ADVANTEX

ADVANTEX® MARKETING INTERNATIONAL INC.
Management's Discussion and Analysis of Operating Results
For the fiscal years ended June 30, 2018 and 2017

This management's discussion and analysis has been prepared based on information available to Advantex Marketing International Inc. ("Advantex" or "the company") as at October 29, 2018. Management's Discussion and Analysis ("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 twelve months ended June 30, 2018, compared to the twelve months ended June 30, 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, 2018, and 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. Some dollar amounts have been rounded and may not tie directly to the 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 950 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.

Twelve months ended June 30, 2018

The year saw the start of a new beginning for the company resulting in financial stability with strong Affinity and Financial partnerships and unique product for the small independent merchant market.

The year is a story of two successful halves culminating in the net profit of $1,224,298 which is the highest in the company's history. The net profit reflects a gain on debt restructuring which is the outcome of successful restructuring explained in this section.

During the first six months ended December 31, 2017 the company was focused on five tasks. All were successfully accomplished.

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 583 participating merchants at June 30, 2018 compared to 594 at December 31, 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. Details are also provided in sections Loan Payable, and 12% Non-Convertible Debentures Payable and 9% Non-Convertible Debentures Payable in this document. Briefly:

    a. The 12% debentures were re-financed as units comprising 9% non-convertible debentures payable ("9% debentures") bearing interest at 9% per annum, 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 were 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 had paid until December 31, 2017. In addition, the co-funding arrangement was 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 meet evolving marketing needs of its customers and drive growth in merchant participation.

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 March 12, 2020.

During the back half of the year the company was focused on re-building its sales organization and refreshing its product offering so that it can initially stabilize merchant population and then increase merchant participation in its core business, the CIBC/TD program. Merchant population is the primary driver of revenues and profitability.

The task of developing the optimal sales organization is taking longer than the initial estimate of May 2018 and expectation is this task too will be complete during fiscal year ending June 30, 2019. At the same time the company continued to refresh its product to meet the changed market conditions. The company is also in the process of expanding its go to market methodology. It is exploring synergistic partnerships with service providers in the small independent market.

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. This has eliminated an uncertainty. The circumstances under which the company filed notice with CRA seeking confirmation are explained in note 14 to the Consolidated Financial Statements for year ended June 30, 2018.

The financial highlights for the twelve months ended June 30, 2018 ("Fiscal 2018") compared to twelve months ended June 30, 2017 ("Fiscal 2017") are summarized in the tabulation.

The financial results for the year reflect an improvement in all key metrics – gross margin; earnings from operations before depreciation, amortization, interest and restructuring; gain on debt restructuring; and a net profit. The financial changes from the restructuring, in the form of gain on debt restructuring of $1,795,103, are a significant factor in the company's results for the year ended June 30, 2018.

	Fiscal 2018	Fiscal 2017
	$	$
Revenues		
CIBC/TD program	$ 6,332,854	$ 7,607,604
Aeroplan program	1,208,256	1,499,133
Caesars program	34,753	39,751
Misc	10,894	3,524
	$ 7,586,757	**$ 9,150,012**
Gross profit	**$ 5,211,787**	**$ 6,000,938**
Gross margin. 68.7% - Fiscal 2018 vs. 65.6% - Fiscal 2017		
Earnings from operations before depreciation, amortization, interest and restructuring	**$ 917,915**	**$ 321,758**
(Loss) and comprehensive (loss) before non-recurring item	**$ (570,805)**	**$ (1,206,347)**
Net profit/(loss) and Comprehensive profit/(loss)	**$ 1,224,298**	**$ (1,206,347)**

Income Statement – Fiscal 2018 compared to Fiscal 2017

The revenues of Fiscal 2018 were $1,563,255 (17.1%) lower compared to Fiscal 2017 reflecting mainly a decline in the CIBC/TD program revenues of $1,274,749 (16.8%). The CIBC/TD program revenues accounted for 83.5% of Fiscal 2018 revenues (83.1% of Fiscal 2017). The decline primarily reflects lower merchant participation in the CIBC/TD program (average participation 612 merchants during Fiscal 2018 compared to 739 during Fiscal 2017). Since the close of restructuring in December 2017 the company has begun to stabilize the merchant participation (594 at end of December 2017 compared to 583 at end of June 2018).

