



ADVANTEX

ADVANTEX® MARKETING INTERNATIONAL INC.

Management's Discussion and Analysis of Operating Results

For the three and six month periods ended December 31, 2015 and 2014

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 February 23, 2016. MD&A is a narrative explanation to enable the reader to assess material changes in the financial condition and results of operations of the Company during the three and six month periods ended December 31, 2015 compared to the three and six month periods ended December 31, 2014. 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, 2015, and the interim consolidated financial statements and the related notes for the three and six months ended December 31, 2015 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 a leader in the marketing services industry. The Company develops and manages merchant based loyalty programs for its "Affinity partners", Canadian Imperial Bank of Commerce ("CIBC"), The Toronto Dominion Bank ("TD"), Aimia Inc. ("Aimia") and Caesars Entertainment Corporation ("Caesars"). The programs the Company operates in partnership with CIBC and TD ("CIBC/TD program"), Aimia ("Aeroplan program") and Caesars ("Caesars program") enable holders of designated CIBC and TD credit cards, members of Aeroplan, and Caesars Towards Rewards (holders and members together "consumers") to accelerate earning frequent flyer miles and/or other rewards ("consumer rewards") on completing purchases at participating merchants. Under the umbrella of each program, Advantex markets participating merchants to consumers and on behalf of the merchants issues consumer rewards, provides merchants with business intelligence connected to the spending behaviour of consumers, and at its sole discretion provides merchants with working capital by the pre-purchase of their future sales.

On a combined basis, Advantex has contractual marketing access to millions of Canadian and US consumers with above-average personal and household income. The Company's merchant partner base currently consists of about 1,600 merchants participating in the three programs and operating across Canada and US in diverse business segments: restaurants; golf courses; independent inns, resorts and selected hotels; spas; retailers of men's and ladies fashion, footwear and accessories; retailers of sporting goods; florists and garden centres; book and newspaper stores; health and beauty centres; dry cleaners; gift stores; home décor; automotive dealers, service centers; and tire dealerships, many of which are leaders in their respective business segment.

Advantex earns its revenue from merchants participating in its CIBC/TD program, in the form of an agreed marketing fee, for every purchase completed using an eligible CIBC, and TD credit card at their establishments. Advantex earns its revenue in the Aeroplan program from selling consumer rewards (aeroplan miles), at an agreed price per consumer reward, to participating merchants. Merchants participating in the Caesars program pay an agreed monthly participation fee.

Advantex's common shares are traded on the Canadian Securities Exchange ("CSE") under the symbol ADX.

Summary – Three and six months ended December 31, 2015

The financial performance is in line with the Company's expectation.

After overcoming the structural and competitive challenges of the previous Fiscal year, the Company is reporting an improvement in its financial performance for the three and six months ended December 31, 2015. The tabulation points to a slow and gradual recovery.

	Q2 Fiscal 2016	Q1 Fiscal 2016	Q4 Fiscal 2015	Q3 Fiscal 2015
	3 months - December 31, 2015	3 months - September 30, 2015	3 months - June 30, 2015	3 months - March 31, 2015
	\$	\$	\$	\$
Earnings from operations before one-time costs, depreciation, amortization and interest	527,954	464,372	395,046	(1,221,893)
Cash interest expense	396,865	383,471	390,857	373,050
Earnings from operations before one-time costs, depreciation, amortization and non-cash interest (accretion charges on debentures)	131,089	80,901	4,189	(1,594,943)
Depreciation, amortization and non-cash interest	161,191	188,573	172,935	181,320
One-time costs - Restructuring costs	-	-	195,429	805,892
Net (loss)	\$ (30,102)	\$ (107,672)	\$ (364,175)	\$ (2,582,155)

The restructuring during the third and fourth quarters of Fiscal year ended June 30, 2015 gave the Company the platform for a gradual re-build of merchant participation in its programs and increase its revenues. The operating costs were aligned to expected revenue levels. The merchant participation levels in the core business – CIBC/TD program – are increasing; 921 at the end of December 2015 compared to 911 at end of September 2015 and a low point of 839 at the end of March 2015.

Income Statement – Three and six months ended December 31, 2015 (“Q2 Fiscal 2016” and “YTD Fiscal 2016” respectively) compared to corresponding periods in the previous year (“Q2 Fiscal 2015” and “YTD Fiscal 2015” respectively)

Q2 Fiscal 2016 compared to Q2 Fiscal 2015

The revenues of Q2 Fiscal 2016 were \$703,567 (18.5%) lower compared to Q2 Fiscal 2015 reflecting a decline in the CIBC/TD program revenues of \$415,465 (13.4%) and Aeroplan program revenues of \$302,904 (43.1%). The CIBC/TD program revenues accounted for 86.4% of Q2 Fiscal 2016 revenues (81.3% of Q2 Fiscal 2015). The decline primarily reflects lower merchant participation in the CIBC/TD program. Price reductions – to expand the merchant participation – is also a factor. While the merchant participation is on the increase, the process is gradual. The average merchant participation during Q2 Fiscal 2016 at 916 was 2.9% lower compared to Q2 Fiscal 2015. Aeroplan program revenues decline partially reflects the exit of a large account effective October 1, 2015.

The gross profit of Q2 Fiscal 2016 was \$521,084 (20.1%) lower compared to Q2 Fiscal 2015 primarily reflecting a decline in the CIBC/TD gross profit of \$369,502 (16.2%). The CIBC/TD program gross profit accounted for 92.4% of Q2 Fiscal 2016 gross profit (88.1% of Q2 Fiscal 2015).

Selling, General and Administrative (“SG&A”) expenses were \$629,799 lower reflecting the cost management initiated during the third and fourth quarters of Fiscal year ended June 30, 2015 and this offset the decline in the gross profit.

Interest cost, and depreciation and amortization were flat.

The net loss of \$30,102 for Q2 Fiscal 2016 was an improvement of \$113,977 compared to Q2 Fiscal 2015.

YTD Fiscal 2016 compared to YTD Fiscal 2015

The revenues of YTD Fiscal 2016 were \$1,237,910 (16.9%) lower compared to YTD Fiscal 2015 reflecting a decline in the CIBC/TD program revenues of \$893,802 (14.7%) and Aeroplan program revenues of \$382,279 (31.0%). The CIBC/TD program revenues accounted for 85.2% of YTD Fiscal 2016 revenues (83.0% of YTD Fiscal 2015). The decline primarily reflects lower merchant participation in the CIBC/TD program. Lower credit card spending by consumers in a weak economy and price reductions – to expand the merchant participation – are also factors. While the merchant participation is on the increase, the process is gradual. The average merchant participation during YTD Fiscal 2016 at 901 was 6.8% lower compared to YTD Fiscal 2015. Aeroplan program revenues decline partially reflects the exit of a large account effective October 1, 2015.

The gross profit of YTD Fiscal 2016 was \$988,998 (19.1%) lower compared to YTD Fiscal 2015 primarily reflecting a decline in the CIBC/TD gross profit of \$786,311 (17.1%). The CIBC/TD program gross profit accounted for 91.2% of YTD Fiscal 2016 gross profit (88.9% of YTD Fiscal 2015).

Selling, General and Administrative (“SG&A”) expenses were \$945,818 lower reflecting the cost management initiated during the third and fourth quarters of Fiscal year ended June 30, 2015 and this substantially offset the decline in the gross profit.

Interest cost was lower by \$60,372. YTD Fiscal 2015 reflects fees payable of \$58,500 on the 12% Non-convertible Debentures Payable (“new 12% debentures”) connected to changes in Fiscal year ended June 30, 2014 to the new 12% debentures agreement.

The net loss of \$137,774 for YTD Fiscal 2016 was comparable to YTD Fiscal 2015 net loss of \$124,273.

The financial highlights are summarized in the tabulation:

	<u>Q2 Fiscal 2016</u>	<u>Q2 Fiscal 2015</u>	<u>YTD Fiscal 2016</u>	<u>YTD Fiscal 2015</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Revenues				
CIBC/TD program	\$ 2,673,888	\$ 3,089,353	\$ 5,188,405	\$ 6,082,209
Aeroplan program	399,870	702,774	849,378	1,231,656
Caesars program	22,665	7,863	53,849	15,677
Misc	-	-	45	45
	\$ 3,096,423	\$ 3,799,990	\$ 6,091,677	\$ 7,329,587
Gross profit	\$ 2,069,842	\$ 2,590,926	\$ 4,182,027	\$ 5,171,025
Earnings from operations before depreciation, amortization and interest	\$ 527,954	\$ 419,239	\$ 992,326	\$ 1,035,506
Net (loss) and Comprehensive (loss)	\$ (30,102)	\$ (144,079)	\$ (137,774)	\$ (124,273)

Balance Sheet – December 31, 2015 compared to December 31, 2014

Although the merchant participation in the CIBC/TD program is on the increase since March 31, 2015, the lower merchant participation (average of 901 during YTD Fiscal 2016 compared to 967 during YTD Fiscal 2015) and increase in the provision for delinquent accounts, primarily during the third quarter of Fiscal year ended June 30, 2015, is reflected in the decline of \$355,615 in transaction credits (net of provision for delinquent accounts). At December 31, 2015 \$9,033,805 compared to \$9,389,420 at December 31, 2014.

