

**ADVANTEX MARKETING INTERNATIONAL INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three and six months ended December 31, 2017**

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

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

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

|  | Note | At December<br>31, 2017 | At June<br>30, 2017   |
|--|------|-------------------------|-----------------------|
|  |      | \$                      | \$                    |
| <b>Assets</b>                            |      |                         |                       |
| <b>Current assets</b>                    |      |                         |                       |
| Cash and cash equivalents                |      | \$ 909,304              | \$ 367,357            |
| Accounts receivable                      |      | 348,015                 | 180,517               |
| Transaction credits                      | 5    | 4,686,357               | 5,549,712             |
| Inventory                                | 6    | 24,557                  | 35,038                |
| Prepaid expenses and sundry assets       |      | 81,276                  | 82,413                |
|  |      | <u>\$ 6,049,509</u>     | <u>\$ 6,215,037</u>   |
| <b>Non-current assets</b>                |      |                         |                       |
| Property, plant and equipment            |      | \$ 55,926               | \$ 72,142             |
| Intangible assets                        |      | -                       | 921                   |
|  |      | <u>\$ 55,926</u>        | <u>\$ 73,063</u>      |
|  |      |                         |                       |
| <b>Total assets</b>                      |      | <b>\$ 6,105,435</b>     | <b>\$ 6,288,100</b>   |
| <b>Liabilities</b>                       |      |                         |                       |
| <b>Current liabilities</b>               |      |                         |                       |
| Loan payable                             | 7    | \$ 3,811,850            | \$ 4,476,421          |
| Accounts payable and accrued liabilities |      | 2,934,981               | 3,232,134             |
| 12% Non-convertible debentures payable   | 8    | -                       | 5,159,000             |
|  |      | <u>\$ 6,746,831</u>     | <u>\$ 12,867,555</u>  |
| <b>Non-current liabilities</b>           |      |                         |                       |
| 9% Non-convertible debentures payable    | 8    | \$ 4,282,191            | \$ -                  |
|  |      | <u>\$ 4,282,191</u>     | <u>\$ -</u>           |
| <b>Shareholders' deficiency</b>          |      |                         |                       |
| Share capital                            | 9    | \$ 24,530,555           | \$ 24,530,555         |
| Contributed surplus                      |      | 4,090,382               | 4,090,382             |
| Accumulated other comprehensive loss     |      | (47,383)                | (47,383)              |
| Deficit                                  |      | (33,497,141)            | (35,153,009)          |
| <b>Total deficiency</b>                  |      | <b>\$ (4,923,587)</b>   | <b>\$ (6,579,455)</b> |
|  |      |                         |                       |
| <b>Total liabilities and deficiency</b>  |      | <b>\$ 6,105,435</b>     | <b>\$ 6,288,100</b>   |

**Economic and Financial dependence (note 2), Commitments and contingencies (note 12)**

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

**Approved by the Board**

Director: Signed "William Polley"

William Polley

Director: Signed "Kelly Ambrose"

Kelly Ambrose

Advantex Marketing International Inc.  
Consolidated Statements of Profit/(Loss) and Comprehensive Profit/(Loss) (unaudited)  
For the three and six months ended December 31, 2017 and 2016  
(expressed in Canadian dollars)

