



ADVANTEX

ADVANTEX® MARKETING INTERNATIONAL INC.

Management's Discussion and Analysis of Operating Results

For the three and nine month periods ended March 31, 2018 and 2017

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 May 25, 2018. 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 nine month periods ended March 31, 2018 compared to the three and nine month periods ended March 31, 2017. 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, 2017, and the interim consolidated financial statements and the related notes for the three and nine months ended March 31, 2018 which are available on www.sedar.com. All dollar amounts are stated in Canadian Dollars, which is the company's presentation and functional currency, unless otherwise noted. Certain dollar amounts have been rounded and may not tie directly to the interim and audited consolidated financial statements.

Overall Performance

Advantex is a leader in the marketing services industry. The company develops and manages merchant based loyalty programs for its "Affinity partners", Canadian Imperial Bank of Commerce ("CIBC"), The Toronto Dominion Bank ("TD"), Aimia Inc. ("Aimia") and Caesars Entertainment Corporation ("Caesars"). The programs the company operates in partnership with CIBC and TD ("CIBC/TD program"), Aimia ("Aeroplan program") and Caesars ("Caesars program") enable holders of designated CIBC and TD credit cards, members of Aeroplan, and Caesars Towards Rewards (holders and members together "consumers") to accelerate earning frequent flyer miles and/or other rewards ("consumer rewards") on completing purchases at participating merchants. Under the umbrella of each program, Advantex markets participating merchants to consumers and on behalf of the merchants issues consumer rewards, provides merchants with business intelligence connected to the spending behaviour of consumers, and at its sole discretion provides merchants with working capital by the pre-purchase of their future sales.

On a combined basis, Advantex has contractual marketing access to millions of Canadian consumers with above-average personal and household income. The company's merchant partner base currently consists of about 1,000 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 nine months ended March 31, 2018

During the three months ended March 31, 2018 the company was focused on re-building its sales organization and refreshing its product offering so that it can increase merchant participation in its core business, the CIBC/TD program. Merchant population is the primary driver of revenues and profitability. The company expects to complete the re-build and re-fresh by end of May 2018.

During the nine months ended March 31, 2018 the company was focused on five tasks. All were successfully accomplished by end of December 31, 2017.

1. 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 trend of decline in merchant participation was slowed down and this is reflected in 594 participating merchants at December 31, 2017 compared to 640 at June 30, 2017.
2. Close a restructuring of its financial partnerships including refinancing its 12% non-convertible debentures payable ("12% debentures") which had an original maturity date of September 30, 2016 and after several extensions was due December 31, 2017. Closed in December 2017 and January 2018. The result is that the company now believes it has the time and access to adequate additional working capital to transition to the next phase of recovery of the company's core business during which it expects a gradual but sustained growth in its CIBC/TD program merchant base and related revenues. Information on the restructuring of financial arrangements is provided hereunder. Details are also provided in sections Loan Payable, and 12% Non-Convertible Debentures Payable and 9% Non-Convertible Debentures Payable in this document.
 - a. The 12% debentures were re-financed as units comprising 9% non-convertible debentures payable ("9% debentures") bearing interest at 9% per annum and maturing December 31, 2021, and common shares of the company. The interest payable at 12% per annum for period January 1, 2017 to December 21, 2017 and penalty on 12% debentures was cancelled. New investment of \$400,000 was secured in the 9% debentures. While the company has to pay a performance bonus equivalent to 18% of the aggregate principal amount of the 9% debentures, it is payable on maturity in 2021 thereby giving the company the necessary working capital to revitalize its CIBC/TD program.
 - b. The loan payable arrangement was renewed to December 2021. The interest rate was reduced to 9.05% plus prime compared to 11.5% plus prime the company paid until December 31, 2017. In addition, the co-funding arrangement is amended to 90:10, whereby the loan payable will fund 90% of each dollar funded to merchants under the company's APM product. The company funds 10%. This compares to an 85:15 arrangement which was in place until December 28, 2017. The change in the co-funding arrangement unlocked immediately a portion of the company's working capital tied up in existing working capital advances to merchants and frees up working capital required for expansion of the APM product.
3. Restructure the company's product and organization. While this had been a work in progress and substantially complete at June 30, 2017, the access to additional working capital will be partially used to complete the restructure of the company's sales organization and the product which is necessary to expand and meet evolving marketing needs of its customers.
4. Secure an extension of agreement with CIBC. The agreement has been extended to March 31, 2019.
5. Secure an extension of agreement with TD. The agreement has been extended to February 15, 2020. On March 12, 2018 it was amended with one of the amendments being extension of the term to March 15, 2020.

The financial highlights for the three and nine months ended March 31, 2018 ("Q3 Fiscal 2018" and "YTD Fiscal 2018" respectively) compared to three and nine months ended March 31, 2017 ("Q2 Fiscal 2017" and "YTD Fiscal 2017" respectively) are summarized in the tabulation. The financial changes from the restructuring is a significant factor in the company's results for the nine months ended March 31, 2018.

	<u>Q3 Fiscal 2018</u>	<u>Q3 Fiscal 2017</u>	<u>YTD Fiscal 2018</u>	<u>YTD Fiscal 2017</u>
	\$	\$	\$	\$
Revenues				
CIBC/TD program	\$ 1,399,361	\$ 1,624,718	\$ 4,799,093	\$ 5,779,719
Aeroplan program	244,721	253,768	799,382	1,092,441
Caesars program	8,632	9,079	27,723	30,011
Misc	43	-	10,894	33
	<u>\$ 1,652,757</u>	<u>\$ 1,887,565</u>	<u>\$ 5,637,092</u>	<u>\$ 6,902,204</u>
Gross profit	\$ 1,164,823	\$ 1,294,203	\$ 3,942,254	\$ 4,595,226
Gross margin	70.5%	68.6%	69.9%	66.6%
Earnings from operations before depreciation, amortization and interest	\$ 283,766	\$ (154,356)	\$ 810,880	\$ 308,419
(Loss) and Comprehensive (loss) before non-recurring item	\$ (124,073)	\$ (499,163)	\$ (263,308)	\$ (886,175)
Net profit/(loss) and Comprehensive profit/(loss)	\$ (124,073)	\$ (499,163)	\$ 1,531,795	\$ (886,175)

Income Statement – Q3 Fiscal 2018 and YTD Fiscal 2018 compared to Q3 Fiscal 2017 and YTD Fiscal 2017

Q3 Fiscal 2018 compared to Q3 Fiscal 2017

The \$234,808 drop in the company's revenues reflects mainly the decline in CIBC/TD revenues of \$225,357 (13.9%). CIBC/TD program accounts for a significant share of the company's revenues (over 80% in YTD Fiscal 2018 and YTD Fiscal 2017). The decline primarily reflects lower merchant participation in the CIBC/TD program. The average merchant participation during Q3 Fiscal 2018 at 587 was 17.3% lower compared to Q3 Fiscal 2017. The decline in merchant participation is explained in the section Revenues in this document.

Gross profit decline of \$129,380 reflects mainly the \$143,929 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 YTD Fiscal 2018 and YTD Fiscal 2017). The decline reflects lower CIBC/TD revenues partially offset by increase in program margin, 73.6% for Q3 Fiscal 2018 compared to 72.3% for Q3 Fiscal 2017. Gross profit is reviewed in sections Direct expenses and Gross profit in this document.

