ADVANTEX MARKETING INTERNATIONAL INC.
CONSOLIDATED FINANCIAL STATEMENTS
For the years ended June 30, 2018, and June 30, 2017

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To Our Shareholders:

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of the company. Management is responsible for the information and representations contained in these consolidated financial statements and other sections of the Annual Report for year ended June 30, 2018.

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

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

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

(Signed) – "Kelly E. Ambrose"

Kelly E. Ambrose
President and Chief Executive Officer

(Signed) - "Mukesh Sabharwal"

Mukesh Sabharwal
V.P. and Chief Financial Officer

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Independent Auditor's Report

To the Shareholders of
Advantex Marketing International Inc.

We have audited the accompanying consolidated financial statements of Advantex Marketing International Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at June 30, 2018 and 2017, and the consolidated statements of profit (loss) and comprehensive profit (loss), changes in shareholders' deficiency, and cash flows for the years ended June 30, 2018 and 2017, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Advantex Marketing International Inc. and its subsidiaries as at June 30, 2018 and 2017 and its financial performance and its cash flows for the years ended June 30, 2018 and 2017 in accordance with International Financial Reporting Standards.

(signed) BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
October 29, 2018

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

	Note	June 30, 2018	June 30, 2017
		$	$
Assets			
Current assets			
Cash and cash equivalents		$ 635,836	$ 367,357
Accounts receivable	12 a	112,322	180,517
Transaction credits	12 a	5,592,426	5,549,712
Inventory	5	-	35,038
Prepaid expenses and sundry assets		79,349	82,413
		$ 6,419,933	**$ 6,215,037**
Non-current assets			
Property, plant and equipment	6 a	$ 43,969	$ 72,142
Intangible assets	6 b	-	921
		$ 43,969	**$ 73,063**
Total assets		**$ 6,463,902**	**$ 6,288,100**
Liabilities			
Current liabilities			
Loan payable	7	$ 4,427,390	$ 4,476,421
Accounts payable and accrued liabilities		2,843,718	3,232,134
12% Non-convertible debentures payable	8	-	5,159,000
		$ 7,271,108	**$ 12,867,555**
Non-current liabilities			
9% Non-convertibles debentures payable	8	$ 4,547,951	$ -
		$ 4,547,951	**$ -**
Total liabilities		**$ 11,819,059**	**$ 12,867,555**
Shareholders' deficiency			
Share capital	9	$ 24,530,555	$ 24,530,555
Contributed surplus	10 b	4,090,382	4,090,382
Accumulated other comprehensive loss		(47,383)	(47,383)
Deficit		(33,928,711)	(35,153,009)
Total deficiency		**$ (5,355,157)**	**$ (6,579,455)**
Total liabilities and deficiency		**$ 6,463,902**	**$ 6,288,100**

Economic and Financial dependence (note 2) and Commitments and contingencies (note 14)

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

Approved by the Board

Director: Signed "William Polley"
William Polley

Director: Signed "Kelly Ambrose"
Kelly Ambrose

Advantex Marketing International Inc.
Consolidated Statements of Profit/(Loss) and Comprehensive Profit/(Loss)
For the years ended June 30, 2018 and 2017
(expressed in Canadian dollars)

	Note	2018	2017
		$	$
Revenues	18	$ **7,586,757**	$ **9,150,012**
Direct expenses	17/18	2,374,970	3,149,074
		5,211,787	6,000,938
Operating expenses			
Selling and marketing	17/18	1,881,386	1,974,282
General and administrative	17/18	2,412,486	3,704,898
Earnings from operations before depreciation, amortization and interest		**917,915**	**321,758**
Interest expense:			
Stated interest expense - loan payable, and debentures	7/8	1,183,185	1,304,971
Non-cash interest expense (accretion charges) and restructuring bonus related to debentures	8	272,562	60,227
		(537,832)	(1,043,440)
Depreciation of property, plant and equipment, and amortization of intangible assets	6 a/b	32,973	162,907
(Loss) and comprehensive (loss) before non-recurring item		$ **(570,805)**	$ **(1,206,347)**
Gain on debt restructuring	8	$ 1,795,103	$ -
Net profit/(loss) and comprehensive profit/(loss)		$ **1,224,298**	$ **(1,206,347)**
Profit/(Loss) per share			
Basic and Diluted	16	$ **0.00**	$ **(0.01)**

