collected against the pre-purchased cash flows less of revenue is applied to reduce the working capital advances. The balance of working capital advances given to the merchants, less of provision for delinquent accounts, is the transaction credits on the consolidated statement of financial position.

The Aeroplan program. Here the company is a re-seller. The company sells aeroplan points to merchants who are small and mid-sized retailers and service providers. Revenue is recognized, at the agreed price per aeroplan point, when the participating merchant issues aeroplan points to an Aeroplan member completing a qualifying transaction at the merchant.

The drivers for revenues from the MCA program are number of participating merchants, the amount of working capital advances deployed with merchants and the discount at which future cash flows are purchased from merchants.

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

The significant factor adversely impacting revenues of both periods was the Covid-19 pandemic.

The revenue trends are provided in the tabulation.

	Q1 Fiscal 2022	Q1 Fiscal 2021	Inc./(Dec)	Inc./(Dec)
	$	$	$	%
Revenues				
MCA program	$ 175,829	$ 198,814	$ (22,985)	-11.6%
Aeroplan program	197,468	112,958	84,510	74.8%
	$ 373,297	**$ 311,772**	**$ 61,525**	**19.7%**

MCA program

During both periods under review the company's merchants – many of whom operate in the non-essential sectors – were either mandated by the law to close operations or operate with restrictions. Since the start of Covid-19 pandemic while the company reduced the collections from merchants so as not to stress the merchants' cash flows it also did not give significant additional advances during July and August 2021 and Q1 Fiscal 2021 – both on account of diminished working capital availability and the credit environment. This led to reduction in transaction credits and participating merchants. With the gradual easing of Covid-19 pandemic public health restrictions commencing late June 2021 onwards and availability of capital upon raise of $1.0 million in September 2021 the company started to re-build its MCA portfolio and arrest the continuing decline in the MCA portfolio since the start of the Covid-19 pandemic; a gradual re-build process.

Average number of MCA merchants during Q1 Fiscal 2022 was about 100 compared with about 150 during Q1 Fiscal 2021.

The above factors – slowdown in contracted collections, reduction in transaction credits, and participating merchants - led to a sharp decline in revenues of both periods compared to expected revenues if Covid-19 was not a factor, and further decline in Q1 Fiscal 2022 revenues compared to Q1 Fiscal 2021.

Aeroplan program

Aeroplan program revenues saw an uptick from a wholesale merchant (Q1 Fiscal 2022 revenues of $88,000 compared to $8,000 for Q1 Fiscal 2021) and controlling for this the revenues were flat.

Revenue decline compared to expected revenues if Covid-19 was not a factor primarily reflects economic impact of Covid-19 pandemic on participating merchants and their diminished ability to carry on with loyalty marketing activity using this program.

Average number of merchants about 100 during both periods.

Direct Expenses

The MCA direct expenses are provision for delinquencies against transaction credits.

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

	Q1 Fiscal 2022	Q1 Fiscal 2021	Inc./(Dec)	Inc./(Dec)
	$	$	$	%
Revenues				
MCA program	$ 175,829	$ 198,814	$ (22,985)	-11.6%
Aeroplan program	197,468	112,958	84,510	74.8%
	$ 373,297	**$ 311,772**	**$ 61,525**	**19.7%**
Direct expenses				
MCA program	$ 1,466	$ 28,727	$ (27,261)	-94.9%
Aeroplan program	138,171	61,717	76,454	123.9%
	$ 139,637	**$ 90,444**	**$ 49,193**	**54.4%**
Aeroplan program				
	Q1 Fiscal 2022	Q1 Fiscal 2021	Inc./(Dec)	Inc./(Dec)
	$	$	$	%
Direct expenses				
Loyalty rewards	$ 138,171	$ 61,717	$ 76,454	123.9%
	$ 138,171	$ 61,717	$ 76,454	123.9%

MCA program.

While the company believes it has adequate provision for delinquencies as at September 30, 2021, Covid-19 pandemic is a significant risk factor when assessing the collectability of transaction credits.

The methodology for estimating the provision for delinquencies against transaction credits is discussed in this document in Credit Risk under section Critical Accounting Estimates.

The company continued to monitor credit risk along above methodology during Q1 Fiscal 2022.

Aeroplan program

The pick-up in gross profit from the low margin wholesale business in Q1 Fiscal 2022 is partially offset by decline in gross profit from retail business.

The change in retail business gross margin is primarily attributable to the mix of gross margins the company earns from transacting merchants.

Gross Profit

The gross profit is tabulated:

	Q1 Fiscal 2022	Q1 Fiscal 2021	Inc./(Dec)
	$	$	$
MCA program	$ 174,363	$ 170,087	$ 4,276
Aeroplan program	59,297	51,241	8,056
	$ 233,660	**$ 221,328**	**$ 12,332**
Company gross margin	62.6%	71.0%	

The company's gross profit was marginally higher. The decline in MCA program revenues ($22,985 lower) was more than offset by lower direct costs ($27,261 lower) on account of expense for provision for delinquent accounts. Aeroplan program gross profit was higher. The pick-up in gross profit from the low margin wholesale business in Q1 Fiscal 2022 is partially offset by decline in gross profit from retail business.

Selling Expenses

Selling expenses include expenses arising from remuneration of sales staff, and other selling activities. The significant component is cost – remuneration and travel/cell - of the sales staff.