The gross profit of Fiscal 2018 was $789,151 (13.2%) lower compared to Fiscal 2017 reflecting mainly decline in the CIBC/TD gross profit of $720,141 (13.4%). The CIBC/TD program gross profit accounted for 88.9% of Fiscal 2018 gross profit (89.2% of Fiscal 2017). The decline in CIBC/TD program gross profit reflects decline in revenues partially offset by improved gross margin at 73.2% compared to 70.4% for Fiscal 2017. The improvement in CIBC/TD gross margin primarily reflects decrease in expense for delinquencies which is a part of direct expenses. The company's Fiscal 2018 gross margin was 68.7% (Fiscal 2017 65.6%) reflecting improvement in gross margin of CIBC/TD and Aeroplan programs.

Selling, General and Administrative ("SG&A") expenses are $1,385,308 lower compared to Fiscal 2017. The lower SG&A expenses primarily reflect restructuring of the organization, salary reduction implemented mid-August 2017 some of which were rolled back from January – March quarter, rebate from Canada Revenue Agency ("CRA"), write-back of a portion of provision respecting directors fees. These are explained in sections Selling Expenses and General & Administrative in this document. The company is in the process of re-building its optimal sales organization and on account of this there will be some increase in SG&A in year ending June 30, 2019.

Earnings from operations before depreciation, amortization and interest were up sharply for Fiscal 2018 at $917,915 compared to Fiscal 2017 at $321,758. The SG&A savings offset the decline in gross profit.

The cash burn was significantly lower. Cash burn – defined by the company as Earnings from operations before depreciation, amortization and interest less stated interest expense on loan payable and debentures per the consolidated financial statements for year ended June 30, 2018 – for Fiscal 2018 was $265,270 compared to $983,213 for Fiscal 2017.

Stated interest cost was lower by $121,786. The drop reflects lower interest paid of $67,488 on loan payable (Fiscal 2018 $619,256 compared to $686,744 for Fiscal 2017) which is a reflection of the decline in merchant participation and the resulting reduction in utilization of loan payable, during Fiscal 2018, to pre-purchase future sales from merchants, and post restructuring (i) change in co-funding formula which had the effect of releasing working capital to the company but at the same time increasing the loan payable balance and (ii) the reduction in the interest rate. Fiscal 2017 stated interest cost also reflects 12% coupon on $5,159,000 principal amount 12% debentures while Fiscal 2018 reflects 9% coupon on $5,559,000 principal amount 9% debentures post restructuring. The interest cost on debentures was lower by $54,298. .

The non-cash interest expense comprising accretion charges and restructuring bonus relating to 9% debentures for Fiscal 2018 was $272,562 compared to accretion charges relating to 12% debentures of $60,227 for Fiscal 2017. Details are provided in the section Interest Expense.

Depreciation and amortization expense was $129,934 lower compared to 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.

Fiscal 2018 loss before non-recurring item was $570,805 compared to Fiscal 2017 loss of $1,206,347, an improvement of $635,542.

The non-recurring item, of $1,795,103, is to do with the restructuring, primarily the re-financing of the 12% debentures as 9% debentures. The components of the non-recurring item were (i) extinguishment of the unpaid interest and penalty, totaling $705,299, of the 12% debentures, (ii) since the inducement to the holders of the 12% debentures to accept the 9% debentures included common shares of the company and a performance bonus due at maturity it triggered an adjustment, of $1,283,611, to reflect the fair value of the 9% debentures, and (iii) costs to close the refinancing of $193,807. See section Non- recurring Item.

The above components resulted in a net profit for Fiscal 2018 of $1,224,298 compared to a net loss of 1,206,347 for Fiscal 2017.

Balance Sheet – Fiscal 2018 compared to Fiscal 2017

Transaction credits are over 85% of total assets in each of the two fiscal years. Transaction credits, net of provision for delinquent accounts, of $5,592,426 at June 30, 2018 are flat compared to $5,549,712 at June 30, 2017 while the merchant participation of 583 at June 30, 2018 was lower compared to 640 at June 30, 2017. The increase in transaction credits in relation merchant participation is primarily a reflection of the availability of working capital, post restructuring completed in December 2017, leading to increased purchase of transaction credits from its existing merchant portfolio. The movement in merchant participation is discussed in the section Revenue in this document.