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

Advantex Marketing International Inc.
Consolidated Statements of Changes in Shareholders’ Deficiency
For the years ended June 30, 2018 and June 30, 2017
(expressed in Canadian dollars)

	Class A preference shares	Common shares	Contributed surplus	Accumulated other comprehen - sive loss	Deficit	Total
	$	$	$	$	$	$
Balance - July 1, 2016	**$ 3,815**	**$ 24,526,740**	**$ 4,090,382**	**$ (47,383)**	**$ (33,946,662)**	**$ (5,373,108)**
Net loss and comprehensive loss	-	-	-	-	(1,206,347)	(1,206,347)
Balance - June 30, 2017	**$ 3,815**	**$ 24,526,740**	**$ 4,090,382**	**$ (47,383)**	**$ (35,153,009)**	**$ (6,579,455)**
Balance - July 1, 2017	**$ 3,815**	**$ 24,526,740**	**$ 4,090,382**	**$ (47,383)**	**$ (35,153,009)**	**$ (6,579,455)**
Net profit and comprehensive profit	-	-	-	-	1,224,298	1,224,298
Balance - June 30, 2018	**$ 3,815**	**$ 24,526,740**	**$ 4,090,382**	**$ (47,383)**	**$ (33,928,711)**	**$ (5,355,157)**

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

Advantex Marketing International Inc.
Consolidated Statements of Cash Flow
For the years ended June 30, 2018 and 2017
(expressed in Canadian dollars)

	Note	June 30, 2018	June 30, 2017
		$	$
Operational activities			
Net profit/(loss) for the year		$ 1,224,298	$ (1,206,347)
Adjustments for:			
Depreciation of property, plant and equipment, and amortization of intangible assets	6 a/b	32,973	162,907
Accretion charge for debentures	8	142,638	60,227
Restructuring bonus for debentures	8	129,924	-
Non-cash portion of gain on debt restructuring	8	(1,283,611)	-
		246,222	(983,213)
Changes in items of working capital			
Accounts receivable		68,195	244,885
Transaction credits		(42,714)	1,802,550
Inventory		35,038	4,876
Prepaid expenses and sundry assets		3,064	21,271
Accounts payable and accrued liabilities		(388,416)	(324,844)
		(324,833)	1,748,738
Net cash (used in)/provided by operating activities		**$ (78,611)**	**$ 765,525**
Investing activities			
Purchase of property, plant and equipment, and intangible assets		$ (3,879)	$ -
Net cash (used in) investing activities		**$ (3,879)**	**$ -**
Financing activities			
Proceeds - 9% Non-convertibles debentures	8	$ 400,000	$ -
Repayment of loan payable	7	$ (49,031)	$ (1,056,846)
Net cash generated from/(used in) financing activities		**$ 350,969**	**$ (1,056,846)**
Increase/(Decrease) in cash and cash equivalents during the year		**$ 268,479**	**$ (291,321)**
Cash and cash equivalents at beginning of the year		367,357	658,678
Cash and cash equivalents at end of the year		**$ 635,836**	**$ 367,357**
Additional information			
Interest paid		$ 859,720	$ 1,023,348
Cash		$ 635,836	$ 367,357

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 2018	Fiscal 2017
	% of company Total	
CIBC/TD program revenues	83.6%	83.1%
CIBC/TD program gross profit	89.1%	89.2%

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 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. In addition to TD's right to terminate the agreement expiring March 12, 2020 at any time by providing at least two 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 15.9% and 10.9% respectively of company's revenues and gross profit in Fiscal 2018 (Fiscal 2017 – 16.4% and 10.6% 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 18.

Financial Dependence

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

Loan payable

The company has access to a line of credit facility under its loan payable (note 7). The loan payable agreement was established in 2007. The loan payable is used exclusively to expand the company's APM product ("transaction credits" on consolidated statements of financial position) which is a significant driver of merchant participation in the CIBC/TD program. 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 come 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 (just over 50%) of the 9% debentures – a Toronto based firm investing on behalf of its managed accounts. As at June 30, 2018 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 the company's common shares 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, aside from the above noted holders, at June 30, 2018 of the 9% debentures were about $1.2 million (about 21% of the 9% debentures) (Note 11) and about 24% of the company's common shares.

3 Basis of preparation

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

These consolidated financial statements and related notes have been reviewed by the company's audit committee and approved by the company's board of directors on October 29, 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 is in the process of assessing the impact that the new and amended standards will have on its consolidated financial.

