



ADVANTE~~X~~

ADVANTE~~X~~® MARKETING INTERNATIONAL INC.

Management's Discussion and Analysis of Operating Results

For the three and six month periods ended December 31, 2016 and 2015

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 27, 2017. 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 months period ended December 31, 2016 compared to the three and six month periods ended December 31, 2015. 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, 2016, and the interim consolidated financial statements and the related notes for the three and six months ended December 31, 2016 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 Total 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 consumers with above-average personal and household income. The company's merchant partner base currently consists of over 1,200 merchants participating in the three programs and operating across Canada and the 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; health and beauty centres; dry cleaners; gift stores; and home décor, 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, 2016

In December 2016 the company reached agreement to extend the maturity date of its 12% non-convertible debentures to March 31, 2017 from December 31, 2016. The company is working with its exclusive financial advisor to refinance the 12% non-convertible debentures and seek growth funds to capitalize on expansion opportunities.

During the three and six months ended December 31, 2016 the company's focus was to stabilize operations in an environment where it had limited access to working capital. The limited access to working capital hindered the company's ability to invest in resources necessary to influence new enrollment and retention of merchants participating in the CIBC/TD program. The resulting decline in merchant participation is reflected in the financial performance and financial position.

The financial highlights for the three and six months ended December 31, 2016 ("Q2 Fiscal 2017" and "YTD Fiscal 2017" respectively) compared to three and six months ended December 31, 2015 ("Q2 Fiscal 2016" and "YTD Fiscal 2016" respectively) are summarized in the tabulation:

	<u>Q2 Fiscal 2017</u>	<u>Q2 Fiscal 2016</u>	<u>YTD Fiscal 2017</u>	<u>YTD Fiscal 2016</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Revenues				
CIBC/TD program	\$ 2,033,009	\$ 2,673,887	\$ 4,155,001	\$ 5,188,405
Aeroplan program	367,651	399,872	838,673	849,378
Caesars program	9,709	22,664	20,932	53,849
Misc	-	-	33	45
	<u>\$ 2,410,369</u>	<u>\$ 3,096,423</u>	<u>\$ 5,014,639</u>	<u>\$ 6,091,677</u>
Gross profit	\$ 1,574,111	\$ 2,069,842	\$ 3,301,023	\$ 4,182,027
Gross margin	65.3%	66.8%	65.8%	68.7%
Earnings from operations before depreciation, amortization and interest	\$ 134,114	\$ 527,954	\$ 462,775	\$ 992,326
Net loss and Comprehensive loss	\$ (237,607)	\$ (30,102)	\$ (387,012)	\$ (137,774)

Income Statement – Q2 Fiscal 2017 and YTD Fiscal 2017 compared to Q2 Fiscal 2016 and YTD Fiscal 2016

Q2 Fiscal 2017 compared to Q2 Fiscal 2016

The \$686,054 drop in the company's revenues reflects mainly the decline in CIBC/TD revenues of \$640,878. CIBC/TD program accounts for a significant share of the company's revenues (over 80% in both fiscal periods). The decline primarily reflects lower merchant participation in the CIBC/TD program. The average merchant participation during Q2 Fiscal 2017 at 754 was 17.6% lower compared to Q2 Fiscal 2016. The decline in merchant participation is explained in the section Revenues in this document.

Gross profit decline of \$495,731 reflects mainly the \$519,116 decline in gross profit from CIBC/TD program. CIBC/TD program accounts for a significant share of the company's gross profit (about 90% in both fiscal periods). The decline reflects lower CIBC/TD revenues and a drop in program margin, 68.6% for Q2 Fiscal 2017 compared to 71.5% for Q2 Fiscal 2016. Gross profit is reviewed in sections Direct expenses and Gross profit in this document.

Selling, General & Administrative ("SG&A") expenses are \$101,891 lower compared to Q2 Fiscal 2016. The lower selling costs during Q2 Fiscal 2017 compared to corresponding periods in the previous year reflect lower

headcount consequent to some staff reductions during November 2015 through April 2016. The company did not fill these positions because of the slow selling season from December 2015 to mid-February 2016, slow economy and pending evaluation of its go to market strategy. During Q1 Fiscal 2017 the company started to fill vacant positions and is in continuous evaluation of staffing until its settles on the optimal sales team. The development of the optimal sales team is held back due to deficiency of working capital and this is hampering the company's ability to stabilize and re-build its merchant portfolio. The Q2 Fiscal 2017 General & Administrative expenses were \$98,276 higher compared to Q2 Fiscal 2016 mainly reflecting lower capitalization of internally expended software development costs (see section Capital Resources in this document) and higher legal costs mainly connected to the finance raise efforts.

The decline of \$393,840 in earnings from operations before depreciation, amortization and interest reflect lower SG&A which partially offsets decline in gross profit.

Q2 Fiscal 2017 reflects a decrease in interest cost (\$120,389) – see Interest Expense section – and depreciation and amortization expense (\$65,946) compared to Q2 Fiscal 2016.

Q2 Fiscal 2017 net loss of \$237,607 is an increase of \$207,505 compared to Q2 Fiscal 2016.

YTD Fiscal 2017 compared to YTD Fiscal 2016

The \$1,077,038 drop in the company's revenues reflects mainly the decline in CIBC/TD revenues of \$1,033,404. CIBC/TD program accounts for a significant share of the company's revenues (over 80% in both fiscal periods). The decline primarily reflects lower merchant participation in the CIBC/TD program. The average merchant participation during YTD Fiscal 2017 at 790 was 12.4% lower compared to YTD Fiscal 2016. The decline in merchant participation is explained in the section Revenues in this document.

Gross profit decline of \$881,004 reflects mainly the \$870,678 decline in gross profit from CIBC/TD program. CIBC/TD program accounts for a significant share of the company's gross profit (about 90% in both fiscal periods). The decline reflects lower CIBC/TD revenues and a drop in program margin, 70.8% for YTD Fiscal 2017 compared to 73.5% for YTD Fiscal 2016. Gross profit is reviewed in sections Direct expenses and Gross profit in this document.

SG&A expenses are \$351,453 lower compared to YTD Fiscal 2016. The lower selling expenses are explained in this section under Q2 Fiscal 2017 compared to Q2 Fiscal 2016. The YTD Fiscal 2017 General & Administrative expenses were \$82,435 higher compared to YTD Fiscal 2016 mainly reflecting lower capitalization of internally expended software development costs (see section Capital Resources in this document) and higher legal costs mainly connected to the finance raise efforts.

The decline of \$529,551 in earnings from operations before depreciation, amortization and interest reflect lower SG&A which partially offsets decline in gross profit.

YTD Fiscal 2017 reflects a decrease in interest cost (\$162,105) – see Interest Expense section – and depreciation and amortization expense (\$118,208) compared to YTD Fiscal 2016.

YTD Fiscal 2017 net loss of \$387,012 is an increase of \$249,238 compared to YTD Fiscal 2016.

