

ADVANTEX MARKETING INTERNATIONAL INC.
CONSOLIDATED FINANCIAL STATEMENTS
For the years ended June 30, 2016, and June 30, 2015

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

To our Shareholders:

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of the company. Management is responsible for the information and representations contained in these consolidated financial statements and other sections of the Annual Report for year ended June 30, 2016.

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

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing management’s performance of its financial reporting responsibilities. An Audit Committee, majority of whose members are non-management Directors, is appointed by the Board. The Audit Committee reviews the consolidated financial statements, adequacy and internal controls, the audit process and financial reporting with management and the external auditors. The Audit Committee reports to the Directors prior to the approval of the audited consolidated financial statements for publication.

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

(Signed) – “Kelly E. Ambrose”

Kelly E. Ambrose
President and Chief Executive Officer

(Signed) - “Mukesh Sabharwal”

Mukesh Sabharwal
V.P. and Chief Financial Officer



Independent Auditor's Report

To the Shareholders of Advantex Marketing International Inc.

We have audited the accompanying consolidated financial statements of Advantex Marketing International Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at June 30, 2016 and 2015, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency, and cash flows for the years ended June 30, 2016 and 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Advantex Marketing International Inc. and its subsidiaries as at June 30, 2016 and 2015 and its financial performance and its cash flows for the years ended June 30, 2016 and 2015 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2b in the consolidated financial statements which indicates that the Company has a shareholders' deficiency of \$5,373,108 and negative working capital of \$5,609,078 as at June 30, 2016. These conditions, along with other matters as set forth in Note 2b, indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

(signed) *BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
October 26, 2016

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

	Note	June 30, 2016	June 30, 2015
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		\$ 658,678	\$ 1,162,609
Accounts receivable	12 a	425,402	460,446
Transaction credits	12 a	7,352,262	7,819,647
Inventory	5	39,914	144,874
Prepaid expenses and sundry assets		103,684	173,777
		\$ 8,579,940	\$ 9,761,353
Non-current assets			
Property, plant and equipment	6 a	\$ 116,049	\$ 165,735
Intangible assets	6 b	119,921	477,992
		\$ 235,970	\$ 643,727
Total assets		\$ 8,815,910	\$ 10,405,080
Liabilities			
Current liabilities			
Loan payable	7	\$ 5,533,267	\$ 5,711,525
Accounts payable and accrued liabilities		3,556,978	4,294,418
12% Non-convertible debentures payable	8	5,098,773	-
		\$ 14,189,018	\$ 10,005,943
Non-current liabilities			
12% Non-convertible debentures payable	8	\$ -	\$ 4,864,802
Total liabilities		\$ 14,189,018	\$ 14,870,745
Shareholders' deficiency			
Share capital	9	\$ 24,530,555	\$ 24,530,555
Contributed surplus	10 b	4,090,382	4,090,382
Accumulated other comprehensive loss		(47,383)	(47,383)
Deficit		(33,946,662)	(33,039,219)
Total deficiency		\$ (5,373,108)	\$ (4,465,665)
Total liabilities and deficiency		\$ 8,815,910	\$ 10,405,080

Economic and Financial dependence (note 2 a), Going concern (note 2 b), 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 Ambrose

Advantex Marketing International Inc.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended June 30, 2016 and 2015
(expressed in Canadian dollars)

	Note	2016	2015
		\$	\$
Revenues	18	\$ 11,273,680	\$ 13,297,892
Direct expenses	17/18	<u>3,693,945</u>	<u>5,166,327</u>
		7,579,735	8,131,565
Operating expenses			
Selling and marketing	17/18	2,536,274	3,430,430
General and administrative	17/18	3,633,679	4,492,476
Restructuring cost	19	<u>-</u>	<u>1,001,321</u>
Earnings (loss) from operations before depreciation, amortization and interest		1,409,782	(792,662)
Interest expense:			
Stated interest expense - loan payable, and debentures	7/8	1,619,782	1,605,981
Non-cash interest expense on debentures	8	<u>233,971</u>	<u>227,175</u>
		(443,971)	(2,625,818)
Depreciation of property, plant and equipment, and amortization of intangible assets	6 a/b	<u>463,472</u>	<u>444,785</u>
Net loss and comprehensive loss		\$ (907,443)	\$ (3,070,603)
Loss per share			
Basic and Diluted	16	\$ (0.01)	\$ (0.02)

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

Advantex Marketing International Inc.
Consolidated Statements of Changes in Shareholders' Deficiency
For the years ended June 30, 2016 and June 30, 2015
(expressed in Canadian dollars)

	Class A preference shares	Common shares	Contributed surplus	Accumulated other comprehen - sive loss	Deficit	Total
	\$	\$	\$	\$	\$	\$
Balance - July 1, 2014	\$ 3,815	\$ 24,526,740	\$ 4,090,382	\$ (47,383)	\$ (29,968,616)	\$ (1,395,062)
Net loss and comprehensive loss	-	-	-	-	(3,070,603)	(3,070,603)
Balance - June 30, 2015	\$ 3,815	\$ 24,526,740	\$ 4,090,382	\$ (47,383)	\$ (33,039,219)	\$ (4,465,665)
Balance - July 1, 2015	\$ 3,815	\$ 24,526,740	\$ 4,090,382	\$ (47,383)	\$ (33,039,219)	\$ (4,465,665)
Net loss and comprehensive loss	-	-	-	-	(907,443)	(907,443)
Balance - June 30, 2016	\$ 3,815	\$ 24,526,740	\$ 4,090,382	\$ (47,383)	\$ (33,946,662)	\$ (5,373,108)

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

Advantex Marketing International Inc.
Consolidated Statements of Cash Flow
For the years ended June 30, 2016 and 2015
(expressed in Canadian dollars)