	Q1 Fiscal 2022	Q1 Fiscal 2021	Inc./(Dec)	Inc./(Dec)
	$	$	$	%
Revenues				
MCA program	$ 175,829	$ 198,814	$ (22,985)	-11.6%
Aeroplan program	197,468	112,958	84,510	74.8%
	$ 373,297	**$ 311,772**	**$ 61,525**	**19.7%**
Selling expenses				
MCA program	$ 69,662	$ 93,846	$ (24,184)	-25.8%
Aeroplan program	78,236	53,319	24,917	46.7%
	$ 147,898	**$ 147,165**	**$ 733**	**0.5%**
Remuneration/expenses of sales staff	$ 139,107	$ 138,727		
Remuneration/expenses as % of selling expenses	94.1%	94.3%		

Both periods reflect sales staff receiving, since April 1, 2020, 85% of their pre pandemic remuneration with assistance from Canada Emergency Wage Subsidy ("CEWS"). The cost saving measure was implemented to address some of the financial impact of Covid -19 pandemic on the company. Remuneration/expenses of sales staff are the primary selling expenses. The CEWS received for sales and administration staff is reflected in G&A (Section G&A).

The company's sales force is common to MCA and Aeroplan programs.

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).

	Q1 Fiscal 2022	Q1 Fiscal 2021	Inc./(Dec)	Inc./(Dec)
	$	$	$	%
Change in revenues	**$ 373,297**	**$ 311,772**	**$ 61,525**	**19.7%**
G&A				
Compensation for non-sales staff including staff travel	$ 226,810	$ 244,717	$ (17,907)	
Extinguishment of part of vacation pay dues of CEO and CFO	(35,063)	-	(35,063)	
CEWS - for sales and non-sales staff	(80,504)	(141,055)	60,551	
Head Office lease	38,353	38,353	-	
CERS (Q1 Fiscal 2021); CECRA (Q1 Fiscal 2021)	(20,496)	(27,977)	7,481	
All other G&A expenses	72,508	48,659	23,849	
	$ 201,608	**$ 162,697**	**$ 38,911**	**23.9%**

To offset some of the financial impact of Covid-19 pandemic, administration staff including management, since April 1, 2020, are receiving 85% of their pre pandemic remuneration with assistance from CEWS. Staff remuneration, net of CEWS and extinguishment of part of vacation pay dues, was marginally higher (Q1 Fiscal 2022 $111,243 compared to Q1 Fiscal 2021 $103,662) and is the primary component of G&A (55% during Q1 Fiscal 2022 compared to 64% during Q1 Fiscal 2021). The CEO and CFO were issued 10,018,037 common shares in lieu of a part of their vacation dues ($35,063). The CEWS reflected in tabulation is received for sales and non-sales staff.

Cost of head office lease, net of rent subsidy, was higher (Q1 Fiscal 2022 $17,857 compared to Q1 Fiscal 2021 $10,376).

Another factor for increase in Q1 Fiscal 2022 G&A is to do with cost of special meeting of shareholders held in August 2021 to seek shareholder approval to: issuance of common shares of the company in connection with a financing; a consolidation of the issued and outstanding common shares of the company; and increase the number of issuable units pursuant to the restricted share unit plan of the company. The requisite shareholder approval was received and the company closed the $1.0 million financing noted in section Overall Performance.

Interest Expense

The interest expense is tabulated:

	Q1 Fiscal 2022	Q1 Fiscal 2021	Inc./(Dec)
	$	$	$
Stated ("Cash") interest expense			
Loan payable	$ 70,701	$ 116,555	$ (45,854)
9% non convertible debentures payable	173,506	130,286	43,220
	$ 244,207	$ 246,841	$ (2,634)
Non-cash interest expense			
Interest - Lease	$ 2,172	$ 3,960	$ (1,788)
Accretion charge on 9% non convertible debentures payable	173,944	86,488	87,456
Restructuring bonus on 9% non convertible debentures payable	18,749	66,928	(48,179)
Amortization of transaction costs on 9% non convertible debentures payable	1,490	4,697	(3,207)
	$ 196,355	$ 162,073	$ 34,282
Total interest expense	**$ 440,562**	**$ 408,914**	**$ 31,648**

Stated interest cost was flat.

- Interest paid on loan payable was $45,854 lower (Q1 Fiscal 2022 $70,701 compared to Q1 Fiscal 2022 $116,555), a reflection of lower utilization of loan payable. Average loan payable balance during Q1 Fiscal 2021 was $2,486,917 compared to $4,018,357 during Q1 Fiscal 2021. The lower utilization reflects lower MCA program receivables (transaction credits on the balance sheet) during Q1 Fiscal 2022 which in turn is a reflection of Covid-19 pandemic on the MCA portfolio. During both periods the company reduced the collections from merchants so as not to stress the merchants' cash flows during Covid-19 but it also did not give significant additional advances – both on account of the diminished working capital availability and the credit environment leading to declining MCA portfolio.
- Interest on 9% non convertible debentures payable was $43,220 higher. Two factors. Firstly, the principal amount during Q1 Fiscal 2022 was higher – During July and August 2021 $6,009,000 and $7,009,000 from September 7, 2021 compared to $5,759,000 during Q1 Fiscal 2021. The higher principal is reflected in the stated interest – Q1 Fiscal 2022 $142,232 compared to Q1 Fiscal 2021 $130,286. Secondly, Q1 Fiscal 2022 reflects $31,274 of interest on unpaid 9% non convertible debentures payable interest (Q1 Fiscal 2021 $nil). The company has not paid interest since December 16, 2018.