Cash and cash equivalents declined \$541,322 primarily reflecting operational performance during the period October 2014 to December 2015. At December 31, 2015 \$500,213 compared to \$1,041,535 at December 31, 2014.

Intangible assets declined \$270,108. Net book value of \$316,862 at December 31, 2015 compared to \$588,970 at December 31, 2014.

The decline in transaction credits and cash are the primary reasons for decline in current assets of \$1,112,406, and together with the change in intangibles the primary reasons for decline in total assets of \$1,462,236.

The amount due on the loan payable increased \$1,060,667 despite decline in merchant participation and transaction credits. The increase in merchant participation in the APM product since April 2015 has been entirely co-funded using the loan payable (at March 31, 2015 the loan payable was \$5,984,059) and between April 2015 and December 2015 the loan payable has increased by \$569,998.

A detailed look at the results for Q2 Fiscal 2016 and YTD Fiscal 2016 compared to Q2 Fiscal 2015 and YTD Fiscal 2015 is set out in the following sections.

Outlook

The Company's assets are its Affinity partnerships with CIBC, TD, Aimia and Caesars, its merchant portfolio and its unique product offerings which seamlessly connect, through the Company's proprietary technology, merchants to consumers. The Company believes that its long term prospects are positive because it has a unique product for the small independent merchant space. Working capital and loyalty marketing at affordable prices. Its systems and processes can rapidly onboard new affinity partners and are scalable. Loyalty marketing is a multi-billion dollar business in North America and Advantex is well positioned to gain a wider share of this market with its proprietary technology and its outstanding partners.

Since the beginning of April 2015 the Company is increasing merchant participation in the CIBC/TD program. Since October 2015, the Company is in initial discussions with organizations across North America to operate for them its marketing loyalty programs similar to its CIBC/TD program. This business, if launched, would be additive. The Company believes there is scope for expansion in Canada, eventually reaching merchant participation levels of Fiscal years 2012 and 2013, both years in which the Company reported net profits, and in the US which has the potential to make a material impact on the Company. However, in order to monetize these opportunities the Company needs access to working capital in the form of equity and debt and the Company is starting to explore avenues to raise funds.

The Company is operating in a weak economy and given its difficult operating environment it is expecting modest improvement in financial performance during the next twelve months. The Company expects to generate sufficient cash from operations, adequate to meet its operational requirements. The Company believes it has the support of its Affinity and Financial partners, its staff and is confident in its ability to successfully overcome the challenges.

The Company is expecting to renew its partnerships with Affinity partners TD and CIBC which are due for renewal in June and September 2016 respectively. The Company is also engaged in discussions respecting re-financing of debentures maturing September 2016.

Results of Operations

	Q2 Fiscal 2016	Q2 Fiscal 2015	YTD Fiscal 2016	YTD Fiscal 2015
	\$	\$	\$	\$
Revenue	\$ 3,096,423	\$ 3,799,990	\$ 6,091,677	\$ 7,329,587
Direct Expenses	1,026,581	1,209,064	1,909,650	2,158,562
Gross profit	\$ 2,069,842	\$ 2,590,926	\$ 4,182,027	\$ 5,171,025
Selling and General & Administrative	1,541,888	2,171,687	3,189,701	4,135,519
Earnings from operations before depreciation, amortization and interest	\$ 527,954	\$ 419,239	\$ 992,326	\$ 1,035,506
Cash interest on loan payable and debentures	396,865	397,612	780,336	842,074
Earnings from operations before depreciation, amortization and non-cash interest on debentures (accretion charges)	\$ 131,089	\$ 21,627	\$ 211,990	\$ 193,432
Depreciation and amortization	103,045	110,229	234,152	203,459
Non cash interest expense on debentures	58,146	55,477	115,612	114,246
Net (loss) and Comprehensive (loss)	\$ (30,102)	\$ (144,079)	\$ (137,774)	\$ (124,273)

Extract from the Statement of Financial Position

	At December 31, 2015	At June 30, 2015	Increase/ (Decrease)
	\$	\$	\$
Current assets	\$ 10,456,717	\$ 9,761,353	\$ 695,364
Total assets	\$ 10,908,275	\$ 10,405,080	\$ 503,195
Shareholders' deficiency	\$ (4,603,439)	\$ (4,465,665)	\$ 137,774

The change in current assets and total assets primarily reflects an increase in transaction credits (net of provision for delinquent accounts) of \$1,214,158 and decrease in cash and cash equivalents of \$662,398. The increase in transaction credits partially reflects higher merchant participation in the CIBC/TD program. The cash balances at the end of a quarter / year reflect the timing difference between the Company's ongoing deployment and collection of transaction credits from merchants participating in its CIBC/TD program's APM product.

The movement in the shareholders' deficit reflects net loss during YTD Fiscal 2016.

Extract from the Statement of Cash Flow

	YTD Fiscal 2016	YTD Fiscal 2015	Change
	\$	\$	\$
Net (loss)	\$ (137,774)	\$ (124,273)	\$ (13,501)
Adjustments for non cash expenses	349,764	317,705	32,059
Income after adjustments for non cash expenses	\$ 211,990	\$ 193,432	\$ 18,558
Decrease in severance payable	(428,034)	-	(428,034)
Changes in working capital	(1,246,901)	254,823	(1,501,724)
Net cash generated from (used in) financing activities supporting working capital	842,532	(985,080)	1,827,612
Net cash provided by (used in) operations	\$ (620,413)	\$ (536,825)	\$ (83,588)
Net cash provided by (used in) investing activities	(41,983)	(237,535)	195,552
Increase/(Decrease) in cash and cash equivalents	(662,396)	\$ (774,360)	\$ 111,964
Cash and cash equivalents at start of period	\$ 1,162,609	\$ 1,815,805	\$ (653,196)
Cash and cash equivalents at end of period	\$ 500,213	\$ 1,041,445	\$ (541,232)

YTD Fiscal 2016 compared to YTD Fiscal 2015

Changes in working capital – Transaction credits, accounts receivable, accounts payable and accrued liabilities and other working capital items. During YTD Fiscal 2016 the changes primarily reflect an increase in transaction credits, net of provision for delinquent accounts, of \$1,214,158 which is a reflection of an increase in merchant participation since April 2015. In addition, the Company used \$428,034 to settle severances consequent to restructuring during third and fourth quarters of Fiscal year ended June 30, 2015. YTD Fiscal 2015 primarily reflects a decrease in accounts payable and accrued liabilities of \$575,321; consisting of payments respecting 1) deferred June 15, 2014 new 12% debentures interest payment (see section 12% Non-Convertible Debentures Payable), 2) staff salaries deferred during Fiscal year ended June 30, 2015 and Q1 Fiscal 2015 and 3) supplier payments.

Financing activities. YTD Fiscal increase in loan payable reflects usage of line of credit to support increase in transaction credits. YTD Fiscal 2015 decline in loan payable reflects declining merchant participation which is discussed in the section Revenue.

Investing activities. These are discussed in section Capital Resources in this document. For the Fiscal year ending June 30, 2016 the Company expects capital expenditures to be on par with Fiscal year ended June 30, 2015. In the fourth quarter of Fiscal 2015 and Q1 Fiscal 2016 the Company was able to secure leasing arrangements to meet the cost of IT hardware and its operationalizing. The financial commitments on these leases is provided in the section Contractual obligations in this document. The Company expects to secure lease arrangements for significant expenditures during Fiscal year ending June 30, 2016.

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 and six ended December 31, 2015, and have been included to provide additional analysis for the reader.

Revenue

The Company’s revenue is derived from merchants participating in its Retail programs which currently consist of the CIBC/TD program, the Aeroplan program and Caesars program.

The Retail programs have four business products. APM, Marketing Only, Re-seller and Participation fee which are described later in this section.

The CIBC/TD program operates the APM, and Marketing Only business products.

The Aeroplan program operates the Re-seller product.

The Caesars program operates the Participation fee product.

The nature of the Company's products is as follows:

Advance Purchase Marketing ("APM"): The Company acquires the rights to cash flow from future CIBC and TD credit card transactions at a discount from participating merchants (transaction credits on consolidated statement of financial position) and promotes the merchant by way of targeted marketing to holders of designated CIBC/TD credit cards, issues consumer rewards to consumers when they complete purchases at participating merchants, and provides merchants with business intelligence connected to the spending behaviour of consumers. The Company's revenue is from the purchases completed at the participating merchants using any card from CIBC portfolio of credit cards and TD aeroplan credit cards, net of the Company's costs to acquire the transaction credits. Proceeds from the amount spent on above noted CIBC/TD credit cards at participating merchants are received by the Company and a predetermined portion is applied to reduce the transaction credit balance that the merchant owes.