Balance Sheet – December 31, 2016 compared to December 31, 2015

During YTD Fiscal 2017 the CIBC/TD program merchant population declined from 921 at December 31, 2015 to 741 at December 31, 2016 and this is reflected in the decline, net of provision for delinquent accounts, of \$3,335,386 in transaction credits. Transaction credits of \$5,698,419 at December 31, 2016 compared to \$9,033,805 at December 31, 2015. Decline in transaction credits is the primary reason for decline in current and total assets of \$3,996,098 and \$4,327,630 respectively at December 31, 2016 compared to position at December 31, 2015. The decline in merchant participation is discussed in the section Revenue in this document.

The drop in loan payable, which is used exclusively to fund 85% of transaction credits deployed with merchants participating in the CIBC/TD program's APM product, reflects decline in merchant participation. Loan payable at December 31, 2016 of \$4,090,052 compared to \$6,554,057 at December 31, 2015, a drop of \$2,464,005. In addition, decline in accounts payable and accrued liabilities of \$885,530 between December 31, 2016 and

December 31, 2015 reflects \$415,370 the company used, post December 31, 2015, to settle severances consequent to restructuring during Fiscal year ended June 30, 2015 and the payments, per payment plan, since April 2016 to settle outstanding amounts due to affinity partner CIBC.

A detailed look at the results for Q2 Fiscal 2017 and YTD Fiscal 2017 compared to Q2 Fiscal 2016 and YTD Fiscal 2016 is set out in the following sections.

Outlook

The company continues to maintain the outlook noted in the management discussion and analysis for fiscal year ended June 30, 2016.

The company has had to overcome structural and competitive challenges during Fiscal 2015 and Fiscal 2016. While it has successfully done so, the financial cost in terms of righting its business deprived it of working capital to support the growth of the business. This is reflected in lower merchant participation levels – the key indicator of the health of the business - during Fiscal year ended June 30, 2016 and YTD Fiscal 2017 compared to Fiscal year ended June 30, 2015 and YTD Fiscal 2016.

The company's 12% Non-Convertible Debentures Payable ("new 12% debentures") mature March 31, 2017. The company does not have the ability to re-pay the new 12% debentures on maturity. The company is seeking to re-finance the new 12% debentures and raise funds for growth. While in the past the company was able to re-finance its new 12% debentures there can be no assurance the company will be successful in either re-financing its new 12% debentures or raise additional capital in the form of either debt and or equity to support the growth of the business.

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 it has a unique product – working capital and loyalty marketing at affordable prices - for the small independent merchant space. The company's systems and processes can rapidly onboard new affinity partners and the business is 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. Based on initial discussions with organizations across North America it believes it has the opportunity to expand its operations beyond Canada. But to do so it needs access to working capital.

The company is operating in a weak economy and given its difficult operating environment, without access to additional working capital it is not expecting improvement in financial performance.

The company believes it has the support of its Affinity and Financial partners, and its staff. The company renewed its agreement with TD for an additional one year term expiring in June 2017. In September 2016 the company announced extension of its agreement with CIBC until September 30, 2017. The company and Aimia are finalizing the restructuring of the commercial terms of the agreement. The company's loan payable facility with Accord Financial Inc. ("Accord") was renewed for one year to December 2017. In December 2016 the company secured an extension of the maturity date to March 31, 2017 from December 31, 2016 of the new 12% debentures. However, there is no assurance of continued support in the absence of improvement in the company's financial performance.

Results of Operations

	Q2 Fiscal 2017	Q2 Fiscal 2016	YTD Fiscal 2017	YTD Fiscal 2016
	\$	\$	\$	\$
Revenues	\$ 2,410,369	\$ 3,096,423	\$ 5,014,639	\$ 6,091,677
Direct expenses - Cost of cardholder rewards and marketing merchants to cardholders	704,248	856,738	1,402,012	1,601,157
Direct expenses - Expense for provision against delinquent accounts	132,010	169,843	311,604	308,493
Gross profit	\$ 1,574,111	\$ 2,069,842	\$ 3,301,023	\$ 4,182,027
Selling and General & Administrative	1,439,997	1,541,888	2,838,248	3,189,701
Earnings from operations before depreciation, amortization and interest	\$ 134,114	\$ 527,954	\$ 462,775	\$ 992,326
Cash interest on loan payable and debentures	334,622	396,865	673,616	780,336
Earnings (loss) from operations before depreciation, amortization and non-cash interest on debentures (accretion charges)	\$ (200,508)	\$ 131,089	\$ (210,841)	\$ 211,990
Depreciation and amortization	37,099	103,045	115,944	234,152
Non cash interest expense on debentures	-	58,146	60,227	115,612
Net loss and Comprehensive loss	\$ (237,607)	\$ (30,102)	\$ (387,012)	\$ (137,774)
Basic and Diluted loss per share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)

Extract from the Statement of Financial Position

	At December 31, 2016	At June 30, 2016	Increase/ (Decrease)
	\$	\$	\$
Current assets	\$ 6,460,619	\$ 8,579,940	\$ (2,119,321)
Total assets	\$ 6,580,645	\$ 8,815,910	\$ (2,235,265)
Shareholders' deficiency	\$ (5,760,120)	\$ (5,373,108)	\$ 387,012

The change in current assets primarily reflects a decrease in transaction credits (net of provision for delinquent accounts) of \$1,653,843, decrease in cash and cash equivalents of \$288,237 and decrease in accounts receivable of \$176,407. The decrease in transaction credits primarily reflects lower merchant participation in the CIBC/TD program (741 at December 31, 2016 compared to 838 at June 30, 2016). The cash balances at the end of a quarter / year reflect utilization of cash in and by the operations of the company, 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, balances of Affinity partner funds which are designated for initiatives to promote the program (at December 31, 2016 \$74,673 compared to \$124,499 at June 30, 2016), and more efficient collection from accounts receivable. Decrease in accounts receivable of \$176,407 reflects lower accounts receivable (\$74,299) from merchants participating in the Aeroplan program primarily reflecting collection efforts and during YTD Fiscal 2017 receipt of amounts due from Affinity partners (\$114,855).

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

The movement in the shareholders' deficit reflects net loss during YTD Fiscal 2017.

Extracts from the Statement of Cash Flow

	YTD Fiscal 2017	YTD Fiscal 2016	Change
	\$	\$	\$
Net loss	\$ (387,012)	\$ (137,774)	\$ (249,238)
Adjustments for non cash expenses	<u>176,171</u>	<u>349,764</u>	<u>(173,593)</u>
Income after adjustments for non cash expenses	\$ (210,841)	\$ 211,990	\$ (422,831)
Decrease in severance payable	-	(428,034)	428,034
Changes in working capital	1,365,819	(1,246,901)	2,612,720
Net cash generated from (used in) financing activities supporting working capital	<u>(1,443,215)</u>	<u>842,532</u>	<u>(2,285,747)</u>
Net cash provided by (used in) operations	\$ (288,237)	\$ (620,413)	\$ 332,176
Net cash provided by (used in) investing activities	<u>-</u>	<u>(41,983)</u>	<u>41,983</u>
(Decrease) in cash and cash equivalents	(288,237)	\$ (662,396)	\$ 374,159
Cash and cash equivalents at start of period	<u>\$ 658,678</u>	<u>\$ 1,162,609</u>	<u>\$ (503,931)</u>
Cash and cash equivalents at end of period	<u>\$ 370,441</u>	<u>\$ 500,213</u>	<u>\$ (129,772)</u>

Changes in working capital. Transaction credits, accounts receivable, accounts payable and accrued liabilities and other working capital items. During YTD Fiscal 2017 changes reflect decrease in transaction credits, net of provision for delinquent accounts, of \$1,653,843 which is a reflection of a decrease in merchant participation. Decrease in accounts receivable of \$176,407 reflects lower accounts receivable (\$74,299) from merchants participating in the Aeroplan program primarily reflecting collection efforts and receipt of amounts due from Affinity partners (\$114,855). Decrease in accounts payable and accrued liabilities reflects payments, per payment plan, to an affinity partner and decrease of customer advances for pre-purchase of aeroplan miles. During YTD Fiscal 2016 the changes reflect primarily increase in transaction credits, net of provision for delinquent accounts, of \$1,214,158 which is a reflection of an increase in merchant participation. In addition, decrease in accounts payable and accrued liabilities of \$317,175 reflects \$428,034 the company used to settle severances consequent to restructuring during Fiscal 2015.