Q1 Fiscal 2022 non cash interest at $196,355 is higher by $34,282 compared to Q1 Fiscal 2021. Accretion charges and restructuring bonus relating to 9% non convertible debentures payable for Q1 Fiscal 2022 was higher by $39,277 primarily reflecting amendment of terms in March 2021 of 9% non convertible debentures payable, raise of additional 9% non convertible debentures payable of $250,000 and $1.0 million in March 2021 and September 2021 respectively.

Net Loss

Highlights of Q1 Fiscal 2022 compared to Q1 Fiscal 2021 are tabulated:

	Q1 Fiscal 2022	Q1 Fiscal 2021	Inc./(Dec)	Inc./(Dec)
	$	$	$	%
Revenues	**$ 373,297**	**$ 311,772**	**$ 61,525**	**19.7%**
Direct expenses				
Costs of loyalty rewards, and marketing in connection with Advantex's merchant based loyalty program	$ 138,171	$ 61,717	$ 76,454	
Expense for provision against delinquent accounts	$ 1,466	$ 28,727	$ (27,261)	
Gross profit	**$ 233,660**	**$ 221,328**	**$ 12,332**	**5.6%**
Selling and General & Administrative expenses	$ 349,506	$ 309,862	$ 39,644	
(Loss) from operations before depreciation, amortization and interest	**$ (115,846)**	**$ (88,534)**	**$ 27,312**	**30.8%**
Stated interest expense - loan payable, and 9% non convertible debentures payable	$ 244,207	$ 246,841	$ (2,634)	
(Loss) from operations before depreciation, amortization, non cash interest and non cash items	**$ (360,053)**	**$ (335,375)**	**$ 24,678**	**7.4%**
Interest - Lease	$ 2,172	$ 3,960	$ (1,788)	
Interest expense - Accretion charges, restructuring bonus and amortization of transaction costs related to 9% non convertible debentures payable	$ 194,183	$ 158,113	$ 36,070	
Depreciation of right of use asset	$ -	$ 11,373	$ (11,373)	
Net (loss) and comprehensive (loss)	**$ (556,408)**	**$ (508,821)**	**$ 47,587**	**9.4%**

Covid-19 pandemic was the event driving Q1 Fiscal 2022 and Q1 Fiscal 2021 financial performance. Covid-19 pandemic had an adverse economic impact on Advantex's customer base and consequently this negatively affected Advantex's revenues from MCA and Aeroplan programs and its earnings.

The detailed analysis of the above tabulated items is provided in Sections - *Income Statement – Q1 Fiscal 2022 compared to Q1 Fiscal 2021,* and in Sections Revenue, Direct Expenses, Gross Profit, Selling Expenses, G&A, and Interest Expense.

Working Capital and Liquidity Management

	Q1 Fiscal 2022	Q1 Fiscal 2021
	$	$
Funds available to expand MCA program (Transaction credits on the balance sheet) and meet working capital needs		
Net (loss)	$ (556,408)	$ (508,821)
Adjustments for non cash expenses	369,861	303,732
(Loss) after adjustment for non cash expenses	(186,547)	(205,089)
Cash balances at start of the period	82,606	166,601
Increase/(Decrease) in loan payable	1,011,634	(707,370)
Net proceeds from raise of 9% non convertible debentures payable	922,499	-
(Decrease)/Increase in accounts receivable	(8,386)	5,329
	$ 1,821,806	**$ (740,529)**
Utilization of funds		
Cash balances at end of periods	$ 635,402	$ 56,799
Increase/(Decrease) in transaction credits	1,154,293	(733,875)
Decrease/(Increase) in accounts payable & accrued liabilities	10,694	(76,777)
Changes in all other working capital items	1,998	(6,094)
Change in other financing items	19,419	19,418
	$ 1,821,806	**$ (740,529)**

Working Capital and Liquidity Management

Adjustments for non cash expenses. A significant item for Q1 Fiscal 2022 and Q1 Fiscal 2021 is accrued and unpaid 9% non convertible debentures payable interest (Q1 Fiscal 2022 $173,506 vs. Q1 Fiscal 2021 $130,286). Furthermore, charges for Accretion and Restructuring bonus respecting 9% non convertible debentures payable were $192,693 (Q1 Fiscal 2021 $153,416).

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

During Q1 Fiscal 2022 the primary item was increase of $1,154,293 in transaction credits, net of provision for delinquent accounts. With the gradual easing of Covid-19 pandemic public health restrictions commencing late June 2021 onwards and availability of capital upon raise of $1.0 million in September 2021 the company started to re-build its MCA portfolio and arrest the continuing decline in the MCA portfolio since the start of the Covid-19 pandemic. During Q1 Fiscal 2021 the significant item was the decrease of $733,875 in transaction credits, net of provision in delinquent accounts. Since the start of Covid-19 pandemic while the company reduced the collections from merchants so as not to stress the merchants' cash flows it also did not give significant additional advances – both on account of diminished working capital availability and the credit environment. This is the primary reason for the Q1 Fiscal 2021 decline in transaction credits.

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

Financing activities.

Q1 Fiscal 2022 reflects raise of $1.0 million gross proceeds via issuance of 9% 2025 debentures. Net of transaction costs $922,499.

Loan payable. Loan payable supports 90% investment in transaction credits. The loan payable balance also includes amounts payable under the working capital overdraft provided by Accord (September 30, 2021 $451,000 vs. $460,000 at September 30, 2020). During Q1 Fiscal 2022 the change – an increase - of $1,011,634 is primarily due to above noted increase in transaction credits. During Q1 Fiscal 2021 the decrease of $707,370 is primarily due to above noted decrease in transaction credits.