	Note	June 30, 2016	June 30, 2015
		\$	\$
Operational activities			
Net loss for the year		\$ (907,443)	\$ (3,070,603)
Adjustments for:			
Depreciation of property, plant and equipment, and amortization of intangible assets	6 a/b	463,472	444,785
Accretion charge for debentures	8	<u>233,971</u>	<u>227,175</u>
		(210,000)	(2,398,643)
Changes in items of working capital			
Accounts receivable		35,044	348,743
Transaction credits		467,385	2,459,059
Inventory		104,960	(54,449)
Prepaid expenses and sundry assets		70,093	5,635
Accounts payable and accrued liabilities		<u>(737,440)</u>	<u>74,514</u>
		(59,958)	2,833,502
Net cash (used in) provided by operating activities		\$ (269,958)	\$ 434,859
Investing activities			
Purchase of property, plant and equipment, and intangible assets		<u>\$ (55,715)</u>	<u>\$ (321,200)</u>
Net cash (used in) investing activities		\$ (55,715)	\$ (321,200)
Financing activities			
Repayment of loan payable	7	\$ (178,258)	\$ (742,649)
Transaction costs respecting debentures financing	8	<u>-</u>	<u>(24,206)</u>
Net cash generated (used in) financing activities		\$ (178,258)	\$ (766,855)
Decrease in cash and cash equivalents during the year		\$ (503,931)	\$ (653,196)
Cash and cash equivalents at beginning of the year		<u>1,162,609</u>	<u>1,815,805</u>
Cash and cash equivalents at end of the year		\$ 658,678	\$ 1,162,609
Additional information			
Interest paid		\$ 1,516,671	\$ 1,897,427
For purposes of the cash flow statement, cash comprises			
Cash		\$ 653,678	\$ 1,157,609
Term deposits		<u>5,000</u>	<u>5,000</u>
		<u>\$ 658,678</u>	<u>\$ 1,162,609</u>

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 financial institutions 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) product. 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 a. Economic and Financial Dependence

Economic Dependence

The company's revenues and gross profit are dependent on a merchant based loyalty program ("CIBC/TD program") the company operates in partnership with Canadian Imperial Bank of Commerce ("CIBC") and Toronto Dominion Bank ("TD"). Just over 60% of CIBC/TD program revenues are dependent on the company's relationship with CIBC.

	Fiscal 2016		Fiscal 2015	
	\$	% of Company Total	\$	% of Company Total
CIBC/TD program revenues	\$ 9,600,935	85.2%	\$ 10,916,883	82.1%
CIBC/TD program gross profit	\$ 6,884,188	90.8%	\$ 7,116,422	87.5%

Status of agreements with CIBC and TD

The company has a two decade relationship with CIBC. The most recent renewal of partnership was in September 2013 for an initial three year term expiring September 30, 2016 ("new agreement"). On April 14, 2016 the company announced extension of the new agreement until December 31, 2016 and on September 20, 2016 extension of the new agreement until September 30, 2017. In addition to CIBC's right to terminate the new agreement at any time by providing at least six months prior written notice to the company, the new agreement can be terminated by CIBC forthwith under certain circumstances.

The company renewed its agreement with TD for one year ending in June 2017. The agreement had an initial term of two years and was due to expire in June 2016. In addition to TD's right to terminate the agreement at any time by providing at least four months prior written notice to the company, the agreement can be terminated by TD immediately under certain circumstances.

Status of agreement with Aimia Canada Inc. ("Aimia")

The Aeroplan program which is dependent on the company's agreement with Aimia generated 14.1% and 8.8% respectively of company's revenues and gross profit during year ended June 30, 2016 (2015 – 17.4% and 11.8% respectively). In November 2014 the company renewed its agreement ("agreement") with Aimia for a five year term ending April 30, 2019. The agreement can be terminated by Aimia under certain conditions during the term of the agreement. The agreement carried a minimum annual commitment for the company to purchase aeroplan miles (note 14). The company and Aimia are close to finalizing the restructuring of the commercial terms of the agreement. Based on agreed upon terms, the company estimates that no additional accruals are required.

The company's segment reporting is provided in note 18.

Financial Dependence

The company is funded by debt. The sources of debt are loan payable, and non-convertible debentures.

Loan payable

The company has access to a line of credit facility under its loan payable (note 7). The loan payable agreement ("agreement") was established in 2007. The loan payable is used exclusively to expand the company's APM product ("transaction credits" on consolidated statements of financial position) which is a significant driver of merchant participation in the CIBC/TD program. The agreement is subject to automatic renewal for periods of one year unless earlier terminated by either party upon 180 days' notice prior to end of term. The current term of the loan payable expires in December 2017. The loan payable is repayable on demand.

Non-convertible debentures

The 12% non-convertible debentures payable ("new 12% debentures") were issued by the company on December 30, 2013 (note 8) with an initial maturity date of September 30, 2016. The proceeds of the new 12% debentures are used for working capital purposes. On June 30, 2015, the debenture holders amended and re-set all financial covenants effective quarter ended June 30, 2015 until quarter ending June 30, 2016. At March 31, 2016 the company was in breach of all its financial covenants. The company secured a waiver to the breach of all its financial covenants at March 31, 2016 and was charged a fee of \$103,180 by the debenture holders.

At June 30, 2016 the company was in breach of all its financial covenants. Recognizing that the company does not have the ability to repay the debentures on maturity the company commenced discussions with the debenture holders. In September 2016 the company secured a waiver to the breach of all its financial covenants at June 30, 2016 and extension of the maturity date to December 31, 2016.

If the company breaches a financial covenant or is unable to pay either interest or 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 pay interest or 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 has a decade old relationship with the primary holder (about 60%) of the new 12% debentures – a Toronto based firm investing on behalf of its managed accounts. Related parties holdings at June 30, 2016 of the new 12% debentures were about \$1.2 million (about 24% of the new 12% debentures). The primary holder of the new 12% debentures is also the primary shareholder of the company (over 15% of the company's common shares as of October 14, 2016).