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

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

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

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

Significant estimates used in the preparation of these consolidated financial statements include, but are not limited to going concern, the recoverability of transaction credits, determining the fair value of 9% debentures, and the disclosure of contingent liabilities at the date of the consolidated financial statements, which are described hereunder.

Going concern

The company assesses the going concern assumption on a quarterly basis. In assessing whether the going concern assumption is appropriate, management considers all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The company has prepared a financial forecast based on its expectation regarding continuation of its agreement with CIBC and TD, ability to access additional sources of working capital in the form of either debt or equity, continued access to existing sources of debt, growth of its existing business and development of new lines of business. The forecasts also include the reset of financial covenants obtained in October 2018 (Note 8). The reset of the covenants allowed management to determine that the company has sufficient funds to meet its obligations for the ensuing twelve months resulting in no material uncertainty. The company concluded that there were no material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern based on the judgement that forecasted results will be attained and that management could reduce salaries and other costs if forecasted revenues and margins were not achieved.

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

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

The allowance is determined on specifically identified transaction credit balances that are impaired and the amount of the specific provision is determined based on whether a) customer is (i) bankrupt,

(ii) ceased operations, (iii) is in business, b) the account has been referred for either collection or legal action, and c) the company's historical experience on recoveries.

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

9% debentures
A significant amount of estimation was applied in evaluation of the fair value of the 9% debentures. Estimates applied by management in the determination of fair value are reflective of the company's overall cost of equity capital. The carrying value of the 9% debentures reflects its fair value.

Contingent liabilities
A significant amount of estimation is applied in evaluating the legal proceedings that the company may be a party to.

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

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

Foreign currency translation
(i) Functional and presentation currency

Items included in the financial statements of each consolidated entity in the Advantex group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the functional currency of each of the entities in the Advantex group.

(ii) Translation of transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the consolidated statements of financial position date. Non-monetary assets and liabilities, expenses and other income arising from foreign currency transactions are translated at the approximate exchange rate in effect at the date of the transaction. Exchange gains or losses arising from the translation are included in the determination of income in the current year. The foreign currency loss for year ended June 30, 2018 is $6,073 (June 30, 2017 loss of $7,628).

Cash and cash equivalents
Cash and cash equivalents represent cash on hand.

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

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

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

(i) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The company's loans and receivables are comprised of transaction credits, accounts receivable and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method less a provision for impairment.

(ii) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, loan payable and Non-convertible debentures described in note 8. Financial liabilities at amortized cost are initially recognized at fair value net of any transaction costs incurred, and subsequently measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

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

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

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

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

Inventory includes Processing terminals. Cost is the purchase price paid by the company.

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

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

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

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

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

Identifiable intangible assets
The company's intangible assets consist of:

(i) computer software with finite useful lives. These assets include those purchased from external vendors in which case they are capitalized and amortized on a straight-line basis in the consolidated statement of income over 3-5 years, and those developed in-house to support the company's loyalty programs in which case they are capitalized and amortized over their useful life or the term of the affinity partner agreement, whichever is shorter;

(ii) other assets which represents cost of an acquisition the company completed in January 2013. The company acquired all of Futura Loyalty Group Inc.'s ("Futura") Aeroplan Channel Marketing assets ("assets") as per Futura's restructuring under the Companies' Creditors Arrangement Act. Other assets consisted of Futura's (i) channel program agreement with Aeroplan; (ii) agreements with merchants covering about 700 locations, and (iii) inventory of point of purchase and marketing material. The assets are amortized on a straight-line basis over the expected useful life covering 47 months through December 2016.

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

Non-convertible debentures
The non-convertible debentures described in note 8 were issued as units which included debt and common shares. The proceeds received upon issue of the non-convertible debentures are allocated into their liability and equity components on initial recognition in accordance with IAS 32, Financial Instruments: Presentation. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include common shares. Subsequently, the debt component is accounted for

as a financial liability measured at amortized cost until extinguished on maturity. The remainder of the proceeds is allocated to the common shares within shareholders' deficiency.

