# ADVANTEX MARKETING INTERNATIONAL INC.
# CONSOLIDATED FINANCIAL STATEMENTS
# For the three months ended September 30, 2014

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

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

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

| | September 30, 2014 | June 30, 2014 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 2,048,171 | 1,815,805 |
| Accounts receivable | 1,015,224 | 809,189 |
| Transaction credits (note 5) | 9,336,617 | 10,278,706 |
| Inventory (note 6) | 90,242 | 90,425 |
| Prepaid expenses and sundry assets | 225,462 | 179,412 |
| | **$12,715,716** | **$13,173,537** |
| **Non-current assets** | | |
| Property, plant and equipment (note 7a) | 217,367 | 237,420 |
| Intangible assets (note 7b) | 585,205 | 529,892 |
| | **802,572** | **767,312** |
| **Total assets** | **$13,518,288** | **$13,940,849** |
| | | |
| **Liabilities** | | |
| **Current liabilities** | | |
| Loan payable (note 8) | 5,602,945 | 6,454,174 |
| Accounts payable and accrued liabilities | 4,594,202 | 4,219,904 |
| | **$10,197,147** | **$10,674,078** |
| **Non-current liabilities** | | |
| 12% Non-convertible debentures payable (note 10) | 4,696,396 | 4,661,833 |
| | **$4,696,396** | **$ 4,661,833** |
| **Total Liabilities** | **$14,893,543** | **$15,335,911** |
| | | |
| **Shareholders' deficiency** | | |
| Share capital (note 11) | 24,530,555 | 24,530,555 |
| Contributed surplus (note 12) | 4,090,382 | 4,090,382 |
| Accumulated other comprehensive income | (47,383) | (47,383) |
| Deficit | (29,948,809) | (29,968,616) |
| **Total deficiency** | **$(1,375,255)** | **$(1,395,062)** |
| **Total liabilities and deficiency** | **$13,518,288** | **$13,940,849** |

**Economic and Financial dependence (note 2), Commitments and contingencies (note 14)**

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

**Approved by the Board:**

**Director:** Signed "William Polley"
William Polley

**Director:** Signed "Kelly Ambrose"
Kelly E. Ambrose

Advantex Marketing International Inc.
Consolidated Statements of Income and Comprehensive Income (unaudited)
For the three months ended September 30, 2014 and 2013
(expressed in Canadian dollars)

| | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| **Consolidated Statements of Income** | | |
| **Revenues** | 3,529,597 | 4,548,212 |
| Direct expenses | 949,498 | 1,604,096 |
| | 2,580,099 | 2,944,116 |
| **Operating Expenses** | | |
| Selling and marketing | 832,123 | 1,001,977 |
| General and administrative | 1,131,708 | 1,118,448 |
| **Earnings from operations before depreciation, amortization and interest** | 616,268 | 823,691 |
| | | |
| Interest expense: | | |
| Stated interest expense – loan payable, and debentures | 444,462 | 513,265 |
| Non-cash interest expense on debentures | 58,769 | 104,333 |
| | 113,037 | 206,093 |
| | | |
| Depreciation of property, plant and equipment, and amortization of intangible assets | 93,230 | 150,211 |
| | | |
| **Net income** | **19,807** | **55,882** |
| | | |
| **Earnings per share:** | | |
| Basic and Diluted (note 15) | **0.00** | **0.00** |
| | | |
| **Consolidated Statements of Comprehensive Income** | | |
| Net income | 19,807 | 55,882 |
| Other comprehensive income / (loss) | | |
| Translation adjustment | - | - |
| **Comprehensive income** | **19,807** | **55,882** |