Investing activities. $nil in both periods. The company is frugal with capital expenditures given its financial situation. The company plans to continue a gradual move of its entire IT infrastructure into the cloud. The company does not expect significant capital expenditures in the next twelve months.

The company does not have the wherewithal to re-pay its legacy suppliers i.e. those providing services connected to CIBC/TD program which ended in fiscal year ended June 30, 2019 and those suppliers not essential to operating the new business model. It will have to reach settlement accommodation with these suppliers. The company either has or is negotiating payment plans in place with suppliers critical to ongoing operations.

Cash balances at the end of periods reflect cash (used) by operations [(loss) after adjustment for non cash expenses – see above tabulation], payments of accounts payable, collection of transaction credits, deployment of advances with merchants, raise of $1.0 million in September 2021 by issuance of 9% 2025 debentures and general corporate purposes.

The company's operations are funded by debt – loan payable and 9% 2025 debentures (sections Loan Payable, 9% Non-Convertible Debentures Payable). The company's future success is dependent on financial stability in order to retain its existing relationships with Aeroplan, Accord and holders of 9% 2025 debentures (section Economic Dependence).

The $1.0 million the company raised in September 2021 will be used to stabilize its financial position, fund its MCA business and for general corporate purposes. However, the pace at which it can expand its MCA portfolio depends on the return of merchant business confidence and the availability of funds from the recent money raise to expand MCA portfolio. Return of merchant business confidence depends on the pace of roll back of public health restrictions and belief a return of restrictions is a low probability. The growth of company's MCA portfolio is essential to bring financial stability.

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.

As of September 30, 2021 the company does not have any off balance sheet financing arrangements.

<u>*Going Concern*</u>

The consolidated financial statements for three months ended September 30, 2021 have been prepared in accordance with accounting principles applicable to a going concern, which contemplates that the company will be able to realize its assets and settle its liabilities as they come due during the normal course of operations for the foreseeable future. When a company is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity is required to disclose those uncertainties.

The company has a shareholders' deficiency of $8,165,810 and negative working capital of $2,583,462 as at September 30, 2021. In September 2021 the company closed a $1.0 million financing (notes 7 and 10 to the consolidated financial statements). The pandemic has created a more highly uncertain economic environment. More so for small independent businesses operating in the hospitality segment, especially restaurants. The company's customers are primarily small independent restaurants. Consequently, there is uncertainty surrounding the company's ability in the foreseeable future to generate cash flows sufficient to meet its operational needs and meet its obligations on due dates. Failure to meet obligations on due dates may lead to company being unable to continue operations due to: denial by suppliers of products and services; loss of access to loan payable (note 6 to the consolidated financial statements) which supports the company's merchant cash advance program, and general working capital provided by 9% 2025 debentures (note 7 to the consolidated financial statements); and inability to access alternative economically viable sources to replace existing capital. These material uncertainties cast significant doubt on the company's ability to continue as a going concern.

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

Contractual Obligations

Contractual obligations as at September 30, 2021 were due as follow:

		Total	Less than 1 year	1 to 3 years	4 to 5 years
		$	$	$	$
Loan payable		$ 3,399,073	$ 3,399,073	$ -	$ -
9% 2025 debentures		7,009,000	-	-	7,009,000
Canada Emergency Business Account		60,000	-	60,000	-
Head office lease		71,198	71,198	-	-
		$ 10,539,271	**$ 3,470,271**	**$ 60,000**	**$ 7,009,000**

In addition, there are contractual obligations to holders of 9% 2025 debenture payable on maturity date December 31, 2025: interest of $1,150,382 payable for the period December 16, 2018 to March 14, 2021, restructuring bonus of $1,261,620, interest on 1) unpaid interest to March 14, 2021 and 2) deferred 9% 2025 first year interest, of $742,148. During the term of the 9% 2025 debentures maturing December 31, 2025 the company has a contractual obligation to pay stated interest at 9% of $2,983,009.

The company adopted IFRS 16 Leases in Fiscal 2020 with respect to its head office lease. The company's head office lease is for a five year term ending August 31, 2022.

Loan Payable

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

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

The current term was due to end in December 2021. In September 2021 the company and Accord agreed to extend the term of their agreement to June 30, 2022. The agreement is subject to automatic renewal thereafter for periods of one year unless terminated by either party upon 180 days written notice.

The interest rate is equivalent to the prime rate of a certain Canadian bank plus 9.05% and effective September 1, 2021 the interest rate is equivalent to prime rate of a certain Canadian bank plus 8.80%. Accord funds 90% of each dollar of transaction credits acquired by the company and the company funds 10%. Interest is calculated daily on the amount outstanding and charged monthly. The company is responsible for all delinquencies on amounts due from establishments funded from the loan payable.

Due to Covid-19 pandemic restrictions and their impact on the company's business, Accord allowed the company to defer payment of interest from March 2020 to June 2020. Subsequent to June 30, 2020, Accord provided the company an overdraft facility of $460,000. This is a general working capital facility. The interest rate is similar to the loan payable. As of September 30, 2021 the company has utilized $451,000 from this facility ($454,000 at June 30, 2021 and $460,000 at September 30, 2020). The September 2021 agreement gives Accord the option to convert the overdraft facility into an equity or quasi equity investment on to be agreed terms and conditions. If Accord does not exercise this option, the overdraft is repayable by the company in equal monthly instalments between January 2022 and June 2022.

The company had utilized $3.4 million of the facility at September 30, 2021 (at June 30, 2021 $2.4 million and at September 30, 2020 $3.7 million).