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

Provisions

Provisions for legal claims, where applicable, are recognized in other liabilities when the company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

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

Income taxes

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

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

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

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

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

Revenue

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

There are three types of agreements with participating establishments:

(i) Under its APM product the company provides marketing and loyalty services, and also pre-purchases an establishment's future designated credit card sales. In this product the company acquires the rights to future designated credit card transactions at a discount from the face value from participating establishments. The spread between the future credit card transactions and the costs to acquire the rights (cost of transaction credits) represents the revenue that Advantex will ultimately earn. The revenue is recognized, on a pro-rata basis, at the time a consumer makes a designated credit card purchase from a participating establishment enrolled in this product.

(ii) Under its Marketing Only product, the company provides marketing and loyalty services to participating establishments and records as revenue the fee charged for services. The fee is a percentage of designated credit card consumer purchases made at participating establishments enrolled in this product, and is recognized as revenue at the time of consumer purchase.

(iii) Re-seller of Loyalty Rewards. The company sells aeroplan miles to small and mid-size retailers and service providers. Revenue is recognized when the participating merchant issues aeroplan miles to an Aeroplan member completing a qualifying transaction at the merchant.

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

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

Restricted Share Unit Plan
The company has a restricted share unit plan which is described in note 10 c.

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

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. As at June 30, 2018 the company did not have any outstanding stock options or restricted share grants.

5 Inventory

Inventory comprises

	June 30, 2018	June 30, 2017
	$	$
Processing terminals	35,038	39,914
Isssued	(3,435)	(4,876)
Allowance for obsolescence	(31,603)	-
Total	$ -	$ **35,038**

Processing terminals

The processing terminals are sold to merchants participating in the company's Aeroplan and Caesar programs (only Caesars during Fiscal 2018). These units facilitate issuance of bonus rewards to Aeroplan and Caesar's Total Rewards members on completing qualifying purchases at participating merchants.

6 Property, plant and equipment and intangible assets

(a) Property, plant and equipment

	Computer equipment	Furniture and equipment	Leasehold Improvements	Total
	$	$	$	$
Year ended June 30, 2017				
Opening net book value	$ 78,975	$ 37,074	$ -	$ 116,049
Depreciation for the year	34,293	9,614	-	43,907
Closing net book value	$ 44,682	$ 27,460	$ -	$ 72,142
At June 30, 2017				
Cost	**$ 412,299**	**$ 160,089**	**$ 31,874**	**$ 604,262**
Accumulated depreciation	**$ 367,617**	**$ 132,629**	**$ 31,874**	**$ 532,120**
Year ended June 30, 2018				
Opening net book value	$ 44,682	$ 27,460	$ -	$ 72,142
Additions during the year	2,342	1,537	-	3,879
Depreciation for the year	26,375	5,677	-	32,052
Closing net book value	$ 20,649	$ 23,320	$ -	$ 43,969
At June 30, 2018				
Cost	**$ 414,641**	**$ 161,626**	**$ 31,874**	**$ 608,141**
Accumulated depreciation	**$ 393,992**	**$ 138,306**	**$ 31,874**	**$ 564,172**

(b) Intangible assets

	Computer Software	Other Assets	Total
	$	$	$
Year ended June 30, 2017			
Opening net book value	$ 104,395	$ 15,526	$ 119,921
Amortization for the year	103,474	15,526	119,000
Closing net book value	$ 921	$ -	$ 921
At June 30, 2017			
Cost	**$ 2,710,120**	**$ 121,822**	**$ 2,831,942**
Accumulated amortization	**$ 2,709,199**	**$ 121,822**	**$ 2,831,021**
Year ended June 30, 2018			
Opening net book value	$ 921	$ -	$ 921
Amortization for the year	921	-	921
Closing net book value	$ -	$ -	$ -
At June 30, 2018			
Cost	**$ 2,710,120**	**$ 121,822**	**$ 2,831,942**
Accumulated amortization	**$ 2,710,120**	**$ 121,822**	**$ 2,831,942**

7 Loan payable

	June 30, 2018	June 30, 2017
	$	$
Balance at start of year	**$ 4,476,421**	**$ 5,533,267**
Decrease in borrowing	(49,031)	(1,056,846)
Balance at end of year	**$ 4,427,390**	**$ 4,476,421**

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. As security, Accord has first charge to all amounts due from establishments funded from the loan payable. 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 that was in place 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 year ended June 30, 2018 was $619,256 (2017 $686,744).