|  | Note  | <u>Three months ended December 31</u> |                     | <u>Six months ended December 31</u> |                     |
|--|-------|---------------------------------------|---------------------|-------------------------------------|---------------------|
|  |       | 2017                                  | 2016                | 2017                                | 2016                |
|  |       | \$                                    | \$                  | \$                                  | \$                  |
| <b>Revenues</b>  | 15    | \$ 1,978,166                          | \$ 2,410,369        | \$ 3,984,335                        | \$ 5,014,639        |
| Direct expenses  | 14/15 | 593,425                               | 836,258             | 1,206,904                           | 1,713,616           |
|  |       | 1,384,741                             | 1,574,111           | 2,777,431                           | 3,301,023           |
| <b>Operating expenses</b>  |       |                                       |                     |                                     |                     |
| Selling and marketing  | 14/15 | 442,664                               | 492,153             | 922,862                             | 997,860             |
| General and administrative   | 14/15 | 578,371                               | 947,844             | 1,327,455                           | 1,840,388           |
| <b>Earnings from operations before depreciation, amortization and interest</b>       |       | <b>363,706</b>                        | <b>134,114</b>      | <b>527,114</b>                      | <b>462,775</b>      |
| Interest expense:  |       |                                       |                     |                                     |                     |
| Stated interest expense - loan payable, and debentures                               | 7/8   | 323,390                               | 334,622             | 649,212                             | 673,616             |
| Non-cash interest expense on debentures  | 8     | -                                     | -                   | -                                   | 60,227              |
|  |       | 40,316                                | (200,508)           | (122,098)                           | (271,068)           |
| Depreciation of property, plant and equipment, and amortization of intangible assets |       | 8,246                                 | 37,099              | 17,137                              | 115,944             |
| <b>Profit/(loss) and comprehensive profit/(loss) before non-recurring item</b>       |       | <b>\$ 32,070</b>                      | <b>\$ (237,607)</b> | <b>\$ (139,235)</b>                 | <b>\$ (387,012)</b> |
| Non-recurring item   | 8     | \$ 1,795,103                          | \$ -                | \$ 1,795,103                        | \$ -                |
| <b>Net profit/(loss) and comprehensive profit/(loss)</b>                             |       | <b>\$ 1,827,173</b>                   | <b>\$ (237,607)</b> | <b>\$ 1,655,868</b>                 | <b>\$ (387,012)</b> |
| <b>Profit/(Loss) per share</b>   |       |                                       |                     |                                     |                     |
| Basic and Diluted  | 13    | \$ 0.01                               | \$ (0.00)           | \$ 0.01                             | \$ (0.00)           |

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

Advantex Marketing International Inc.  
 Consolidated Statements of Changes in Shareholders' Deficiency (unaudited)  
 For the three and six months ended December 31, 2017 and 2016  
 (expressed in Canadian dollars)

|  | Class A<br>preference<br>shares | Common<br>shares     | Contributed<br>surplus | Accumulated<br>other<br>comprehen -<br>sive loss | Deficit                | Total                 |
|--|---------------------------------|----------------------|------------------------|--|------------------------|-----------------------|
|  | \$                              | \$                   | \$                     | \$   | \$                     | \$                    |
| <b>Balance - July 1, 2016</b>                        | \$ 3,815                        | \$ 24,526,740        | \$ 4,090,382           | \$ (47,383)                                      | \$ (33,946,662)        | \$ (5,373,108)        |
| Net profit/(loss) and<br>comprehensive profit/(loss) | -                               | -                    | -                      | -  | (387,012)              | (387,012)             |
| <b>Balance - December 31, 2016</b>                   | <u>\$ 3,815</u>                 | <u>\$ 24,526,740</u> | <u>\$ 4,090,382</u>    | <u>\$ (47,383)</u>                               | <u>\$ (34,333,674)</u> | <u>\$ (5,760,120)</u> |
| <b>Balance - July 1, 2017</b>                        | \$ 3,815                        | \$ 24,526,740        | \$ 4,090,382           | \$ (47,383)                                      | \$ (35,153,009)        | \$ (6,579,455)        |
| Net profit/(loss) and<br>comprehensive profit/(loss) | -                               | -                    | -                      | -  | 1,655,868              | 1,655,868             |
| <b>Balance - December 31, 2017</b>                   | <u>\$ 3,815</u>                 | <u>\$ 24,526,740</u> | <u>\$ 4,090,382</u>    | <u>\$ (47,383)</u>                               | <u>\$ (33,497,141)</u> | <u>\$ (4,923,587)</u> |

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

Advantex Marketing International Inc.  
Consolidated Statements of Cash Flow (unaudited)  
For the three and six months ended December 31, 2017 and 2016  
(expressed in Canadian dollars)