Loan payable of $4,427,390 at June 30, 2018 is flat compared to $4,476,421 at June 30, 2017. The loan payable is used exclusively to fund transaction credits deployed with merchants. While the expectation would be to see an increase in the June 30, 2018 balance consequent to the change in the co-funding formula from 85:15 to 90:10 during Fiscal 2018 (see section Loan Payable), the expected increase is offset by use of cash surplus to immediate requirements to reduce utilization of loan payable and consequently the interest cost for using the loan payable. Such cash amounted to $600,000 at June 30, 2018. Timing of collection from and deployment of advances to merchants also effects the balance at period ends.

The liability of the 12% debentures was extinguished upon refinancing. The 9% debentures were recognized at fair value on initial recording and are now reflected at amortized cost in the consolidated financial statements. Details are provided in the section 12% Non-Convertible Debentures Payable and 9% Non-Convertible Debentures Payable.

Accounts payable and accrued liabilities at June 30, 2018 are lower compared to June 30, 2018 and reflect extinguishment of certain liabilities – primarily interest payable on 12% debentures and a portion of directors fees – and steady payment of liabilities – generally in the form of agreed payment plans - post restructuring.

Outlook

The recent bid for Aimia's Aeroplan business by Air Canada led consortium which includes CIBC, TD and Visa demonstrates the importance of reward currency to credit card issuers. The company provides a reward accelerator service to CIBC and TD whereby holders of their designated credit cards earn bonus rewards. The service is essentially funded by Advantex through operation of its CIBC/TD program. The company also operates a retail level re-seller program for Aimia which gives Aeroplan exposure at the neighborhood level.

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

	Fiscal 2018	Fiscal 2017
	$	$
Revenue	**$ 7,586,757**	**$ 9,150,012**
Direct Expenses - Cost of cardholder rewards and marketing merchants to cardholders	2,085,541	2,545,735
Direct Expenses - Expense for provision against delinquent accounts	289,429	603,339
Gross profit	**$ 5,211,787**	**$ 6,000,938**
Selling and General & Administrative	4,293,872	5,679,180
Earnings from operations before depreciation, amortization, interest and restructuring	**$ 917,915**	**$ 321,758**
Cash interest on loan payable and debentures	1,183,185	1,304,971
Earnings (loss) from operations before depreciation, amortization and non-cash interest on debentures (accretion charges and restructuring bonus)	**$ (265,270)**	**$ (983,213)**
Depreciation and amortization	32,973	162,907
Non cash interest expense on debentures	272,562	60,227
(Loss) and comprehensive (loss) before non-recurring item	**$ (570,805)**	**$ (1,206,347)**
Gain on debt restructuring	$ 1,795,103	$ -
Net profit/(loss) and comprehensive profit/(loss)	**$ 1,224,298**	**$ (1,206,347)**
Basic and Diluted profit/(loss) per share	**$ 0.00**	**$ (0.01)**

Extract from the Statement of Financial Position

	At June 30, 2018	At June 30, 2017	Increase/ (Decrease)
	$	$	$
Current assets	$ 6,419,933	$ 6,215,037	$ 204,896
Total assets	$ 6,463,902	$ 6,288,100	$ 175,802
Shareholders' deficiency	$ (5,355,157)	$ (6,579,455)	$ (1,224,298)

The change in current assets primarily reflects an increase in cash and cash equivalents of $268,479. 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 other factors are timing difference between the company's ongoing collection of transaction credits from and deploying advances to merchants, payments of accounts payable, funds from Affinity partners towards marketing initiatives. The additional consideration at June 30, 2018 is the cash raised following the close of restructuring with its financial partners. Furthermore, cash surplus to immediate operating requirements was used to reduce the loan payable and consequently the interest cost. Balance of such cash at June 30, 2018 was $600,000.

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; settlement of 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 Fiscal 2018.