2 b. Going concern

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

concern, the entity is required to disclose those uncertainties. The company has a shareholders' deficiency of \$5,373,108 and negative working capital of \$5,609,078 as at June 30, 2016. There is uncertainty surrounding:

1. The re-financing of the new 12% debentures maturing December 31, 2016; and
2. The access to additional working capital in the form of debt and or equity to meet operational needs including payments to its partners CIBC, TD and Aimia and to support the growth of the company.

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 June 30, 2016 and hence the ultimate use of accounting principles applicable to a going concern.

The company's future success is dependent on retaining its existing relationships with CIBC, TD, and Aimia; continued access to its existing levels of debt capital; additional capital in the form of debt or equity; ensuring profitability; and generating positive cash flows from operations. The company's business plan includes renewal of its agreements with CIBC, TD; and Aimia; refinancing of its current loans; the receipt of waivers or agreement amendments where breaches occur; and raise of additional capital. While in the past the company has been successful in renewal of its agreement with CIBC, TD, Aimia; refinancing its debentures and loan payable, obtaining waivers or agreement amendments, there can be no assurance these initiatives will continue to be successful. In addition, there can be no assurance the company will be successful in securing additional capital which is required to meet operational needs including payments to its partners CIBC, TD and Aimia and to support the growth of the company.

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

3 Basis of preparation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements and related notes have been reviewed by the company's audit committee and approved by the company's board of directors on October 26, 2016.

Accounting standards issued but not yet applied

The IASB has issued the following applicable standards which have not yet been adopted by the company. The company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated 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

In July 2014, the IASB completed IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. *IFRS 9 amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9*

introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IASB issued IFRS 15, Revenue from Contracts with Customers, which supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions Involving Advertising Services. *IFRS 15 is based on the core principle to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the transfer of control.* IFRS 15 will be effective for the company's fiscal year beginning on July 1, 2018 with earlier adoption permitted.

IFRS 16, Leases

In January 2016, IASB issued IFRS 16, Leases which replaces IAS 17, Leases, IFRIC 4, Determining whether an Agreement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 will be effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted provided the new revenue standard, IFRS 15 Revenue from Contracts with customers, has been applied, or is applied at the same date as IFRS 16.

4 Summary of significant accounting policies

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

Basis of measurement

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

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing the performance of the operating segments and has been identified as the Chief Executive Officer of the company. The company has three operating segments (note 18).

Significant estimation uncertainties

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

Significant estimates used in the preparation of these consolidated financial statements include, but are not limited to going concern, the recoverability of transaction credits, and the disclosure of contingent liabilities at the date of the consolidated financial statements, which are described hereunder.

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, continued access to existing sources of debt, ability to access additional sources of working capital in the form of either debt or equity, growth of its existing business, and development of new lines of business.

Transaction credits

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

The trigger for an account to be classified as impaired is rejection of the company's attempt to debit the customer's bank account for payments due to the company, and the underlying reason for the rejections.

The allowance is determined on specifically identified transaction credit balances that are impaired and the amount of the specific provision is determined based on whether a) customer is (i) bankrupt, (ii) ceased operations, (iii) is in business, b) the account has been referred for either collection or legal action, and c) the company's historical experience on recoveries.

The net realizable amount of transaction credits is disclosed in note 12 a.

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 14, and whether a tax provision is required.

Basis of consolidation

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

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

Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each consolidated entity in the Advantex group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the functional currency of each of the entities in the Advantex group. The foreign currency loss for year ended June 30, 2016 is \$4,500 (June 30, 2015 loss of \$4,376).

(ii) Translation of transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the consolidated statements of financial position date. Non-monetary assets and liabilities, expenses and other income arising from foreign currency transactions are translated at the approximate exchange rate in effect at the date of the transaction. Exchange gains or losses arising from the translation are included in the determination of income in the current year.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of ninety days or less.

Financial instruments

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

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

At initial recognition, the company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- (i) **Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The company's loans and receivables are comprised of transaction credits, accounts receivable and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method less a provision for impairment.
- (ii) **Financial liabilities at amortized cost:** Financial liabilities at amortized cost include accounts payable and accrued liabilities, loan payable and new 12% debentures. Financial liabilities at amortized cost are initially recognized at fair value net of any transaction costs incurred, and subsequently measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets

At each reporting date, the company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the company recognizes an impairment loss as follows:

Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Transaction credits

The company purchases the rights to receive future cash flows associated with designated credit card purchases at a discount from participating establishments. The company continuously reviews its transaction credits and records an estimated allowance for amounts deemed uncollectible.

Inventory

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

Inventory includes the following assets:

- a) Digital display units. Cost is the purchase price paid by the company.
- b) Processing terminals. Cost is the purchase price paid by the company.

Property, plant and equipment

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

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

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

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

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

Stock option plan

The company has a stock option plan which is described in note 10 a. The company uses the Black-Scholes option pricing model to determine the fair value of stock options and expenses the fair value over the estimated vesting periods. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense is recognized over the tranche’s vesting period based on the number of awards expected to vest. Any consideration paid by employees [or directors] on the exercise of stock options is credited to share capital together with any previously recognized compensation expense in contributed surplus.

Identifiable intangible assets

The company’s intangible assets consist of:

- (i) computer software with finite useful lives. These assets include those purchased from external vendors in which case they are capitalized and amortized on a straight-line basis in the statement of income over 3-5 years, and those developed in-house to support the company’s loyalty programs in which case they are capitalized and amortized over their useful life or the term of the affinity partner agreement, whichever is shorter;
- (ii) other assets which represents cost of an acquisition the company completed in January 2013. The company acquired all of Futura Loyalty Group Inc.’s (“Futura”) Aeroplan Channel Marketing assets (“assets”) as per Futura’s restructuring under the Companies’ Creditors Arrangement Act.