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

9% Non-Convertible Debentures Payable

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

The company also received agreement from the holders of 9% debentures to extend the maturity date from December 31, 2021 to December 31, 2025. The 9% debentures were issued as 5,759 units (5,559 units in December 2017 and 200 units in October 2019) consisting of principal amount of $5,759,000 and 623,377,196 common shares of the company. Effective March 15, 2021 the 9% debentures were replaced by 9% 2025 debentures on a dollar for dollar basis with respect to the principal amount, restructuring bonus, and interest rate as such terms are defined in the 9% debentures. The unpaid interest from December 16, 2018 until March 14, 2021 on the 9% debentures together with interest on interest are due on maturity of 9% 2025 debentures. An additional feature of the 9% 2025 debentures is that the first year interest is deferred and is payable in eight equal instalments, with each instalment being added to each semi-annual interest payment payable after the first year through December 31, 2025, and the interest on interest will be added in the final interest payment.

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

The 9% 2025 debentures are secured by a general security interest over the assets of the company and its subsidiaries. The 9% 2025 debentures require the company to meet financial covenants. The company was in compliance with financial covenants at March 31, 2021 and June 30, 2021. If the company were to breach a financial covenant or were unable to pay its debts as they came due, it would be in default under the 9% 2025 debentures agreement and, as a result, the 9% 2025 debentures holders would have the right to waive the event of default, demand immediate payment of the 9% 2025 debentures in full or modify the terms and conditions of the 9% 2025 debentures including key terms such as repayment terms, interest rates and security. If the company is unable to secure alternative financing to repay the 9% 2025 debentures, the 9% 2025 debentures holders would have the right to realize upon a part or all of the security held by them.

The issuance of 9% 2025 debentures in March 2021 was considered a transaction with holders of 9% debentures in their capacity as shareholders and accounted for as an exchange of the 9% debentures for 9% 2025 debentures.

The fair value of the $1.0 million 9% 2025 debentures issued in September 2021 was determined to be $597,275 based on a discounted cash flow of the interest and principal obligations of the 9% 2025 debentures and as a result, a gain of $402,725 has been recognized in the contributed surplus (consolidated statements of changes in shareholder deficiency in the consolidated financial statements for three months ended September 30, 2021).

Summary of Quarterly Results

In millions of dollars, except per share amounts						
12 month period ended September 30, 2021						
		Q2	Q3	Q4	Q1	Total
		Dec 31, 2020	Mar 31, 2021	Jun 30, 2021	Sep 30, 2021	
		$	$	$	$	$
Revenues		0.4	0.2	0.3	0.4	1.3
% of annual revenues		30.8%	15.4%	23.0%	30.8%	100.0%
Net (loss)		(0.5)	(0.5)	(0.6)	(0.6)	(2.2)
(Loss) per share - Basic and Diluted		-	-	-	-	-
12 month period ended September 30, 2020						
		Q4	Q3	Q4	Q1	Total
		Dec 31, 2019	Mar 21, 2020	Jun 30, 2020	Sep 30, 2020	
		$	$	$	$	$
Revenues		0.9	0.7	0.2	0.3	2.1
% of annual revenues		42.9%	33.3%	9.5%	14.3%	100.0%
Net (loss)		(0.5)	(1.0)	(0.9)	(0.5)	(2.9)
(Loss) per share - Basic and Diluted		-	-	-	-	-

Covid-19 pandemic is the factor driving performance from quarter ended June 30, 2020 to September 30, 2021.

Capital Resources

The company did not incur material capital expenditures or enter into any material equipment leases during the two periods under review. The company's plan is to continue a gradual move of its entire IT infrastructure into the cloud. The company does not expect significant capital expenditures in the next twelve months.

Critical Accounting Estimates

The preparation of the company's consolidated financial statements, in accordance with IFRS, requires the company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the interim and annual consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The company's significant accounting policies are disclosed in note 3 to the audited consolidated financial statements for year ended June 30, 2021.

Contingent liabilities

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

Going concern

The company assesses the going concern assumption on a quarterly basis. In assessing whether the going concern assumption is appropriate, management considers all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The company has prepared a financial forecast based on its expectation regarding impact of Covid-19 and its interplay with uncertain economic environment in the foreseeable future, market for its programs, its ability to expand its existing MCA and Aeroplan programs, renewal of its agreement with Aeroplan, ability to reach and fulfil settlement accommodation with suppliers, continued access to existing sources of debt, ability to access additional sources of working capital in the form of either debt or equity to stabilize its financial situation and support growth of its core business, the MCA program.

The company's audited consolidated financial statements for year ended June 30, 2021 and three months ended September 30, 2021 carry a going concern note (note 2a and note 2 respectively). The note is also carried in the Section Working Capital and Liquidity Management in this document.

Financial instruments – fair value

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

A significant amount of estimation was applied in evaluation of the fair value of the 9% non convertible debentures payable. Estimates applied by management in the determination of fair value are reflective of the company's overall cost of equity capital.

Credit risk

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

The company has certain business risks linked to the collection of its transaction credits.

Under the MCA program the company acquires the rights to cash flow from future cash flows at a discount from participating merchants ("transaction credits" on consolidated statement of financial position).

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

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

Due to the uncertainties created by Covid-19 pandemic, for the unimpaired transaction credits the company has estimated loss based on historical loss rate supplemented by a forecast loss rate. The historical loss ratio is based on the losses experienced over the seven year period prior to start of the Covid-19 pandemic. The forecast loss rate is based on the company's knowledge of its customers and its evaluation of the impact of the pandemic on individual customers' ability to operate. Location of the merchant business, past and current payment history, current economic activity, duration of the public health restrictions, time-line of return to pre-pandemic economic activity levels are the inputs into the forecast loss ratio.