SG&A expenses are \$567,502 lower compared to Q3 Fiscal 2017. The lower SG&A expenses primarily reflect restructuring of the organization, salary reduction implemented mid-August 2017, rebate from Canada Revenue Agency ("CRA"), write-back of a portion of provision respecting directors fees, and lower legal fees (excluding those expended on restructuring of financial arrangements). These are explained in sections Selling Expenses and General & Administrative in this document.

Earnings from operations before depreciation, amortization and interest increased \$438,122 reflecting the above changes in the gross profit and SG&A.

Q3 Fiscal 2018 reflects an increase in interest cost of \$83,695. The interest on loan payable is lower by \$22,474 reflecting lower utilization of loan payable and the lower interest rate. The debenture cash interest was lower by \$25,786 reflecting lower coupon (9% vs 12%) and higher principal (\$5,559,000 vs \$5,159,000) offset by the debenture restructuring bonus, due in 2021, of \$61,221 vs \$nil. Q3 Fiscal 2018 reflects non-cash interest (accretion charge) on 9% debenture. The details are provided in section Interest Expense in this document.

Depreciation and amortization expense was \$20,663 lower compared to Q3 Fiscal 2017. The company believes capital expenditure needs are better served by leasing vs. purchase and using cloud based infrastructure. These expenditures are reflected in general & administrative.

Q3 Fiscal 2018 net loss is \$124,073 compared to Q3 Fiscal 2017 loss of \$499,163, an improvement of \$375,090.

YTD Fiscal 2018 compared to YTD Fiscal 2017

The \$1,265,112 drop in the company's revenues reflects mainly the decline in CIBC/TD revenues of \$980,626. 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 2018 at 610 was 19.5% lower compared to YTD Fiscal 2017. The decline in merchant participation is explained in the section Revenues in this document.

Gross profit decline of \$652,972 reflects mainly the \$589,016 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 partially offset by increase in program margin, 73.5% for YTD Fiscal 2018 compared to 71.2% for YTD Fiscal 2017. Gross profit is reviewed in sections Direct expenses and Gross profit in this document.

SG&A expenses are \$1,155,433 lower compared to YTD Fiscal 2017. The lower SG&A expenses primarily reflect restructuring of the organization, salary reduction implemented mid-August 2017, rebate from CRA, write-back of a portion of provision respecting directors fees, and lower legal fees (excluding those expended on restructuring of financial arrangements). These are explained in sections Selling Expenses and General & Administrative in this document.

Earnings from operations before depreciation, amortization and interest increased \$502,461 reflecting the above changes in the gross profit and SG&A.

YTD Fiscal 2018 reflects a decrease in cash interest cost of \$11,443. YTD Fiscal 2018 non-cash interest (accretion charge) on debentures of \$70,734 compared to \$60,227 during YTD Fiscal 2017. The details are provided in section Interest Expense in this document.

Depreciation and amortization expense was \$119,470 lower compared to YTD Fiscal 2017. The company believes capital expenditure needs are better served by leasing vs. purchase and using cloud based infrastructure. These expenditures are reflected in general & administrative.

YTD Fiscal 2018 loss before non-recurring item is \$263,308 compared to YTD Fiscal 2017 loss of \$886,175, an improvement of \$622,867.

Balance Sheet – March 31, 2018 compared to March 31, 2017

An increase in transaction credits, net of provision for delinquent accounts, of \$293,372. Transaction credits of \$6,016,397 at March 31, 2018 compared to \$5,723,025 at March 31, 2017. The increase in transaction credits is a reflection of the availability of working capital, post restructuring completed in December 2017, at the company leading to increased purchase of transaction credits from its existing merchant portfolio. The increase would be more were it not for decline in the CIBC/TD program merchant population (677 at March 31, 2017 compared to 579 at March 31, 2018). This movement in transaction credits is the primary reason for increase of current assets (\$389,456) and total assets (\$348,363) at YTD Fiscal 2018 compared to YTD Fiscal 2017. The decline in merchant participation is discussed in the section Revenue in this document.

The increase in loan payable of \$376,746 at March 31, 2018 compared to March 31, 2017, which is used exclusively to fund transaction credits deployed with merchants participating in the CIBC/TD program's APM product, reflects increase in transaction credits purchased from existing merchant portfolio, change in the co-funding formula partially offset by use of cash surplus to immediate requirements to reduce utilization of loan payable and consequently the interest for using the loan payable. Loan payable at March 31, 2018 of \$4,736,619 compared to \$4,359,873 at March 31, 2017.

The liability of the 12% debentures was extinguished upon refinancing. The 9% debentures are reflected at their fair value. Details are provided in the section 12% Non-Convertible Debentures Payable and 9% Non-Convertible Debentures Payable.

A detailed look at the results for Q3 Fiscal 2018 and YTD Fiscal 2018 compared to Q3 Fiscal 2017 and YTD Fiscal 2017 is set out in the following sections.

Outlook

The company's assets are its Affinity partnerships with CIBC, TD, Aimia and Caesars, its merchant portfolio and its unique product offerings which seamlessly connect, through the company's proprietary technology, merchants to consumers. The company believes that it has a unique product – working capital, loyalty marketing and business analytics 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.

Following close of restructuring of financial partnerships the company upgraded its outlook at the end of December 2017. The company believes it has the time and access to adequate additional working capital to transition to the next phase of recovery of the company's core business during which it expects a gradual but sustained growth in its CIBC/TD program merchant base and related revenues. The company believes it has the support of its Affinity and Financial partners, and its staff during the transition.

Expansion beyond Canada is on the company's roadmap. To execute, the company would require investment in the form of equity.

Results of Operations

	<u>Q3 Fiscal 2018</u>	<u>Q3 Fiscal 2017</u>	<u>YTD Fiscal 2018</u>	<u>YTD Fiscal 2017</u>
	\$	\$	\$	\$
Revenues	\$ 1,652,757	\$ 1,887,565	\$ 5,637,092	\$ 6,902,204
Direct expenses - Cost of cardholder rewards and marketing merchants to cardholders	431,618	468,606	1,458,466	1,870,618
Direct expenses - Expense for provision against delinquent accounts	56,316	124,756	236,372	436,360
Gross profit	\$ 1,164,823	\$ 1,294,203	\$ 3,942,254	\$ 4,595,226
Selling and General & Administrative	881,057	1,448,559	3,131,374	4,286,807
Earnings from operations before depreciation, amortization and interest	\$ 283,766	\$ (154,356)	\$ 810,880	\$ 308,419
Cash interest on loan payable and debentures	267,381	315,641	909,791	989,257
Earnings (loss) from operations before depreciation, amortization, non-cash interest on debentures (accretion charges) and restructuring bonus	\$ 16,385	\$ (469,997)	\$ (98,911)	\$ (680,838)
Depreciation and amortization	8,503	29,166	25,640	145,110
Non-cash interest expense (accretion charges) and restructuring bonus related to debentures	131,955	-	138,757	60,227
(Loss) and Comprehensive (loss) before non-recurring item	\$ (124,073)	\$ (499,163)	\$ (263,308)	\$ (886,175)
Non-recurring item	\$ -	\$ -	\$ 1,795,103	\$ -
Net profit/(loss) and Comprehensive profit/(loss)	\$ (124,073)	\$ (499,163)	\$ 1,531,795	\$ (886,175)
Basic and Diluted profit/(loss) per share	\$ (0.00)	\$ (0.00)	\$ 0.00	\$ (0.01)