Other assets consisted of Futura's (i) channel program agreement with Aeroplan; (ii) agreements with merchants covering about 700 locations, and (iii) inventory of point of purchase and marketing material. The assets are amortized on a straight-line basis over the expected useful life covering 47 months through December 2016.

Impairment of non-financial assets

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

Non-convertible debentures

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

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

Provisions

Provisions for legal claims, where applicable, are recognized in other liabilities when the company has a present legal or constructive obligation as a result of past events, and it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

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

Income taxes

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

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

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

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

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

Revenue

Under all its products, Advantex provides marketing services to participating establishments and provides awards to designated customers who make purchases at participating establishments.

There are three types of agreements with participating establishments:

- (i) Under its APM product the company provides marketing and loyalty services, and also pre-purchases an establishment's future designated credit card sales. In this product the company acquires the rights to future designated credit card transactions at a discount from the face value from participating establishments. The spread between the future credit card transactions and the costs to acquire the rights (cost of transaction credits) represents the revenue that Advantex will ultimately earn. The revenue is recognized, on a pro-rata basis, at the time a consumer makes a designated credit card purchase from a participating establishment enrolled in this product.
- (ii) Under its Marketing Only product, the company provides marketing and loyalty services to participating establishments and records as revenue the fee charged for services. The fee is a percentage of designated credit card consumer purchases made at participating establishments enrolled in this product, and is recognized as revenue at the time of consumer purchase.
- (iii) Re-seller of Loyalty Rewards. The company sells aeroplane miles to small and mid-size retailers and service providers. Revenue is recognized when the participating merchant issues aeroplane miles to an Aeroplane member completing a qualifying transaction at the merchant.

Share capital

Common shares, and preference shares are classified as equity. Incremental costs directly attributable to the issuance of common shares or preference shares are recognized as a deduction from equity. Share capital is described in note 9 to these consolidated financial statements.

Earnings per share

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

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. As at June 30, 2016 the company’s potentially dilutive common shares comprise stock options granted to employees.

5 Inventory

Inventory comprises

	June 30, 2016	June 30, 2015
	\$	\$
Digital display units	\$ -	\$ 79,440
Processing terminals	<u>39,914</u>	<u>65,434</u>
Total	<u>\$ 39,914</u>	<u>\$ 144,874</u>

Digital display units

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

During the year the company and supplier agreed to convert the inventory to amounts the company can use to pay for its future purchases, from the supplier, of digital marketing software which is part of the company’s product offering.

The amount was re-classified into accounts receivable effective September 30, 2015.

For the year ended June 30, 2016 \$49,040 of accounts receivable was recognized as an expense (2015-\$nil).

For the year ended June 30, 2016 \$4,410 of inventory was recognized as an expense (2015 - \$8,860).

Processing terminals

The processing terminals are issued to merchants participating in the company’s Aeroplan and Caesar programs. These units facilitate issuance of bonus rewards to Aeroplan and Caesar’s Total Rewards members on completing qualifying purchases at participating merchants.

6 Property, plant and equipment and intangible assets

(a) Property, plant and equipment

	Computer equipment	Furniture and equipment	Leasehold Improvements	Total
	\$	\$	\$	\$
<u>Year ended June 30, 2015</u>				
Opening net book value	\$ 163,353	\$ 63,443	\$ 10,624	\$ 237,420
Additions	17,340	-	-	17,340
Depreciation for the year	<u>67,331</u>	<u>15,320</u>	<u>6,374</u>	<u>89,025</u>
Closing net book value	<u>\$ 113,362</u>	<u>\$ 48,123</u>	<u>\$ 4,250</u>	<u>\$ 165,735</u>
At June 30, 2015				
Cost	\$ 412,299	\$ 160,089	\$ 31,874	\$ 604,262
Accumulated depreciation	\$ 298,937	\$ 111,966	\$ 27,624	\$ 438,527
<u>Year ended June 30, 2016</u>				
Opening net book value	\$ 113,362	\$ 48,123	\$ 4,250	\$ 165,735
Depreciation for the year	<u>34,387</u>	<u>11,049</u>	<u>4,250</u>	<u>49,686</u>
Closing net book value	<u>\$ 78,975</u>	<u>\$ 37,074</u>	<u>\$ -</u>	<u>\$ 116,049</u>
At June 30, 2016				
Cost	\$ 412,299	\$ 160,089	\$ 31,874	\$ 604,262
Accumulated depreciation	\$ 333,324	\$ 123,015	\$ 31,874	\$ 488,213

Advantex Marketing International Inc.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2016, and June 30, 2015
(expressed in Canadian dollars)

(b) Intangible assets

	Computer Software	Other Assets	Total
	\$	\$	\$
Year ended June 30, 2015			
Opening net book value	\$ 452,134	\$ 77,758	\$ 529,892
Additions	303,860	-	303,860
Amortization for the year	<u>324,644</u>	<u>31,116</u>	<u>355,760</u>
Closing net book value	<u>\$ 431,350</u>	<u>\$ 46,642</u>	<u>\$ 477,992</u>
At June 30, 2015			
Cost	\$ 2,654,405	\$ 121,822	\$ 2,776,227
Accumulated amortization	\$ 2,223,055	\$ 75,180	\$ 2,298,235
Year ended June 30, 2016			
Opening net book value	\$ 431,350	\$ 46,642	\$ 477,992
Additions	55,715	-	55,715
Amortization for the year	<u>382,670</u>	<u>31,116</u>	<u>413,786</u>
Closing net book value	<u>\$ 104,395</u>	<u>\$ 15,526</u>	<u>\$ 119,921</u>
At June 30, 2016			
Cost	\$ 2,710,120	\$ 121,822	\$ 2,831,942
Accumulated amortization	\$ 2,605,725	\$ 106,296	\$ 2,712,021

7 **Loan payable**

	June 30, 2016	June 30, 2015
	\$	\$
Balance at start of year	\$ 5,711,525	\$ 6,454,174
Decrease in borrowing	<u>(178,258)</u>	<u>(742,649)</u>
Balance at end of year	\$ 5,533,267	\$ 5,711,525

This line of credit facility (“facility”) is provided by Accord Financial Inc. (“Accord”), and was established in December, 2007. The facility limit is \$8.5 million. The interest rate on the facility is equivalent to prime rate of a certain Canadian bank plus 11.5% per annum.