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

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

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

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

The accounts receivable, transaction credits, and the allowance is as follows:

	September 30, 2021		June 30, 2021	
	$		$	
Transaction credits	$	3,942,325	$	2,787,958
Accounts receivable		105,861		97,475
Allowance		(1,065,754)		(1,065,680)
Per Consolidated statement of financial position	**$**	**2,982,432**	**$**	**1,819,753**
Maximum exposure to credit risk	**$**	**2,982,432**	**$**	**1,819,753**

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

	September 30, 2021		June 30, 2021	
	$		$	
Impaired transaction credits	$	874,285	$	896,059
Allowance		(874,285)		(896,059)
Impaired transaction credits not allowed for	**$**	**-**	**$**	**-**
The company carries a general allowance towards transaction credits. This allowances at September 30, 2021 and June 30, 2021 include a forecast loss ratio to estimate for recovery issues on account of Covid-19 pandemic	$	187,084	$	165,236

Stock Options

The company has a stock option plan for directors, officers, employees and consultants. The stock options are non-assignable; the stock option price is to be fixed by the Board of Directors but may not be less than the regulations of the stock exchange on which the company's common shares are listed; the term of the stock options may not exceed five years, and payment for the optioned shares is required to be made in full on the exercise of the stock options. The stock options are subject to various vesting provisions, determined by the Board of Directors, ranging from immediate to four years.

There was nil outstanding employee stock options at September 30, 2021 and September 30, 2020.

16,688,546 stock options were available for future issuance at September 30, 2021 and September 30, 2020.

There was no stock based compensation expense during Q1 Fiscal 2022 and Q1 Fiscal 2021.

Restricted Share Unit Plan

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

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

The company has not granted any RSUs under the RSU plan as at September 30, 2021, June 30, 2021 and September 30, 2020.

Outstanding Share Data

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

No change in issued Class A preference shares since June 30, 2021. Issued and outstanding 461,887 Class A preference shares.

Common shares:

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

	Number of common shares	$	
No par value. At June 30, 2021	878,948,414	$	24,526,740
No par value. At September 30, 2021	6,932,716,451	$	24,526,740

Potentially Dilutive Securities

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

Related Party Transactions

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

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

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

9% debentures and 9% 2025 debentures are described in section Non Convertible Debentures Payable.

In addition, on September 7, 2021 the company issued common shares:

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

2. Kelly Ambrose, the company's President and Chief Executive Officer was issued 325,000,000 common shares as a retention bonus and 6,588,653 common shares in lieu of a portion of vacation pay due to him; and
3. Mukesh Sabharwal, the company's Vice President and Chief Financial Officer was issued 125,000,000 common shares as a retention bonus and 3,429,384 common shares in lieu of a portion of vacation pay due to him.

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

	September 30, 2021		June 30, 2021	
	9% 2025 debentures	Common shares	9% 2025 debentures	Common shares
Director, Chief Executive Officer - K. Ambrose	$ 575,000	762,737,471	$ 550,000	95,523,818
Director - M. Lavine	500,000	73,514,818	500,000	73,514,818
Director - D. Moscovitz	9,000	1,168,971	9,000	1,168,971
Chief Financial Officer - M. Sabharwal	115,000	155,927,960	115,000	27,498,576
R. Abramson, GIACP, GPMCA (a)	3,543,650	4,452,455,589	2,815,229	321,629,458
Herbert Abramson (b)	356,000	1,130,310,814	159,891	11,560,814
	$ 5,098,650	6,576,115,623	$ 4,149,120	530,896,455
Total issued and outstanding 9% 2025 debentures and common shares	$ 6,009,000	6,932,716,451	$ 6,009,000	878,948,414
% held by parties in tabulation	84.9%	94.9%	69.0%	60.4%

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

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

Economic Dependence

The company's has two business units. MCA program and Aeroplan program.

While both programs are dependent on the continuity of the support of the 9% 2025 debentures which is the source of general working capital, the MCA program is dependent on the support of asset-based lenders, such as Accord, which provide the financing enabling the company to fund up to 90% of each $ of merchant cash advance.

The 9% 2025 debentures are secured by a general security interest over the assets of the company and its subsidiaries. If the company were to breach a financial covenant or were unable to pay its debts as they came due, it would be in default under the 9% 2025 debentures agreement and, as a result, the 9% 2025 debentures holders would have the right to waive the event of default, demand immediate payment of the 9% 2025 debentures in full or modify the terms and conditions of the 9% 2025 debentures including key terms such as repayment terms, interest rates and security. If the company is unable to secure alternative financing to repay the 9% 2025 debentures, the 9% 2025 debentures holders would have the right to realize upon a part or all of the security held by them. The company has a 15 year + relationship with the principal holder of the 9% 2025 debentures and the principal holders invested $1,175,000 through 9% 2025 debentures in the company ($200,000 in March 2021 and $975,000 in September 2021) - section Related Party Transactions.