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

Advantex Marketing International Inc.
Consolidated Statements of Changes in Deficiency (unaudited)
For the three months ended September 30, 2014 and 2013
(expressed in Canadian dollars)

| | Class A preferen-ce shares $ | Common shares $ | Contribut-ed surplus $ | Equity portion of debentures $ | Warrants $ | Deficit $ | Accumulated Other comprehensi-ve income / (loss) | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance – July 1, 2013** | **3,815** | **24,106,281** | **808,167** | **2,114,341** | **1,167,874** | **(29,253,371)** | **-** | **(1,052,893)** |
| Net income and comprehensive income for the period | | | | | | 55,882 | - | 55,882 |
| **Balance – September 30, 2013** | **3,815** | **24,106,281** | **808,167** | **2,114,341** | **1,167,874** | **(29,197,489)** | **-** | **(997,011)** |
| | | | | | | | | |
| **Balance – July 1, 2014** | **3,815** | **24,526,740** | **4,090,382** | **-** | **-** | **(29,968,616)** | **(47,383)** | **(1,395,062)** |
| Net income and comprehensive income for the period | | | | | | 19,807 | - | 19,807 |
| **Balance – September 30, 2014** | **3,815** | **24,526,740** | **4,090,382** | **-** | **-** | **(29,948,809)** | **(47,383)** | **(1,375,255)** |

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

Advantex Marketing International Inc.
Consolidated Statements of Cash Flow (unaudited)
For the three months ended September 30, 2014 and 2013
(expressed in Canadian dollars)

| | | 2014 | 2013 |
|---|---|---|---|
| **Cash flow provided by / (used in) Operating activities** | | | |
| Net income for the period | | $19,807 | $55,882 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment, and amortization of intangible assets | | 93,230 | 150,211 |
| Accretion charge for debentures | | 58,769 | 104,333 |
| | | 171,806 | 310,426 |
| Changes in items of working capital | | | |
| Accounts receivable | | (206,035) | (217,542) |
| Transaction credits | | 942,089 | 370,318 |
| Inventory | | 183 | (25,714) |
| Prepaid expenses and sundry assets | | (46,050) | (89,773) |
| Accounts payable and accrued liabilities | | 374,298 | 128,202 |
| | | 1,064,485 | 165,491 |
| **Net cash provided by / (used in) operating activities** | | **1,236,291** | **475,917** |
| **Investing activities** | | | |
| Purchase of property, plant and equipment, and intangible assets | | (128,490) | (114,237) |
| **Net cash (used in) investing activities** | | **(128,490)** | **(114,237)** |
| **Financing activities** | | | |
| Proceeds from loan payable | | (851,229) | (450,659) |
| Transaction costs, debenture refinancing (note 10) | | (24,206) | - |
| **Net cash generated from / (used in) financing activities** | | **(875,435)** | **(450,659)** |
| **Effect of exchange rate changes on cash and cash equivalents** | | **-** | **-** |
| Increase (decrease) in cash and cash equivalents during the period | | $232,366 | $(88,979) |
| - From continuing operations | | 232,366 | (8,790) |
| - From discontinued operations (note 18) | | - | (80,189) |
| Increase in cash and cash equivalents | | $232,366 | $(88,979) |
| Cash and cash equivalents | – Beginning of period | 1,815,805 | 1,773,672 |
| Cash and cash equivalents | – End of period | 2,048,171 | 1,684,693 |

**Additional Information**

| | | |
|---|---|---|
| Interest paid | $249,420 | $699.401 |
| For purposes of the cash flow statement, cash comprises: | | |
| Cash | $2,043,171 | $1,679,693 |
| Term deposits | $ 5,000 | $ 5,000 |
| | $2,048,171 | $1,684,693 |

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). Advantex operates in the marketing services industry. The company develops and manages loyalty programs for a financial institution and other major organizations through which their customers earn frequent flyer miles or points on purchases at participating merchants. Under the umbrella of each program, Advantex provides merchants with marketing and customer incentives. At its sole discretion the company pre-purchases merchants' future sales through its Advance Purchase Marketing (APM) program. 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 Economic and Financial Dependence

*Economic Dependence*

During year ended June 30, 2014 about 85% (2013 96%) of the company's revenues was generated by a merchant based loyalty program operated in partnership with Canadian Imperial Bank of Commerce ("CIBC"). Until mid-August 2014 this program was entirely dependent upon the company's agreement with CIBC. In June 2014, the company entered into an agreement with The Toronto-Dominion Bank ("TD"). The two agreements enable the company to develop and manage merchant based loyalty program ("CIBC/TD program") under which the company markets participating merchants to the entire portfolio of designated CIBC and TD aeroplan credit cards. On behalf of participating merchants the company awards incremental rewards - over and above those issued by CIBC and TD – to holders of designated credit cards when they complete purchases at their establishments. The company earns its revenue when CIBC and TD aeroplan credit cards holders complete purchases at participating merchants.