Extracts from the Statement of Cash Flow

	Fiscal 2018	Fiscal 2017	Change
	$	$	$
Net profit/(loss)	$ 1,224,298	$ (1,206,347)	$ 2,430,645
Adjustments for non cash expenses	(978,076)	223,134	(1,201,210)
Income after adjustments for non cash expenses	$ 246,222	$ (983,213)	$ 1,229,435
Changes in working capital	(324,833)	1,748,738	(2,073,571)
Net cash generated from/(used in) financing activities	350,969	(1,056,846)	1,407,815
Net cash (used in) operations	$ 272,358	$ (291,321)	$ 563,679
Net cash (used in) investing activities	(3,879)	-	(3,879)
Increase/(Decrease) in cash and cash equivalents	268,479	$ (291,321)	$ 559,800
Cash and cash equivalents at start of year	$ 367,357	$ 658,678	$ (291,321)
Cash and cash equivalents at end of year	$ 635,836	$ 367,357	$ 268,479

Changes in working capital. Transaction credits, accounts receivable, accounts payable and accrued liabilities and other working capital items. The significant item is decrease in accounts payable and accrued liabilities of $388,416 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; settlement of severances resulting from the restructuring of the organization; and settlement of accounts payable and accrued liabilities following the restructuring. During Fiscal 2017 the changes reflect decrease in transaction credits, net of provision for delinquent accounts, of $1,802,550 which is primarily a reflection of decrease in merchant participation. Decrease in accounts receivable of $244,885 reflects lower accounts receivable ($96,828) from merchants participating in the Aeroplan program primarily reflecting lower billings. Decrease in accounts payable and accrued liabilities reflects (i) payments, per payment plan, to affinity partners, and decrease in activity levels; and (ii) interest on 12% debentures for period January 1, 2017 to June 15, 2017 (due June 15, 2017) of $281,554.

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.

Financing activities. 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. 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, 2019. 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 2019 to be similar to Fiscal 2018.

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 audited consolidated financial statements for the fiscal year ended June 30, 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, Processing 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 and Processing products.

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.

Processing: The company processes issuance of aeroplan miles for a Aimia customer. Revenue is recognized at the agreed price per aeroplan mile processed by the company. This activity generated about 15% of Aeroplan program revenues during Fiscal 2018 (Fiscal 2017 just over 4%).

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. 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.

	Fiscal 2018	Fiscal 2017	Inc./(Dec)	Inc./(Dec)
Avg. # of merchants participating during the periods				
CIBC/TD program	612	739		-17.3%
Aeroplan program	363	514		-29.3%
	$	$	$	
Revenues				
CIBC/TD program	$ 6,332,854	$ 7,607,604	$ (1,274,750)	-16.8%
Aeroplan program	1,208,256	1,499,133	(290,877)	-19.4%
Caesars program	34,753	39,751	(4,998)	
Misc	10,894	3,524	7,370	
	$ 7,586,757	**$ 9,150,012**	**$ (1,563,255)**	

CIBC/TD program

Fiscal 2018 revenues are lower reflecting the decline during Fiscal 2018 in merchant participation.

Until close of the restructuring in December 2017 there was deficiency of working capital. This severely limited the company's ability to re-build its sales organization and to pre-purchase future sales from new merchants wishing to enroll in the company's APM product. Consequently the company was unable to arrest the decline in merchant participation during the first half of Fiscal 2018; merchant count at June 30, 2017 was 640 and at December 31, 2017 it was 594. Post restructuring the company has begun to stabilize merchant participation (583 at June 30, 2018).

The company started to re-build its sales organization from middle of March 2017. The goal was to create a sales organization that would, post restructuring, enable a gradual and sustained growth in merchant count and revenues. The company expected to re-build the sales organization by end of May 2018 but it is expected to take a couple of iterations before the ideal team is in place. Expectation of completion during the course of fiscal year ending June 30, 2019.

Aeroplan program

	Fiscal 2018	Fiscal 2017	Inc./(Dec)
Avg. # of merchants participating during the periods	363	514	-29.3%
Revenues			
Re-seller	$ 1,029,183	$ 1,436,897	-28.4%
Processing	179,073	62,236	187.7%
	$ 1,208,256	**$ 1,499,133**	**-19.4%**

Fiscal 2018 re-seller revenues are lower primarily reflecting the decline during Fiscal 2018 in merchant participation.