Marketing Only: The Company does not acquire transaction credits. In all other respects Marketing Only is similar to APM. Revenue is earned in the form of an agreed marketing fee for every purchase completed using CIBC/TD credit card (as defined under APM) at participating merchants.

Re-seller: The Company sells aeroplan miles to small and mid-sized retailers and service providers. Revenue is recognized, at the agreed price per aeroplan mile, when the participating merchant issues aeroplan miles to an Aeroplan member completing a qualifying transaction at the merchant. Certain agreements with merchants carry a commitment for merchants to issue a minimum number of aeroplan miles during the term of their agreement with the Company.

Participation fee: The Company markets participating merchants to Caesars Total Rewards members and the merchant issues total rewards loyalty points to Total Rewards members completing a qualifying transaction at the merchant. The merchant pays an agreed monthly fee to Advantex.

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

1. Number of participating merchants;
2. Market penetration of the CIBC/TD credit cards;
3. Economic environment. The uncertain economy is affecting consumer spending habits;
4. Mix of merchants in terms of their volume of CIBC/TD credit card transactions; and
5. Participation levels in APM and Marketing Only. The fees that a merchant would pay for participation in the APM product is higher compared to Marketing Only.

The revenues from the Re-seller product reflect 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 revenues from the Caesars program are dependent on the number of participating merchants. The program expansion was launched in February 2015 in the Philadelphia market. During Fiscal 2015 the merchants participating were carried over from the pilot launch in Memphis and soft launch in November 2014 in the Philadelphia market. About 60 merchants are participating in the program as of date hereof.

The Company believes the primary driver of revenues across all programs is the number of merchants participating in the programs.

The revenue trends are provided in the tabulation.

	Q2 Fiscal 2016	Q2 Fiscal 2015	Inc.//(Dec)	YTD Fiscal 2016	YTD Fiscal 2015	Inc.//(Dec)
Avg. # of merchants participating during the periods						
CIBC/TD program	916	943	-2.9%	901	967	-6.8%
Aeroplan program	648	609	6.4%	618	606	1.9%
	\$	\$	\$	\$	\$	\$
Revenues						
CIBC/TD program	\$ 2,673,888	\$ 3,089,353	\$ (415,465)	\$ 5,188,405	\$ 6,082,209	\$ (893,804)
Aeroplan program	399,870	702,774	(302,904)	849,378	1,231,656	(382,278)
Caesars program	22,665	7,863	14,802	53,849	15,677	38,172
Misc	-	-	-	45	45	-
	\$ 3,096,423	\$ 3,799,990	\$ (703,567)	\$ 6,091,677	\$ 7,329,587	\$ (1,237,910)

CIBC/TD program

During Fiscal year ended June 30, 2015 the Company was impacted by the June 2014 change to the CIBC-Aeroplan relationship which saw TD take over about half of CIBC's aero based credit cards. This added complexity and the cost and resources needed to build a new loyalty marketing program created a difficult selling and merchant retention environment for its CIBC/TD program, resulting in decline in merchant participation from 1,022 at the end of June 30, 2014 to March 2015. Q2 Fiscal 2014 and YTD Fiscal 2014 fell in this period and there was a steady decline in merchant participation.

By April 2015 the Company's new, upgraded and combined CIBC/TD loyalty marketing program was launched with a much stronger value proposition. From beginning of April 2015 the merchant participation was back on growth track, increasing from a low of 839 merchants at end of March 2015 to 921 at end of December 2015.

The lower merchant population during Q2 Fiscal 2016 and YTD Fiscal 2016 compared to corresponding periods previous year and marketing fee reduction – implemented towards the end of the third quarter of Fiscal year ended June 30, 2015 to boost new merchant participation and improve retention – are the primary reasons for the declines in the program revenues.

Aeroplan program

A merchant which in the Fiscal year ended June 30, 2015 accounted for 18% of the revenues from the Aeroplan program exited the program effective October 1, 2015.

The weak economy has an impact on consumer spending. Lower spending would be reflected in lower issuance of aeroplan miles by participating merchants.

Profile of merchant portfolio also impacts aeroplan mile issuances. Although the portfolio consists primarily of retailers it also has distributors who purchase aeroplan miles in bulk. The Company lost a distributor account in the second half of Fiscal year ended June 30, 2015.

For the above stated factors 31.8 million aeroplan miles were issued during YTD Fiscal 2016 compared to 36.4 million aeroplan miles during YTD Fiscal 2015.

The average selling price per aeroplan mile for YTD Fiscal 2016 was lower compared to YTD Fiscal 2015, primarily reflecting loss of above noted merchant effective October 1, 2015.

The above factors are reflected in the revenues decline of YTD Fiscal 2016 compared to YTD Fiscal 2015.

Direct Expenses

In the CIBC/TD program, direct expenses include costs of consumer rewards which the Company purchases from its Affinity partners, the cost of marketing and advertising on behalf of merchants, cost of sales related to sale of aeronotes, cost of sales of digital marketing services and provision against receivables.

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

Caesars program direct expenses are costs of consumer rewards which the Company purchases from Caesars.

	Q2 Fiscal 2016	Q2 Fiscal 2015	Inc./Dec)	YTD Fiscal 2016	YTD Fiscal 2015	Inc./Dec)
	\$	\$	%	\$	\$	%
Revenues						
CIBC/TD program	\$ 2,673,888	\$ 3,089,353	-13.4%	\$ 5,188,405	\$ 6,082,209	-14.7%
Aeroplan program	399,870	702,774	-43.1%	849,378	1,231,656	-31.0%
Caesars program	22,665	7,863	188.3%	53,849	15,677	243.5%
Misc	-	-		45	45	
	<u>\$ 3,096,423</u>	<u>\$ 3,799,990</u>	<u>-18.5%</u>	<u>\$ 6,091,677</u>	<u>\$ 7,329,587</u>	<u>-16.9%</u>
Direct expenses						
CIBC/TD program	\$ 760,932	\$ 806,895	-5.7%	\$ 1,376,323	\$ 1,483,814	-7.2%
Aeroplan program	252,355	404,890	-37.7%	510,501	673,657	-24.2%
Caesars program	13,294	(2,721)	588.6%	22,826	1,091	1992.2%
	<u>\$ 1,026,581</u>	<u>\$ 1,209,064</u>	<u>-15.1%</u>	<u>\$ 1,909,650</u>	<u>\$ 2,158,562</u>	<u>-11.5%</u>

➤ CIBC/TD program

	Q2 Fiscal 2016	Q2 Fiscal 2015	Inc./Dec)	YTD Fiscal 2016	YTD Fiscal 2015	Inc./Dec)
	\$	\$	%	\$	\$	%
Avg. # of merchants participating during the periods	916	943	-2.9%	901	967	-6.8%
Revenue	\$ 2,673,888	\$ 3,089,353	-13.4%	\$ 5,188,405	\$ 6,082,209	-14.7%
Direct expenses						
Consumer rewards	\$ 425,953	\$ 488,897	-12.9%	\$ 813,303	\$ 935,015	-13.0%
Marketing and advertising	266,000	225,795	17.8%	415,140	426,359	-2.6%
Marketing support by Affinity partners	(88,500)	(40,489)	118.6%	(138,500)	(90,489)	53.1%
Expense for delinquent accounts	157,479	132,692	18.7%	286,380	212,929	34.5%
	<u>\$ 760,932</u>	<u>\$ 806,895</u>	<u>-5.7%</u>	<u>\$ 1,376,323</u>	<u>\$ 1,483,814</u>	<u>-7.2%</u>

The decline in cost of consumer rewards reflects decline in merchant population and rate reduction for a certain class of consumer rewards.

The increase in marketing and advertising costs relative to merchant participation and revenues reflects: 1) increase in marketing of participating merchants to TD aeroplan credit card holders. The period YTD Fiscal 2015 was right after the Company incorporated TD into its program and the marketing plan was not firmed up, 2) timing of marketing expenditures which vary in a fiscal year, 3) level of direct marketing of the program by the Affinity partners to their credit card holders. Net of marketing support by Affinity partners, the marketing and advertising costs are directionally in line with change in merchant population and revenues.

The expense for delinquent accounts is to expectations. Delinquencies are discussed in the section Critical Accounting Estimates – Credit Risk. Delinquent transaction credit amounts and the related provision are tabulated.