Extract from the Statement of Financial Position

	At March 31, 2018	At June 30, 2017	Increase/ (Decrease)
	\$	\$	\$
Current assets	\$ 6,654,639	\$ 6,215,037	\$ 439,602
Total assets	\$ 6,704,406	\$ 6,288,100	\$ 416,306
Shareholders' deficiency	\$ (5,047,660)	\$ (6,579,455)	\$ (1,531,795)

The change in current assets primarily reflects an increase in transaction credits (net of provision for delinquent accounts) of \$466,685. The increase in transaction credits, net of provision for delinquent accounts is a reflection of the availability of working capital, post restructuring completed in December 2017, at the company leading to increased purchase of transaction credits from its existing merchant portfolio. The increase in transaction credits would be more were it not for decline in the CIBC/TD program merchant population between June 30, 2017 and March 31, 2018. While the cash balances at the end of a quarter / year reflect utilization of cash in and by the operations of the company and 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, cash surplus to immediate operating requirements was used to reduce the loan payable and consequently the interest paid. Balance of such cash and cash equivalents at March 31, 2018 was \$400,000.

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

Decrease in accounts payable and accrued liabilities reflects cancellation of interest, on 12% debentures for period January 1, 2017 to December 21, 2017, consequent to the close of the restructuring; provision for professional fees connected to the restructuring; provision for severances resulting from the restructuring of the organization; and settlement of accounts payable and accrued liabilities following the restructuring.

The movement in the shareholders' deficit reflects net profit during YTD Fiscal 2018.

Extracts from the Statement of Cash Flow

	YTD Fiscal 2018	YTD Fiscal 2017	Change
	\$	\$	\$
Net profit/(loss)	\$ 1,531,795	\$ (886,175)	\$ 2,417,970
Adjustments for non cash expenses	(1,187,237)	205,337	(1,392,574)
Income after adjustments for non cash expenses	\$ 344,558	\$ (680,838)	\$ 1,025,396
Changes in working capital	(1,093,164)	1,449,667	(2,542,831)
Net cash generated from (used in) financing activities supporting working capital	728,221	(1,173,394)	1,901,615
Net cash provided by (used in) operations	\$ (20,385)	\$ (404,565)	\$ 384,180
Net cash provided by (used in) investing activities	(2,344)	-	(2,344)
(Decrease) in cash and cash equivalents	(22,729)	\$ (404,565)	\$ 381,836
Cash and cash equivalents at start of period	\$ 367,357	\$ 658,678	\$ (291,321)
Cash and cash equivalents at end of period	\$ 344,628	\$ 254,113	\$ 90,515

Changes in working capital. Transaction credits, accounts receivable, accounts payable and accrued liabilities and other working capital items. During YTD Fiscal 2018 changes reflect increase in transaction credits, net of provision for delinquent accounts, of \$466,685 which is a reflection of the availability of working capital at the company leading to increased purchase of transaction credits from its existing merchant portfolio. The second significant item is decrease in accounts payable and accrued liabilities and this reflects cancellation of interest, on 12% debentures for period January 1, 2017 to December 21, 2017, consequent to the close of the restructuring; provision for professional fees connected to the restructuring; provision for severances resulting

from the restructuring of the organization; and settlement of accounts payable and accrued liabilities following the restructuring. During YTD Fiscal 2017 the changes reflect decrease in transaction credits, net of provision for delinquent accounts, of \$1,629,237 which is primarily a reflection of decrease in merchant participation but also a diminished ability to purchase transaction credits from the merchant portfolio. Decrease in accounts receivable of \$273,583 reflects lower accounts receivable (\$161,228) from merchants participating in the Aeroplan program reflecting collection efforts and lower billings. Decrease in accounts payable and accrued liabilities reflects payments, per payment plan, to an Affinity partner, and decrease in activity levels.

Financing activities. YTD Fiscal 2018 reflects the new investment of \$400,000 in the 9% debentures and the change in the loan payable balance consequent to 1. change in the co-funding arrangement, 2. cash surplus to immediate requirements being used to reduce loan payable utilization, and 3. changes in transaction credits purchased from existing merchant portfolio and change in merchant population. YTD Fiscal 2017 movement in loan payable reflects changes in merchant participation. Merchant participation is discussed in the section Revenue.

Investing activities. The company expects to secure lease arrangements for significant expenditures during Fiscal year ending June 30, 2018. The financial commitments on existing leases is provided in the section Contractual Obligations in this document. The lease costs are reflected in expenses. The company expects capital expenditures for Fiscal 2018 to be higher compared to Fiscal 2017 and Fiscal 2016.

The presentations in Results of Operations section are not set out in accordance with International Financial Reporting Standards (“IFRS”). The presentations are extracts from the interim consolidated financial statement for the three and nine months ended March 31, 2018, 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.

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;
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>Q3 Fiscal 2018</u>	<u>Q3 Fiscal 2017</u>	<u>Inc./Dec)</u>	<u>YTD Fiscal 2018</u>	<u>YTD Fiscal 2017</u>	<u>Inc./Dec)</u>
Avg. # of merchants participating during the periods						
CIBC/TD program	587	709	-17.3%	610	758	-19.5%
Aeroplan program	355	453	-21.6%	374	544	-31.3%
	\$	\$	\$	\$	\$	\$
Revenues						
CIBC/TD program	\$ 1,399,361	\$ 1,624,718	\$ (225,357)	\$ 4,799,093	\$ 5,779,719	\$ (980,626)
Aeroplan program	244,721	253,768	(9,047)	799,382	1,092,441	(293,059)
Caesars program	8,632	9,079	(447)	27,723	30,011	(2,288)
Misc	43	-	43	10,894	33	10,861
	<u>\$ 1,652,757</u>	<u>\$ 1,887,565</u>	<u>\$ (234,808)</u>	<u>\$ 5,637,092</u>	<u>\$ 6,902,204</u>	<u>\$ (1,265,112)</u>

CIBC/TD program

Merchant participation decline during Q3 Fiscal 2018 (17.3%) and YTD Fiscal of 2018 (19.5%) compared to corresponding periods in the previous year is the primary reason for the decline in revenues in Q3 Fiscal 2018 (13.9%) and YTD Fiscal 2018 (17.0%) compared to corresponding periods in the previous year.

Until close of the restructuring in December 2017 there was deficiency of working capital. Towards the middle of March 2017 the company started to fill vacant sales positions. Due to the deficiency in working capital this re-building process was slow. Lack of an optimal sales organization and because the company did not have sufficient working capital to pre-purchase future sales from new merchants wishing to enroll in the company's

APM product the merchant participation effected the company's ability to arrest the decline in merchant participation during YTD Fiscal 2018 compared to corresponding periods in the previous year.