|  | Note | At December<br>31, 2017 | December<br>31, 2016  |
|--|------|-------------------------|-----------------------|
|  |      | \$                      | \$                    |
| <b>Operational activities</b>  |      |                         |                       |
| Net profit/(loss) for the period   |      | \$ 1,655,868            | \$ (387,012)          |
| Adjustments for:   |      |                         |                       |
| Depreciation of property, plant and equipment, and amortization of intangible assets |      | 17,137                  | 115,944               |
| Accretion charge for debentures  | 8    | -                       | 60,227                |
| Non-cash portion of non-recurring item   |      | (1,283,611)             | -                     |
|  |      | 389,394                 | (210,841)             |
| Changes in items of working capital  |      |                         |                       |
| Accounts receivable  |      | (167,498)               | 176,407               |
| Transaction credits  |      | 863,355                 | 1,653,843             |
| Inventory  |      | 10,481                  | 439                   |
| Prepaid expenses and sundry assets   |      | 1,137                   | 395                   |
| Accounts payable and accrued liabilities   |      | (297,153)               | (465,265)             |
|  |      | 410,322                 | 1,365,819             |
| <b>Net cash provided by (used in) operating activities</b>                           |      | <b>\$ 799,716</b>       | <b>\$ 1,154,978</b>   |
| <b>Financing activities</b>  |      |                         |                       |
| Proceeds - 9% Non-convertible debentures payable                                     | 8    | \$ 400,000              | \$ -                  |
| Performance bonus - 9% Non-convertible debentures payable                            | 8    | 6,802                   | -                     |
| Proceeds - Loan payable  | 7    | (664,571)               | (1,443,215)           |
| <b>Net cash generated from / (used in) financing activities</b>                      |      | <b>\$ (257,769)</b>     | <b>\$ (1,443,215)</b> |
|  |      |                         |                       |
| <b>Increase / (decrease) in cash and cash equivalents during the period</b>          |      | <b>\$ 541,947</b>       | <b>\$ (288,237)</b>   |
| Cash and cash equivalents at beginning of period                                     |      | 367,357                 | 658,678               |
| <b>Cash and cash equivalents at end of period</b>                                    |      | <b>\$ 909,304</b>       | <b>\$ 370,441</b>     |
| <b>Additional information</b>  |      |                         |                       |
| Interest paid  |      | \$ 333,580              | \$ 698,988            |
| For purposes of the cash flow statement, cash comprises                              |      |                         |                       |
| Cash   |      | \$ 909,304              | \$ 370,441            |

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

## 1 General information

Advantex Marketing International Inc. and its subsidiaries (together the company or Advantex) is a public company with common shares listed on the Canadian Securities Exchange (trading symbol ADX). Advantex operates in the marketing services industry. The company develops and manages loyalty programs for financial institutions and other major organizations through which their customers earn frequent flyer miles or points on purchases at participating merchants. Under the umbrella of each program, Advantex provides merchants with marketing and customer incentives. At its sole discretion the company pre-purchases merchants' future sales through its Advance Purchase Marketing (APM) product. Advantex is incorporated and domiciled in Canada, and the address of its registered office is Suite 606, 600 Alden Road, Markham, Ontario, L3R 0E7.

## 2 Economic and Financial Dependence

### Economic Dependence

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

|                              | Fiscal year ended<br><u>June 30, 2017</u> | Fiscal year ended<br><u>June 30, 2016</u> |
|------------------------------|---|---|
|                              | % of company Total                        |   |
| CIBC/TD program revenues     | 83.1%                                     | 85.2%                                     |
| CIBC/TD program gross profit | 89.2%                                     | 90.8%                                     |

### *Status of agreements with CIBC and TD*

The company has a two decade relationship with CIBC. The most recent renewal of partnership was in September 2013 for an initial three year term expiring September 30, 2016. The initial term was followed by extensions. On January 11, 2018 the company announced an extension of the agreement until March 31, 2019. In addition to CIBC's right to terminate the agreement at any time by providing at least six months prior written notice to the company, the agreement can be terminated by CIBC forthwith under certain circumstances.

The agreement with TD had an initial term of two years expiring June 2016 and it was followed by two one year renewals of the agreement. In February 2018 the agreement was renewed for a two year term ending February 15, 2020. It allows for annual renewal thereafter for periods of one year unless TD gives termination notice. In addition to TD's right to terminate the agreement at any time by providing at least three months prior written notice to the company, the agreement can be terminated by TD immediately under certain circumstances.

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

The Aeroplan program, which is dependent on the company's agreement with Aimia, generated 16.4% and 10.6% respectively of company's revenues and gross profit during year ended June 30, 2017 (2016 – 14.1%

and 8.8% respectively). In November 2014 the company renewed its agreement with Aimia for a five year term ending April 30, 2019. The agreement can be terminated by Aimia under certain conditions during its term.

The company's segment reporting is provided in note 15.