The company processes issuance of aeroplan miles for a Aimia customer. This is the source of processing revenue. Fiscal 2018 processing revenues were 14.8% of program revenues compared to 4.2% of Fiscal 2017 program revenues.

Direct Expenses

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 of digital marketing services and provision against receivables.

In the Aeroplan program, direct expenses are primarily costs of consumer rewards which the company purchases from Aimia. Other costs include cost of marketing and advertising on behalf of merchants and provision against receivables.

Caesars program direct expenses are costs of consumer rewards which the company purchases from Caesars and provision against receivables.

	Fiscal 2018	Fiscal 2017	Inc./(Dec)
	$	$	%
Revenues			
CIBC/TD program	$ 6,332,854	$ 7,607,604	-16.8%
Aeroplan program	1,208,256	1,499,133	-19.4%
Caesars program	34,753	39,751	-12.6%
Misc	10,894	3,524	
	$ 7,586,757	**$ 9,150,012**	**-17.1%**
Direct expenses			
CIBC/TD program	$ 1,697,937	$ 2,252,546	-24.6%
Aeroplan program	642,230	861,871	-25.5%
Caesars program	34,803	34,657	0.4%
	$ 2,374,970	**$ 3,149,074**	**-24.6%**

<u>CIBC/TD program</u>

The program costs are tabulated:

	Fiscal 2018	Fiscal 2017	Inc./(Dec)
	$	$	%
Avg. # of merchants participating during the periods	612	739	-17.3%
Revenue	$ 6,332,854	$ 7,607,604	-16.8%
Direct expenses			
Consumer rewards	$ 1,092,580	$ 1,279,435	-14.6%
Marketing and advertising	422,332	476,925	-11.4%
Marketing support by Affinity partners	(86,809)	(125,000)	30.6%
Expense for delinquent accounts	269,834	621,186	-56.6%
	$ 1,697,937	$ 2,252,546	-24.6%

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

Decrease in marketing and advertising costs relative to merchant participation and revenues primarily reflects timing of marketing expenditures which vary in a fiscal year. Timing is driven by marketing needs of the merchant portfolio and the marketing calendars of Affinity partners.

Fiscal 2018 expense for delinquent accounts – at 4.3% of revenues - is lower than expectations and Fiscal 2017 at 8.2% reflecting a combination of improved due diligence processes and better credit environment. The company now expects the expense for Fiscal year ending June 30, 2019 to be in the 5%-6% range. Delinquencies are discussed in the section Critical Accounting Estimates – Credit Risk.

Aeroplan program

The program costs are tabulated. The decline in consumer rewards reflects decline in re-seller revenues (which have direct expenses in the form of consumer rewards). Processing revenues do not attract direct expenses.

	Fiscal 2018	Fiscal 2017	Inc./(Dec)
	$	$	%
Avg. # of merchants participating in Re-seller program during the periods	363	514	-29.3%
Revenue - Re-seller program	$ 1,029,183	$ 1,436,897	-28.4%
Revenue - Processing (no direct costs)	$ 179,073	$ 62,236	187.7%
	$ 1,208,256	$ 1,499,133	-19.4%
Direct expenses			
Consumer rewards	638,546	884,871	-27.8%
Misc., including expense for delinquent accounts	3,684	(23,000)	-116.0%
	$ 642,230	$ 861,871	-25.5%

Gross Profit

Gross margins of Fiscal 2018 compared to Fiscal 2017 are tabulated. Improvement in gross margins of CIBC/TD and Aeroplan programs reflects lower direct expenses which are explained in section Direct Expenses in this document.

		Fiscal 2018	Fiscal 2017
CIBC/TD program		73.2%	70.4%
Aeroplan program		46.8%	42.5%

The company gross profit was lower ($789,151) in Fiscal 2018 compared to Fiscal 2017 reflecting a decline in revenues of CIBC/TD and Aeroplan programs partially offset by higher program gross margins. Gross profit is tabulated.