The company has a two decade relationship with CIBC. In September, 2013 the company renewed its existing arrangement with CIBC, and signed a new agreement ("new agreement") for an initial term through September 30, 2016. CIBC may, at its option, renew, on the same terms and conditions for up to two additional one year periods. The new agreement can be terminated by CIBC under certain conditions during the initial and renewal terms.

The agreement with TD has an initial term of two years and expires in June 2016. The agreement renews automatically for additional one year terms unless TD provides notice not to renew. The agreement can be terminated by TD under certain conditions during the initial and renewal terms.

The company's revenue from the CIBC/TD program is dependent on the number of merchants participating in the program, dollar spending by holders of CIBC and TD aeroplan credit cards at participating merchants and the economic environment. Since the dollar spending by holders of CIBC and TD aeroplan credit cards is dependent upon the banks credit card portfolio, the company believes that the agreements with two banks mitigate the risk of dependence on one partner.

During year ended June 30, 2014 the company earned 15% (2013 – 6%) of its revenues from the Aeroplan program. This segment is dependent on the company's agreement with Aimia Canada Inc. ("Aimia"). The company operates Aimia's Aeroplan loyalty program in the independent merchant business segment, primarily as a re-seller of aeroplan miles. In November 2014 the company renewed its agreement ("renewed agreement") with Aimia for a five year term ending April 30, 2019. The agreement can be extended for one additional period of five years by mutual consent. Per the renewed agreement the company has an annual commitment to purchase minimum aeroplan miles (note 14). The renewed agreement can be terminated by Aimia under certain conditions during the term of the agreement.

The company successfully completed, during nine months ended March 31, 2014, a pilot merchant based loyalty program, in a test market in the USA, for Caesars Entertainment Corporation ("Caesars"). The company and Caesars signed a multi-year agreement to launch a full program on a graduated basis across the US. The agreement expires December 31, 2017.

The company's segment reporting is provided in note 17.

*Financial Dependence*

The company is funded by debt. The sources of debt are a line of credit facility, and a non-convertible debentures.

The company has access to a line of credit facility under its loan payable (note 8). The loan payable is used exclusively to expand the company's APM program ("transaction credits" on consolidated statements of financial position). In October 2014 the term of the loan payable was renewed for a one year term expiring in December 2015. The relationship was established in 2007.

On December 30, 2013, the company re-financed its two debentures – 14% non-convertible debentures payable (note 9) and 12% non-convertible debentures payable (note 10) – totalling $7.9 million into a single 12% non-convertible debentures payable ("new 12% debentures") (note 10) for $5.2 million. The new 12% debentures mature September 30, 2016. The new 12% debentures are used to meet working capital requirements.

## 3 Basis of preparation

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

These interim consolidated financial statements do not include all the information and notes required by IFRS for annual financial statements and therefore, should be read in conjunction with the audited consolidated financial statements and notes for the company's year ended June 30, 2013, which are available on SEDAR at www.sedar.com.

These interim consolidated financial statements and related notes have been reviewed by the company's audit committee and approved by the company's board of directors on November 21, 2014.

### 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 9 is effective for annual periods beginning on or after either January 1, 2015 (IFRS 9) with early adoption permitted. The company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated interim financial statements or whether to early adopt any of the new requirements.