Financing activities. During YTD Fiscal 2017 and YTD Fiscal 2016 movement in loan payable reflects changes in merchant participation. Merchant participation 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, 2017 the company expects capital expenditures to be on par with Fiscal year ended June 30, 2016. In the fourth quarter of Fiscal year ended June 30, 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, 2017.

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 and six months ended December 31, 2016, 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 designated 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 designated CIBC and TD credit cards, net of the company's costs to acquire the transaction credits. Proceeds from the amount spent on above noted CIBC/TD credit cards at participating merchants 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.

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. 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.

	<u>Q2 Fiscal 2017</u>	<u>Q2 Fiscal 2016</u>	<u>Inc./Dec</u>	<u>YTD Fiscal 2017</u>	<u>YTD Fiscal 2016</u>	<u>Inc./Dec</u>
Avg. # of merchants participating during the periods						
CIBC/TD program	754	916	-17.6%	790	901	-12.4%
Aeroplan program	453	648	-30.1%	544	618	-11.9%
	\$	\$	\$	\$	\$	\$
Revenues						
CIBC/TD program	\$ 2,033,009	\$ 2,673,887	\$ (640,878)	\$ 4,155,001	\$ 5,188,405	\$ (1,033,404)
Aeroplan program	367,651	399,872	(32,221)	838,673	849,378	(10,705)
Caesars program	9,709	22,664	(12,955)	20,932	53,849	(32,917)
Misc	-	-	-	33	45	(12)
	<u>\$ 2,410,369</u>	<u>\$ 3,096,423</u>	<u>\$ (686,054)</u>	<u>\$ 5,014,639</u>	<u>\$ 6,091,677</u>	<u>\$ (1,077,038)</u>

CIBC/TD program

The lower merchant participation during Q2 Fiscal 2017 compared to Q2 Fiscal 2016 is the primary reason for the declines in the program revenues.

The lower merchant participation during YTD Fiscal 2017 compared to YTD Fiscal 2016 and reflection of the full impact during YTD Fiscal 2017 of the marketing fee reduction - which was 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.

The lower merchant participation during Q2 Fiscal 2017 and YTD Fiscal 2017 reflects primarily lower sales staffing levels compared to corresponding periods in the previous year. During Fiscal year ended June 30, 2016 the company made additional staffing changes in the sales organization. The company did not fill these positions because of the slow economy and pending evaluation of its go to market strategy. During Q1 Fiscal 2017 the company started to fill vacant positions and is in continuous evaluation of staffing until it settles on the optimal sales team. Due to the deficiency in working capital this process is taking longer than expected and the company expects a delay in bounce back of merchant participation until the optimal sales team is in place and it has sufficient working capital to co-fund its share of advances to merchants wishing to enroll in the company's APM product.

A weak economy impacted both years in terms of selling and retention.

Aeroplan program

Decline in Q2 Fiscal 2017 revenues compared to Q2 Fiscal 2016 reflects decline in merchant participation.

YTD Fiscal 2017 compared to YTD Fiscal 2016. A wholesale account offset the decline in sales of aeroplan miles and revenues from regular merchant accounts. The decline in revenues from regular merchant accounts primarily reflects decline in merchant participation and lower issuance of aeroplan miles at participating merchants.

As noted in MD&A for year ended June 30, 2016 Aimia's long term agreement with a customer had excluded the company from selling and operating in a business segment. There was a gradual loss of merchants – they

exited from the program upon expiry of their agreement with the company - from the business segment. This is the primary reason for decline in merchant population during YTD Fiscal 2017 compared to YTD Fiscal 2016.

	<u>Q2 Fiscal 2017</u>	<u>Q2 Fiscal 2016</u>	<u>Inc./Dec</u>	<u>YTD Fiscal 2017</u>	<u>YTD Fiscal 2016</u>	<u>Inc./Dec</u>
Aeroplan miles						
A wholesale account	-	107,850	-100.0%	6,748,664	697,818	867.1%
All other merchants	<u>11,194,162</u>	<u>12,103,679</u>	-7.5%	<u>20,944,184</u>	<u>25,117,726</u>	-16.6%
	<u>11,194,162</u>	<u>12,211,529</u>	-8.3%	<u>27,692,848</u>	<u>25,815,544</u>	7.3%
Revenues						
A wholesale account	\$ -	\$ 2,481	-100.0%	\$ 145,096	\$ 16,050	804.0%
All other merchants	\$ 358,041	\$ 397,391	-9.9%	673,427	833,328	-19.2%
Misc	\$ <u>9,610</u>	\$ -	100.0%	<u>20,150</u>	<u>-</u>	100.0%
	\$ <u>367,651</u>	\$ <u>399,872</u>	-8.1%	\$ <u>838,673</u>	\$ <u>849,378</u>	-1.3%

Direct Expenses

In the CIBC/TD program, direct expenses include costs of consumer rewards which the company purchases from CIBC and TD, 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 expense for 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 expense for provision against receivables.

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

	<u>Q2 Fiscal 2017</u>	<u>Q2 Fiscal 2016</u>	<u>Inc./Dec</u>	<u>YTD Fiscal 2017</u>	<u>YTD Fiscal 2016</u>	<u>Inc./Dec</u>
	\$	\$	%	\$	\$	%
Revenues						
CIBC/TD program	\$ 2,033,009	\$ 2,673,887	-24.0%	\$ 4,155,001	\$ 5,188,405	-19.9%
Aeroplan program	367,651	399,872	-8.1%	838,673	849,378	-1.3%
Caesars program	9,709	22,664	-57.2%	20,932	53,849	-61.1%
Misc	-	-		33	45	
	\$ <u>2,410,369</u>	\$ <u>3,096,423</u>	-22.2%	\$ <u>5,014,639</u>	\$ <u>6,091,677</u>	-17.7%
Direct expenses						
CIBC/TD program	\$ 639,170	\$ 760,932	-16.0%	\$ 1,213,597	\$ 1,376,323	-11.8%
Aeroplan program	186,980	252,355	-25.9%	481,224	510,501	-5.7%
Caesars program	<u>10,108</u>	<u>13,294</u>	24.0%	<u>18,795</u>	<u>22,826</u>	-17.7%
	\$ <u>836,258</u>	\$ <u>1,026,581</u>	-18.5%	\$ <u>1,713,616</u>	\$ <u>1,909,650</u>	-10.3%