	December 31, 2015	June 30, 2015
	\$	\$
Impaired transaction credits	\$ 557,328	\$ 1,136,791
Allowance	(383,559)	(787,236)
Impaired transaction credits not allowed for	\$ 173,769	\$ 349,555

➤ **Aeroplan program.**

	Q2 Fiscal 2016	Q2 Fiscal 2015	Inc./Dec)	YTD Fiscal 2016	YTD Fiscal 2015	Inc./Dec)
	\$	\$	%	\$	\$	%
Avg. # of merchants participating during the periods	648	609	6.4%	618	606	1.9%
Revenue	\$ 399,870	\$ 702,774	-43.1%	\$ 849,377	\$ 1,231,656	-31.0%
Direct expenses						
Consumer rewards	244,631	398,890	-38.7%	493,027	661,657	-25.5%
Misc., including expense for delinquent accounts	7,724	6,000	28.7%	17,474	12,000	45.6%
	\$ 252,355	\$ 404,890	-37.7%	\$ 510,501	\$ 673,657	-24.2%

Consumer reward cost has declined but not as much as revenue and this partially reflects change in the composition of the merchant portfolio. New merchants with lower margins replacing merchants with higher margin.

Gross Profit

	Q2 Fiscal 2016	Q2 Fiscal 2015	Inc./Dec)	YTD Fiscal 2016	YTD Fiscal 2015	Inc./Dec)
	\$	\$	%	\$	\$	%
CIBC/TD program	\$ 1,912,956	\$ 2,282,458	-16.2%	\$ 3,812,082	\$ 4,598,395	-17.1%
Aeroplan program	147,515	297,884	-50.5%	338,877	557,999	-39.3%
Caesars program	9,371	10,584	-11.5%	31,023	14,586	112.7%
Misc	-	-		45	45	0.0%
	\$ 2,069,842	\$ 2,590,926	-20.1%	\$ 4,182,027	\$ 5,171,025	-19.1%

CIBC/TD program

The decline in the gross profit of 16.2% and 17.1% for Q2 Fiscal 2016 and YTD Fiscal 2016 primarily reflects 13.4% and 14.7% respectively decline in revenues. The margins for both Q2 Fiscal 2016 and YTD Fiscal 2016 at 71.5% and 73.5% respectively are marginally lower compared to corresponding periods previous year at 73.9% and 75.6% (discussed in the section Direct Expenses).

Aeroplan program

The decline in the gross profit of 50.5% and 39.3% for Q2 Fiscal 2016 and YTD Fiscal 2016 primarily reflects 43.1% and 31.0% respectively decline in revenues. The margins for both Q2 Fiscal 2016 and YTD Fiscal 2016 at 36.9% and 39.9% respectively are marginally lower compared to corresponding periods previous year at 42.4% and 45.3% (discussed in the section Direct Expenses).

Selling Expenses

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

	Q2 Fiscal 2016	Q2 Fiscal 2015	Inc./ (Dec)	YTD Fiscal 2016	YTD Fiscal 2015	Inc./ (Dec)
	\$	\$	%	\$	\$	%
Revenues						
CIBC/TD program	\$ 2,673,888	\$ 3,089,353	-13.4%	\$ 5,188,405	\$ 6,082,209	-14.7%
Aeroplan program	399,870	702,774	-43.1%	849,378	1,231,656	-31.0%
Caesars program	22,665	7,863	188.3%	53,849	15,677	243.5%
Misc	-	-	0.0%	45	45	0.0%
	\$ 3,096,423	\$ 3,799,990	-18.5%	\$ 6,091,677	\$ 7,329,587	-16.9%
Selling expenses						
CIBC/TD program	\$ 530,469	\$ 745,197	-28.8%	\$ 1,123,116	\$ 1,472,963	-23.8%
Aeroplan program	87,830	147,688	-40.5%	179,607	239,984	-25.2%
Caesars program	74,021	97,929	-24.4%	129,025	109,990	17.3%
	\$ 692,320	\$ 990,814	-30.1%	\$ 1,431,748	\$ 1,822,937	-21.5%
Remuneration of sales staff	\$ 616,175	\$ 873,642		\$ 1,283,513	\$ 1,585,183	
Remuneration as % of selling expenses	89.0%	88.2%		89.6%	87.0%	

CIBC/TD program

The lower selling costs reflect re-organization of sales group and Company-wide remuneration both of which were implemented in the third quarter of Fiscal year ended June 30, 2015. It is this group that has generated the increase in merchant participation to 921 at the end of December 31, 2015 from 839 from March 2015.

The lower selling costs during Q2 Fiscal 2016 and YTD Fiscal 2016 also reflect some staff reductions during November and December 2015. The Company did not fill these positions because of the slow selling season from December 2015 to mid-February 2016. The Company has filled these positions as of the date hereof.

Aeroplan program

The sales group was re-organized during the fourth quarter of Fiscal year ended June 30, 2015 to improve engagement of participating merchants into the program and develop new business especially the new business segment of independent grocery. Given that revenues are lagging expectations and the new grocery segment is now expected to take longer to exploit than previously expected, during November 2015 the Company reduced the headcount to further adjust and re-focus the sales organization.

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).

	Q2 Fiscal 2016	Q2 Fiscal 2015	Inc./ (Dec)	YTD Fiscal 2016	YTD Fiscal 2015	Inc./ (Dec)
	\$	\$	%	\$	\$	%
Change in revenues			-18.5%			-16.9%
G&A						
Compensation for non-sales staff	\$ 609,202	\$ 904,995	-32.7%	\$ 1,254,490	\$ 1,802,067	-30.4%
Less: software development costs capitalized (details provided under section Capital Expenditures in this document)	(23,957)	(84,809)		(41,983)	(169,300)	
	\$ 585,245	\$ 820,186	-28.6%	\$ 1,212,507	\$ 1,632,767	-25.7%
All other G&A expenses	264,323	360,687		545,446	679,815	
	\$ 849,568	\$ 1,180,873	-28.1%	\$ 1,757,953	\$ 2,312,582	-24.0%

Compensation

The decrease in compensation – Q2 Fiscal 2016 and YTD Fiscal 2016 – compared to corresponding periods in the previous year reflects the reduction in headcount consequent to the restructuring during the third and fourth quarters of Fiscal year ended June 30, 2015 and the Company-wide reduction in remuneration implemented in the third and fourth quarters of Fiscal year ended June 30, 2015. The restructuring mainly effected management positions.

YTD Fiscal 2016 reflects an increase in remuneration of certain staff who were promoted and took over increased responsibilities following the restructuring.

All other expenses

Q2 Fiscal 2016 and YTD Fiscal 2016 are lower and reflect the increased focus on cost management.

Interest Expense

The interest expense is tabulated:

	Q2 Fiscal 2016	Q2 Fiscal 2015	Inc./ (Dec)	YTD Fiscal 2016	YTD Fiscal 2015	Inc./ (Dec)
	\$	\$	%	\$	\$	%
Stated ("Cash") interest expense						
Loan payable	\$ 240,823	\$ 222,070		\$ 468,252	\$ 471,490	
new 12% debentures	156,042	156,042		312,084	312,084	
new 12% debentures - fees	-	19,500		-	58,500	
	\$ 396,865	\$ 397,612	-0.2%	\$ 780,336	\$ 842,074	-7.3%
Non cash interest (accretion charge) on new 12% debentures	\$ 58,146	\$ 55,477		\$ 115,612	\$ 114,246	
	\$ 455,011	\$ 453,089	0.4%	\$ 895,948	\$ 956,320	-6.3%

The Company deployed the funds available to it under loan payable and new 12% debentures with merchants activated under its CIBC/TD program's APM product. The funds deployed are reflected as transaction credits on the consolidated statement of financial position. The funds available under the new 12% debentures were also used for working capital purposes.

Stated interest expense on loan payable reflects the utilization of funds under this line of credit facility and prime rate which determines the facility interest rate (prime rate of a certain Canadian bank plus 11.5%). Average utilization during YTD Fiscal 2016 was \$6.4 million compared to \$6.0 million during YTD Fiscal 2015.

Fees payable on the new 12% debentures are described in the section 12% Non-Convertible Debentures Payable in this document.

Net (Loss)

Highlights are tabulated:

	Q2 Fiscal 2016	Q2 Fiscal 2015	Inc./ (Dec)	YTD Fiscal 2016	YTD Fiscal 2015	Inc./ (Dec)
	\$	\$	\$	\$	\$	\$
Revenues	\$ 3,096,423	\$ 3,799,990	\$ (703,567)	\$ 6,091,677	\$ 7,329,587	\$ (1,237,910)
Gross margin	66.8%	68.2%		68.7%	70.6%	
Gross profit	\$ 2,069,842	\$ 2,590,926	\$ (521,084)	\$ 4,182,027	\$ 5,171,025	\$ (988,998)
Earnings from operations before depreciation, amortization and interest	\$ 527,954	\$ 419,239	\$ 108,715	\$ 992,326	\$ 1,035,506	\$ (43,179)
Net (loss) and Comprehensive (loss)	\$ (30,102)	\$ (144,079)	\$ (113,977)	\$ (137,774)	\$ (124,273)	\$ 13,501
Basic and Diluted (loss) per share	\$0.00	\$0.00		\$0.00	\$0.00	

Q2 Fiscal 2016 compared to Q2 Fiscal 2015

The \$703,567 decline in the Company's revenues reflects decline of \$415,465 in CIBC/TD program revenues and \$302,904 in Aeroplan program revenues (discussed in the section Revenue). The \$521,084 decline in the Company's gross profit reflects decline of \$369,502 in CIBC/TD program gross profit and \$150,369 decline for the Aeroplan program (discussed in the sections Direct Expenses and Gross Profit). Reduction in SG&A of \$629,799 offsets the decline in the gross profit and this is reflected in the better Q2 Fiscal 2016 earnings from operations before depreciation, amortization and interest compared and a lower net loss compared to Q2 Fiscal 2015.