The company expects to complete re-building the sales organization by end of May 2018. The goal is to create a sales organization that can, post the restructuring, enable a gradual and sustained growth in merchant count and revenues. Lack of optimal sales team effected the company's ability to arrest the decline in merchant participation during Q3 Fiscal 2018 compared to corresponding periods in the previous year.

Aeroplan program

Analysis of revenues

	<u>Q3 Fiscal 2018</u>	<u>Q3 Fiscal 2017</u>	<u>Inc./Dec)</u>	<u>YTD Fiscal 2018</u>	<u>YTD Fiscal 2017</u>	<u>Inc./Dec)</u>
Avg. # of merchants participating during the periods	355	453	-21.6%	374	544	-31.3%
Revenues						
Re-seller	\$ 186,831	\$ 236,406	-21.0%	\$ 663,914	\$ 1,054,929	-37.1%
Processing transactions for Aimia clients	<u>57,890</u>	<u>17,362</u>		<u>135,468</u>	<u>37,512</u>	
	<u>\$ 244,721</u>	<u>\$ 253,768</u>		<u>\$ 799,382</u>	<u>\$ 1,092,441</u>	

Decline in Q3 Fiscal 2018 and YTD Fiscal 2018 re-seller revenues primarily reflects decline in merchant participation. YTD Fiscal 2017 included significant revenue from a wholesale account (\$149,934).

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 for re-seller product 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. Processing transactions for Aimia clients does not carry direct expenses.

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

	Q3 Fiscal 2018	Q3 Fiscal 2017	Inc./Dec)	YTD Fiscal 2018	YTD Fiscal 2017	Inc./Dec)
	\$	\$	%	\$	\$	%
Revenues						
CIBC/TD program	\$ 1,399,361	\$ 1,624,718	-13.9%	\$ 4,799,093	\$ 5,779,719	-17.0%
Aeroplan program	244,721	253,768	-3.6%	799,382	1,092,441	-26.8%
Caesars program	8,632	9,079	-4.9%	27,723	30,011	-7.6%
Misc	43	-		10,894	33	
	<u>\$ 1,652,757</u>	<u>\$ 1,887,565</u>	<u>-12.4%</u>	<u>\$ 5,637,092</u>	<u>\$ 6,902,204</u>	<u>-18.3%</u>
Direct expenses						
CIBC/TD program	\$ 368,822	\$ 450,250	-18.1%	\$ 1,272,237	\$ 1,663,847	-23.5%
Aeroplan program	112,680	136,763	-17.6%	405,602	617,987	-34.4%
Caesars program	6,432	6,349	-1.3%	16,999	25,144	-32.4%
	<u>\$ 487,934</u>	<u>\$ 593,362</u>	<u>-17.8%</u>	<u>\$ 1,694,838</u>	<u>\$ 2,306,978</u>	<u>-26.5%</u>

➤ CIBC/TD program

	Q3 Fiscal 2018	Q3 Fiscal 2017	Inc./Dec)	YTD Fiscal 2018	YTD Fiscal 2017	Inc./Dec)
	\$	\$	%	\$	\$	%
Avg. # of merchants participating during the periods	587	709	-17.3%	610	758	-19.5%
Revenue	\$ 1,399,361	\$ 1,624,718	-13.9%	\$ 4,799,093	\$ 5,779,719	-17.0%
Direct expenses						
Consumer rewards	\$ 233,737	\$ 276,145	-15.4%	\$ 826,984	\$ 964,476	-14.3%
Marketing and advertising	84,953	103,851	-18.2%	285,690	366,978	-22.2%
Marketing/Program support by Affinity partners	-	(54,500)	-100.0%	(70,625)	(125,000)	-43.5%
Expense for delinquent accounts	50,132	124,754	-59.8%	230,188	457,393	-49.7%
	<u>\$ 368,822</u>	<u>\$ 450,250</u>	<u>-18.1%</u>	<u>\$ 1,272,237</u>	<u>\$ 1,663,847</u>	<u>-23.5%</u>

The Q3 Fiscal 2018 and YTD Fiscal 2018 decline in cost of consumer rewards primarily reflects decline in merchant population and revenues.

The Q3 Fiscal 2018 and YTD Fiscal 2018 decline in marketing and advertising costs reflects decline in merchant participation and revenues, 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.

The Q3 Fiscal 2018 expense for delinquent accounts (3.6% of revenues) and YTD Fiscal 2018 (4.8% of revenues) is lower than expectations and lower than corresponding periods in the previous year (Q3 Fiscal 2017 at 7.7% and YTD Fiscal 2017 at 7.9%). Delinquencies are discussed in the section Critical Accounting Estimates – Credit Risk.

➤ Aeroplan program.

	<u>Q3 Fiscal 2018</u>	<u>Q3 Fiscal 2017</u>	<u>Inc./Dec</u>	<u>YTD Fiscal 2018</u>	<u>YTD Fiscal 2017</u>	<u>Inc./Dec</u>
	\$	\$	%	\$	\$	%
Avg. # of merchants participating during the periods	355	453	-21.6%	374	544	-31.3%
Re-seller revenues	\$ 186,831	\$ 236,406	-21.0%	\$ 663,914	\$ 1,054,929	-37.1%
Direct expenses						
Consumer rewards	108,996	136,763	-20.3%	401,918	640,987	-37.3%
Misc., including expense for delinquent accounts	3,684	-		3,684	(23,000)	
	<u>\$ 112,680</u>	<u>\$ 136,763</u>	<u>-17.6%</u>	<u>\$ 405,602</u>	<u>\$ 617,987</u>	<u>-34.4%</u>

The decline in Q3 Fiscal 2018 and YTD Fiscal 2018 direct expenses primarily reflects decline in re-seller product revenues.

Gross Profit

Gross margins of Q3 Fiscal 2018 and YTD Fiscal 2018 compared to Q3 Fiscal 2017 and YTD Fiscal 2017 are tabulated below:

	<u>Q3 Fiscal 2018</u>	<u>Q3 Fiscal 2017</u>		<u>YTD Fiscal 2018</u>	<u>YTD Fiscal 2017</u>
CIBC/TD program	73.6%	72.3%		73.5%	71.2%
Aeroplan program	54.0%	46.1%		49.3%	43.4%

Improvement in Q3 Fiscal 2018 and YTD Fiscal 2018 CIBC/TD program gross margin compared to corresponding periods in the previous year reflects lower direct expenses which are explained in section Direct Expenses in this document.

Improvement in Q3 Fiscal 2018 and YTD Fiscal 2018 Aeroplan program gross margin reflects increase in revenues from processing for Aimia clients. These revenues do not carry any direct expenses.

The company gross profit for Q3 Fiscal 2018 and YTD Fiscal 2018 was lower compared to the corresponding period in the previous year reflecting primarily a decline in revenues of CIBC/TD program partially offset by better gross margin.