➤ CIBC/TD program

	Q2 Fiscal 2017	Q2 Fiscal 2016	Inc./Dec)	YTD Fiscal 2017	YTD Fiscal 2016	Inc./Dec)
	\$	\$	%	\$	\$	%
Avg. # of merchants participating during the periods	754	916	-17.6%	790	901	-12.4%
Revenue	\$ 2,033,009	\$ 2,673,887	-24.0%	\$ 4,155,001	\$ 5,188,405	-19.9%
Direct expenses						
Consumer rewards	\$ 340,550	\$ 425,953	-20.0%	\$ 688,331	\$ 813,303	-15.4%
Marketing and advertising	160,075	265,999	-39.8%	263,127	415,140	-36.6%
Marketing/Program support by Affinity partners	(20,500)	(88,500)	-76.8%	(70,500)	(138,500)	-49.1%
Expense for delinquent accounts	159,045	157,480	1.0%	332,639	286,380	16.2%
	\$ 639,170	\$ 760,932	-16.0%	\$ 1,213,597	\$ 1,376,323	-11.8%

Q2 Fiscal 2017 compared to Q2 Fiscal 2016.

The decline in cost of consumer rewards primarily reflects decline in merchant population. Decrease in marketing and advertising costs relative to merchant participation and revenues primarily reflects timing of marketing expenditures which vary in a fiscal year. Timing is driven by marketing needs of the merchant portfolio and the marketing calendars of Affinity partners. Q2 Fiscal 2017 expense for delinquent accounts – at 7.8% of revenues - is ahead of expectations and Q2 Fiscal 2016 expense at 5.9%. The company now expects the expense for Fiscal year ending June 30, 2017 to be between 6.5 % and 7.5% compared to Fiscal year ended June 30, 2016 trend of 5.5% of revenues. Given the recovery trends the company is adopting a more conservative provisioning. Delinquencies are discussed in the section Critical Accounting Estimates – Credit Risk.

YTD Fiscal 2017 compared to YTD Fiscal 2016.

The decline in cost of consumer rewards primarily reflects decline in merchant population. Decrease in marketing and advertising costs relative to merchant participation and revenues primarily reflects timing of marketing expenditures which vary in a fiscal year. Timing is driven by marketing needs of the merchant portfolio and the marketing calendars of Affinity partners. YTD Fiscal 2017 expense for delinquent accounts – at 8.0 % of revenues - is ahead of expectations and YTD Fiscal 2016 expense at 5.5%. The company now expects the expense for Fiscal year ending June 30, 2017 to be between 6.5 % and 7.5% compared to Fiscal year ended June 30, 2016 trend of 5.5% of revenues. Given the recovery trends the company is adopting more conservative provisioning. Delinquencies are discussed in the section Critical Accounting Estimates – Credit Risk.

➤ Aeroplan program.

	<u>Q2 Fiscal 2017</u>	<u>Q2 Fiscal 2016</u>	<u>Inc./Dec</u>	<u>YTD Fiscal 2017</u>	<u>YTD Fiscal 2016</u>	<u>Inc./Dec</u>
	\$	\$	%	\$	\$	%
Avg. # of merchants participating during the periods	453	648	-30.1%	544	618	-11.9%
Revenue	\$ 367,651	\$ 399,872	-8.1%	\$ 838,673	\$ 849,378	-1.3%
Direct expenses						
Consumer rewards	215,980	244,631	-11.7%	504,224	493,027	2.3%
Misc., including expense for delinquent accounts	<u>(29,000)</u>	<u>7,724</u>	-475.5%	<u>(23,000)</u>	<u>17,474</u>	-231.6%
	<u>\$ 186,980</u>	<u>\$ 252,355</u>	-25.9%	<u>\$ 481,224</u>	<u>\$ 510,501</u>	-5.7%

Q2 Fiscal 2017 compared to Q2 Fiscal 2016. Direct costs required to earn revenues from retail merchants i.e. excluding wholesale account declined 13.5% compared to 9.9% decline in revenues reflecting composition of participating merchants in terms of margin. The details are provided in the below set out tabulation.

YTD Fiscal 2017 compared to YTD Fiscal 2016. Decline in direct costs required to earn revenues from retail merchants i.e. excluding wholesale account matched decline in revenues. The details are provided in the below set out tabulation.

	<u>Q2 Fiscal 2017</u>	<u>Q2 Fiscal 2016</u>	<u>Inc./Dec</u>	<u>YTD Fiscal 2017</u>	<u>YTD Fiscal 2016</u>	<u>Inc./Dec</u>
Aeroplan miles						
A wholesale account	-	107,850	-100.0%	6,748,664	697,818	867.1%
All other merchants	<u>11,194,162</u>	<u>12,103,679</u>	-7.5%	<u>20,944,184</u>	<u>25,117,726</u>	-16.6%
	<u>11,194,162</u>	<u>12,211,529</u>	-8.3%	<u>27,692,848</u>	<u>25,815,544</u>	7.3%
Revenues						
A wholesale account	\$ -	\$ 2,481	-100.0%	\$ 145,096	\$ 16,050	804.0%
All other merchants	358,041	397,391	-9.9%	673,427	833,328	-19.2%
Misc	<u>9,610</u>	<u>-</u>	100.0%	<u>20,150</u>	<u>-</u>	100.0%
	<u>\$ 367,651</u>	<u>\$ 399,872</u>	-8.1%	<u>\$ 838,673</u>	<u>\$ 849,378</u>	-1.3%
Direct cost						
A wholesale account	\$ -	\$ 1,834	-100%	\$ 114,727	\$ 11,863	867%
All other merchants	209,980	242,797	-13.5%	389,497	481,164	-19.1%
Misc	-	-	-	-	-	-
Expense for delinquent accounts	<u>(29,000)</u>	<u>7,724</u>	-475.5%	<u>(23,000)</u>	<u>17,474</u>	-231.6%
	<u>\$ 186,980</u>	<u>\$ 252,355</u>	-25.9%	<u>\$ 481,224</u>	<u>\$ 510,501</u>	-5.7%

Gross Profit

Gross margins of Q2 Fiscal 2017 and YTD Fiscal 2017 compared to Q2 Fiscal 2016 and YTD Fiscal 2016 are tabulated below:

	<u>Q2 Fiscal 2017</u>	<u>Q2 Fiscal 2016</u>		<u>YTD Fiscal 2017</u>	<u>YTD Fiscal 2016</u>
CIBC/TD program	68.6%	71.5%		70.8%	73.5%
Aeroplan program	49.1%	36.9%		42.6%	39.9%

Drop in Q2 Fiscal 2017 and YTD Fiscal 2017 CIBC/TD program gross margin compared to corresponding periods in the previous year reflects higher direct expenses which are explained in section Direct Expenses in this document.

Excluding the impact of the wholesale account, misc. revenues, expense for delinquent accounts, gross margin for retail merchants participating in the Aeroplan program for Q2 Fiscal 2017 and YTD Fiscal 2017 at 58.6% and 57.8% respectively was flat compared to corresponding periods in the previous year at 61.1% and 57.7% respectively. Retail merchants are the significant element of total revenues and gross profit.