### Financial Dependence

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

#### *Loan payable*

The company has access to a line of credit facility under its loan payable (note 7). The loan payable agreement was established in 2007. The loan payable is used exclusively to expand the company's APM product ("transaction credits" on statements of financial position) which is a significant driver of merchant participation in the CIBC/TD program. In certain circumstances the loan payable is repayable on demand.

On January 4, 2018 the company announced it secured a renewal for a term ending in December 2021. The agreement is subject to automatic renewal thereafter for periods of one year unless earlier terminated by either party prior to end of term.

The company has more beneficial terms during the renewal term and these are explained in note 7.

#### *Non-convertible debentures*

The 12% non-convertible debentures payable ("12% debentures") were issued by the company on December 30, 2013 (note 8) with an initial maturity date of September 30, 2016. The maturity date went through several extensions with the latest maturity date of December 31, 2017. The company was in breach of all its financial covenants since September 30, 2016, had not paid the interest since January 1, 2017 and was not in a position to re-pay the 12% debentures.

On December 22, 2017 the company announced it re-financed the 12% debentures with the approval of existing holders of the 12% debentures. The refinancing was in the form of units comprising 9% non-convertible debentures payable ("9% debentures") and common shares of the company. The 9% debentures have a maturity date of December 31, 2021. The company also secured new investment of \$400,000 in the 9% debentures. The terms of the re-financing are explained in note 8.

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 9% debentures agreement and, as a result, the 9% debentures holders would have the right to waive the event of default, demand immediate payment of the 9% debentures in full or modify the terms and conditions of the 9% 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 9% debentures, the 9% 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 50%) of the 9% debentures – a Toronto based firm investing on behalf of its managed accounts. The primary holder of the 9% debentures is also the primary shareholder of the company as it beneficially owns or exercises control or direction through about 40% of the company's common shares (as of January 31, 2018) held on behalf of its managed accounts. The primary holder of the 9% debentures in its capacity as exclusive financial advisor was, until September 2017, assisting the company in its efforts to refinance the 12% debentures. The arrangement ended in September 2017.

Related parties holdings at December 31, 2017 of the 9% debentures were about \$1.2 million (about 22% of the 12% debentures) (Note 11) and about 25% of the company's common shares

### **3 Basis of preparation**

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

These interim consolidated financial statements do not include all the information and notes required by IFRS for annual financial statements and therefore, should be read in conjunction with the audited consolidated financial statements and notes for the company's year ended June 30, 2017, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

These interim consolidated financial statements and related notes have been reviewed by the company's audit committee and approved by the company's board of directors on February 26, 2018.

#### ***Accounting standards issued but not yet applied***

The IASB has issued the following applicable standards which have not yet been adopted by the company. The company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

The following is a description of the new standards:

##### *IFRS 9 - Financial Instruments*

In July 2014, the IASB completed IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. *IFRS 9 amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.* IFRS 9 will be effective for the company's fiscal year beginning on July 1, 2018 with earlier adoption permitted.

##### *IFRS 15 Revenue from Contracts with Customers*

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



## *IFRS 16, Leases*

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

#### **4 Summary of significant accounting policies**

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

#### **5 Transaction credits**

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

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

The transaction credits and the allowance is as follows:

|  | At December<br>31, 2017 | At June<br>30, 2017 |
|--|-------------------------|---------------------|
|  | \$                      | \$                  |
| Transaction credits                        | \$ 4,914,430            | \$ 6,078,872        |
| Allowance                                  | <u>(228,073)</u>        | <u>(529,160)</u>    |
| <b>Per statement of financial position</b> | <b>\$ 4,686,357</b>     | <b>\$ 5,549,712</b> |

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

|   | At December<br>31, 2017 | At June<br>30, 2017 |
|---|-------------------------|---------------------|
|   | \$                      | \$                  |
| Impaired transaction credits                        | \$ 262,272              | \$ 613,754          |
| Allowance   | <u>(228,073)</u>        | <u>(529,160)</u>    |
| <b>Impaired transaction credits not allowed for</b> | <b>\$ 34,199</b>        | <b>\$ 84,594</b>    |

#### Movement on allowance for impaired transaction credits

|   | At December<br>31, 2017  | December<br>31, 2016     |
|---|--------------------------|--------------------------|
|   | \$                       | \$                       |
| <b>Balance brought forward at start of period</b> | <b>\$ 529,160</b>        | <b>\$ 642,087</b>        |
| Allowance created during the period               | 203,389                  | 345,030                  |
| Impaired accounts written off against allowance   | <u>(504,476)</u>         | <u>(25,320)</u>          |
| <b>Balance carried forward at end of period</b>   | <b><u>\$ 228,073</u></b> | <b><u>\$ 961,797</u></b> |