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 were 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. Cancelation of accrued and unpaid interest on 12% debentures for period January 1, 2017 to December 21, 2017;
4. Cancelation 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 new investment in 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. In October 2018 the 9% debentures holders amended and re-set certain financial covenants for quarters ending December 31, 2018 to June 30, 2020. 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 and June 30, 2018.

The refinancing is considered a transaction with original debtholders in their capacity as debtholders and accounted for as 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 12% debentures

	Debt portion
	$
Balance at June 30, 2016	**$ 5,098,773**
Accretion charge for the year	60,227
Balance at June 30, 2017	**$ 5,159,000**

Movement on 9% debentures

	Debt portion
	$
Fair value of 9% debentures on issuance	$ 4,275,389
Restructuring bonus - due 2021 - charge for the year	$ 129,924
Accretion charge for the year	$ 142,638
Balance at June 30, 2018	**$ 4,547,951**

Stated interest, restructuring bonus and accretion charges are as follows:

	Year ended June 30, 2018			Year ended June 30, 2017		
	Cash Interest	Restructuring bonus	Accretion charge	Cash Interest	Restructuring bonus	Accretion charge
	$	$	$	$	$	$
12% debentures	$ 295,123	$ -	$ -	$ 618,227	$ -	$ 60,227
9% debentures	261,806	129,924	142,638	-	-	-
Fees - 9% debentures	7,000	-	-	-	-	-
Total	**$ 563,929**	**$ 129,924**	**$ 142,638**	**$ 618,227**	**-**	**60,227**

9 Share capital

(a) Authorized

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

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

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

Common – Unlimited number of shares without par value.

(b) Issued Class A preference shares

	Number of shares	$
No par value. At June 30, 2018 and 2017	461,887	$ 3,815

(c) Issued common shares

	Number of shares	$
No par value. At June 30, 2017	139,071,218	$ 24,526,740
No par value. At June 30, 2018	782,299,614	$ 24,526,740

(d) Movement during years ended June 30, 2018 and June 30, 2017 of issued share capital

(i) Class A preference shares. No movement during year ended June 30, 2017 and June 30, 2018.

(ii) Common shares. During year ended June 30, 2018 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). No movement during year ended June 30, 2017.

10 Share-based payments

a. Employee stock options

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

At the Annual and Special Meeting of the Shareholders held on December 22, 2009 the company received approval from the shareholders to implement a stock option plan ("2009 stock option plan") which is a fixed maximum number of common shares issuable based on 12% of issued and outstanding common shares (calculated on a non-diluted basis). With the increase in the issued and outstanding common shares of the company consequent to the private placement of the 12% debentures (note 8), the directors approved a resolution on March 9, 2014 increasing the number of employee stock options issuable per the company's stock option plan from 11,643,044 to 16,688,546. Upon issuance of common shares during year ended June 30, 2018 described in note 9 d (ii) the directors decided not to increase the number of stock options issuable under the company's stock option plan.

The Board has approved the continuation of the 2009 stock option plan to the date of the next Annual meeting of the Shareholders in 2018.

	Number of employee stock options	Weighted average exercise price - $
Outstanding at July 1, 2016	**4,100,000**	**0.030**
Forfeited	(50,000)	0.050
Expired	(2,560,000)	0.025
Outstanding at June 30, 2017	**1,490,000**	**0.050**
Forfeited	(290,000)	0.050
Expired	(1,200,000)	0.050
Outstanding at June 30, 2018	-	
Exercisable at June 30, 2017	**1,490,000**	**0.050**
Exercisable at June 30, 2018	-	-

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

	2018	2017
Maximum number reserved for issuance	16,688,546	16,688,546
Less outstanding at end of period	-	(1,490,000)
Number of options available for future issuance	16,688,546	15,198,546

The company has recorded $nil of stock-based compensation expense during year ended June 30, 2018 (2017 - $nil).

b. Contributed surplus

In December 2013 upon completion of refinancing by way of the 12% debentures and repayment of maturing debentures the amounts held of maturing debentures as equity portion of debentures, and warrants were transferred to contributed surplus.

Amounts attributed to contributed surplus are disclosed as a part of shareholders' deficit on the consolidated statement of financial position. The balance at June 30, 2017 and June 30, 2018 is $4,090,382.

c. 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. The company has not granted any RSUs under the RSU plan as at June 30, 2018.

d. Potentially Dilutive Securities

No potentially dilutive securities exist as at June 30, 2018.