YTD Fiscal 2016 compared to YTD Fiscal 2015

The \$1,237,910 decline in the Company's revenues reflects decline of \$893,802 in CIBC/TD program revenues and \$382,279 in Aeroplan program revenues (discussed in the section Revenue). The \$988,998 decline in the Company's gross profit reflects decline of \$786,311 in CIBC/TD program gross profit and \$219,123 decline for the Aeroplan program (discussed in the sections Direct Expenses and Gross Profit). Reduction in SG&A of \$945,818 almost offsets the decline in the gross profit. Consequently YTD Fiscal 2016 earnings from operations before depreciation, amortization and interest and net loss are marginally lower compared to YTD Fiscal 2015.

Working Capital and Liquidity Management

	Q2 Fiscal 2016	Q2 Fiscal 2015	YTD Fiscal 2016	YTD Fiscal 2015
	\$	\$	\$	\$
Funds available to expand the CIBC/TD programs APM product (Transaction credits on the balance sheet) and meet working capital needs				
Net (loss)	\$ (30,102)	\$ (144,079)	\$ (137,774)	\$ (124,273)
Adjustments for non cash expenses	<u>161,191</u>	<u>165,706</u>	<u>349,764</u>	<u>317,705</u>
Income after adjustment for non cash expenses	131,089	21,627	211,990	193,432
Cash balances at start of the period	899,505	2,048,171	1,162,609	1,815,805
Inc./dec) in loan payable	<u>145,946</u>	<u>(109,645)</u>	<u>842,532</u>	<u>(960,874)</u>
	\$ 1,176,540	\$ 1,960,153	\$ 2,217,131	\$ 1,048,363
Utilization of funds				
Cash balances at end of periods	\$ 500,213	\$ 1,041,445	\$ 500,213	\$ 1,041,445
Inc./dec) in transaction credits	326,639	52,803	1,214,158	(889,286)
Decrease in severances	178,820	-	428,034	-
Changes in all other working capital items	146,911	756,860	32,743	634,463
Capital expenditures	23,957	109,045	41,983	237,535
Misc. expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,206</u>
	\$ 1,176,540	\$ 1,960,153	\$ 2,217,131	\$ 1,048,363

The cash and cash equivalents, and accounts receivable as at December 31, 2015 include \$348,607 of amounts received/receivable from our Affinity partners CIBC and TD to be invested in marketing the program (as at June 30, 2015 \$356,162 and as at December 31, 2014 \$423,141). Accounts payable and accrued liabilities as at December 31, 2015, June 30, 2015 and December 31, 2014 reflect the corresponding liability.

The Company believes that increasing the amount of the transaction credits deployed with merchants under the CIBC/TD program's APM product will result in higher revenue and, consequently, improve the Company's financial results and cash flows. Generally, the change in transaction credits partially reflects the change in the number of merchants participating in the APM product, as well as the amount of transaction credits deployed with its existing merchants.

Capital expenditures relate primarily to the investment in the Company's IT infrastructure and software development. The investments are necessary to support the Company's growth and program expectations of its partners.

Q2 Fiscal 2016 compared to Q2 Fiscal 2015

Changes in working capital – Transaction credits, accounts receivable, accounts payable and accrued liabilities and other working capital items. During Q2 Fiscal 2016 the changes primarily reflect an increase in transaction credits, net of provision for delinquent accounts, of \$326,639 which is a reflection of an increase in merchant participation since April 2015. In addition, the Company used \$178,820 to settle severances consequent to restructuring during third and fourth quarters of Fiscal year ended June 30, 2015. Q2 Fiscal 2015 primarily reflects a decrease in accounts payable and accrued liabilities of \$949,619; consisting of payments respecting 1)

deferred June 15, 2014 new 12% debentures interest payment (see section 12% Non-Convertible Debentures Payable), 2) staff salaries deferred during Fiscal year ended June 30, 2015 and Q1 Fiscal 2015 and 3) supplier payments.

Financing activities. Q2 Fiscal increase in loan payable reflects usage of line of credit to support increase in transaction credits. Q2 Fiscal 2015 decline in loan payable reflects declining merchant participation which is discussed in the section Revenue.

Investing activities. These are discussed in section Capital Resources in this document.

YTD Fiscal 2016 compared to YTD Fiscal 2015

Changes in working capital – Transaction credits, accounts receivable, accounts payable and accrued liabilities and other working capital items. During YTD Fiscal 2016 the changes primarily reflect an increase in transaction credits, net of provision for delinquent accounts, of \$1,214,158 which is a reflection of an increase in merchant participation since April 2015. In addition, the Company used \$428,034 to settle severances consequent to restructuring during third and fourth quarters of Fiscal year ended June 30, 2015. YTD Fiscal 2015 primarily reflects a decrease in accounts payable and accrued liabilities of \$575,321; consisting of payments respecting 1) deferred June 15, 2014 new 12% debentures interest payment (see section 12% Non-Convertible Debentures Payable), 2) staff salaries deferred during Fiscal year ended June 30, 2015 and Q1 Fiscal 2015 and 3) supplier payments.

Financing activities. YTD Fiscal increase in loan payable reflects usage of line of credit to support increase in transaction credits. YTD Fiscal 2015 decline in loan payable reflects declining merchant participation which is discussed in the section Revenue.

Investing activities. These are discussed in section Capital Resources in this document. For the Fiscal year ending June 30, 2016 the Company expects capital expenditures to be on par with Fiscal year ended June 30, 2015. In the fourth quarter of Fiscal 2015 and Q1 Fiscal 2016 the Company was able to secure leasing arrangements to meet the cost of IT hardware and its operationalizing. The financial commitments on these leases is provided in the section Contractual obligations in this document. The Company expects to secure lease arrangements for significant expenditures during Fiscal year ending June 30, 2016.

The Company carries cash balances sufficient to meet its operational needs, debenture interest payments and sustain and expand merchant participation in the APM product. While, generally the cash balances at the end of a quarter / year reflect the timing difference between the Company's ongoing collection of transaction credits from merchants participating in its CIBC/TD program's APM product and deploying advances to existing and new merchants, the following is the additional considerations.

1. As at December 31, 2015, as noted earlier in this section, also included in cash and cash equivalents are funds totaling \$326,289 provided by Affinity partners CIBC and TD (at June 30, 2015 \$281,412); and
2. As at December 31, 2014, as noted earlier in this section, also included in cash and cash equivalents are funds totaling \$171,359 provided by Affinity partners CIBC and TD.

The Company's operations are funded by debt – loan payable and new 12% debentures (see sections Loan Payable and 12% Non-Convertible Debentures Payable in this document). To continue its current operations and fund growth during Fiscal year ending June 30, 2016, the Company requires continued access to its existing levels of debt.

The Company has secured a one year renewal of the loan payable agreement. The agreement now expires in December 2016. At present, the need for capital to expand the APM product is satisfied by the loan payable (facility credit limit of \$8.5 million and utilization at December 31, 2015 and June 30, 2015 of \$6.6 million and \$5.7 million respectively). However, there are limitations including; a credit limit of \$8.5 million; it is a demand facility; it requires the Company to co-fund 15% of the transaction credits deployed with merchants under the APM product; and is only available to expand the APM product.

All other working capital requirements are met by new 12% debentures. In December 2013, the Company completed a refinancing by way of a private placement of new 12% debentures in the principal amount of \$5,159,000. The new 12% debentures mature September 30, 2016. The new 12% debentures agreement requires the Company to meet on a quarterly basis certain financial covenants. At March 31, 2015 the Company was in

breach of all its financial covenants and the Company secured a waiver of the breach at March 31, 2015. The debenture holders amended and re-set all financial covenants effective quarter ended June 30, 2015 until quarter ending June 30, 2016. The Company met the amended financial covenants at June 30, 2015, September 30, 2015 and December 31, 2015.

Additional capital in the form of debt and/or equity will be required to fund the continued expansion of the Company's business expansion goals, including the APM product, as described under the section General Risks and Uncertainties in this document.