	<u>Q3 Fiscal 2018</u>	<u>Q3 Fiscal 2017</u>	<u>Inc./Dec</u>	<u>YTD Fiscal 2018</u>	<u>YTD Fiscal 2017</u>	<u>Inc./Dec</u>
	\$	\$	%	\$	\$	%
CIBC/TD program	\$ 1,030,539	\$ 1,174,468	-12.3%	\$ 3,526,856	\$ 4,115,872	-14.3%
Aeroplan program	132,041	117,005	12.9%	393,780	474,454	-17.0%
Caesars program	2,200	2,730	-19.4%	10,724	4,867	120.3%
Misc	43	-		10,894	33	32912.1%
	<u>\$ 1,164,823</u>	<u>\$ 1,294,203</u>	<u>-10.0%</u>	<u>\$ 3,942,254</u>	<u>\$ 4,595,226</u>	<u>-14.2%</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.

	Q3 Fiscal 2018	Q3 Fiscal 2017	Inc./Dec)	YTD Fiscal 2018	YTD Fiscal 2017	Inc./Dec)
	\$	\$	%	\$	\$	%
Revenues						
CIBC/TD program	\$ 1,399,361	\$ 1,624,718	-13.9%	\$ 4,799,093	\$ 5,779,719	-17.0%
Aeroplan program	244,721	253,768	-3.6%	799,382	1,092,441	-26.8%
Caesars program	8,632	9,079	-4.9%	27,723	30,011	-7.6%
Misc	43	-	0.0%	10,894	33	0.0%
	\$ 1,652,757	\$ 1,887,565	-12.4%	\$ 5,637,092	\$ 6,902,204	-18.3%
Selling expenses						
CIBC/TD program	\$ 369,459	\$ 435,000	-15.1%	\$ 1,210,716	\$ 1,308,539	-7.5%
Aeroplan program	7,844	13,044	-39.9%	20,802	72,796	-71.4%
Caesars program	22,868	33,693	-32.1%	91,515	98,262	-6.9%
	\$ 400,171	\$ 481,737	-16.9%	\$ 1,323,033	\$ 1,479,597	-10.6%
Remuneration of sales staff	\$ 348,454	\$ 435,930	-20.1%	\$ 1,172,836	\$ 1,350,152	-13.1%
Remuneration as % of selling expenses	87.1%	90.5%		88.6%	91.3%	

CIBC/TD program

The company started to re-build its sales organization from middle of March 2017. The goal is to create a sales organization that can, post the restructuring completed in December 2017, enable a gradual and sustained growth in merchant count and revenues. The company expects to re-build the sales organization by end of May 2018. YTD Fiscal 2018 cost of sales organization reflects a company-wide salary reduction of between 10% and 20% implemented from mid-August 2017. Q3 Fiscal 2018 cost of sales organization reflects a partial roll-back of company-wide salary reduction of between 10% and 20% implemented from mid-August 2017.

Aeroplan program

The lower selling costs during Q3 Fiscal 2018 and YTD Fiscal 2018 reflect lower headcount, aligning sales organization to expected medium term activity levels. The company has deferred for the next six to nine months addition to the sales organization.

General and Administrative Expenses (“G&A”)

G&A expenses include compensation for all non-sales staff, professional fees, head office premises costs, shareholder and public relations costs, office overheads, capital and income taxes, and foreign exchange gains/(losses).

	Q3 Fiscal 2018	Q3 Fiscal 2017	Inc./(Dec)	YTD Fiscal 2018	YTD Fiscal 2017	Inc./(Dec)
	\$	\$	%	\$	\$	%
Change in revenues			-12.4%			-18.3%
G&A						
Compensation for non-sales staff	\$ 346,454	\$ 652,270	-46.9%	\$ 1,066,838	\$ 1,874,229	-43.1%
Severances	(4,898)	-		158,102	-	
Write-back of Directors fees	(105,566)	-		(105,566)	-	
Refund from CRA	(91,186)	-		(91,186)	-	
All other G&A expenses	336,082	314,552		780,153	932,981	
	\$ 480,886	\$ 966,822	-50.3%	\$ 1,808,341	\$ 2,807,210	-35.6%

Compensation

1. YTD Fiscal 2018 reflects company-wide salary reduction of between 10% and 20% implemented mid-August 2017;
2. Q3 Fiscal F2018 reflects a partial roll-back of company-wide salary reduction of between 10% and 20% implemented mid-August 2017; and
3. Restructuring of the organization to support a gradual and sustained growth in CIBC/TD program merchant count and related revenues. Restructuring in terms of 1. right size the headcount, and 2. create the optimal organization staffed with proven performers.

Severances

Reflect payments to ex-staff consequent to the restructuring of the organization.

Write-back of Directors Fees

As part of the restructuring the directors agreed to forego a portion of their fees which were in arrears and take the balance over an extended period. The forgiven portion of fees is reflected in above tabulation.

Refund from CRA

YTD Fiscal 2018 reflects a refund of \$102,028 (including interest of \$10,846 which is reflected in Misc. revenue) by CRA. In December 2003 the company completed a tax assisted financing transaction with a promoter of the transaction whereby it raised funds from the sale of its tax losses. Subsequent to the transaction the CRA and tax payers participating in the promoter's structure were in dispute and while the company was not a party to the dispute its share of tax losses solely consequent to the transaction were disallowed and this resulted in nominal annual tax liability which the company settled. Upon resolution of the dispute the previously disallowed tax losses were partially allowed and this resulted in the refund.

All other expenses

Q2 Fiscal 2017 and YTD Fiscal 2017 reflect higher legal costs primarily connected to the company's efforts to refinance its 12% debentures and working capital.

In other respects YTD Fiscal 2018 and YTD Fiscal 2017 periods reflect focus on cost management.

Interest Expense

Interest expense on loan payable reflects 1. utilization of funds under this line of credit facility, and 2. facility interest rate and the prime rate which together determine the loan payable interest rate (see section Loan Payable in this document). Average month end utilization of loan payable was lower during Q3 Fiscal 2018 and YTD Fiscal 2018 (\$4,356,188 and \$4,406,928 respectively) compared to Q3 Fiscal 2017 and YTD Fiscal 2017 (\$4,372,646 and \$4,723,136 respectively). Effective January 1, 2018 the facility interest rate was reduced to 9.05% from the 11.5% which was applicable during YTD Q3 2017 and for six months ended December 31, 2017. The increase in prime rate in August and October 2017 resulted in increasing the loan payable interest rate. The

impact of the foregoing factors are reflected in the loan payable interest cost – see below the tabulation - during the periods under review.

On December 22, 2017 the company announced it re-financed the 12% debentures with the approval of existing holders of the 12% debentures. The 12% debentures were re-financed as units comprising 9% debentures and common shares of the company. The terms of the refinancing are as follows:

1. Holders of existing 12% debentures issued, on dollar for dollar basis, 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. This is reflected in the non-recurring item;
4. Cancellation of penalty of \$103,180 payable to holders of 12% debentures. This is reflected in the non-recurring item;
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.

Unless noted otherwise the above is reflected in the tabulation of interest expense:

	Q3 Fiscal 2018	Q3 Fiscal 2017	Inc./Dec	YTD Fiscal 2018	YTD Fiscal 2017	Inc./Dec
	\$	\$	%	\$	\$	%
Loan payable	\$ 140,517	\$ 162,991		\$ 474,097	\$ 525,376	
12% debentures	-	152,650		295,123	463,881	
9% debentures	123,364	-		137,071	-	
9% debentures - fees	3,500	-		3,500	-	
9% debentures - restructuring bonus	61,221	-		68,023	-	
	\$ 328,602	\$ 315,641	4.1%	\$ 977,814	\$ 989,257	-1.2%
Non cash interest (accretion charge) on 12% debentures	\$ 70,734	\$ -		\$ 70,734	\$ 60,227	
	\$ 399,336	\$ 315,641	26.5%	\$ 1,048,548	\$ 1,049,484	-0.1%

Non-recurring Item

The difference between the liability of the 12% debentures plus cash proceeds on the refinancing of \$400,000 less the fair value of the 9% debentures and costs to close the refinancing are reported as non-recurring item.