The following is a description of the new standards:

IFRS 9 - Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

The following new standards, amendments and interpretations that have not been early adopted in these consolidated financial statements and are not expected to have an effect on the company's future results and financial position:

IFRS 3 – Business Combinations
IFRS 10 – Investment Entities Consolidated Financial Statements
IFRS 11 - Joint Arrangements
IFRS 12 - Disclosure of Interest in Other Entities
IAS 16 – Property, Plant and Equipment
IAS 19 – Employee Benefits
IAS 27 - Separate Financial Statements
IAS 28 - Investments in Associates and Joint Ventures
IAS 32 - Offsetting Financial Assets and Financial Liabilities
IAS 36 – Impairment of Assets
IAS 38 – Intangible Assets
IAS 40 – Investment Property

## 4 Summary of significant accounting policies

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

## 5 Transaction credits

Under its APM model the company acquires the rights to cash flow from future designated credit card transactions at a discount from participating merchants ("transaction credits"). These transaction credits are generally estimated to be fully extinguishable within 30 – 210 days. The company, in the normal course of business, is exposed to credit risk on the transaction credits.

The transaction credits are net of applicable allowance for impaired accounts, which is established based on the specific credit risk associated with the customer and other relevant information.

The transaction credits and the allowance for impaired accounts is as follows:

| | **September 30, 2014 $** | **June 30, 2014 $** |
|---|---|---|
| Transaction credits | 10,487,819 | 11,361,349 |
| Allowance | (1,151,202) | (1,082,643) |
| Per statement of financial position | 9,336,617 | 10,278,706 |

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

| | **September 30, 2014** | **June 30, 2014** |
|---|---|---|
| | **$** | **$** |
| Impaired transaction credits | 2,355,115 | 2,167,222 |
| Allowance | (1,151,202) | (1,082,643) |
| Impaired transaction credits not allowed for | 1,203,913 | 1,084,579 |

## 6 Inventory

Inventory comprises

| | September 30, 2014 | June 30, 2014 |
|---|---|---|
| Digital display units | 83,940 | 88,300 |
| Processing terminals | 6,302 | 2,125 |
| Total | **$90,242** | **$90,425** |

Digital display units
The company sells these units to merchants participating in its merchant based loyalty programs.

The units are carried at the lower of cost and net realizable value. Cost is the purchase price paid by the company.

For the three months ended September 30, 2014 $4,360 of inventory was recognized as an expense (2013 - $2,180).

## 7 Property, plant and equipment and intangible assets

(a) Property, plant and equipment

| | Computer equipment | Furniture and equipment | Leasehold Improvements | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **At June 30, 2014** | | | | |
| Cost | **394,959** | **160,089** | **31,874** | **586,922** |
| Accumulated depreciation | **231,606** | **96,646** | **21,250** | **349,502** |
| **Period ended September 30, 2014** | | | | |
| Opening net book value | 163,353 | 63,443 | 10,624 | 237,420 |
| Additions | 5,981 | - | - | 5,981 |
| Depreciation for the period | 20,840 | 3,600 | 1,594 | 26,034 |
| Closing net book value | 148,494 | 59,843 | 9,030 | 217,367 |
| **At September 30, 2014** | | | | |
| Cost | **400,940** | **160,089** | **31,874** | **592,903** |
| Accumulated depreciation | **252,446** | **100,246** | **22,844** | **375,536** |

(b) Intangible assets

| | Computer Software | Other Assets | Total |
|---|---|---|---|
| | $ | $ | $ |
| **At June 30, 2014** | | | |
| Cost | **2,350,545** | **121,822** | **2,472,367** |
| Accumulated amortization | **1,898,411** | **44,064** | **1,942,475** |
| | | | |
| **Period ended September 30, 2014** | | | |
| Opening net book value | 452,134 | 77,758 | 529,892 |
| Additions | 122,509 | - | 122,509 |
| Amortization for the period | 59,420 | 7,776 | 67,196 |
| Closing net book value | 515,223 | 69,982 | 585,205 |
| | | | |
| **At September 30, 2014** | | | |
| Cost | **2,473,054** | **121,822** | **2,594,876** |
| Accumulated amortization | **1,957,831** | **51,840** | **2,009,671** |

## 8 Loan payable

| | September 30, 2014 | June 30, 2014 |
|---|---|---|
| **Opening balance** | **$6,454,174** | **$7,099,371** |
| (Decline) / Additional borrowing | (851,229) | (645,197) |
| **Closing balance** | **$5,602,945** | **$6,454,174** |

The loan payable is a line of credit facility ("facility") provided by Accord Financial Inc. ("Accord"). The facility limit is $8.5 million. The company is paying interest rate on the entire facility equivalent to prime rate of a certain Canadian bank plus 11.5% per annum. The term of facility is to December 2015. In certain circumstances the loan payable amount is repayable on demand to Accord.