#### 6 Inventory

Inventory comprises

|                            | At December<br>31, 2017 | At June<br>30, 2017     |
|----------------------------|-------------------------|-------------------------|
|                            | \$                      | \$                      |
| Processing terminals       | \$ 32,794               | \$ 35,038               |
| Provision for obsolescence | <u>(8,237)</u>          | <u>-</u>                |
| <b>Total</b>               | <b><u>\$ 24,557</u></b> | <b><u>\$ 35,038</u></b> |

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

#### 7 Loan payable

|                                   | At December<br>31, 2017    | At June<br>30, 2017        |
|-----------------------------------|----------------------------|----------------------------|
|                                   | \$                         | \$                         |
| <b>Balance at start of period</b> | <b>\$ 4,476,421</b>        | <b>\$ 5,533,267</b>        |
| Decrease in borrowing             | <u>(664,571)</u>           | <u>(1,056,846)</u>         |
| <b>Balance at end of period</b>   | <b><u>\$ 3,811,850</u></b> | <b><u>\$ 4,476,421</u></b> |

This is a line of credit facility provided by Accord Financial Inc. (“Accord”), and was established in December, 2007. Loan payable is used by the company exclusively to acquire transaction credits, under its APM product, from establishments that are in business segments available to the company under its agreements with CIBC, TD and Aimia. The current term of the loan payable was due to expire in December 2017.

On January 4, 2018 the company announced it secured a renewal for a term ending in December 2021. The agreement is subject to automatic renewal thereafter for periods of one year unless earlier terminated by either party prior to end of term.

During the renewal term the interest rate, effective January 1, 2018, is equivalent to prime rate of a certain Canadian bank plus 9.05% (compared to prime rate plus 11.5% until December 31, 2017). Furthermore, during the renewal term the co-funding arrangement, effective December 29, 2017, is amended to 90:10, whereby Accord funds 90% of each dollar of transaction credits acquired by the company. The company funds 10%. This compares to 85:15 arrangement until December 28, 2017.

The facility limit is \$8.5 million.

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

The interest cost during the three and six months ended December 31, 2017 was \$163,800 and \$333,580 respectively (2016 \$179,007 and \$362,385 respectively).

## **8 12% Non-convertible debentures payable and 9% Non-convertible debentures payable**

On December 30, 2013, the company issued 12% non-convertible debentures payable (12% debentures”), by way of a private placement, in the principal amount of \$5,159,000. The 12% debentures were issued as units. Each unit comprised (i) \$1,000 face value secured non-convertible debentures of the company bearing interest at 12% per annum, payable semi-annually, and with an initial maturity date of September 30, 2016, and (ii) 8,150 common shares in the capital of the company. The company issued 5,159 units and 42,045,850 common shares. The maturity date went through several extensions with the latest maturity date of December 31, 2017. The company was in breach of all its financial covenants since September 30, 2016, had not paid the interest since January 1, 2017 and was not in a position to re-pay the 12% debentures.

On December 22, 2017 the company announced it re-financed the 12% debentures with the approval of existing holders of the 12% debentures. The terms of the refinancing are as follows:

1. Holders of existing 12% debentures issued, on dollar for dollar basis, 9% non-convertible debentures payable (“9% debentures”) with maturity date of December 31, 2021;
2. The 9% debentures bear interest rate of 9% per annum payable semi-annually;
3. Cancellation of accrued and unpaid interest on 12% debentures for period January 1, 2017 to December 21, 2017;
4. Cancellation of penalty of \$103,180 payable to holders of 12% debentures;
5. Restructuring bonus payment of \$180 for each \$1,000 of 9% debentures on December 31, 2021; and
6. 108,244 common shares of the company for each \$1,000 of 9% debentures.

The 9% debentures and common shares were issued as units. The company issued 5,559 units comprising principal amount of \$5,559,000 9% debentures and 601,728,396 common shares of the company, comprising:

1. Principal amount of \$5,159,000 9% debentures and 558,430,796 common shares of the company issued to holders of 12% debentures; and

2. Principal amount of \$400,000 new investment in 9% debentures and 43,297,600 common shares of the company.

Under the agreement, the proceeds of the 9% debentures are to be used for working capital purposes.