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

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

The loan payable agreement is subject to automatic renewal for periods of one year unless earlier terminated by either party upon 180 days’ notice prior to end of term. The current term of the loan payable expires in December 2017.

The interest cost during the year ended June 30, 2016 was \$896,669 (2015 \$928,401).

8 12% Non-convertible debentures payable

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.

As of December 31, 2013 the company used the proceeds of the new 12% debentures plus cash on hand to repay the old 12% debentures (aggregate principal amount of \$6,151,967 plus accrued interest thereon) and 14% debentures (aggregate principal amount of \$1,744,000 plus accrued interest thereon), both maturing December 31, 2013. The 87,056,491 common share warrants attached to the old 12% debentures and 3,444,400 common share warrants attached to 14% debentures were not exercised and expired as of December 31, 2013.

The new 12% debentures were issued as units. Each unit comprised (i) \$1,000 face value secured non-convertible debentures of the company bearing interest at 12% per annum, payable semi-annually, and with an initial maturity date of September 30, 2016, and (ii) 8,150 common shares in the capital of the company. The company issued 5,159 units and 42,045,850 common shares.

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 (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 fee and the deferred interest were paid on the due dates. The company met the revised financial covenants as at June 30, 2014, September 30, 2014 and December 31, 2014. At March 31, 2015 the company was in breach of all its financial covenants and the

Advantex Marketing International Inc.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2016, and June 30, 2015
(expressed in Canadian dollars)

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. At March 31, 2016 the company was in breach of all its financial covenants. The company secured a waiver to the breach of all its financial covenants at March 31, 2016 and was charged a fee of \$103,180 by the debenture holders. As at June 30, 2016 the company was in breach of all its financial covenants. In September 2016 the company secured a waiver to the breach of all its financial covenants at June 30, 2016. In addition, the company and the debenture holders agreed to extend the maturity of the new 12% debentures to December 31, 2016 from September 30, 2016, and at the same time financial covenants at September 30, 2016 were established.

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.

Movement on the new 12% debentures

	<u>Debt portion</u>	<u>Share Capital</u> <u>(Note 10 b)</u>
	\$	\$
Balance at June 30, 2014	\$ 4,661,833	\$ 420,459
Transaction costs	(24,206)	-
Accretion charge for the year	<u>227,175</u>	<u>-</u>
Balance at June 30, 2015	\$ 4,864,802	\$ 420,459
Accretion charge for the year	<u>233,971</u>	<u>-</u>
Balance at June 30, 2016	\$ 5,098,773	\$ 420,459

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

	<u>Year ended June 30, 2016</u>		<u>Year ended June 30, 2015</u>	
	<u>Stated interest</u>	<u>Accretion charge</u>	<u>Stated interest</u>	<u>Accretion charge</u>
	\$	\$	\$	\$
new 12% debentures	\$ 619,933	\$ 233,971	\$ 619,080	\$ 227,175
new 12% debentures fees	<u>103,180</u>	<u>-</u>	<u>58,500</u>	<u>-</u>
Total	\$ 723,113	\$ 233,971	\$ 677,580	\$ 227,175

9 Share capital

(a) Authorized

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

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

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

Common – Unlimited number of shares without par value.

(b) Issued Class A preference shares

	<u>Number of shares</u>	<u>\$</u>
No par value. At June 30, 2016 and June 30, 2015	<u>461,887</u>	<u>\$ 3,815</u>

(c) Issued common shares

	<u>Number of shares</u>	<u>\$</u>
No par value. At June 30, 2016 and June 30, 2015	<u>139,071,218</u>	<u>\$ 24,526,740</u>

The number of issued class A preference shares and common shares is provided by the company's transfer agent, CST Trust Company.

(d) Movement during years ended June 30, 2016 and June 30, 2015 of issued share capital

Class A preference shares and Common shares

No movement during years ended June 30, 2015 and June 30, 2016.

10 Share-based payments

a. Employee stock options

The company has a stock option plan for directors, officers, employees and consultants. The stock options are non-assignable, the stock option price is to be fixed by the Board of Directors (but may not be less than the Canadian Securities Exchange regulations), the term of the stock options may not exceed five years and payment for the optioned shares is required to be made in full on the exercise of the stock

Advantex Marketing International Inc.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2016, and June 30, 2015
(expressed in Canadian dollars)

options. All stock options are equity settled. The stock options are subject to various vesting provisions, determined by the Board of Directors, ranging from immediately to four years.

At the Annual and Special Meeting of the Shareholders held on December 22, 2009 the company received approval from the shareholders to implement a stock option plan (“2009 stock option plan”) which is a fixed maximum number of common shares issuable based on 12% of issued and outstanding common shares (calculated on a non-diluted basis). With the increase in the issued and outstanding common shares of the company consequent to the private placement of the new 12% debentures (note 8), the directors approved a resolution on March 9, 2014 increasing the number of employee stock options issuable per the company’s stock option plan from 11,643,044 to 16,688,546.

The Board has approved the continuation of the 2009 stock option plan to the date of the next Annual meeting of the Shareholders in 2016.