As at June 30, 2017, the company was committed to issuing 1,490,000 additional common shares upon exercise of 1,490,000 employee stock options with exercise price of $0.05 and expiring March 19, 2018. These potentially dilutive securities as at June 30, 2017 feature in the computation of Diluted EPS (note 16).

e. Retention bonus

Concurrent to the refinancing completed in December 2017 (note 8), 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 fair value of the common shares at that time was determined to be nominal (note 8).

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.

The holdings of debentures by related parties are tabulated:

	June 30, 2018	June 30, 2017
	$	$
	9% debentures	12% debentures
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
	$ 1,165,000	**$ 1,215,000**

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. Trapeze may be considered at June 30, 2018 to be a related party. Trapeze is the principal shareholder of the company by virtue of their holding of common shares of the company and about 50% of the 9% debentures, on behalf of their managed accounts.

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

Compensation awarded to key management included:

	Year ended June 30, 2018	**Year ended June 30, 2017**
	$	**$**
Salaries, management bonuses and directors fees	352,617	593,862
Share based compensation – Retention bonus (note 10 e) – nominal value	-	-
	$352,617	**$593,862**

12 Financial instruments

(a) Credit risk

Credit risk is the risk of financial loss to the company if a customer fails to meet its contractual obligations. The company, in the normal course of business, is exposed to credit risk on its accounts receivable and transaction credits from customers. The company generally acquires the rights to receive future cash flows associated with designated credit card purchases ("future sales") at a discount from participating establishments ("transaction credits"). These transaction credits are estimated to be fully extinguishable within 30-270 days. Accounts receivable and transaction credits

are net of applicable allowance, which is established based on the specific credit risk associated with the customer and other relevant information.

The allowance is determined on specifically identified transaction credit balances that are delinquent and amount of the specific provision is determined based on whether the company's attempt to debit the merchant's bank account for transaction credits has been rejected, the underlying reason for the rejections, whether the account has been referred for either collection or legal action, and the company's historical experience on recoveries.

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

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

	June 30, 2018	June 30, 2017
	$	$
Transaction credits	$ 5,668,489	$ 6,078,872
Accounts receivable	117,322	181,771
Allowance	(81,063)	(530,414)
Per Consolidated Statement of Financial Position	**$ 5,704,748**	**$ 5,730,229**
Maximum exposure to credit risk	**$ 5,704,748**	**$ 5,730,229**

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

	June 30, 2018	June 30, 2017
	$	$
Impaired transaction credits	$ 74,630	$ 613,754
Allowance	(66,559)	(529,160)
Impaired transaction credits not allowed for	**$ 8,071**	**$ 84,594**
The company carries a general allowance towards transaction credits of	$ 9,504	$ -

Movement on allowance for impaired transaction credits

	June 30, 2018	June 30, 2017
	$	$
Balance brought forward at start of year	**$ 529,160**	**$ 642,087**
Allowance created during the year	312,888	663,190
Impaired accounts written off against allowance	(765,985)	(776,117)
Balance carried forward at end of year	**$ 76,063**	**$ 529,160**

(b) Currency risk

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

Currency risk arises due to fluctuations in foreign currency rates, but given the nominal amounts involved would not affect the company's financial results.

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

	June 30, 2018	**June 30, 2017**
	$	**$**
Cash and cash equivalents	4,045	8,082
Accounts receivable	2,782	7,952
Accounts payable and accrued liabilities	10,498	28,732

(c) Liquidity risk

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

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

The contractual maturities of the company's financial liabilities at June 30, 2018 are as follows:

	Total $	Payable within 1 year $	Payable after 1 year – 3 years $
Loan payable – (note 7)	$4,427,390	$4,427,390	$ -
Accounts payable and accrued liabilities	2,843,718	2,843,718	-
9% debentures – face amount – maturing December 31, 2021 (note 8)	5,559,000	-	5,559,000
9% debentures interest (note 8)	1,751,085	500,310	1,250,775
9% debentures restructuring bonus (note 8)	1,000,620	-	1,000,620
Total	$15,581,813	$7,771,418	$7,810,395

The contractual maturities of the company's financial liabilities at June 30, 2017 are as follows:

	Total $	Payable within 1 year $	Payable after 1 year – 3 years $
Loan payable (note 7)	$4,476,471	$4,476,471	-
Accounts payable and accrued liabilities	3,232,134	3,232,134	-
12% debentures – face amount – maturing October 31, 2017 (note 8)	5,159,000	5,159,000	-
12% debentures interest (note 8)	619,080	619,080	-
Total	$13,486,685	$13,486,685	$-

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

(d) Fair value

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

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

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

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

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

The 9% debentures were recognized at fair value on initial recording and are now reflected at amortized cost in the consolidated financial statements. A significant amount of estimation was applied

in evaluation of the fair value of the 9% debentures. Estimates applied by management in the determination of fair value are reflective of the company's overall cost of equity capital. Carrying value of the 9% debentures reflects its fair value. The fair value is a level 3 determination.