The facility is used by the company exclusively to acquire transaction credits, under its APM program, from establishments that are in business segments available to the company under its agreements with CIBC, TD and Aimia.

The interest cost during the period ended September 30, 2014 was $249,420 (2013 - $265,647).

## 9 14% Non-convertible debentures payable

The 14% non-convertible debentures payable ("14% debentures"), issued in May 2011, were repaid in December 2013. The 3,444,400 common share purchase warrants of the company (each a "warrant") issued with the 14% debentures were not exercised and expired as of December 31, 2013.

Stated interest charges and accretion charges with respect to the 14% debentures are as follows:

| | Period ended September 30, 2014 | | Period ended September 30, 2013 | |
|---|---|---|---|---|
| | Stated Interest | Accretion charges | Stated Interest | Accretion charges |
| | $- | $- | $61,542 | $7,702 |

## 10 12% Non-convertible debentures payable

The 12% non-convertible debentures payable ("old 12% debentures"), issued in May 2011, were repaid in December 2013. The 87,056,491 common share purchase warrants of the company (each a "warrant") issued with the old 12% debentures were not exercised and expired as of December 31, 2013.

On December 30, 2013, the company completed a refinancing by way of a private placement of 12% non-convertible debentures ("new 12% debentures") in the principal amount of $5,159,000.

The new 12% debentures are issued as units. Each unit comprises (i) $1,000 face value secured non-convertible debentures of the company bearing interest at 12% per annum, payable semi-annually, and maturing 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.

Under the agreement, the proceeds of the new 12% debentures are to be used for working capital purposes. The new 12% debentures are secured by a general security interest over the assets of the company and its subsidiaries. The significant financial covenants of the new 12% debentures require the company to meet (i) commencing the quarter ended December 31, 2013, on a quarterly basis a defined level of designated current assets, and interest coverage, and (ii) commencing January 31, 2014, on a monthly basis a defined level of credit card spend, on which the company earns its revenue, at merchants participating in its loyalty programs. In June 2014, the debenture holders agreed to a) re-set the financial covenants and b) defer the semi-annual interest due June 15, 2014 and is now payable in two equal instalments due October 15, 2014 and November 15, 2014. The company agreed to pay a fee of $65,000 to the debenture holders for the above changes to the new 12% debentures The company met the financial covenants as at September 30, 2014.

Movement on the new 12% debentures

| | Debt portion |
|---|---|
| **Balance as at June 30, 2014** | **$4,661,833** |
| Transaction costs | (24,206) |
| Accretion charge for the period | 58,769 |
| **Balance at September 30, 2014** | **$4,696,396** |

Stated interest charges and accretion charges with respect to the debentures are as follows:

| | Period ended September 30, 2014 | | Period ended September 30, 2013 | |
|---|---|---|---|---|
| | Stated Interest | Accretion charges | Stated Interest | Accretion charges |
| old 12% debentures | $ - | $ - | $186,076 | $96,631 |
| new 12% debentures | $156,042 | $58,769 | $ - | $ - |
| new 12% debentures fees | $ 39,000 | $ - | $ - | $ - |
| | $195,042 | $58,769 | $186,076 | $96,631 |

## 11 Share capital

Authorized and Issued share capital. No change during the three months ended September 30, 2014.

## 12 Share-based payments

Employee stock options

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

| | Number of employee stock options | Weighted average exercise price $ |
|---|---|---|
| **Outstanding at June 30, 2014 and September 30, 2014** | **10,190,000** | **0.03** |
| **Exercisable at June 30, 2014 and September 30, 2014** | **10,190,000** | **0.03** |

The outstanding and exercisable employee stock options at June 30, 2014 were issued at exercise prices ranging between $0.02 and $0.05, and have a weighted average remaining contractual life of 2.25 years. The employee stock options expire at various periods between March 2016 and March 2018.