	Number of employee stock options	Weighted average exercise price \$
Outstanding at July 1, 2014	10,190,000	0.03
Granted	-	0.00
Forfeited	(1,600,000)	0.03
Expired	=	0.00
Outstanding at June 30, 2015	8,590,000	0.03
Granted	-	0.00
Forfeited	(590,000)	0.03
Expired	(3,900,000)	0.02
Outstanding at June 30, 2016	4,100,000	0.03
Exercisable at June 30, 2015	8,590,000	0.03
Exercisable at June 30, 2016	4,100,000	0.03

The outstanding and exercisable employee stock options at June 30, 2016 were issued at exercise prices ranging between \$0.025 and \$0.05, and have a weighted average remaining contractual life of just over a year.

The number of employee stock options available for future issuance as at June 30 is as follows:

	2016	2015
Maximum number reserved for issuance	16,688,546	16,688,546
Less: Outstanding at end of period	(4,100,000)	(8,590,000)
Number of options available for future issuance	12,588,546	8,098,546

The company has recorded \$nil of stock-based compensation expense during year ended June 30, 2016 (2015 - \$nil).

Potentially Dilutive Securities

The potentially dilutive securities as at June 30, 2016 feature in computation of Diluted EPS (note 16).

As at June 30, 2016, the company was committed to issuing 4,100,000 additional common shares:

<u>Employee stock options</u>	<u>Number of stock options</u>	<u>Exercise prices</u>	<u>Expiry dates</u>
Maximum number issuable under the existing employee stock option plan is 16,688,546	4,100,000	Ranging between \$0.025 and \$0.05. Weighted average exercise price \$0.03	Ranging between February, 2017 and March, 2018

As at June 30, 2015 the company was committed to issuing 8,590,000 additional common shares on account of employee stock options.

b. Contributed surplus

The company refinanced the new 12% debentures and repaid the old 12% debentures and 14% debentures (note 8), and following these transactions the amounts held on account of the old 12% debentures and 14% debentures as equity portion of debentures, and warrants were transferred to contributed surplus.

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

	Contributed surplus
Balance at June 30, 2015 and 2016	\$ 4,090,382

11 Related party transactions

Directors and Officers

In December 2013 these related parties purchased new 12% debentures (note 8), on terms and conditions applicable to the other subscribers.

The holdings of debentures are tabulated:

Advantex Marketing International Inc.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2016, and June 30, 2015
(expressed in Canadian dollars)

	June 30, 2016	June 30, 2015
	\$	\$
Director, Chief Executive Officer - K. Ambrose	\$ 500,000	\$ 500,000
Director, Chairman of the Board of Directors - S. Burns	\$ 50,000	\$ 50,000
Director - W. Polley	\$ 50,000	\$ 50,000
Director - M. Lavine	\$ 500,000	\$ 500,000
Ex-Director - R.von der Porten (Not a director since December 11, 2015)	\$ -	\$ 50,000
Ex-Director - B.Wainstein (Not a director since December 11, 2015)	\$ -	\$ 25,000
Chief Financial Officer - M.Sabharwal	<u>\$ 115,000</u>	<u>\$ 115,000</u>
	<u>\$ 1,215,000</u>	<u>\$ 1,290,000</u>

Key management includes the company's directors and members of the Executive Committee. The members of the Executive Committee are the Chief Executive Officer and Chief Financial Officer.

Compensation awarded to key management included:

	Year ended June 30, 2016	Year ended June 30, 2015
	\$	\$
Salaries, management bonuses and directors fees	\$619,264	\$694,429
Share based compensation	-	-
	<u>\$619,264</u>	<u>\$694,429</u>

12 Financial instruments

(a) Credit risk

Credit risk is the risk of financial loss to the company if a customer fails to meet its contractual obligations. The company, in the normal course of business, is exposed to credit risk on its accounts receivable and transaction credits from customers. The company generally acquires the rights to receive future cash flows associated with designated credit card purchases ("future sales") at a discount from participating establishments ("transaction credits"). These transaction credits are estimated to be fully extinguishable within 30-210 days. Accounts receivable and transaction credits are net of applicable allowance, which is established based on the specific credit risk associated with the customer and other relevant information.

The 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 for either collection or legal action, whether the company's attempt to debit the merchant's bank account for

Advantex Marketing International Inc.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2016, and June 30, 2015
(expressed in Canadian dollars)

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 is as follows:

	June 30, 2016	June 30, 2015
	\$	\$
Transaction credits	\$ 7,994,349	\$ 8,606,883
Accounts receivable	447,720	475,339
Allowance	(664,405)	(802,129)
Per Statement of Financial Position	\$ 7,777,664	\$ 8,280,093
Maximum exposure to credit risk	\$ 7,777,664	\$ 8,280,093

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

	June 30, 2016	June 30, 2015
	\$	\$
Impaired transaction credits	\$ 833,379	\$ 1,136,791
Allowance	(642,087)	(787,236)
Impaired transaction credits not allowed for	\$ 191,292	\$ 349,555

Movement on allowance for impaired transaction credits

	June 30, 2016	June 30, 2015
	\$	\$
Balance brought forward at start of year	\$ 787,236	\$ 1,082,643
Allowance created during the year	593,705	1,474,994
Impaired accounts written off against allowance	(738,854)	(1,770,401)
Balance carried forward at end of year	\$ 642,087	\$ 787,236

(b) Currency risk

The company operates the Caesars program in the US through its subsidiary Advantex Marketing International (Maryland) Inc., note 4. The subsidiary carries accounts receivables and accounts payable that are denominated in US dollars. The operation is in early stages and the accounts receivable and accounts payable are nominal and are a natural hedge. Therefore, the currency risk is minimal.

Advantex Marketing International Inc.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2016, and June 30, 2015
(expressed in Canadian dollars)

Currency risk arises due to fluctuations in foreign currency rates, which could affect the company's financial results.