The 9% debentures are secured by a general security interest over the assets of the company and its subsidiaries. The significant financial covenants of the 9% debentures require the company to meet (i) commencing the quarter ended March 31, 2018, on a quarterly basis, a defined level of designated current assets, and (ii) commencing December 31, 2018, on a quarterly basis, a defined level of interest coverage.

The refinancing is considered an exchange of the original debt for units of 9% debentures and common shares. The value of the 9% debentures and common shares are determined as the amount required to extinguish the original loan, with the difference resulting in a gain on the exchange of the debt. The fair value of the 9% debentures issued was determined to be \$4,275,389 based on a discounted cash flow of the interest and principal obligations of the 9% debentures. The common shares were valued at \$nil based on the estimated market value of the common shares at the date of the refinancing. As a result, a gain of \$1,795,103 has been recognized on the refinancing which consists of the book value of the 12% debentures of \$5,864,299, including accrued interest and penalties, plus the cash proceeds on the refinancing of \$400,000 less the fair value of the 9% debentures of \$4,275,389 and financing costs of \$193,807.

#### Movement on 9% debentures

|   | <u>Debt portion</u>        |
|---|----------------------------|
|   | \$                         |
|   |                            |
| <b>Fair value of 9% debentures</b>        | <b>\$ 4,275,389</b>        |
| Restructuring bonus charge for the period | 6,802                      |
| <b>Balance at December 31, 2017</b>       | <b><u>\$ 4,282,191</u></b> |

Interest and accretion charges are as follows:

|  | <u>Period ended December 31, 2017</u> |                         | <u>Period ended December 31, 2016</u> |                         |
|--|---------------------------------------|-------------------------|---------------------------------------|-------------------------|
|  | <u>Interest</u>                       | <u>Accretion charge</u> | <u>Interest</u>                       | <u>Accretion charge</u> |
|  | \$                                    | \$                      | \$                                    | \$                      |
| 12% debentures - stated interest at 12% coupon - July 1, 2016 to December 31, 2016 | \$ -                                  | \$ -                    | \$ 311,231                            | \$ 60,227               |
| 12% debentures - stated interest at 12% coupon - July 1, 2017 to December 21, 2017 | 295,123                               | -                       | -                                     | -                       |
| 9% debentures - stated interest at 9% coupon - December 22 to 31, 2017             | 13,707                                | -                       | -                                     | -                       |
| 9% debentures - restructuring bonus - December 22 to 31, 2017                      | <u>6,802</u>                          | <u>-</u>                | <u>-</u>                              | <u>-</u>                |
|  | <u>\$ 315,632</u>                     | <u>\$ -</u>             | <u>\$ 311,231</u>                     | <u>\$ 60,227</u>        |

Interest and accretion charges for three months ended December 31, 2017 are \$159,590 (2016 \$155,615).

## 9 Share capital

Authorized and Issued share capital.

No change in the authorized and issued Class A, B and C preference shares since June 30, 2017.

### Common shares

Pursuant to the restructuring completed on December 22, 2017, which included the refinancing explained in note 8, the company issued 643,228,396 common shares. The 643,228,396 common shares comprised 601,728,396 issued pursuant to the refinancing and 41,500,000 common shares were issued as retention bonus to Chief Executive Officer (29,000,000 common shares) and Chief Financial Officer (12,500,000 common shares).

782,299,614 common shares were issued and outstanding at December 31, 2017 (139,071,218 at June 30, 2017 and December 31, 2016).

## 10 Share-based payments

### Employee stock options

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

|  | Number of<br>employee stock<br>options | Weighted<br>average exercise<br>price |
|--|--|---------------------------------------|
| Outstanding and Exercisable at June 30, 2017     | 1,490,000                              | \$ 0.05                               |
| Outstanding and Exercisable at December 31, 2017 | 1,400,000                              | \$ 0.05                               |
| Outstanding and Exercisable at December 31, 2016 | 4,100,000                              | \$ 0.03                               |

The outstanding and exercisable employee stock options at December 31, 2017 were issued at exercise price of \$0.05, and have a remaining contractual life until March 19, 2018.

The number of employee stock options available for future issuance as at December 31, 2017 was 15,288,546 (15,198,546 at June 30, 2017).