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

The 12% non-convertible debentures, issued in December 2013 and maturing September 30, 2016, are secured by a general security interest over the assets of the Company and carry financial covenants that the Company has to meet on monthly and quarterly basis. 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 new 12% debentures agreement and, as a result, the new 12% debentures holders would have the right to waive the event of default, demand immediate payment of the new 12% debentures in full or modify the terms and conditions of the new 12% debentures including key terms such as repayment terms, interest rates and security. If the Company is unable to secure alternative financing to repay the new 12% debentures, the new 12% debentures holders would have the right to realize upon a part or all of the security held by them. The Company met the financial covenants until the quarter ended December 31, 2014. At March 31, 2015 the Company was in breach of all its financial covenants and the Company secured a waiver of the breach at March 31, 2015. On June 30, 2015 the new 12% debenture holders amended and re-set all financial covenants effective quarter ended June 30, 2015 until quarter ending June 30, 2016. The Company met the amended financial covenants at June 30, 2015 and September 30, 2015. The re-set levels were derived from the Company's financial forecasts. The Company has a decade old relationship with the primary holder – controlling over 50% - of the new 12% debentures. The primary holder of the new 12% debentures is also the principal shareholder of the Company and as at December 31, 2015 beneficially owns or exercises control and direction over 21,862,690 common shares of the Company representing 15.7% of the issued and outstanding common shares of the Company. In addition, directors and officers of the Company hold another 23.5% of the new 12% debentures.

The consolidated financial statements for three and six months ended December 31, 2015 have been prepared in accordance with accounting principles applicable to a going concern which contemplates that the Company will be able to realize its assets and settle its liabilities in the normal course as they come due during the normal course of operations for the foreseeable future. When a Company is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity is required to disclose those uncertainties. There is uncertainty surrounding the new 12% debentures as the Company may not meet its financial covenants subsequent to December 31, 2015 and the Company has not generated significant positive cash flows from operations during year ended June 30, 2015 and six months ended December 31, 2015. As a result, this may cast significant doubt on the validity of going concern assumption and the Company's ability to continue as a going concern after December 31, 2015 and hence the ultimate use of accounting principles applicable to a going concern.

The Company's future success is dependent on new financing, ensuring profitability and generating positive cash flows from operations. The Company's business plan includes refinancing of its current loans, the re-setting of its covenants and the receipt of waivers or agreement amendments where breaches occur. In October 2015, the Company renewed until December 2016 its agreement with Accord Financial Inc. (section Loan Payable in this document) respecting the \$8.5 million credit facility. While the Company has been successful in obtaining additional financing, new 12% debentures waivers and amendments to date, there can be no assurance these initiatives will continue to be successful.

These consolidated financial statements for three and six months ended December 31, 2015 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 December 31, 2015 were due as follow. (In millions of dollars)

In millions of dollars				
Contractual obligations	Total	Less than 1 year	1 to 3 years	4 to 5 years
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Loan payable	\$ 6.6	\$ 6.6	\$ -	\$ -
New 12% debentures	\$ 5.2	\$ 5.2	\$ -	\$ -
Operating leases	\$ 0.4	\$ 0.2	\$ 0.2	\$ -
	\$ 12.2	\$ 12.0	\$ 0.2	\$ -

In addition, respecting new 12% debentures maturing September 30, 2016, interest of \$490,602 is payable during nine months ending September 30, 2016. Payable in two instalments. \$309,614 due June 15, 2016 and \$180,988 due September 30, 2016.

Other contractual obligations

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.

The Company met the calendar 2014 purchase commitment of \$1,700,000. It sold the aeroplan miles and this is reflected as revenue of the Aeroplan program.

The Company did not meet its calendar 2015 purchase commitment. Per the renewed agreement, the shortfall of \$572,900 will be carried forward and added to the Company’s commitment for calendar 2016. The Company with Aimia’s support is working to open independent grocery, a high frequency and issuance business segment and provides an opportunity to the Company to meet its calendar 2016 commitment. In addition, the agreement allows the parties to negotiate a reduction to the annual commitment under certain circumstances. These circumstances are applicable to calendar 2016.

Calendar year				Annual
				Commitment
2015				\$ 1,870,000
2016				\$ 2,057,000
2017				\$ 2,262,700
2018				\$ 2,488,970

Loan Payable

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

The facility was established in December 2007. On October 7, 2015, the Company announced that this agreement has now been extended to December 2016.

The facility has a limit of \$8.5 million. Interest is calculated daily on the amount outstanding and charged monthly at an interest rate equivalent to prime rate of a certain Canadian bank plus 11.5% per annum. In certain circumstances the loan payable amount is repayable on demand to Accord.

The Company had utilized \$6.6 million of the facility as at December 31, 2015 (as at June 30, 2015 \$5.7 million).

12% Non-Convertible Debentures Payable

On December 30, 2013, the Company completed a refinancing by way of a private placement of new 12% debentures in the principal amount of \$5,159,000.

As of December 31, 2013 the Company used the proceeds of the new 12% debentures plus cash on hand to repay the 12% debentures and 14% debentures which matured on December 31, 2013. The Company repaid \$7,895,967 in aggregate principal amount of the 12% debentures and 14% debentures plus accrued interest thereon. The 90,500,891 warrants attached to 12% debentures and 14% debentures were not exercised and expired as of December 31, 2013.

The new 12% debentures were 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 new 12% debentures 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 (as part of the re-set of the financial covenants, described later in this section, this financial covenant was cancelled effective April 2015).

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 this was 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 paid the interest and the fees on the due dates. The Company met the revised financial covenants as at June 30, 2014. The Company met its quarterly financial covenants as at September 30, 2014 and December 31, 2014.

At March 31, 2015 the Company was in breach of all its financial covenants and the Company secured a waiver of the breach at March 31, 2015. The debenture holders amended and re-set all financial covenants effective quarter ended June 30, 2015 until quarter ending June 30, 2016. The Company met the amended financial covenants at June 30, 2015, September 30, 2015 and December 31, 2015.

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 new 12% debentures agreement and, as a result, the new 12% debentures holders would have the right to waive the event of default, demand immediate payment of the new 12% debentures in full or modify the terms and conditions of the new 12% debentures including key terms such as repayment terms, interest rates and security. If the Company is unable to secure alternative financing to repay the new 12% debentures, the new 12% debentures holders would have the right to realize upon a part or all of the security held by them.

Summary of Quarterly Results

In millions of dollars except per share amounts					
12 month period ended December 31, 2015					
	Q3 Fiscal 2015	Q4 Fiscal 2015	Q1 Fiscal 2016	Q2 Fiscal 2016	Total
	Mar 31, 2015	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015	
Revenue	\$ 2.7	\$ 3.3	\$ 3.0	\$ 3.1	\$ 12.1
Percent of annual revenue	22.3%	27.3%	24.8%	25.6%	100.0%
Net income/(loss)	\$ (2.6)	\$ (0.4)	\$ (0.1)	\$ -	\$ (3.1)
Basic earnings per share	\$ -	\$ -	\$ -	\$ -	\$ (0.02)
Diluted earnings per share	\$ -	\$ -	\$ -	\$ -	\$ -
12 month period ended December 31, 2014					
	Q3 Fiscal 2014	Q4 Fiscal 2014	Q1 Fiscal 2015	Q2 Fiscal 2015	Total
	Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	Dec 31, 2014	
Revenue	\$ 3.6	\$ 3.8	\$ 3.5	\$ 3.8	\$ 14.7
Percent of annual revenue	24.5%	25.9%	23.8%	25.9%	100.0%
Net income/(loss)	\$ (0.4)	\$ (0.4)	\$ -	\$ (0.1)	\$ (0.9)
Basic earnings per share	\$ -	\$ -	\$ -	\$ -	\$ (0.01)
Diluted earnings per share	\$ -	\$ -	\$ -	\$ -	\$ -

The fluctuations in the Company's quarterly revenues from its Retail programs reflect seasonal consumer behavior at merchants participating in the Retail programs, as well as the other factors described under section Revenue in this document.

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

Capital Resources

For the Fiscal year ending June 30, 2016 the Company expects capital expenditures to be on par with Fiscal year ended June 30, 2015.

The capital expenditures relate to updating the Company's infrastructure and software.

Expenditures for property, plant and equipment and intangible assets for Q2 Fiscal 2016 and YTD Fiscal 2016 were \$23,957 and \$41,983 respectively compared to \$109,045 and \$237,535 for Q2 Fiscal 2015 and YTD Fiscal 2015 respectively.

Q2 Fiscal 2016 and YTD Fiscal 2016 include capitalization of \$23,957 and \$41,983 respectively of internal costs expended on software development connected to ensuring operability of the Company's merchant based programs sponsored by CIBC, TD and Aimia compared to \$84,809 and \$169,300 for Q2 Fiscal 2015 and YTD Fiscal 2015 respectively. The capitalization during Q2 Fiscal 2015 and YTD Fiscal 2015 mainly related to operationalizing the TD agreement and enhancing the operability of the Company's merchant based programs. The costs are being amortized over the shorter of useful life of the software and term of Affinity partner agreement.

In the fourth quarter of Fiscal 2015 and Q1 Fiscal 2016 the Company was able to secure leasing arrangements to meet the cost of IT hardware and its operationalizing. The financial commitments on these leases is provided in the section Contractual obligations in this document. The Company expects to secure lease arrangements for significant expenditures during Fiscal year ending June 30, 2016.

There are no material commitments for capital expenditures as of the date hereof.