(e) Interest rate risk

The company's activities are funded by two sources of debt; the non-convertible debenture (note 8) which has fixed interest rates, and loan payable (note 7) which carries a floating interest rate. While the company is not exposed to interest rate risk on account of its non-convertible debenture, its future cash flows are exposed to interest rate risk from the floating interest rate payable on its loan payable. While the company does not use derivative instruments to reduce its exposure to interest rate risk, it believes it can pass on, to merchants participating in its programs, a portion of a significant adverse interest rate movement on its loan payable.

As disclosed in note 7, during year ended June 30, 2018, the company paid annual interest of $619,256. Interest is calculated daily on the amount outstanding on loan payable and charged monthly. The interest rate is equivalent to prime rate of a certain Canadian bank plus 9.05% per annum. For the year ended June 30, 2018, a 10% increase in interest rates would lead to an additional annual interest cost of $61,926.

13 Capital management

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

Tabulation of capital base

	At June 30, 2018	At June 30, 2017
	$	$
Loan payable – note 7	4,427,390	4,476,421
Non-convertible debentures – Principal – note 8	5,559,000	5,159,000
Share capital – note 9	24,530,555	24,530,555
Contributed surplus and deficit	(29,885,712)	(31,110,010)
	$4,631,233	$3,055,966

14 Commitments and contingencies

Commitments

As at June 30, 2018, the company is committed to minimum payments with respect to existing leases for equipment and premises:

	Equipment	Premises	Total
Not later than one year	$33,879	$77,671	$111,550
Later than one year and not later than five years	$21,702	$245,958	$267,660
Later than five years	$-	$-	$-
Total	**$55,581**	**$323,629**	**$379,210**

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

In August 2017 the company renewed its lease for the company's head office for five year term ending August 31, 2022. The lease payments over the five years total $388,355.

Taxation

After an audit in 1998, CRA determined that the company was providing marketing services. Since 1998, the company has continued in the same business activities.

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

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

The company did not record a provision based on the company's assessment that it was probable that the company would recover the amount of the reassessment in full.In January 2013 the company was advised by CRA that the objection was allowed and the reassessment was reversed, and a notice of re-assessment in the amount of $824,430 was issued. The company received the amount in February 2013.

The notice of re-assessment issued in January 2013 did not formally acknowledge the CRA's concurrence with the company's treatment of GST for periods subsequent to fiscal 2007. As a result, the company filed a notice with CRA to confirm the appropriateness of the company's treatment of GST for the periods subsequent to fiscal 2007.

In July 2018 the company received communication from rulings section of Canada Revenue Agency ("CRA") confirming the appropriateness of the company's treatment of GST/HST 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.

15 Income taxes

	2018 $	2017 $
Current income taxes	-	-
Deferred income taxes	-	-
	$-	$-

In assessing the ability to realize deferred income tax assets, management considers whether it is more likely or not that some portion or all of the deferred income tax assets will be utilized in the foreseeable future. The ultimate realization of deferred income tax assets is dependent on the generation of future taxable income during the years in which those temporary differences become deductible. As at June 30, 2018, there is no certainty that such deferred income tax assets will be utilized and, therefore, such assets have not been recognized on the consolidated statements of financial position. The majority of unrecognized deferred income tax assets of $3,788,000 (2017 $4,076,000) relate to non-capital losses of $3,744,000 (2017 - $3,997,000).

As at June 30, 2018, the company has gross non-capital income tax losses of approximately $14,999,000 (2017 $15,083,000), which may be carried forward to reduce future income for income tax purposes. The benefit of these losses has not been recognized in these consolidated financial statements. These losses expire between 2020 and 2038.