### Restricted Share Unit Plan

On December 18, 2017, the Board of Directors ("Board") authorized, subject to approval by the shareholders of the company, the creation of a restricted share unit plan (the "RSU Plan"), pursuant to which the Board may grant restricted share units (the "RSUs") to eligible persons. The eligible persons are directors, officers, employees and consultants of the company designated by the Board.

The maximum number of common shares of the company which may be made subject to issuance under RSUs granted under the RSU Plan shall not exceed 32,000,000 common shares.

### Potentially Dilutive Securities

Upon exercise of the employee stock options exercisable as at December 31, 2017, the company is committed to issuing 1,400,000 common shares.

## 11 Related party transactions

### Directors and Officers

In December 2017 the related parties holding 12% debentures were issued units comprising 9% debentures and common shares of the company (note 8), on terms and conditions applicable to the other holders of 12% debentures. The holdings of debentures are tabulated below. The 12% debentures were purchased by the related parties on terms and conditions applicable to the other subscribers.

|   | At December<br>31, 2017 | At June<br>30, 2017   |
|---|-------------------------|-----------------------|
|   | \$                      | \$                    |
|   | <u>9% debentures</u>    | <u>12% debentures</u> |
| 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               |
|   | <u>\$ 1,215,000</u>     | <u>\$ 1,215,000</u>   |

As part of the units the related parties were issued 131,516,460 common shares of the company.

## 12 Commitments and contingencies

### Commitments

As at December 31, 2017, the company is committed to minimum payments with respect to existing leases for equipment and premises:

|   | <u>Equipment</u> | <u>Premises</u>   | <u>Total</u>      |
|---|------------------|-------------------|-------------------|
|   | \$               | \$                | \$                |
| Not later than one year                           | \$ 45,597        | \$ 77,671         | \$ 123,268        |
| Later than one year and not later than five years | 15,551           | 284,794           | 300,345           |
| Later than five years                             | -                | -                 | -                 |
| <b>Total</b>                                      | <u>\$ 61,148</u> | <u>\$ 362,465</u> | <u>\$ 423,613</u> |

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

A significant portion of the commitments for premises is for the company's head office (note 1). In August 2017 the company renewed its lease for the company's head office for a five year term ending August 31, 2022.

## Taxation

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

## Legal matters

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

## **13 Earnings per share**

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

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

Basic and Diluted EPS are tabulated.

|   | <u>Three months ended December 31</u> |              | <u>Six months ended December 31</u> |              |
|---|---------------------------------------|--------------|-------------------------------------|--------------|
|   | 2017                                  | 2016         | 2017                                | 2016         |
|   | \$                                    | \$           | \$                                  | \$           |
| Net profit/(loss) and comprehensive profit/(loss)   | \$ 1,827,173                          | \$ (237,607) | \$ 1,655,868                        | \$ (387,012) |
| <u>Basic and Diluted EPS</u>  |                                       |              |                                     |              |
| Average number of issued common shares during the period  | 208,987,348                           | 139,071,218  | 174,029,283                         | 139,071,218  |
| Basic EPS   | \$ 0.01                               | \$ (0.00)    | \$ 0.01                             | \$ (0.00)    |
| The company's potentially dilutive common shares comprise stock options granted to employees. 1,400,000 and 4,100,000 stock options were outstanding at December 31, 2017 and 2016 respectively.  |                                       |              |                                     |              |
| The computation for Diluted EPS for three and six months ended December 31, 2016 is not provided because the effect of potential exercise of the dilutive common shares would be anti-dilutive. The computation for Diluted EPS for three and six months ended December 31, 2017 is not provided because the stock options outstanding at December 31, 2017 were not in the money at the end of the period. |                                       |              |                                     |              |

## 14 Nature of expenses

|  | Period ended<br>December 31,<br>2017 | Period ended<br>December 31,<br>2016 |
|--|--------------------------------------|--------------------------------------|
|  | \$                                   | \$                                   |
| <b>Direct expenses</b>   |                                      |                                      |
| Covering costs of a) cardholders awards, and marketing and advertising in connection with the company's merchant based loyalty programs; b) cost of sales related to sale of aeronotes; and c) cost of sales of digital marketing services | \$ 1,026,848                         | \$ 1,402,012                         |
| Expense for provision against impaired accounts receivable and transaction credits   | <u>180,056</u>                       | <u>311,604</u>                       |
|  | <u>\$ 1,206,904</u>                  | <u>\$ 1,713,616</u>                  |
| <b>Selling and Marketing, and General &amp; Administrative</b>   |                                      |                                      |
| Salaries and wages including travel  | \$ 1,755,737                         | \$ 2,183,881                         |
| Professional fees  | 193,782                              | 222,833                              |
| Facilities, processing, and office expenses  | 357,342                              | 388,839                              |
| Other  | <u>(56,544)</u>                      | <u>42,695</u>                        |
|  | <u>\$ 2,250,317</u>                  | <u>\$ 2,838,248</u>                  |