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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The Company's significant accounting policies are disclosed in note 4 to the audited consolidated financial statements for Fiscal year ended June 30, 2015.

Contingent liabilities

A significant amount of estimation is applied in evaluating the Company's uncertain tax provision with the Canada Revenue Agency (CRA), as described in note 15 to the audited consolidated financial statements for Fiscal year ended June 30, 2015, and in the final paragraph in the General Risks and Uncertainties section of this document, and whether a tax provision is required.

Going concern

The Company tests the going concern assumption on a quarterly basis. The Company determines this from its financial forecasts that are prepared on its expectation regarding continuation of its agreement with CIBC and TD, continuation of its agreement with Aimia, continued access to existing sources of debt, ability to re-finance its new 12% debentures on their maturity, ability to access additional sources of debt, growth of its existing business, and development of new lines of business. The Company's audited consolidated financial statements for year ended June 30, 2015 and interim financial statements for three months ended September 30, 2015 and three and six months ended December 31, 2015 carry a going concern note (note 2b).

Financial instruments – fair value

The Company calculates the fair value of certain financial instruments using the Black-Scholes option pricing model. This requires assumptions regarding the risk-free rate of return, the expected life of the instrument, the expected volatility in the price of the common shares of the Company and the expected level of dividends to be paid on the common shares of the Company.

The carrying value of accounts receivable, transaction credits, accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these instruments. The stated value of the loan payable, and non-convertible debenture payable approximate their fair values, as the interest rates are representative of current market rates for loans with similar terms, conditions and maturities.

Credit risk

The Company has certain business risks linked to the collection of its transaction credits. Under the APM product the Company acquires the rights to cash flow from future designated credit card transactions ("future sales") at a discount from participating merchants ("transaction credits" on consolidated statement of financial position). These transaction credits are estimated to be fully extinguishable within 30 – 210 days. Until these transaction credits have been extinguished through designated cardholder spend at participating merchants, there is a credit risk, and an increase in credit risk associated with the longer time frame approaching and/or exceeding 210 days. In the event of default, the Company has set up escalating collection measures, and an allowance is determined on specifically identified transaction credit balances that are delinquent and amount of the specific provision is determined based on whether the account has been referred to collection agency, for legal action, whether the Company's attempt to debit the merchant's bank account for payments due to the Company has been rejected, the underlying reason for the rejections, and the Company's historical experience on recoveries.

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

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

	December 31, 2015	June 30, 2015
	\$	\$
Transaction credits	\$ 9,417,364	\$ 8,606,883
Accounts receivable	680,922	475,339
Allowance	<u>(403,887)</u>	<u>(802,129)</u>
Per statement of financial position	\$ 9,694,399	\$ 8,280,093
Maximum exposure to credit risk	\$ 9,694,399	\$ 8,280,093
Impaired transaction credits	\$ 557,328	\$ 1,136,791
Allowance	<u>(383,559)</u>	<u>(787,236)</u>
Impaired transaction credits not allowed for	\$ 173,769	\$ 349,555

Stock Options

The Company has a stock option plan (“2009 stock option plan”) for directors, officers, employees and consultants. The 2009 stock option plan is 12% fixed maximum number of common shares issuable based on issued and outstanding common shares (calculated on a non-diluted basis).

In December 2015, the directors of the Company approved continuation of the 2009 stock option plan to date of the annual meeting of shareholders in 2016.

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.

Movement during Q2 Fiscal 2016, YTD Fiscal 2016 and corresponding periods previous year is tabulated.

	YTD Fiscal 2016	YTD Fiscal 2015
	Number of options	
Outstanding at July 1	8,590,000	10,190,000
Expired	-	-
Forfeited	(550,000)	-
Granted	<u>-</u>	<u>-</u>
Outstanding at September 30	8,040,000	10,190,000
Expired	-	-
Forfeited	-	-
Granted	<u>-</u>	<u>-</u>
Outstanding at December 31	<u>8,040,000</u>	<u>10,190,000</u>

The number of stock options available for future issuance as at December 31, 2015 compared to December 31, 2014 is as follows:

	<u>YTD Fiscal 2016</u>	<u>YTD Fiscal 2015</u>
	<u>Number of options</u>	
Maximum number of shares reserved for issuance	16,688,546	16,688,546
Less: outstanding at end of period	<u>(8,040,000)</u>	<u>(10,190,000)</u>
Number of options available for future issuance	<u>8,648,546</u>	<u>6,498,546</u>

There was no stock based compensation expense during YTD Fiscal 2016 and YTD Fiscal 2015.

Outstanding Share Data

As of June 30, 2015, December 31, 2015 and the date hereof, the number of issued and outstanding common shares of the Company is 139,071,218. The number of common shares is provided by the Company's transfer agent CST Trust Company.

Potentially Dilutive Securities

As of date hereof, the Company was committed to issuing 8,040,000 additional common shares pursuant to the 2009 stock option plan.

Related party transactions

Directors and Officers

In December 2013 the following related parties purchased new 12% debentures, on terms and conditions applicable to the other subscribers (section 12% Non-Convertible Debentures Payable in this document). The holdings of debentures are tabulated:

	December 31, 2015	June 30, 2015
Director and Chief Executive Officer – Kelly Ambrose	\$500,000	\$500,000
Director and Chairman of the Board of Directors – Stephen Burns	\$ 50,000	\$ 50,000
Director - Marc Lavine	\$500,000	\$500,000
Director – Rob von der Porten. Not a director effective December 11, 2015	\$nil	\$ 50,000
Director – William Polley	\$ 50,000	\$ 50,000
Director – Barry Wainstein. Not a director effective December 11,2015	\$nil	\$ 25,000
Chief Financial Officer – Mukesh Sabharwal	\$115,000	\$115,000

Economic Dependence

A significant portion of the Company's current revenue is dependent upon its value-added loyalty program agreement with CIBC and TD under which consumer rewards are awarded to holders of certain CIBC and TD credit cards when they complete purchases at merchants participating in Advantex's CIBC/TD program. The significance to the Company of the CIBC and TD agreements can best be assessed by comparing its revenues from its relationship with CIBC and TD with that of other programs as tabulated at the end of this section.

The Company has an eighteen year plus partnership with CIBC. In September, 2013 the Company renewed its existing arrangement with CIBC, and signed an agreement ("new agreement"). The initial term of the new agreement is through September 30, 2016, which may, at the option of CIBC, be renewed for up to two additional one year periods. The new agreement grants the Company conditional exclusivity rights to market its programs within certain business segments including Dining (restaurants; golf courses; independent inns, resorts and selected hotels; spas). The new agreement can be terminated by CIBC at any time by providing at least six months prior written notice to the Company.

In September 2013, CIBC, TD, and Aimia announced they had come to a tripartite arrangement effective January 2014, and under which CIBC sold a significant part of its Aeroplan portfolio to TD. In June 2014, the Company entered into an agreement with TD. 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 at any time by providing at least four months prior written notice to the Company. With the consummation of the TD agreement, indications are that total credit card volumes, and hence revenue per merchant appear to be similar to levels prior to sale by CIBC of a part of its Aeroplan portfolio to TD.

The Company's revenue from the CIBC/TD programs is dependent on the number of merchants participating in the CIBC/TD program, dollar spending by holders of CIBC credit cards and TD aeroplan credit cards at participating merchants and the economic environment. Since the dollar spending by holders of CIBC credit cards 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.

Recognizing the risks of overdependence on an Affinity partner and/or a business segment from the perspective of business continuity, and limitation on future revenues and profitability, the Company sought out and signed an agreement with Aimia Canada Inc. (subsidiary of Aimia). The agreement was signed in March, 2010. In November 2014 the Company renewed its agreement ("renewed agreement") with Aimia for a five year term ending April 30, 2019. The renewed 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 which is tabulated under section Contractual Obligations in this document. Under the renewed agreement, the Company will market the Aeroplan program to independent merchants throughout Canada, enabling them to offer Aeroplan Miles to their customers. The renewed agreement can be terminated by Aimia under certain conditions during the term of the renewed agreement.

Illustration of economic dependence on CIBC/TD program. Revenue and Gross profit:

	YTD Fiscal 2016		YTD Fiscal 2015	
	\$	% of Company Total	\$	% of Company Total
CIBC/TD program revenues	\$ 5,188,405	85.2%	\$ 6,082,209	83.0%
CIBC/TD program gross profit	\$ 3,812,082	91.2%	\$ 4,598,395	88.9%

General Risks and Uncertainties

As indicated in the Economic Dependence section of this document a significant portion of the Company's current revenue is dependent on its value-added loyalty agreement with CIBC. The Company's relationship with CIBC has been in place for eighteen plus years and has been through several multi-year renewal terms. The agreement was renewed effective September 30, 2013. The initial term of the agreement is through September 30, 2016, which may, at the option of CIBC, be renewed for up to two additional one year periods. If CIBC exercises its right to either terminate the agreement upon at least six months prior notice or retain a third party service provider to operate a competing program, the Company could be materially and adversely affected. The Company believes that it has begun to limit its economic dependence on CIBC by developing its partnership with TD and Aimia.