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

	June 30, 2016	June 30, 2015
	\$	\$
Cash and cash equivalents	4,041	9,960
Accounts receivable	8,917	19,713
Accounts payable and accrued liabilities	17,525	29,255

(c) Liquidity risk

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

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

The contractual maturities of the company's financial liabilities at June 30, 2016 are as follows:

	Total \$	Payable within 1 year \$	Payable after 1 year – 3 years \$
Loan payable – payable on demand (note 7)	\$5,533,267	\$5,533,267	-
Accounts payable and accrued liabilities	3,556,978	3,556,978	-
New 12% debentures – face amount – maturing December 31, 2016 (note 8)	5,159,000	5,159,000	-
New 12% debentures interest (note 8)	<u>439,784</u>	<u>439,784</u>	-
Total	\$14,689,029	\$14,689,029	\$-

The contractual maturities of the company's financial liabilities at June 30, 2015 are as follows:

	Total \$	Payable within 1 year \$	Payable after 1 year – 3 years \$
Loan payable – payable on demand (note 7)	\$5,711,525	\$5,711,525	-
Accounts payable and accrued liabilities	4,294,418	4,294,418	-
New 12% debentures – face amount – maturing September 30, 2016 (note 8)	5,159,000	-	5,159,000
New 12% debentures interest (note 8)	<u>619,080</u>	<u>619,080</u>	-
Total	\$15,784,023	\$10,625,023	\$5,159,000

Note 14 carries details of the company's commitments and contingencies.

(d) Fair value

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

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

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

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

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

(e) Interest rate risk

The company's activities are funded by two sources of debt; the non-convertible debenture (note 8) which has fixed interest rates, and loan payable (note 7) which carries a floating interest rate. While the company is not exposed to interest rate risk on account of its non-convertible debenture, its future cash flows are exposed to interest rate risk from the floating interest rate payable, calculated as prime rate of a certain Canadian bank plus 11.5%, on its 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 in note 7, during year ended June 30, 2016, the company paid annual interest of \$896,669. 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. For the year ended June 30, 2016, a 10% increase in interest rates would lead to an additional annual interest cost of \$89,667.

13 Capital management

The company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The company manages Loan Payable, Debentures, and Shareholder deficiency which is explained in detail in these consolidated financial statements. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year over year sustainable growth in revenues and net income.

Advantex Marketing International Inc.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2016, and June 30, 2015
(expressed in Canadian dollars)

Tabulation of capital base

	At June 30, 2016	At June 30, 2015
	\$	\$
Loan payable – note 7	5,533,267	5,711,525
New 12% debentures – Principal – note 8	5,159,000	5,159,000
Share capital – note 9	24,530,555	24,530,555
Contributed surplus and deficit	<u>(29,903,663)</u>	<u>(28,996,220)</u>
	<u>\$ 5,319,159</u>	<u>\$6,404,860</u>

As more fully explained in note 2a (Economic and Financial Dependence) and note 2b (Going concern), unless the company is re-financed it does not have the ability to repay the debentures upon maturity on December 31, 2016. 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.

14 Commitments and contingencies

Commitments

As at June 30, 2016, the company is committed to minimum payments with respect to existing leases for equipment and premises:

	Equipment	Premises	Total
Not later than one year	\$62,123	\$ 95,382	\$157,505
Later than one year and not later than five years	\$62,419	\$15,897	\$78,316
Later than five years	\$nil	\$nil	\$nil
Total	\$124,542	\$111,279	\$235,821

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 (“agreement”) with Aimia for a five year term ending April 30, 2019. The 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. The agreement carried a minimum annual commitment for the company to purchase aeroplan miles.

The company did not meet its calendar 2015 purchase commitment. Per the agreement, the shortfall was carried forward and added to the company’s commitment for calendar 2016. The company was on course to fall short of its calendar 2016 purchase commitment. The company and Aimia are close to finalizing the restructuring of the commercial terms of the agreement. Based on agreed upon terms, the company estimates that no additional accruals are required.

Taxation

After an audit in 1998, the Canada Revenue Agency (“CRA”) determined that the company was providing marketing services. Since 1998, the company has continued in the same business activities.

After completion of an audit in early 2009, the CRA reversed its 1998 position. In April 2009, the company received a notice of reassessment for Goods and Services Tax owed related to the company’s CIBC Advantex program and the ability to claim certain input tax credits during fiscal years 2005-2007. The re-assessment was in the amount of \$755,000. The company paid the re-assessment in 24 instalments totalling \$800,108.

The company contested the CRA position, and filed a notice of objection.

The company did not record a provision based on the company’s assessment that it was probable that the company would recover the amount of the reassessment in full.

In January 2013 the company was advised by CRA that the objection was allowed and the reassessment was reversed, and a notice of re-assessment in the amount of \$824,430 was issued. The company received the amount in February, 2013.

The notice of re-assessment issued in January 2013 did not formally acknowledge the CRA’s concurrence with the company’s treatment of GST for periods subsequent to fiscal 2007. As a result, the company has filed a notice with CRA to confirm the appropriateness of the company’s treatment of GST for the periods subsequent to fiscal 2007. There is no decision as of date of these audited consolidated financial statements.

15 Income taxes

	2016	2015
	\$	\$
Current income taxes	-	-
Deferred income taxes	-	-
	<hr/>	<hr/>
	\$-	\$-
	<hr/>	<hr/>

In assessing the ability to realize deferred income tax assets, management considers whether it is more likely or not that some portion or all of the deferred income tax assets will be utilized in the foreseeable

future. The ultimate realization of deferred income tax assets is dependent on the generation of future taxable income during the years in which those temporary differences become deductible. As at June 30, 2016, there is no certainty that such deferred income tax assets will be utilized and, therefore, such assets have not been recognized on the statements of financial position. The majority of unrecognized deferred income tax assets of \$3,770,000 (2015 \$2,895,000) relate to non-capital losses of \$3,720,000 (2015 - \$2,744,000).