## 15 Segment reporting

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

The CIBC/TD program relates to the merchant-based loyalty program the company developed and manages for CIBC and TD.

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

Financial information by reportable segment for period ended December 31, 2017 and 2016 is tabulated.

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



For the period ended December 31, 2017

|   | CIBC/TD<br>program | Aeroplan<br>program | Caesars<br>program | Corporate           | Total               |
|---|--------------------|---------------------|--------------------|---------------------|---------------------|
|   | \$                 | \$                  | \$                 | \$                  | \$                  |
| Revenues  | \$ 3,399,732       | \$ 554,661          | \$ 19,091          | \$ 10,851           | \$ 3,984,335        |
| Direct expenses   | <u>903,415</u>     | <u>292,922</u>      | <u>10,567</u>      | <u>-</u>            | <u>1,206,904</u>    |
|   | 2,496,317          | 261,739             | 8,524              | 10,851              | 2,777,431           |
| Selling & marketing   | 841,257            | 12,958              | 68,647             | -                   | 922,862             |
| General & administrative  | <u>1,135,777</u>   | <u>185,300</u>      | <u>6,378</u>       | <u>-</u>            | <u>1,327,455</u>    |
| Earnings from operations before depreciation, amortization and interest | 519,283            | 63,481              | (66,501)           | 10,851              | 527,114             |
| Interest - loan payable   | 333,580            | -                   | -                  | -                   | 333,580             |
| Interest - Non convertible debentures payable                           | 270,056            | 44,059              | 1,517              | -                   | 315,632             |
| Depreciation and amortization   | 14,663             | 2,392               | 82                 | -                   | 17,137              |
| Non-recurring item  | <u>-</u>           | <u>-</u>            | <u>-</u>           | <u>1,795,103</u>    | <u>1,795,103</u>    |
| Segment profit/(loss)   | \$ <u>(99,016)</u> | \$ <u>17,030</u>    | \$ <u>(68,100)</u> | \$ <u>1,805,954</u> | \$ <u>1,655,868</u> |

For the period ended December 31, 2016

|   | CIBC/TD<br>program  | Aeroplan<br>program | Caesars<br>program | Corporate    | Total               |
|---|---------------------|---------------------|--------------------|--------------|---------------------|
|   | \$                  | \$                  | \$                 | \$           | \$                  |
| Revenues  | \$ 4,155,001        | \$ 838,673          | \$ 20,932          | \$ 33        | \$ 5,014,639        |
| Direct expenses   | <u>1,213,597</u>    | <u>481,224</u>      | <u>18,795</u>      | <u>-</u>     | <u>1,713,616</u>    |
|   | 2,941,404           | 357,449             | 2,137              | 33           | 3,301,023           |
| Selling & marketing   | 873,539             | 59,752              | 64,569             | -            | 997,860             |
| General & administrative  | <u>1,524,908</u>    | <u>307,798</u>      | <u>7,682</u>       | <u>-</u>     | <u>1,840,388</u>    |
| Earnings from operations before depreciation, amortization and interest | 542,957             | (10,101)            | (70,114)           | 33           | 462,775             |
| Interest - loan payable   | 362,385             | -                   | -                  | -            | 362,385             |
| Interest - Non convertible debentures payable                           | 307,782             | 62,125              | 1,551              | -            | 371,458             |
| Depreciation and amortization   | <u>96,069</u>       | <u>19,391</u>       | <u>484</u>         | <u>-</u>     | <u>115,944</u>      |
| Segment profit/(loss)   | \$ <u>(223,279)</u> | \$ <u>(91,617)</u>  | \$ <u>(72,149)</u> | \$ <u>33</u> | \$ <u>(387,012)</u> |

## **16 Comparatives**

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