The number of employee stock options available for future issuance as at June 30, 2014 and September 30, 2014 is 6,498,546.

The company has recorded $ nil of stock-based compensation expense during period ended September 30, 2014 (2013 - $nil).

Potentially Dilutive Securities

Upon exercise of the employee stock options exercisable as at June 30, 2014 and September 30, 2014, the company is committed to issuing 10,190,000 common shares.

Contributed surplus

Amounts attributed to contributed surplus are disclosed as part of shareholders' deficit on the statements of financial position.

| | Contributed surplus |
|---|---|
| **Balance at June 30, 2014 and September 30, 2014** | **$ 4,090,382** |

## 13 Related party transactions

Directors and Officers

In December 2013 the directors and officers purchased new 12% debentures (note 10), on terms and conditions applicable to the other subscribers. The holdings of debentures are tabulated:

| | June 30, 2014 and September 30, 2014 |
|---|---|
| Director and Chief Executive Officer – Kelly Ambrose | $500,000 |
| Director and Chairman of the Board of Directors – Stephen Burns | $ 50,000 |
| Director - Marc Lavine (first term; elected director December 18, 2013) | $500,000 |
| Director – Rob von der Porten (first term; elected director December 18, 2013) | $ 50,000 |
| Director – William Polley | $ 50,000 |
| Director – Barry Wainstein (first term – appointed director March 17, 2014) | $ 25,000 |
| Chief Financial Officer – Mukesh Sabharwal | $115,000 |

## 14 Commitments and contingencies

Commitments

As at September 30, 2014, the company is committed to minimum payments with respect to existing leases for equipment and premises:

| | Equipment | Premises | Total |
|---|---|---|---|
| Not later than one year | $24,120 | $ 99,611 | $123,731 |
| Later than one year and not later than five years | $38,370 | $182,814 | $221,184 |
| Later than five years | $nil | $nil | $nil |
| **Total** | **$62,490** | **$282,425** | **$344,915** |

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

A significant portion of the commitments for premises is for the company's head office (note 1). The lease expires in September, 2017.

*Additional commitments*

In November 2014 the company renewed its agreement ("renewed agreement") with Aimia for a five year term ending April 30, 2019. The renewed agreement enables the company to operate Aimia's Aeroplan loyalty program in the independent merchant business segment, primarily as a re-seller of aeroplan miles. Per the renewed agreement the company has an annual commitment to purchase minimum aeroplan miles. The annual commitment is tabulated:

| Calendar year | Annual commitment |
|---|---|
| 2014 | $1,700,000 |
| 2015 | $1,870,000 |
| 2016 | $2,057,000 |
| 2017 | $2,262,700 |
| 2018 | $2,488,970 |

In February 2012 the company signed an agreement with a service provider to purchase software over a three year term. The software provides an integrated platform enabling users to simultaneously manage and schedule their digital marketing campaigns. The annual purchase commitment, per agreement, is $192,000. The company sells this software to merchants participating in its programs.

Taxation

As of date hereof, the company does not have a decision to the notice it has filed with Canada Revenue Agency to confirm the appropriateness of the company's treatment of HST/GST for the periods subsequent to fiscal 2007.

## 15 Earnings per share

Basic EPS is calculated by dividing the net income 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. The company's potentially dilutive common shares comprise stock options granted to employees, officers and directors (position as at June 30, 2014 tabulated under note 12).