	9% debentures
	Non-recurring item
Costs to close the refinancing	\$ (193,807)
Extinguishment of interest and penalty of 12% debentures	705,299
Adjustment to reflect fair value of 9% debentures	1,283,611
	\$ 1,795,103

Net Profit/(Loss)

Highlights are tabulated:

	Q3 Fiscal 2018	Q3 Fiscal 2017	Inc.//(Dec)	YTD Fiscal 2018	YTD Fiscal 2017	Inc.//(Dec)
	\$	\$	\$	\$	\$	\$
Revenues	\$ 1,652,757	\$ 1,887,565	\$ (234,808)	\$ 5,637,092	\$ 6,902,204	\$ (1,265,112)
Gross margin	70.5%	68.6%		69.9%	66.6%	
Gross profit	\$ 1,164,823	\$ 1,294,203	\$ (129,380)	\$ 3,942,254	\$ 4,595,226	\$ (652,972)
Earnings from operations before depreciation, amortization and interest	\$ 283,766	-\$ 154,356	\$ 438,122	\$ 810,880	\$ 308,419	\$ 502,461
(Loss) and Comprehensive (loss) before non-recurring item	\$ (124,073)	\$ (499,163)	\$ (375,090)	\$ (263,308)	\$ (886,175)	\$ (622,867)
Net Profit/(loss)	\$ (124,073)	\$ (499,163)	\$ (375,090)	\$ 1,531,795	\$ (886,175)	\$ (2,417,970)
Basic and Diluted profit/(loss) per share	\$ (0.00)	\$ (0.00)		\$ 0.00	\$ (0.01)	

Q3 Fiscal 2018 compared to Q3 Fiscal 2017

The \$234,808 drop in the company's revenues reflects mainly the decline in CIBC/TD revenues of \$225,357. Gross margin reflects improvement in CIBC/TD program, 73.6% for Q3 Fiscal 2018 compared to 72.3% for Q3 Fiscal 2017, and improvement in Aeroplan program at 54.0% for Q3 Fiscal 2018 compared to 46.1% for Q3 Fiscal 2017. Gross profit decline of \$129,380 reflects the \$143,929 decline in gross profit from CIBC/TD program. Q3 Fiscal 2018 SG&A expenses are \$567,502 lower compared to Q3 Fiscal 2017. The improvement of \$438,122 in earnings from operations before depreciation, amortization and interest reflects lower SG&A which offsets decline in gross profit. Q3 Fiscal 2018 reflects an increase in cash interest expense of \$12,961 and an increase in non-cash interest of \$70,734. Depreciation and amortization expense of \$8,503 is \$20,663 compared to Q3 Fiscal 2017. Q3 Fiscal 2018 net loss of \$124,703 is an improvement of \$375,090 compared to Q3 Fiscal 2017.

Detailed discussion on revenues, direct expenses, gross profit, SG&A, interest expense is available in the respective sections earlier in this document.

YTD Fiscal 2018 compared to YTD Fiscal 2017

The \$1,265,112 drop in the company's revenues reflects mainly the decline in CIBC/TD revenues of \$980,626. Gross margin reflects improvement in CIBC/TD program, 73.5% for YTD Fiscal 2018 compared to 71.2% for YTD Fiscal 2017, and improvement in Aeroplan program at 49.3% for YTD Fiscal 2018 compared to 43.4% for YTD Fiscal 2017. Gross profit decline of \$652,972 reflects the \$589,016 decline in gross profit from CIBC/TD program. YTD Fiscal 2018 SG&A expenses are \$1,155,433 lower compared to YTD Fiscal 2017. The improvement of \$502,461 in earnings from operations before depreciation, amortization and interest reflects lower SG&A which offsets decline in gross profit. YTD Fiscal 2018 reflects a decrease in cash interest expense of \$11,443 and increase in non-cash expense of \$10,507. Depreciation and amortization expense of \$25,640 is \$119,470 lower compared to YTD Fiscal 2017. YTD Fiscal 2018 loss before non-recurring item of \$263,308 is an improvement of \$622,867 compared to YTD Fiscal 2017. YTD Fiscal 2017 net profit of \$1,531,795 is an improvement of \$2,417,970 compared to YTD Fiscal 2017.

Detailed discussion on revenues, direct expenses, gross profit, SG&A, interest expense, non-recurring item is available in the respective sections earlier in this document.

Working Capital and Liquidity Management

	Q3 Fiscal 2018	Q3 Fiscal 2017	YTD Fiscal 2018	YTD Fiscal 2017
	\$	\$	\$	\$
Funds available to expand the CIBC/TD programs APM product (Transaction credits on the balance sheet) and meet working capital needs				
Net profit/(loss)	\$ (124,073)	\$ (499,163)	\$ 1,531,795	\$ (886,175)
Adjustments for non cash expenses	<u>79,237</u>	<u>29,166</u>	<u>(1,187,237)</u>	<u>205,337</u>
Income after adjustment for non cash expenses	(44,836)	(469,997)	344,558	(680,838)
Cash balances at start of the period	909,304	370,441	367,357	658,678
Inc. 9% debentures	-	-	400,000	-
Inc./dec) in loan payable	<u>924,769</u>	<u>269,821</u>	<u>260,198</u>	<u>(1,173,394)</u>
	\$ 1,789,237	\$ 170,265	\$ 1,372,113	\$ (1,195,554)
Utilization of funds				
Cash balances at end of periods	\$ 344,628	\$ 254,113	\$ 344,628	\$ 254,113
Inc./dec) in transaction credits	1,330,040	24,606	466,685	(1,629,237)
Changes in all other working capital items	112,225	(108,454)	558,456	179,570
Capital expenditures	<u>2,344</u>	<u>-</u>	<u>2,344</u>	<u>-</u>
	\$ 1,789,237	\$ 170,265	\$ 1,372,113	\$ (1,195,554)

The cash and cash equivalents at start of Q3 Fiscal 2018 reflect cash raised following the restructuring of financial partnerships. The restructuring is explained in sections Loan Payable and 12% Non-Convertible Debentures Payable and 9% Non-Convertible Debentures Payable in this document. During Q3 Fiscal 2018 cash and cash equivalents surplus to immediate operating requirements were used to reduce the loan payable and consequently the interest paid. Balance of such cash and cash equivalents at March 31, 2018 was \$400,000.

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.