	$
2020	126,000
2021	286,000
2022	540,000
2023	192,000
2024	1,730,000
2025	352,000
2026	1,392,000
2027	699,000
2028	1,170,000
2029	675,000
2030	1,000
2031	4,000
2032	490,000
2033	322,000
2035	2,351,000
2036	3,241,000
2037	1,178,000
2038	250,000
	14,999,000

16 Earnings (loss) per share

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

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

	2018	2017
	$	$
Net profit/(loss) and comprehensive profit/(loss)	$ 1,224,298	$ (1,206,347)
Basic and Diluted EPS		
Average number of issued common shares during the year	475,664,707	139,071,218
Basic EPS	**$ 0.00**	**$ (0.01)**

There are no potentially dilutive common shares outstanding at June 30, 2018. At June 30, 2017 the company's potentially dilutive common shares comprise stock options granted to employees (position as at June 30, 2017 tabulated under note 10).

The computation for diluted EPS for 12 months ended June 30, 2017 is not provided because the effect of potential exercise of the dilutive common shares would be anti-dilutive.

17 Nature of Expenses

	Year ended June 30, 2018	Year ended June 30, 2017
	$	$
Direct expenses		
Costs of a) cardholders awards, and marketing and advertising in connection with the company's merchant based loyalty programs; and b) cost of sales of digital marketing services	$ 2,085,541	$ 2,545,735
Expense for provision against impaired accounts receivable and transaction credits	289,429	603,339
	$ 2,374,970	**$ 3,149,074**
Selling and Marketing, and General & Administrative		
Salaries and wages including travel	$ 3,162,620	$ 4,480,664
Professional fees	496,559	412,432
Facilities, processing, and office expenses	687,341	721,938
Other	(52,648)	64,146
	$ 4,293,872	**$ 5,679,180**

18 Segment reporting

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

During year ended June 30, 2018 and 2017 the CIBC/TD program relates to the merchant-based loyalty program the company developed and managed respectively for CIBC and TD.

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

Financial information by reportable segment for period ended June 30, 2018 and 2017 is tabulated.

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

Year ended June 30, 2018

	CIBC/TD program	Aeroplan program	Caesars program	Corporate	Total
	$	$	$	$	$
Revenues	6,332,854	1,208,256	34,753	10,894	7,586,757
Direct expenses	1,697,937	642,230	34,803	-	2,374,970
	4,634,917	566,026	(50)	10,894	5,211,787
Selling & marketing	1,711,965	25,434	143,987	-	1,881,386
General & administrative	2,016,658	384,762	11,067	-	2,412,486
Earnings (loss) from operations before depreciation, amortization and interest	906,294	155,830	(155,104)	10,894	917,915
Stated Interest - loan payable	619,256	-	-	-	619,256
Stated Interest - Non convertible debentures payable	471,402	89,940	2,587	-	563,929
Non-cash interest - Non convertible debentures payable - accretion charges and restructuring bonus	227,841	43,470	1,250	-	272,562
	(412,205)	22,420	(158,941)	10,894	(537,832)
Depreciation and amortization	27,563	5,259	151	-	32,973
Gain on debt restructuring	-	-	-	1,795,103	1,795,103
Segment profit/(loss)	(439,768)	17,161	(159,092)	1,805,997	1,224,298

Year ended June 30, 2017

	CIBC/TD program	Aeroplan program	Caesars program	Corporate	Total
	$	$	$	$	$
Revenues	7,607,604	1,499,133	39,751	3,524	9,150,012
Direct expenses	2,252,546	861,871	34,657	-	3,149,074
	5,355,058	637,262	5,094	3,524	6,000,938
Selling & marketing	1,761,387	81,236	131,659	-	1,974,282
General & administrative	3,081,554	607,242	16,102	-	3,704,898
Earnings (loss) from operations before depreciation, amortization and interest	512,117	(51,216)	(142,667)	3,524	321,758
Stated Interest - loan payable	686,744	-	-	-	686,744
Stated Interest - Non convertible debentures payable	514,211	101,329	2,687	-	618,227
Non-cash interest - Non convertible debentures payable - accretion charges	50,094	9,871	262	-	60,227
	(738,932)	(162,416)	(145,616)	3,524	(1,043,440)
Depreciation and amortization	135,498	26,701	708	-	162,907
Segment profit/(loss)	(874,430)	(189,117)	(146,324)	3,524	(1,206,347)

19 Comparatives

Certain comparatives have been amended to conform to presentation in the current year.