Basic and Diluted EPS are tabulated.

| | 3 months 2014 | 3 months 2013 |
|---|---|---|
| Net earnings | $19,807 | $55,882 |
| **Basic EPS** | | |
| Average number of issued common shares during the period | 136,071,218 | 97,025,368 |
| Basic EPS | $0.00 | $0.00 |
| **Diluted EPS** | | |
| Average number of issued common shares during the period | 136,071,218 | 97,025,368 |
| In the money dilutive securities at end of September | nil | nil |
| Average number of issued common shares including dilutive securities during the period | 136,071,218 | 97,025,368 |
| Diluted EPS | $0.00 | $0.00 |

## 16 Nature of Expenses

| | **Period ended September 30, 2014** | **Period ended September 30, 2013** |
|---|---|---|
| | **$** | **$** |
| Direct Expenses | | |
| ➢ Covering costs of a) cardholders awards, and marketing and advertising in connection with the company's merchant based loyalty programs; b) cost of sales related to sale of aeronotes; c) cost of sales of digital marketing services; and d) provision against accounts receivable and transaction credits | **$ 949,498** | **$ 1,604,096** |
| Selling and Marketing, and General & Administrative | | |
| ➢ Salaries and wages including travel | 1,579,642 | 1,724,451 |
| ➢ Professional fees | 132,921 | 145,136 |
| ➢ Facilities, processing, and office expenses | 233,026 | 240,506 |
| ➢ Other | 18,242 | 10,332 |
| | **$1,963,831** | **$ 2,120,425** |

## 17 Segment reporting

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

During period ended September 30, 2014 and 2013 the CIBC/TD program relates to the merchant based loyalty program the company developed and managed respectively for CIBC and TD, and CIBC.

The company operates Aimia's Aeroplan loyalty program in the independent merchant business segment, primarily as a re-seller of aeroplan miles. The company's Aeroplan program relates to merchant based loyalty program the company developed and managed for Aimia.

Financial information by reportable segment for period ended September 30, 2014 and 2013 is tabulated.

For the period ended September 30, 2014

| | CIBC/TD program | Aeroplan program | Corporate | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Revenues | 2,992,856 | 528,882 | 7,859 | 3,529,597 |
| Direct expenses | 676,919 | 268,767 | 3,812 | 949,498 |
| | 2,315,937 | 260,115 | 4,047 | 2,580,099 |
| Selling and marketing | 727,766 | 92,296 | 12,061 | 832,123 |
| General and administrative | 840,543 | 148,536 | 142,629 | 1,131,708 |
| Earnings from operations before depreciation, amortization and interest | 747,628 | 19,283 | (150,643) | 616,268 |
| Interest – Loan payable (note 8) | 249,420 | - | - | 249,420 |
| Interest – Non-convertible debentures (notes 9 and 10) | 215,231 | 38,071 | 509 | 253,811 |
| Depreciation and amortization | 79,059 | 13,984 | 187 | 93,230 |
| Segment profit / (loss) | 203,918 | (32,772) | (151,339) | 19,807 |

For the period ended September 30, 2013

| | CIBC/TD program | Aeroplan program | Corporate | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Revenues | 4,098,582 | 449,585 | 45 | 4,548,212 |
| Direct expenses | 1,313,785 | 290,311 | - | 1,604,096 |
| | 2,784,797 | 159,274 | 45 | 2,944,116 |
| Selling and marketing | 867,774 | 134,203 | - | 1,001,977 |
| General and administrative | 895,688 | 98,251 | 124,509 | 1,118,448 |
| Earnings from operations before depreciation, amortization and interest | 1,021,335 | (73,180) | (124,464) | 823,691 |
| Interest – Loan payable (note 8) | 265,647 | - | - | 265,647 |
| Interest – Non-convertible debentures (notes 9 and 10) | 317,107 | 34,844 | - | 351,951 |
| Depreciation and amortization | 135,340 | 14,871 | - | 150,211 |
| Segment profit / (loss) | 303,241 | (122,895) | (124,464) | 55,882 |

## 18 Discontinued operations

Discontinued operations are discussed in detail in note 16 to the consolidated statements for year ended June 30, 2014. The following provides details with respect to the amounts included in the statement of cash flows as discontinued operations.

| | **Three months ended September 30, 2014** | **Three months ended September 30, 2013** |
|---|---|---|
| | **$** | **$** |
| Changes in non-cash working capital items | | |
| Accounts payable | - | (80,189) |
| **Movement in cash and cash equivalents** | **-** | **$(80,189)** |