The current term of agreement with Accord was due to end in December 2021. In September 2021 the company and Accord agreed to extend the term of their agreement to June 30, 2022. The agreement is subject to automatic renewal thereafter for periods of one year unless terminated by either party upon 180 days written notice. Due to Covid-19 pandemic restrictions and their impact on the company's business, Accord allowed the company to defer payment of interest from March 2020 to June 2020. Subsequent to June 30, 2020, Accord provided the company an overdraft facility of $460,000. As of September 30, 2021 the company has utilized $451,000 of this facility. Either non-payment of interest on due dates, if not cured within time period stipulated in the agreement, or non-payment of overdraft facility (in the event it is not converted into either equity or quasi equity position in the company) would constitute an event of default and would be some, amongst certain other circumstances, where the loan payable is repayable on demand to Accord. The company has a 10 year + relationship with Accord.

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

General Risks and Uncertainties

The company has a going concern issue as explained in Section Working Capital and Liquidity Management in this document.

As explained in the Section Economic Dependence the company's operations are funded by debt – loan payable and 9% 2025 debentures (sections Loan Payable and 9% Non Convertible Debentures Payable). The loan payable agreement term ends June 30, 2022. The 9% 2025 debentures mature December 31, 2025. The risks connected to the continuity of the two sources of debt are explained in Section Economic Dependence.

Covid-19 pandemic has created additional uncertainty to the company's business continuity. The uncertainty stems from unknown duration of the crisis and its adverse effect on the economy in general and the company's merchants' in particular. This may adversely affect the company's: collection of accounts receivable and transaction credits; revenues, cash flows and liquidity; ability to meet obligations on due dates; ability to retain relationships with Accord, holders of 9% 2025 debentures; renew agreement with Aeroplan; ability to attract growth capital in the form of either debt or equity; and continuity as a going concern. As of date hereof the company has applied for and received relief under some government programs, and continues to explore its eligibility under various other government programs but no assurance can be given on continuing successful outcomes.

To continue its current operations and fund growth, the company requires continued access to its existing levels of debt and obtain access to additional working capital in the form of debt and or equity.

The company needs to fund growth of MCA program beyond where the MCA portfolio is as of the date hereof. The MCA portfolio works on a co-funding formula which requires the company to fund 10% of each $ of merchant cash advance and a loan payable facility to fund the balance. However, for access to a loan payable facility in excess of the current $8.5 million provided by Accord the company needs to put in higher % as co-fund. The company has limited ability to fund the growth of MCA at 10%. The growth of MCA portfolio is essential to the company being able to initially break-even and then generate surplus cash from its operating activities and move towards financial stability and being able to meet its obligations to 9% 2025 debenture holders. General market conditions; the financial status of the company in terms of its profitability, cash flows and strength of its consolidated balance sheet, general security interest held by 9% 2025 debentures over the assets of the company and its subsidiaries may eliminate or limit access to existing sources of debt, and / or may limit access to additional financing and / or alternative funding to replace existing debt, or the terms of accessible debt may be uneconomic and this could materially and adversely affect the company.

If the company is not successful in raising additional debt financing and or equity, its ability to expand its MCA program and increase revenue may be impeded, resulting in reduced growth in cash flows from operations. This could affect the company's liquidity and working capital position, and ability to continue as a going concern.

The company has certain business risks linked to the collection of its transaction credits. Under the MCA program the company acquires the rights to cash flow from future cash flows at a discount from participating merchants ("transaction credits" on consolidated statement of financial position). The majority of the transaction credits are estimated to be fully extinguishable within 365 days. Until these transaction credits have been extinguished through collections from participating merchants there is a credit risk. The evaluation of collectability of transaction credits requires making assumptions and estimates which are explained under Credit risk in section Critical Accounting Estimates. Actual results could differ materially from the estimates. Adverse recovery outcome could have a material effect on the company's cash flows, its credit environment, its attractiveness as a borrower and its ability to access existing or additional or alternative debt or debt at economic terms and this could materially and adversely affect the company.

The company's activities are funded by two sources of debt. The 9% 2025 debentures has a fixed interest rate, and loan payable which carries a floating interest rate. While the company is not exposed to interest rate risk on account of 9% 2025 debentures, its future cash flows are exposed to interest risk from the floating interest rate payable, calculated as prime rate of a certain Canadian bank plus 8.80%, effective September 1, 2021 on loan payable. While the company does not use derivative instruments to reduce its exposure to interest rate risk, it believes it may be able to pass on, to merchants participating in its programs, a portion of a significant adverse interest rate movement on its loan payable. During the three months September 30, 2021, the company incurred interest expense of $70,701 on utilization of loan payable. Had the interest rate, for the three months ended September 30, 2021 been 10% higher the interest expense on loan payable would have been $77,771, an increase of $7,070.

The company believes the MCA business is a growth industry because institutional lenders are not focused on independent merchants, the engines of significant economic activity. There are several competitors in the MCA space. Currently there is no legislation governing the MCA business. The company believes the transparency of its pricing and its go-to market strategy give it an ability to grow its MCA portfolio if it has access to growth capital. Competition, regulation, and the as yet undeterminable adverse impact of Covid-19 pandemic on economic activity however carry the possibility of adversely affecting the company's ability to expand its MCA program and in turn have a material effect on its revenue, costs, cash flows and profitability.

The company's operations are dependent on the abilities, experience and efforts of its management and highly skilled workforce. While the company has entered into employment agreements with key management personnel and other employees, and each of these agreements includes confidentiality and non-competition clauses, the business prospects of the company could be adversely affected if any of these people were unable or unwilling to continue their employment with the company.

The Aeroplan program the company operates is its secondary line of business and is dependent on its agreement with Aeroplan, operator of Aeroplan Loyalty Program owned by Air-Canada. The current agreement ended April 30, 2021. As of date hereof the two parties continue to work while discussing future terms and direction of their commercial relationship. An important discussion matter was the establishment of a payment plan to address Advantex's arrears with respect to amounts due – for current invoices and balance due from prior payment plan - to Aeroplan and as of date hereof a payment plan is in place and the company is current with it. If the company cannot secure a renewal it could have a material effect on its revenues, liquidity position, ability to retain existing financial partners and or attract growth capital.