The company gross profit for Q2 Fiscal 2017 and YTD Fiscal 2017 was lower compared to the corresponding period in the previous year reflecting primarily a decline in revenues and margin of CIBC/TD program.

	<u>Q2 Fiscal 2017</u>	<u>Q2 Fiscal 2016</u>	<u>Inc./Dec</u>	<u>YTD Fiscal 2017</u>	<u>YTD Fiscal 2016</u>	<u>Inc./Dec</u>
	<u>\$</u>	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>%</u>
CIBC/TD program	\$ 1,393,839	\$ 1,912,955	-27.1%	\$ 2,941,404	\$ 3,812,082	-22.8%
Aeroplan program	180,671	147,517	22.5%	357,449	338,877	5.5%
Caesars program	(399)	9,370	-104.3%	2,137	31,023	-93.1%
Misc	-	-		33	45	-26.7%
	<u>\$ 1,574,111</u>	<u>\$ 2,069,842</u>	<u>-24.0%</u>	<u>\$ 3,301,023</u>	<u>\$ 4,182,027</u>	<u>-21.1%</u>

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.

	<u>Q2 Fiscal 2017</u>	<u>Q2 Fiscal 2016</u>	<u>Inc./Dec</u>	<u>YTD Fiscal 2017</u>	<u>YTD Fiscal 2016</u>	<u>Inc./Dec</u>
	\$	\$	%	\$	\$	%
Revenues						
CIBC/TD program	\$ 2,033,009	\$ 2,673,887	-24.0%	\$ 4,155,001	\$ 5,188,405	-19.9%
Aeroplan program	367,651	399,872	-8.1%	838,673	849,378	-1.3%
Caesars program	9,709	22,664	-57.2%	20,932	53,849	-61.1%
Misc	-	-	0.0%	33	45	0.0%
	<u>\$ 2,410,369</u>	<u>\$ 3,096,423</u>	<u>-22.2%</u>	<u>\$ 5,014,639</u>	<u>\$ 6,091,677</u>	<u>-17.7%</u>
Selling expenses						
CIBC/TD program	\$ 427,949	\$ 530,469	-19.3%	\$ 873,539	\$ 1,123,116	-22.2%
Aeroplan program	29,202	87,830	-66.8%	59,752	179,607	-66.7%
Caesars program	35,002	74,021	-52.7%	64,569	129,025	-50.0%
	<u>\$ 492,153</u>	<u>\$ 692,320</u>	<u>-28.9%</u>	<u>\$ 997,860</u>	<u>\$ 1,431,748</u>	<u>-30.3%</u>
Remuneration of sales staff	\$ 461,126	\$ 612,192	-24.7%	\$ 914,222	\$ 1,279,530	-28.6%
Remuneration as % of selling expenses	93.7%	88.4%		91.6%	89.4%	

CIBC/TD program

The lower selling costs during Q2 Fiscal 2017 and YTD Fiscal 2017 compared to corresponding periods in the previous year reflect lower headcount consequent to some staff reductions during November 2015 through April 2016. The company did not fill these positions because of the slow selling season from December 2015 to mid-February 2016, slow economy and pending evaluation of its go to market strategy. During Q1 Fiscal 2017 the company started to fill vacant positions and is in continuous evaluation of staffing until it settles on the optimal sales team. The development of the optimal sales team is held back due to deficiency of working capital and this is hampering the company's ability to stabilize and re-build its merchant portfolio.

Aeroplan program

The lower selling costs during Q2 Fiscal 2017 and YTD Fiscal 2017 compared to corresponding periods in the previous year reflect staff reductions during November 2015 to adjust and re-focus the sales organization and align to expected medium term activity levels.

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 2017	Q2 Fiscal 2016	Inc./Dec)	YTD Fiscal 2017	YTD Fiscal 2016	Inc./Dec)
	\$	\$	%	\$	\$	%
Change in revenues			-22.2%			-17.7%
G&A						
Compensation for non-sales staff	\$ 612,502	\$ 609,202	0.5%	\$ 1,221,959	\$ 1,254,490	-2.6%
Less: software development costs capitalized (details provided under section Capital Expenditures in this document)	<u>-</u>	<u>(23,957)</u>		<u>-</u>	<u>(41,983)</u>	
	\$ 612,502	\$ 585,245	4.7%	\$ 1,221,959	\$ 1,212,507	0.8%
All other G&A expenses	<u>335,342</u>	<u>264,323</u>		<u>618,429</u>	<u>545,446</u>	
	\$ 947,844	\$ 849,568	11.6%	\$ 1,840,388	\$ 1,757,953	4.7%

Compensation

Fiscal 2017 and Fiscal 2016 periods reflect the staffing adequate to handle the existing and expected medium term activity levels.

All other expenses

Q2 Fiscal 2017 and YTD Fiscal 2017 compared to corresponding periods in the previous year are higher and primarily reflect higher legal costs mainly connected to the finance raise efforts.

In other respects Fiscal 2017 and Fiscal 2016 periods reflect focus on cost management.

Interest Expense

The interest expense is tabulated:

	Q2 Fiscal 2017	Q2 Fiscal 2016	Inc./Dec)	YTD Fiscal 2017	YTD Fiscal 2016	Inc./Dec)
	\$	\$	%	\$	\$	%
Stated ("Cash") interest expense						
Loan payable	\$ 179,007	\$ 240,823		\$ 362,385	\$ 468,252	
new 12% debentures	<u>155,615</u>	<u>156,042</u>		<u>311,231</u>	<u>312,084</u>	
	\$ 334,622	\$ 396,865	-15.7%	\$ 673,616	\$ 780,336	-13.7%
Non cash interest (accretion charge) on new 12% debentures	<u>\$ -</u>	<u>\$ 58,146</u>		<u>\$ 60,227</u>	<u>\$ 115,612</u>	
	\$ 334,622	\$ 455,011	-26.5%	\$ 733,843	\$ 895,948	-18.1%

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 other 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%). The utilization during Q2 Fiscal 2017 and YTD Fiscal 2017 is lower compared to corresponding periods in the previous year reflecting decline in merchant participation including in the APM product. The lower loan payable utilization is reflected in the lower interest expense. Average month end utilization of loan payable during YTD Fiscal 2017 was \$4,832,976 compared to \$6,322,629 during YTD Fiscal 2016, a lower utilization of 23.6%.

Net Loss

Highlights are tabulated:

	Q2 Fiscal 2017	Q2 Fiscal 2016	Inc./Dec)	YTD Fiscal 2017	YTD Fiscal 2016	Inc./Dec)
	\$	\$	\$	\$	\$	\$
Revenues	\$ 2,410,369	\$ 3,096,423	\$ (686,054)	\$ 5,014,639	\$ 6,091,677	\$ (1,077,038)
Gross margin	65.3%	66.8%		65.8%	68.7%	
Gross profit	\$ 1,574,111	\$ 2,069,842	\$ (495,731)	\$ 3,301,023	\$ 4,182,027	\$ (881,004)
Earnings from operations before depreciation, amortization and interest	\$ 134,114	\$ 527,954	\$ (393,840)	\$ 462,775	\$ 992,326	\$ (529,551)
Net loss and Comprehensive loss	\$ (237,607)	\$ (30,102)	\$ 207,505	\$ (387,012)	\$ (137,774)	\$ 249,238
Basic and Diluted loss per share	\$ (0.00)	\$ (0.00)		\$ (0.00)	\$ (0.00)	

Q2 Fiscal 2017 compared to Q2 Fiscal 2016.