As at June 30, 2016, the company has gross non-capital income tax losses of approximately \$14,044,000 (2015 \$10,349,000), which may be carried forward to reduce future income for income tax purposes. The benefit of these losses has not been recognized in these consolidated financial statements. These losses expire between 2018 and 2036.

	\$
2018	432,000
2020	123,000
2021	280,000
2022	530,000
2023	188,000
2024	1,697,000
2025	345,000
2026	1,392,000
2027	697,000
2028	1,169,000
2029	675,000
2030	1,000
2031	4,000
2032	490,000
2033	321,000
2035	<u>2,461,000</u>
2036	<u>3,239,000</u>
Total	<u>14,044,000</u>

16 Earnings (loss) per share

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

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

Basic and Diluted EPS are tabulated.

Advantex Marketing International Inc.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2016, and June 30, 2015
(expressed in Canadian dollars)

	2016	2015
	\$	\$
Net loss and comprehensive loss	\$ (907,443)	\$ (3,070,603)
Basic and Diluted EPS		
Average number of issued common shares during the year	139,071,218	139,071,218
Basic EPS	\$ (0.01)	\$ (0.02)

The company's potentially dilutive common shares comprise stock options granted to employees (position as at June 30, 2016 and June 30, 2015 tabulated under note 10).

The computation for diluted EPS for 12 months ended June 30, 2016 and June 30, 2015 is not provided because the effect of potential exercise of the dilutive common shares would be anti-dilutive.

17 Nature of Expenses

	Year ended June 30, 2016	Year ended June 30, 2015
	\$	\$
Direct expenses		
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; and c) cost of sales of digital marketing services; and	\$ 3,114,217	\$ 3,712,992
Expense for provision against impaired accounts receivable and transaction credits	579,728	1,453,335
	\$ 3,693,945	\$ 5,166,327
Selling and Marketing, and General & Administrative		
Salaries and wages including travel	\$ 4,840,945	\$ 6,304,760
Professional fees	329,754	456,442
Facilities, processing, and office expenses	940,026	1,095,443
Other	59,228	66,261
	\$ 6,169,953	\$ 7,922,906
Restructuring cost	\$ -	\$ 1,001,321

18 Segment reporting

The company's reportable segments include: (1) CIBC/TD program, (2) Aeroplan program and (3) Caesars program. Where applicable, corporate and other activities are reported separately as Corporate.

Advantex Marketing International Inc.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2016, and June 30, 2015
(expressed in Canadian dollars)

During year ended June 30, 2016 and 2015 the CIBC/TD program relates to the merchant-based loyalty program the company developed and managed respectively for CIBC and TD.

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 June 30, 2016 and 2015 is tabulated.

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

Year ended June 30, 2016

	CIBC/TD program	Aeroplan program	Caesars program	Corporate	Total
	\$	\$	\$	\$	\$
Revenues	9,600,935	1,589,509	83,191	45	11,273,680
Direct expenses	<u>2,716,747</u>	<u>920,489</u>	<u>56,709</u>	-	<u>3,693,945</u>
	6,884,188	669,020	26,482	45	7,579,735
Selling & marketing	2,043,293	299,488	193,493	-	2,536,274
General & administrative	3,094,540	512,325	26,814	-	3,633,679
Restructuring cost	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Earnings (loss) from operations before depreciation, amortization and interest	1,746,355	(142,793)	(193,825)	45	1,409,782
Interest - loan payable	896,669	-	-	-	896,669
Interest - Non convertible debentures payable	815,079	134,943	7,062	-	957,084
Depreciation and amortization	<u>394,705</u>	<u>65,347</u>	<u>3,420</u>	<u>-</u>	<u>463,472</u>
Segment profit/(loss)	<u>(360,098)</u>	<u>(343,083)</u>	<u>(204,307)</u>	<u>45</u>	<u>(907,443)</u>

Advantex Marketing International Inc.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2016, and June 30, 2015
(expressed in Canadian dollars)

Year ended June 30, 2015

	CIBC/TD program	Aeroplan program	Caesars program	Corporate	Total
	\$	\$	\$	\$	\$
Revenues	10,916,883	2,313,518	67,446	45	13,297,892
Direct expenses	<u>3,800,461</u>	<u>1,350,336</u>	<u>15,530</u>	-	<u>5,166,327</u>
	7,116,422	963,182	51,916	45	8,131,565
Selling & marketing	2,629,400	404,341	396,689	-	3,430,430
General & administrative	3,672,639	774,291	45,546	-	4,492,476
Restructuring cost	-	-	-	<u>1,001,321</u>	<u>1,001,321</u>
Earnings (loss) from operations before depreciation, amortization and interest	814,383	(215,450)	(390,319)	(1,001,276)	(792,662)
Interest - loan payable	928,401	-	-	-	928,401
Interest - Non convertible debentures payable	741,899	153,808	9,048	-	904,755
Depreciation and amortization	<u>364,723</u>	<u>75,613</u>	<u>4,449</u>	-	<u>444,785</u>
Segment profit/(loss)	<u>(1,220,640)</u>	<u>(444,871)</u>	<u>(403,816)</u>	<u>(1,001,276)</u>	<u>(3,070,603)</u>

19 Restructuring cost

The company announced in January 2015 its plan to adjust the headcount to prevailing and expected medium term activity level. The plan primarily effected management positions. The plan was implemented in two phases. Phase one, restructuring the Canadian operations was completed by March 31, 2015. Phase two, which was the smaller of the two phases, was connected primarily to the US operations and was completed by June 30, 2015. The restructuring cost of \$1,001,321 reflects the severances of staff and was fully provided in year ended June 30, 2015 and \$374,288 of the provision was utilized by June 30, 2015. The balance provision was fully utilized by June 30, 2016.

20 Comparatives

Certain of the comparative figures have been re-classified to conform to consolidated financial presentation adopted in the current year.