In September 2013, CIBC, TD, and Aimia announced they had come to a tripartite arrangement effective January 2014, and under which CIBC sold a significant part of its Aeroplan portfolio to TD. In June 2014, the Company entered into an agreement with TD. 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 at any time by providing at least four months prior written notice to the Company. With the consummation and operationalizing of the TD agreement, indications are that total credit card volumes and hence revenue per merchant appear to be similar to levels prior to sale by CIBC of a part of its Aero portfolio to TD.

The Company's revenue from the CIBC/TD programs is dependent on the number of merchants participating in the CIBC/TD program, dollar spending by holders of CIBC and TD aeroplan credit cards at participating merchants. The dollar spending by holders of CIBC and TD aeroplan credit cards is dependent upon the banks credit card portfolio and the economic environment.

The Company's working capital needs are currently entirely provided by debt in the form of new 12% debentures maturing September 30, 2016, and loan payable. The term of the loan payable expires in December 2016. While the Company utilizes the funds generated from its operations to expand its APM product - under which it acquires the rights to future designated credit card transactions at a discount from the face value from merchants participating in the CIBC/TD program, in addition to providing the merchants with loyalty marketing services - to be able to advance its business the Company needs to be able to access the room available under the loan payable facility. The Company's relationship with the new 12% debentures holders, and providers of loan payable facility span about 10+ and 7+ years respectively. The new 12% debentures carry financial covenants and the new 12% 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 new 12% debentures agreement and, as a result, the new 12% debentures holders would have the right to waive the event of default, demand immediate payment of the new 12% debentures in full or modify the terms and conditions of the new 12% debentures including key terms such as repayment terms, interest rates and security. If the Company is unable to secure alternative financing to repay the new 12% debentures, the new 12% debentures holders would have the right to realize upon a part or all of the security held by them; see section Working Capital and Liquidity Management in this document for a fuller discussion. The loan payable is a demand facility. Consequently, general market conditions or the financial status of the Company in terms of its profitability, cash flows and strength of its consolidated balance sheet may eliminate or limit access to existing sources of debt, and / or may limit access to additional financing and / or alternative funding to replace existing debt, or the terms of accessible debt may be uneconomic and this could materially and adversely affect the Company.

The Company believes that increasing the amount of the transaction credits deployed with merchants under its CIBC/TD program's APM product will result in higher revenue and, consequently, improve the Company's financial results and cash flows. The Company requires additional debt financing to scale its ability in this area. If the Company is not successful in raising additional debt financing, its ability to expand its merchant base and increase revenue may be impeded, resulting in reduced growth in cash flows from operations. This could affect the Company's liquidity and working capital position. Any debt structure would need to recognize the general security interest over the Company's assets held by the new 12% debentures holders.

The Company has certain business risks linked to the collection of its transaction credits. Under the CIBC/TD program's APM product the Company acquires the rights to cash flow from future designated credit card transactions ("future sales") at a discount from participating merchants ("transaction credits" on consolidated statement of financial position). These transaction credits are generally estimated to be fully extinguishable

within 30 – 210 days of the funds being deployed with the merchant. Management has implemented review and monitoring procedures to assess the creditworthiness and ongoing eligibility of merchants if they wish to benefit from larger purchases of their future sales. Until these transaction credits have been extinguished through designated cardholder spend at participating merchants there is a credit risk, and an increase in credit risk associated with the longer time frame approaching and/or exceeding 210 days. In the event of default, the Company has set up escalating collection measures, and an allowance is determined on specifically identified transaction credit balances that are delinquent and amount of the specific provision is determined based on whether the account has been referred to a collection agency, for legal action, whether the Company's attempt to debit the merchant's bank account for payments due to the Company has been rejected, the underlying reason for the rejections, and the Company's historical experience on recoveries. Deterioration in either the credit environment or the Company's monitoring processes and a resulting increase in bad debts would adversely impact the financial status of the Company thereby affecting its attractiveness as a borrower and its ability to access existing or additional or alternative debt or debt at economic terms and this could materially and adversely affect the Company.

The Company's activities are funded by two sources of debt. The new 12% 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 new 12% 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 11.5%, on loan payable. While the Company does not use derivative instruments to reduce its exposure to interest rate risk, it believes it can pass on, to merchants participating in its programs, a portion of a significant adverse interest rate movement on its loan payable. As disclosed under the section Interest Expense in this document, for the six months ended December 31, 2015, the Company incurred interest expense of \$468,252 on utilization of loan payable. Had the interest rate, for the six months ended December 31, 2015, been 10% higher the interest expense on loan payable would have been \$515,077, an increase of \$46,825.

During the past eight years, the Company has added additional sources of debt, and continues to explore avenues to secure debt at better terms.

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 merchant based loyalty programs that the Company develops and manages for CIBC, TD and Aimia, are dependent upon ongoing consumer interest in accumulating frequent flyer miles for the purpose of obtaining reward air travel on designated airlines. Due to the financial and security difficulties being experienced by the airline industry overall, 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 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 Advantex's revenue. In addition, there are additional loyalty program operators in Canada, targeting the same merchant base as Advantex. In the past, other companies have attempted to develop similar merchant-based coalitions on their own and failed, making Advantex, with its established merchant coalition and proven loyalty systems, a reputable outsourced partner in the Canadian marketplace. Advantex believes its substantial client equity, proprietary systems, breadth of in-house services and significant Affinity partner contracts provide a strong platform for the Company to compete effectively in the North American marketplace and respond to new competition in Canada.

In addition to economic factors, and those factors noted above, the profitability of the Company is also subject to a number of additional risk factors including: continuation of partnership with Affinity partners CIBC, TD and Aimia; continued access to loan payable line of credit facility; ability to refinance the new 12% debentures maturing September 30, 2016; competition; changes in regulations - including taxation - affecting the Company's activities; consumer spending behavior; continued demand for the Company's programs by

merchants; and the ability to meet the commitments (described in detail under section Contractual Obligations in this document).

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

Forward-Looking Information

This Management's Discussion and Analysis contains certain "forward-looking information". All information, other than information comprised of historical fact, that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future constitutes forward-looking information. Forward-looking information is typically identified by words such as: anticipate, believe, expect, goal, intend, plan, will, may, should, could and other similar expressions. Such forward-looking information relates to, without limitation, information regarding the Company's: belief it has overcome the structural and competitive challenges of the previous Fiscal year; belief the restructuring during the third and fourth quarters of Fiscal year ended June 30, 2015 gave it the platform for a gradual re-build of merchant participation in its programs and increase its revenues; expectation of its positive long term prospects; belief it has a unique product for the small independent merchant space; belief its business is scale-able; expectation of the size of the loyalty marketing business in North America; belief it is well positioned to gain a wider share of North American loyalty marketing market with its proprietary technology and its outstanding partners; expectation from launch of a CIBC/TD type program in the US and expectation of its additive impact on its financial performance; expectation of market potential in Canada and expectation from its expansion on its financial performance; expectation of financial performance during the next twelve months; expectation of generating cash sufficient to meet its operational needs; belief it has the support of its Affinity and financial partners, and its staff; belief in its ability to overcome challenges; expectation of renewing its partnerships with CIBC and TD; expectation of re-financing new 12% debentures; expectation of capital expenditures during Fiscal year ending June 30, 2016; ability to secure lease arrangements to support capital expenditures; belief the primary driver of revenues across all programs is merchant participation; expectation from the Aeroplan program grocery segment and its timing; belief that increasing the amount of the transaction credits deployed with merchants under the CIBC/TD program's APM product will result in higher revenue and, consequently, improve the Company's financial results and cash flows; belief the need for capital to expand the APM product is satisfied by the loan payable; ability to negotiate an appropriate reduction in its annual commitment for calendar 2016 to Aimia; ability to meet contractual obligations; ability to meet new 12% debentures financial covenants; belief the agreements with CIBC and TD mitigate the risk of dependence on one partner; ability to manage credit and collection risk connected to transaction credits; belief in the appropriateness of its tax filings; and other information regarding financial and business prospects and financial outlook is forward-looking information.

Forward-looking information reflects the current expectations or beliefs of the Company based on information currently available to the Company, including certain assumptions and expectations of Management. With respect to the forward-looking information contained in this Management Discussion and Analysis, the Company has made assumptions regarding, among other things, continued Affinity partner participation; continued support from its provider of loan payable and holders of new 12% debentures; its ability to re-finance new 12% debentures on maturity; 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 increase merchant participation in its programs; its ability to access future financing to expand the CIBC/TD program's APM product, and for general working capital needs; ongoing and future Affinity partnerships and revenue sources; future business levels and the cost structure and capital required to operate at those levels; future interest rates; 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 “General Risks and Uncertainties”, “Working Capital and Liquidity Management” and “Economic Dependence” 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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