Changes in working capital. Transaction credits, accounts receivable, accounts payable and accrued liabilities and other working capital items. During YTD Fiscal 2018 changes reflect increase in transaction credits, net of provision for delinquent accounts, of \$466,685 which is a reflection of the availability of working capital at the company leading to increased purchase of transaction credits from its existing merchant portfolio. The second significant item is decrease in accounts payable and accrued liabilities and this reflects cancellation of interest, on 12% debentures for period January 1, 2017 to December 21, 2017, consequent to the close of the restructuring; provision for professional fees connected to the restructuring; provision for severances resulting from the restructuring of the organization; and settlement of accounts payable and accrued liabilities following the restructuring. During YTD Fiscal 2017 the changes reflect decrease in transaction credits, net of provision for delinquent accounts, of \$1,629,237 which is primarily a reflection of decrease in merchant participation but also a diminished ability to purchase transaction credits from the merchant portfolio. Decrease in accounts receivable of \$273,583 reflects lower accounts receivable (\$161,228) from merchants participating in the

Aeroplan program reflecting collection efforts and lower billings. Decrease in accounts payable and accrued liabilities reflects payments, per payment plan, to an Affinity partner, and decrease in activity levels.

Financing activities. YTD Fiscal 2018 reflects the new investment of \$400,000 in the 9% debentures and the change in the loan payable balance consequent to 1. change in the co-funding arrangement, 2. cash surplus to immediate requirements being used to reduce loan payable utilization, and 3. changes in transaction credits purchased from existing merchant portfolio and change in merchant population. YTD Fiscal 2017 movement in loan payable reflects changes in merchant participation. Merchant participation is discussed in the section Revenue.

Investing activities. The company expects to secure lease arrangements for significant expenditures during Fiscal year ending June 30, 2018. The financial commitments on existing leases is provided in the section Contractual Obligations in this document. The lease costs are reflected in expenses. The company expects capital expenditures for Fiscal 2018 to be higher compared to Fiscal 2017 and Fiscal 2016.

From time to time the company enters into payment plans to settle its dues. As of date hereof there are payment plans with two affinity partners and certain vendors. The company had a payment plan with CIBC to settle outstanding amounts by July 31, 2017 and these were settled by the due date.

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, payments of accounts payable, the additional consideration at March 31, 2018 is the cash raised following the close of restructuring with its financial partners. The cash surplus to immediate operating requirements was used to reduce the loan payable and consequently the interest paid. Balance of such cash at March 31, 2018 was \$400,000.

The company's operations are funded by debt – loan payable and 9% debentures (see sections Loan Payable and 12% Non-Convertible Debentures Payable and 9% Non-Convertible Debentures Payable) in this document. Both the partnerships are set-up for maturity/expiry in December 2021, on terms that the company believes are beneficial, and provide access to adequate additional working capital to transition to the next phase of recovery of the company's core business during which it expects a gradual but sustained growth in its CIBC/TD program merchant base and related revenues.

To continue its current operations and fund growth during and to and beyond Fiscal year ending June 30, 2018, 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.

The company's future success is dependent on retaining its existing relationships with CIBC, TD, and Aimia and it believes it has their support.

While the company has significant shareholders deficit and current liabilities exceed current assets at March 31, 2018, based on the recent restructuring of its financial partnerships, extension of agreement with CIBC and TD, belief in its ability to transition to the next phase of recovery of the company's core business, payments plans with suppliers, the company believes it has adequate working capital to meet its operational needs and meet its payment obligations for the next 12 months.

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

Contractual Obligations

Contractual obligations as at March 31, 2018 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	\$ 4,736,619	\$ 4,736,619	\$ -	\$ -
9% debentures	\$ 5,559,000	\$ -	\$ -	\$ 5,559,000
Operating leases	\$ 399,608	\$ 118,435	\$ 171,139	\$ 110,034
	\$ 10,695,227	\$ 4,855,054	\$ 171,139	\$ 5,669,034

In addition, 9% debentures interest of \$2,014,947 is payable for the period December 22, 2017 to maturity December 31, 2021. The company also has a liability for \$1,000,620 to the holders of the 9% debentures respecting the restructuring bonus payable on December 31, 2021.

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 operating leases is for the company's head office. The lease expires August 31, 2022.

Loan Payable

The loan payable is a line of credit 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, Accord has first charge to all amounts due from merchants funded from the loan payable.

The loan payable was established in December 2007. 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 commencing January 1, 2018 the interest rate 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 is amended to 90:10, whereby Accord funds 90% of each dollar of amounts funded to merchants. The company funds 10%. This compares to 85:15 arrangement until December 28, 2017.

The facility has a limit of \$8.5 million.

Interest is calculated daily on the amount outstanding and charged monthly.

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

The company had utilized \$4.7 million of the facility at March 31, 2018 (at June 30, 2017 \$4.5 million).

With the change in the loan payable terms effective January 1, 2018, the company and Accord did not renew the temporary overdraft facility of \$100,000 which expired December 31, 2017.

12% Non-Convertible Debentures Payable and 9% Non-convertible Debentures Payable

On December 30, 2013, the company issued 12% non-convertible debentures (“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 new 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. 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 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 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 was in compliance with financial covenants at March 31, 2018.

Summary of Quarterly Results

In millions of dollars except per share amounts					
12 month period ended March 31, 2018					
	Q4 Fiscal 2017	Q1 Fiscal 2018	Q2 Fiscal 2018	Q3 Fiscal 2018	Total
	Jun 30, 2017	Sep 30, 2017	Dec 31, 2017	Mar 31, 2018	
Revenue	\$ 2.3	\$ 2.0	\$ 2.0	\$ 1.7	\$ 8.0
Percent of annual revenue	28.8%	25.0%	25.0%	21.2%	100.0%
Net income/(loss)	\$ (0.4)	\$ (0.2)	\$ 1.8	\$ (0.1)	\$ 1.1
Profit/(Loss) per share - Basic and Diluted	\$ 0.0	\$ 0.0	\$ 0.01	\$ 0.00	\$ 0.00
12 month period ended March 31, 2017					
	Q4 Fiscal 2016	Q1 Fiscal 2017	Q2 Fiscal 2017	Q3 Fiscal 2017	Total
	Jun 30, 2016	Sep 30, 2016	Dec 31, 2016	Mar 31, 2017	
Revenue	\$ 2.8	\$ 2.6	\$ 2.4	\$ 1.9	\$ 9.7
Percent of annual revenue	28.9%	26.8%	24.7%	19.6%	100.0%
Net income/(loss)	\$ (0.3)	\$ (0.1)	\$ (0.2)	\$ (0.5)	\$ (1.1)
Profit/(Loss) per share - Basic and Diluted	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.01)
Q2 Fiscal 2018 net profit includes gain from non-recurring item of \$1.8 million					

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

There were modest expenditures during Q3 Fiscal 2018 and YTD Fiscal 2018 (none during Q3 Fiscal 2017 and YTD Fiscal 2017).

The company expects to secure lease arrangements for significant expenditures during Fiscal year ending June 30, 2018. The financial commitments on existing leases is provided in the section Contractual Obligations in this document. The lease costs are reflected in expenses. The company expects capital expenditures for Fiscal 2018 to be higher compared to Fiscal 2017 and Fiscal 2016.

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

Critical Accounting Estimates

The preparation of the company's consolidated financial statements, in accordance with IFRS, requires the company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The company's significant accounting policies are disclosed in note 4 to the audited consolidated financial statements for Fiscal year ended June 30, 2017.