The \$686,054 drop in the company's revenues reflects mainly the decline in CIBC/TD revenues of \$640,878. Gross margin reflects decline in CIBC/TD program, 68.6% for Q2 Fiscal 2017 compared to 71.5% for Q2 Fiscal 2016, and improvement in Aeroplan program at 49.1% for Q2 Fiscal 2017 compared to 36.9% for Q2 Fiscal 2016. Gross profit decline of \$495,731 reflects the \$519,166 decline in gross profit from CIBC/TD program. Q2 Fiscal 2017 SG&A expenses are \$101,891 lower compared to Q2 Fiscal 2016. The decline of \$393,840 in earnings from operations before depreciation, amortization and interest reflects lower SG&A which partially offsets decline in gross profit. Q2 Fiscal 2017 reflects a decrease in interest cost (\$120,389) – see Interest Expense section – and depreciation and amortization expense (\$65,946) compared to Q2 Fiscal 2016. Q2 Fiscal 2017 net loss of \$237,607 is an increase of \$207,505 compared to Q2 Fiscal 2016.

YTD Fiscal 2017 compared to YTD Fiscal 2016.

The \$1,077,038 drop in the company's revenues reflects mainly the decline in CIBC/TD revenues of \$1,033,404. Gross margin reflects decline in CIBC/TD program, 70.8% for YTD Fiscal 2017 compared to 73.5% for YTD Fiscal 2016, and improvement in Aeroplan program at 42.6% for YTD Fiscal 2017 compared to 39.9% for YTD Fiscal 2016. Gross profit decline of \$881,004 reflects the \$870,678 decline in gross profit from CIBC/TD program. YTD Fiscal 2017 SG&A expenses are \$351,453 lower compared to YTD Fiscal 2016. The decline of \$529,551 in earnings from operations before depreciation, amortization and interest reflects lower SG&A which partially offsets decline in gross profit. YTD Fiscal 2017 reflects a decrease in interest cost (\$162,105) – see Interest Expense section – and depreciation and amortization expense (\$118,208) compared to YTD Fiscal 2016. YTD Fiscal 2017 net loss of \$387,012 is an increase of \$249,238 compared to YTD Fiscal 2016.

The above changes are explained in the respective sections earlier in this document.

Working Capital and Liquidity Management

	Q2 Fiscal 2017	Q2 Fiscal 2016	YTD Fiscal 2017	YTD Fiscal 2016
	\$	\$	\$	\$
Funds available to expand the CIBC/TD programs APM product (Transaction credits on the balance sheet) and meet working capital needs				
Net loss	\$ (237,607)	\$ (30,102)	\$ (387,012)	\$ (137,774)
Adjustments for non cash expenses	<u>37,099</u>	<u>161,191</u>	<u>176,171</u>	<u>349,764</u>
Income after adjustment for non cash expenses	(200,508)	131,089	(210,841)	211,990
Cash balances at start of the period	1,097,917	899,505	658,678	1,162,609
Inc./((dec) in loan payable	<u>(718,241)</u>	<u>145,946</u>	<u>(1,443,215)</u>	<u>842,532</u>
	\$ 179,168	\$ 1,176,540	\$ (995,378)	\$ 2,217,131
Utilization of funds				
Cash balances at end of periods	\$ 370,441	\$ 500,213	\$ 370,441	\$ 500,213
Inc./((dec) in transaction credits	(554,328)	326,639	(1,653,843)	1,214,158
Decrease in severances	-	178,820	-	428,034
Changes in all other working capital items	363,055	146,911	288,024	32,743
Capital expenditures	-	<u>23,957</u>	-	<u>41,983</u>
	\$ 179,168	\$ 1,176,540	\$ (995,378)	\$ 2,217,131

The cash and cash equivalents, and accounts receivable at December 31, 2016 include \$74,673 of amounts received/receivable from our Affinity partners CIBC and TD to be invested in marketing the program (at June 30, 2016 \$239,354 and at December 31, 2015 \$348,607). Accounts payable and accrued liabilities at December 31, 2016, June 30, 2016 and December 31, 2015 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.

Changes in working capital – Transaction credits, accounts receivable, accounts payable and accrued liabilities and other working capital items. During YTD Fiscal 2017 changes reflect decrease in transaction credits, net of provision for delinquent accounts, of \$1,653,843 which is a reflection of a decrease in merchant participation. Decrease in accounts receivable of \$176,407 reflects lower accounts receivable (\$74,299) from merchants participating in the Aeroplan program primarily reflecting collection efforts and receipt of amounts due from Affinity partners (\$114,855). Decrease in accounts payable and accrued liabilities reflects payments, per payment plan, to an affinity partner and decrease of customer advances for pre-purchase of aeroplan miles. During YTD Fiscal 2016 the changes reflect primarily increase in transaction credits, net of provision for delinquent accounts, of \$1,214,158 which is a reflection of an increase in merchant participation. In addition,

decrease in accounts payable and accrued liabilities of \$317,175 reflects \$428,034 the company used to settle severances consequent to restructuring during Fiscal 2015.

Financing activities. During YTD Fiscal 2017 and YTD Fiscal 2016 movement in loan payable reflects changes in merchant participation. Merchant participation 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, 2017 the company expects capital expenditures to be on par with Fiscal year ended June 30, 2016. The company expects to secure lease arrangements for significant expenditures during Fiscal year ending June 30, 2017.

From time to time the company enters into payment plans with vendors. The company has reached a payment plan with CIBC to settle outstanding amounts (as at December 31, 2016 \$229,650) by July 31, 2017. The payment plan calls for monthly payments. Failure by the company to comply with the payment plan will constitute a material breach and CIBC may choose, at its discretion, to terminate its agreement with the company.

While, generally the cash balances at the end of a quarter / year reflect cash generated / (used) by operations [profit (loss) before depreciation of property, plant and equipment, and amortization of intangible assets; and non-cash interest on debentures], the 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 are the additional considerations:

As at December 31, 2016, as noted earlier in this section, also included in cash and cash equivalents are funds totaling \$74,673 provided by Affinity partners CIBC and TD. At December 31, 2015 \$326,289. Furthermore, YTD Fiscal 2017 reflects more efficient collection of accounts receivable from merchants participating in Aeroplan program (at December 31, 2016 \$194,953 which is \$74,299 lower compared to June 30, 2016) and during YTD Fiscal 2017 receipt of amounts due from Affinity partners (\$114,855).

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 and beyond Fiscal year ending June 30, 2017, the company requires continued access to its existing levels of debt and access to additional working capital in the form of debt and or equity to meet operational needs including payments to its partners CIBC, TD and Aimia, meet debenture interest payments, and to support the growth of the company, including the APM product, as described under the section General Risks and Uncertainties in this document.

At present, the need for capital to expand the APM product is partially satisfied by the loan payable (facility credit limit of \$8.5 million and utilization at December 31, 2016 and June 30, 2016 of \$4.1 million and \$5.5 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 the company's restricted cash position limits its ability to do so; and is only available to expand the APM product. The loan payable agreement expires in December 2017.