Under the Aeroplan program the company operates as a re-seller for Aeroplan and is dependent upon ongoing consumer interest in accumulating frequent flyer miles for the purpose of obtaining reward air travel on Air-Canada. Due to the current Covid-19 concerns and the security difficulties being experienced by the airline industry overall, and in general the continuous devaluation of frequent flyer miles, there is a risk that the underlying frequent flyer currencies used in these programs could become unavailable to the company, or that consumer interest in accumulating these awards could decline. This, in turn, may result in difficulties in acquiring and retaining merchants and may adversely affect the company's revenue and direct costs.

The company provides loyalty marketing services to retail organizations and, in more general terms, the company could be considered competitive with other advertising and promotional programs for a portion of a client's total marketing budget. If client promotional spending levels decrease, this could have a material adverse effect on the company's revenue. In addition, there are additional operators of either loyalty programs or merchant cash advance in Canada, targeting the same merchant base as the company. In the past, other companies have attempted to develop similar merchant-based coalitions on their own and failed, making the company, with its established merchant coalition and proven programs, a reputable outsourced partner in the

Canadian marketplace. The company believes its substantial client equity, proprietary systems, provide a strong platform for the company to compete effectively and respond to competition in Canada.

In addition to those risk factors noted above and risk factors noted in the Working Capital and Liquidity Management Section, the financial condition and profitability of the company is also subject to a number of additional risk factors including: state of the economy, its ability to negotiate settlement accommodation with its suppliers and changes in taxation regulations.

In the ordinary course of business, the company is subject to ongoing audits by tax authorities. While the company believes that its tax filing positions are appropriate and supportable, from time to time, certain matters are reviewed and challenged by the tax authorities. The company regularly reviews the potential for adverse outcomes in respect of tax matters and believes that any ultimate disposition of a reassessment will not have a material adverse impact on its liquidity, consolidated financial position or results of operations due to adequate provisioning for these tax matters. Should an outcome materially differ from existing provisions, the company's effective tax rate, its earnings, and its liquidity and working capital position could be affected positively or negatively in the period in which matters are resolved.

The company has a going concern issue as explained in Section Working Capital and Liquidity Management in this document.

Forward-Looking Information

This Management's Discussion and Analysis contains certain "forward-looking information". All information, other than information comprised of historical fact, that addresses activities, events or developments that the company believes, expects or anticipates will or may occur in the future constitutes forward-looking information. Forward-looking information is typically identified by words such as: anticipate, believe, expect, goal, intend, plan, will, may, should, could and other similar expressions. Such forward-looking information relates to, without limitation, information regarding the company's: belief MCA is growth industry; belief in its ability to grow its MCA program in a competitive environment upon availability of capital; ability to raise growth capital; expectation of growth capital required and the timing of its raise; expectation of financial stability from expansion of MCA program; expectation of timing of financial stability phase; expectation of revenues if Covid-19 was not a factor; expectation of securing an agreement with Aeroplan; expectation of capital expenditures required to operate the business in the next twelve months; expectation of adequacy of reserve created for delinquent transaction credits; belief it has the ability to manage delinquencies consequent to Covid-19 pandemic and during growth mode; belief drivers of revenues across all programs are those set out in the Revenue section; belief it may be able to pass on a portion of any significant adverse interest rate movement on its loan payable to merchants; belief Aeroplan program gives it a competitive advantage in MCA space; expectation of negotiating economic settlement accommodation with its suppliers; belief it has support of its staff; belief in the appropriateness of its tax filings; expectation of completing, including its timing, the share consolidation process and commencement of trading of its common shares on CSE; expectation of uses of funds raised in the September 2021 financing; and other information regarding financial and business prospects and financial outlook is forward-looking information.

Forward-looking information reflects the current expectations or beliefs of the company based on information currently available to the company, including certain assumptions and expectations of Management. With respect to the forward-looking information contained in this Management Discussion and Analysis, the company has made assumptions regarding, among other things, continued support from its provider of loan payable and holders of 9% 2025 debentures; conversion of Accord overdraft into equity or quasi equity; renewal of its agreement with Aeroplan; its ability to access additional working capital in the form of debt and or equity to meet operational needs and to support the growth of the company; its expectation to timely raise growth capital; its ability to manage risks connected to collection of transaction credits; current and future economic and market conditions and the impact of same on its business; ongoing consumer interest in accumulating frequent flyer miles; the size of the market for its programs; its ability to expand and grow its programs; future introductions of regulations to MCA; future business levels, and the cost structure, capital expenditures and working capital required to operate at those levels; future interest rates; impact of Covid-19 on Canadian economy, company's merchants and company's business prospects; and the appropriateness of its tax filing position.

Forward-looking information is subject to a number of risks, uncertainties and assumptions that may cause the actual results of the company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, those listed under "Working Capital and Liquidity Management", "Economic Dependence" and "General Risks and Uncertainties" in this Management Discussion and Analysis.

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

Disclosure Controls and Procedures, and Internal Controls Over Financial Reporting

Management is responsible for external reporting. The company maintains appropriate processes to ensure that relevant and reliable financial information is produced.

Additional Information

Additional information relating to the company is available at www.sedar.com, and may also be obtained by request by telephone or facsimile or at the company's website at www.advantex.com.

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