Contingent liabilities

A significant amount of estimation is applied in evaluating the company's uncertain tax provision with the CRA, as described in note 14 to the audited consolidated financial statements for Fiscal year ended June 30,

2017, and in the final paragraph in the General Risks and Uncertainties section of this document, and whether a tax provision is required.

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.

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.

Financial instruments – fair value

The carrying value of accounts receivable, transaction credits, accounts payable and accrued liabilities, loan payable and 9% debentures 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 – 270 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 270 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 March 31, 2018	At June 30, 2017
	\$	\$
Transaction credits	\$ 6,043,089	\$ 6,078,872
Accounts receivable	200,285	181,771
Allowance	<u>(34,244)</u>	<u>(530,414)</u>
Per statement of financial position	<u>\$ 6,209,130</u>	<u>\$ 5,730,229</u>
Maximum exposure to credit risk	\$ 6,209,130	\$ 5,730,229

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

	At March 31, 2018	At June 30, 2017
	\$	\$
Impaired transaction credits	\$ 48,020	\$ 613,754
Allowance	(26,692)	(529,160)
Impaired transaction credits not allowed for	<u>\$ 21,328</u>	<u>\$ 84,594</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 2018 and YTD Fiscal 2017 is tabulated.

	YTD Fiscal 2018	YTD Fiscal 2017
	<u>Number of options</u>	
Outstanding at July 1 and September 30	1,490,000	4,100,000
Forfeited	(90,000)	-
Outstanding at December 31	1,400,000	4,100,000
Expired	(1,400,000)	(2,560,000)
Outstanding at March 31	<u>-</u>	<u>1,540,000</u>
As of date hereof no employee stock options are outstanding and exercisable		

The number of stock options available for future issuance at March 31, 2018 compared to March 31, 2017 is as follows:

	YTD Fiscal 2018	YTD Fiscal 2017
	<u>Number of options</u>	
Maximum number of shares reserved for issuance	16,688,546	16,688,546
Less: outstanding at end of period	-	(1,540,000)
Number of options available for future issuance	<u>16,688,546</u>	<u>15,148,546</u>

There was no stock based compensation expense during YTD Fiscal 2018 and YTD Fiscal 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 shareholders of the company approved the RSU Plan at the Annual and Special Meeting of the Shareholders held on February 28, 2018.

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.

Outstanding Share Data

As of December 31, 2016 and June 30, 2017 the number of issued and outstanding common shares of the company was 139,071,218.

As at March 31, 2018 and date hereof the number of issued and outstanding common shares of the company is 782,299,614.

Pursuant to the restructuring completed on December 22, 2017, which included the refinancing of the 12% debentures, 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).

The number of common shares is provided by the company's transfer agent AST Trust Company.

Potentially Dilutive Securities

As of date hereof, there are no potentially dilutive securities exercisable into common shares of the company.

Related party transactions

Directors and Officers

In December 2017 the related parties holding 12% debentures were issued with 9% debentures on terms and conditions applicable to the other holders of 12% debentures. The 12% debentures were purchased by the related parties on terms and conditions applicable to the other subscribers.

The holdings of debentures are tabulated.

	At March 31, 2018	At June 30, 2017
	\$	\$
	<u>9% debentures</u>	<u>12% debentures</u>
Director, Chief Executive Officer - K. Ambrose	\$ 500,000	\$ 500,000
Director - S. Burns (not a director since February 28, 2018)	-	50,000
Director - W. Polley - Chairman of the Board of Directors	50,000	50,000
Director - M. Lavine	500,000	500,000
Chief Financial Officer - M. Sabharwal	115,000	115,000
	<u>\$ 1,165,000</u>	<u>\$ 1,215,000</u>

Related parties holdings at March 31, 2018 represent about 23% of the company's issued and outstanding common shares.

Trapeze Capital Corp. and Trapeze Asset Management Inc. (together “Trapeze”)

Trapeze may have been considered, at the time of the issuance of 9% debentures to be a related party of the company by virtue of their holding about 60% of the 12% debentures and about 15% of the common shares 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 renewals and extensions. The current agreement expires March 31, 2019. If CIBC does not renew the agreement or exercises its right to terminate the existing 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 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 and was subsequently amended moving the renewal date to March 12, 2020. It allows for annual renewal thereafter for periods of one year unless TD gives termination notice. If TD does not renew the agreement or exercises its right to terminate the agreement upon at least two 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 aeroplan credit cards is dependent upon the banks credit card portfolio, the company believes that the agreements with two banks mitigate the risk of dependence on one partner.

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

	YTD Fiscal 2018		YTD Fiscal 2017	
	\$	% of Company	\$	% of Company
		<u>Total</u>		<u>Total</u>
CIBC/TD program revenues	\$ 4,799,093	85.1%	\$ 5,779,719	83.7%
CIBC/TD program gross profit	\$ 3,526,856	89.5%	\$ 4,115,872	89.6%

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 and TD. 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. On January 11, 2018 the company announced an extension of the agreement until March 31, 2019. If CIBC does not renew the agreement or exercises its right to terminate the existing agreement upon at least six months prior notice or retains a competing service provider 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 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 and was subsequently amended moving the renewal date to March 12, 2020. It allows for annual renewal thereafter for periods of one year unless TD gives termination notice. If TD does not renew the agreement or exercises its right to terminate the agreement upon at least two 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 operations are funded by debt – loan payable and 9% debentures (see sections Loan Payable and 12% Non-Convertible Debentures Payable and 9% Non-Convertible Debentures Payable) in this document). Both the partnerships are set-up for maturity/expiry in December 2021. To continue its current operations and fund growth, 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. The company's relationship with the primary holder of the 9% debentures holders, and providers of loan payable span over a decade. At March 31, 2018 there is about \$3.8 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 requires the company to co-fund 10% of the transaction credits deployed with merchants under the APM product. 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 9% debentures carry financial covenants. The 9% 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 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 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. 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 9% 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 – 270 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 270 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 9% 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 9% 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 9.05%, 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 nine months ended March 31, 2018, the company incurred interest expense of \$474,097 on utilization of loan payable. Had the interest rate, for the nine months ended March 31, 2018 been 10% higher the interest expense on loan payable would have been \$521,507, an increase of \$47,410.

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 the 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 competition in Canada.

In addition to economic factors, factors noted in the Working Capital and Liquidity Management section, 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; continued access to the 9% debentures; 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 time and access to adequate working capital to transition to the next phase of recovery of its core business; its expectation of a gradual but sustained growth in its core business; belief restructuring of its sales organization and product is necessary to expand its business and expectation of its ability to do so; 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; belief it has the support of its partners and staff; expectation of capital expenditures during fiscal year ending June 30, 2018; expectation of securing lease arrangements for significant capital expenditures; belief the primary driver of revenues is merchant participation; expectation of timing relating to creation of sales organization that enables a gradual and sustained growth in core business; belief an increase in transaction credits will positively effect financial performance and cash flows; belief it has adequate working capital to meet its operational needs and meet its payment obligations for the next twelve months; 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, 2018; expectation of adverse interest rate increase it can pass onto merchants; expectation of its ability to compete; expectation of the amount of working capital required for future expansion; 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 9% debentures; 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 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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