The new 12% debentures were issued by the company on December 30, 2013 in the principal amount of \$5,159,000 with an initial maturity date of September 30, 2016. The proceeds of the new 12% debentures are used for working capital purposes. 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. 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. 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 company was in breach of all its financial covenants at September 30, 2016. In December 2016 the company secured an extension of the maturity date to March 31,

2017 but not a waiver to the breach of financial covenants at September 30, 2016. The company was in breach of all its financial covenants at 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 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 December 31, 2016 of the new 12% debentures were about \$1.2 million (about 24% of the new 12% debentures), see section Related party transactions in this document. The primary holder of the new 12% debentures is also the primary shareholder of the company as it beneficially owns or exercises control or direction through about 15% of the company's common shares (as of February 6, 2017) held on behalf of its managed accounts.

The company is seeking to re-finance its new 12% debentures and secure additional capital to continue its operations and execute its expansion plans. While in the past the company has been successful in obtaining waivers and debt amendments, and refinancing its debentures, there can be no assurance these initiatives will continue to be successful.

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

The consolidated financial statements for the three and six months ended December 31, 2016 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 \$5,760,120 and negative working capital of \$5,880,146 as at December 31, 2016. There is uncertainty surrounding:

1. The re-financing of the new 12% debentures maturing March 31, 2017; 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, payment of new 12% debentures interest for period January 1, 2017 to maturity 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 December 31, 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, payment of new 12% debentures interest for period January 1, 2017 to maturity and to support the growth of the company.

The consolidated financial statements for three and six months ended December 31, 2016 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, 2016 were due as follow:

	<u>Total</u>	<u>Less than 1 year</u>	<u>1 to 3 years</u>	<u>4 to 5 years</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Loan payable	\$ 4,090,052	\$ 4,090,052	\$ -	\$ -
New 12% debentures	\$ 5,159,000	\$ 5,159,000	\$ -	\$ -
Operating leases	\$ 155,768	\$ 116,311	\$ 39,457	\$ -
	\$ 9,404,820	\$ 9,365,363	\$ 39,457	\$ -

In addition, new 12% debenture interest of \$152,650 is payable for the period January 1, 2017 to maturity on March 31, 2017. The company also has a liability for \$103,180 to the holders of the new 12% debentures respecting fee charged by the holders for waiving breach of financial covenants at March 31, 2016.

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. The lease expires August 31, 2017.

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. The current term of the loan payable expires in December 2017.

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 \$4.1 million of the facility at December 31, 2016 (at June 30, 2016 \$5.5 million).

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 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 company paid the interest and the fees 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 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 company was in breach of all its financial covenants at September 30, 2016. In December 2016 the company secured an extension of the maturity date to March 31, 2017 but not a waiver to the breach of financial covenants at September 30, 2016. The company was in breach of all its financial covenants at 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.

Summary of Quarterly Results

In millions of dollars except per share amounts					
12 month period ended December 31, 2016					
	Q3 Fiscal 2016	Q4 Fiscal 2016	Q1 Fiscal 2017	Q2 Fiscal 2017	Total
	Mar 31, 2016	Jun 30, 2016	Sep 30, 2016	Dec 31, 2016	
Revenue	\$ 2.4	\$ 2.8	\$ 2.6	\$ 2.4	\$ 10.2
Percent of annual revenue	23.5%	27.5%	25.5%	23.5%	100.0%
Net income/(loss)	\$ (0.5)	\$ (0.3)	\$ (0.1)	\$ (0.2)	\$ (1.1)
Loss per share - Basic and Diluted	\$ -	\$ -	\$ -	\$ -	\$ (0.01)
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)
Loss per share - Basic and Diluted	\$ (0.02)	\$ -	\$ -	\$ -	\$ (0.02)

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

Expenditures for property, plant and equipment and intangible assets for Q2 Fiscal 2017 and YTD Fiscal 2017 were \$nil compared to \$23,957 for Q2 Fiscal 2016 and \$41,983 for YTD Fiscal 2016.

Expenditures include capitalization of internal costs expended on software development connected to ensuring operability of the company's merchant based programs sponsored by CIBC, TD, Aimia and Caesars.

YTD Fiscal 2017 internal costs capitalized total \$nil compared to \$41,983 during YTD Fiscal 2016. The capitalization during YTD Fiscal 2016 relates to software development to ensure operability of the company's merchant based programs sponsored by CIBC, TD and Aimia. The costs are being amortized over the shorter of useful life of the software and term of Affinity partner agreement.

For Fiscal year ending June 30, 2017 the company expects capital expenditures to be similar compared to Fiscal year ended June 30, 2016 trends. The expenditures would be operationalizing and enhancing the operability of the company's merchant based programs. Similar to the previous Fiscal year the company expects to secure lease arrangements for significant expenditures during Fiscal year ending June 30, 2017.

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, 2016.

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 to the audited consolidated financial statements for Fiscal year ended June 30, 2016, 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, 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.

The company's audited consolidated financial statements for year ended June 30, 2016 and interim financial statements for three and six months ended December 31, 2016 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 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.

Credit risk

The company has certain business risks linked to the collection of its transaction credits. Under the APM product the company generally 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 balance, net of provision for impaired accounts, of the transaction credits, and accounts receivable.

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

	At December 31, 2016	At June 30, 2016
	\$	\$
Transaction credits	\$ 6,660,216	\$ 7,994,349
Accounts receivable	271,371	447,720
Allowance	<u>(984,173)</u>	<u>(664,405)</u>
Per statement of financial position	\$ 5,947,414	\$ 7,777,664
Maximum exposure to credit risk	\$ 5,947,414	\$ 7,777,664

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

Impaired transaction credits	\$ 1,090,958	\$ 833,379
Allowance	<u>(961,797)</u>	<u>(642,087)</u>
Impaired transaction credits not allowed for	<u>\$ 129,161</u>	<u>\$ 191,292</u>

Stock Options

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

Movement during YTD Fiscal 2017 and YTD Fiscal 2016 is tabulated.

	<u>YTD Fiscal 2017</u>	<u>YTD Fiscal 2016</u>
	<u>Number of options</u>	
Outstanding at July 1	4,100,000	8,590,000
Expired	-	-
Forfeited	-	(550,000)
Granted	-	-
Outstanding at September 30	4,100,000	8,040,000
Expired	-	-
Forfeited	-	-
Granted	-	-
Outstanding at December 31	<u>4,100,000</u>	<u>8,040,000</u>

2,560,000 stock options expired on February 3, 2017. As of date hereof 1,540,000 employee stock options - at exercise price of \$0.05 and expiring March 19, 2018 - are outstanding and exercisable

The number of stock options available for future issuance at December 31, 2016 compared to December 31, 2015 is as follows:

	<u>YTD Fiscal 2017</u>	<u>YTD Fiscal 2016</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>(4,100,000)</u>	<u>(8,040,000)</u>
Number of options available for future issuance	<u>12,588,546</u>	<u>8,648,546</u>

There was no stock based compensation expense during YTD Fiscal 2017 and YTD Fiscal 2016.

Outstanding Share Data

As of June 30, 2016, December 31, 2016 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 1,540,000 additional common shares pursuant to the company's 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:

	At December 31, 2016	At June 30, 2016
	\$	\$
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
Chief Financial Officer - M.Sabharwal	\$ 115,000	\$ 115,000
	\$ 1,215,000	\$ 1,215,000

Trapeze Capital Corp. and Trapeze Asset Management Inc. (together "Trapeze")

Trapeze may have been considered, at the time of the purchase of new 12% debentures, to be a related party of the company by virtue of their holding of \$4,446,062 old 12% debentures, \$1,296,000 14% debentures, and 65,475,823 common share purchase warrants, issued with old 12% debentures and 14% debentures, of the company, on behalf of their respective managed accounts.

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 designated 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's relationship with CIBC has been in place for about two decades and has been through several multi-year renewal terms. The current agreement was renewed effective September 1, 2016 and expires

September 30, 2017. The agreement may, at the option of CIBC, be renewed on the same terms and conditions provided that CIBC exercises such option to renew upon providing notice at least four months prior to expiry of initial term or then current renewal term. If CIBC does not renew the agreement or exercises its right to terminate the agreement upon at least six months prior notice or retains a competing service provider the company could be materially and adversely affected.

In June 2014, the company entered into an agreement with TD. The agreement with TD had an initial term of two years. The agreement renews automatically for additional one year terms unless TD provides notice not to renew. The current term of the agreement expires in June 2017. If TD does not renew the agreement or exercises its right to terminate the agreement upon at least four months prior notice or retains a competing service provider the company could be materially and adversely affected.

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 designated CIBC credit cards and TD aeroplan credit cards at participating merchants and the economic environment. Since the dollar spending by holders of designated CIBC and TD 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.

Illustration of economic dependence on CIBC/TD program. Revenue and Gross profit are tabulated. Based on trends for Fiscal year ended June 30, 2016 and YTD Fiscal 2017 CIBC accounts for over 60% of the CIBC/TD program revenues.

	YTD Fiscal 2017		YTD Fiscal 2016	
	\$	% of Company Total	\$	% of Company Total
CIBC/TD program revenues	\$ 4,155,001	82.9%	\$ 5,188,405	85.2%
CIBC/TD program gross profit	\$ 2,941,404	89.1%	\$ 3,812,082	91.2%

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 about two decades and has been through several multi-year renewal terms. The current agreement was renewed effective September 1, 2016 and expires September 30, 2017. The agreement may, at the option of CIBC, be renewed on the same terms and conditions provided that CIBC exercises such option to renew upon providing notice at least four months prior to expiry of term. If CIBC does not renew the agreement or exercises its right to terminate the agreement upon at least six months prior notice the company could be materially and adversely affected.

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 had an initial term of two years. The agreement renews automatically for additional one year terms unless TD provides notice not to renew. The current term of the agreement expires in June 2017. If TD does not renew the agreement or exercises its right to terminate the agreement upon at least four months prior notice the company could be materially and adversely affected.

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 designated CIBC credit cards and TD aeroplan credit cards at participating merchants and the economic environment. Since the dollar spending by holders of designated CIBC and TD 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.

The company's working capital needs are currently partially provided by debt in the form of new 12% debentures maturing March 31, 2017, and loan payable. The company's relationship with the new 12% debentures holders, and providers of loan payable facility span about 11+ and 8+ years respectively. The term of the loan payable

expires in December 2017. At December 31, 2016 there is about \$4.4 million room on the loan payable and the need for capital to expand the APM product is partially satisfied by the loan payable. The loan payable credit facility requires the company to co-fund 15% of the transaction credits deployed with merchants under the APM product and the company has limited ability to co-fund the 15%. To be able to operate and advance its business the company needs to be able to access the loan payable facility and have funds to co-fund. The loan payable is a demand facility. The new 12% debentures carry financial covenants. The company does not have the ability to repay the new 12% debentures maturing March 31, 2017. The company is in breach of all its financial covenants at 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; see section Working Capital and Liquidity Management in this document for a fuller discussion of the risks. 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 and or equity to scale its ability in this area. If the company is not successful in raising additional debt financing and equity, 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, 2016, the company incurred interest expense of \$362,385 on utilization of loan payable. Had the interest rate, for the six months ended December 31, 2016, been 10% higher the interest expense on loan payable would have been \$398,624 an increase of \$36,239.

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 security difficulties being experienced by the airline industry overall, and in general continuous devaluation of frequent flyer miles, there is a risk that the underlying frequent flyer currencies used in these programs could become unavailable to the company, or that consumer interest in accumulating these awards could decline. This, in turn, may result in difficulties in acquiring and retaining merchants and may adversely affect the company's revenue and direct costs.

The company provides marketing services to retail organizations and, in more general terms, the company could be considered competitive with other advertising and promotional programs for a portion of a client's total marketing budget. If client promotional spending levels decrease, this could have a material adverse effect on the company's revenue. In addition, there are additional operators of either loyalty programs or merchant cash advance in Canada, targeting the same merchant base as the company. In the past, other companies have attempted to develop similar merchant-based coalitions on their own and failed, making the company, with its established merchant coalition and proven loyalty systems, a reputable outsourced partner in the Canadian marketplace. The company believes its substantial client equity, proprietary systems, 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; continued access to the new 12% debentures; ability to refinance the new 12% debentures maturing March 31, 2017; ability to raise additional capital in the form of either debt or equity which is needed to meet future operational and expansion requirements; ability to negotiate payment plans with its vendors; competition; changes in regulations - including taxation - affecting the company's activities; consumer spending behavior; and continued demand for the company's programs by merchants.

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 a unique product for the small independent merchant market; expectations from its processes and systems and belief the business is scalable; expectation of the size of the loyalty marketing market; belief in its ability to gain a share of the market; expectations from expansion outside Canada; estimation of the amount of working capital required to expand operations; expectations of financial performance; belief it has the support of its partners and staff; expectation of capital expenditures during fiscal year ending June 30, 2017; expectation of securing lease arrangements for significant capital expenditures; belief the primary driver of revenues is merchant participation; expectation of

bounce-back in merchant participation and its timing; belief an increase in transaction credits will positively effect financial performance and cash flows; expectation of and from finalizing the restructuring of the commercial terms of agreement with Aimia and the timing of finalization; belief in its ability to retain and expand its merchant base; belief agreements with CIBC and TD mitigate the risk of dependence on one partner; ability to manage credit and collection risk; expectations of delinquency expense during fiscal year ending June 30, 2017; belief current G&A staffing is adequate to handle current and medium term activity levels; expectation of adverse interest rate increase it can pass onto merchants; expectation of its ability to compete; 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 maturing March 31, 2017; its ability to access additional working capital in the form of debt and or equity to meet operational needs including payments to its partners CIBC, TD and Aimia, payment of new 12% debentures interest for period January 1, 2017 to maturity and to support the growth of the company; its ability to manage risks connected to collection of transaction credits; current and future economic and market conditions and the impact of same on its business; ongoing consumer interest in accumulating frequent flyer miles; the size of the market for its programs; its ability to increase merchant participation in its programs; ongoing and future Affinity partnerships and revenue sources; future business levels, and the cost structure, capital expenditures and working 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 “Working Capital and Liquidity Management”, “General Risks and Uncertainties” 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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