	Fiscal 2018	Fiscal 2017	Inc./(Dec)
	$	$	%
CIBC/TD program	$ 4,634,917	$ 5,355,058	-13.4%
Aeroplan program	566,026	637,262	-11.2%
Caesars program	(50)	5,094	-101.0%
Misc	10,894	3,524	
	$ 5,211,787	**$ 6,000,938**	**-13.2%**

Selling Expenses

Selling expenses include expenses arising from remuneration of sales staff, transaction processing and other selling activities. The significant component is cost of the sales staff.

	Fiscal 2018	Fiscal 2017	Inc./(Dec)
	$	$	%
Revenues			
CIBC/TD program	$ 6,332,854	$ 7,607,604	-16.8%
Aeroplan program	1,208,256	1,499,133	-19.4%
Caesars program	34,753	39,751	-12.6%
Misc	10,894	3,524	0.0%
	$ 7,586,757	**$ 9,150,012**	**-17.1%**
Selling expenses			
CIBC/TD program	$ 1,711,965	$ 1,761,387	-2.8%
Aeroplan program	25,434	81,236	-68.7%
Caesars program	143,987	131,659	9.4%
	$ 1,881,386	**$ 1,974,282**	**-4.7%**
Remuneration of sales staff	$ 1,567,852	$ 1,800,965	
Remuneration as % of selling expenses	83.3%	91.2%	

CIBC/TD program

Fiscal 2018. The company started to re-build its sales organization from middle of March 2017. The goal was to create a sales organization that would, post restructuring, enable a gradual and sustained growth in merchant count and revenues. The company expected to re-build the sales organization by end of May 2018 but it is expected to take a couple of iterations before the ideal team is in place. Expectation of completion during fiscal year ending June 30, 2019. Fiscal 2018 cost of the sales organization also reflects a company-wide salary reduction of between 10% and 20% implemented from mid-August 2017 and its partial reinstatement during the January – March 2018 quarter.

Fiscal 2017. The development of the optimal sales team was held back due to deficiency of working capital and this hampered the company's ability to stabilize and re-build its merchant portfolio. In order to conserve resources during the low season, January to March, it was only towards the middle of March 2017 the company started to fill vacant positions, starting with hire of a VP of Sales. Due to the deficiency in working capital this re-building process took longer than expected and the company expects a delay in bounce back of merchant participation until the optimal sales team is in place and it has sufficient working capital to pre-purchase future sales from merchants wishing to enroll in the company's APM product.

Aeroplan program

The lower selling costs during 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).

	Fiscal 2018	Fiscal 2017	Inc./(Dec)
	$	$	%
Change in revenues			**-17.1%**
G&A			
Compensation for non-sales staff	$ 1,444,294	$ 2,363,694	-38.9%
Severances	138,419	$ 158,018	-12.4%
Write-back of Directors fees	(105,566)	$ -	
Refund from CRA	(91,186)	$ -	
All other G&A expenses	1,026,525	1,183,186	
	$ 2,412,486	**$ 3,704,898**	**-34.9%**

Compensation

1. Fiscal 2018 reflects company-wide salary reduction of between 10% and 20% implemented mid-August 2017;
2. Fiscal 2018 also reflects a partial roll-back, from January 2018 onwards, 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 provision for payments to ex-staff consequent to the restructuring of the organization. By June 30, 2018 the amounts payable stood at $57,000 (At June 30, 2017 $126,601).

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

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

Fiscal 2017 reflect legal costs primarily connected to the company's efforts to refinance its 12% debentures and working capital. Fiscal 2018 reflects legal costs connected with merchant litigation.

Fiscal 2018 and 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 of Bank of Nova Scotia ("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 Fiscal 2018 ($4,084,000) compared to Fiscal 2017 ($4,652,000). Effective January 1, 2018 the facility interest rate was reduced to 9.05% from the 11.5% which was applicable during Fiscal 2017. The increase in prime rate in August 2017, October 2017 and January 2018 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.

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 were 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. Cancelation 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. Cancelation 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.

There was $400,000 of new investment in the 9% debentures.

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

	Fiscal 2018		Fiscal 2017		Inc./(Dec)
	$		$		%
Stated ("Cash") interest expense					
Loan payable	$	619,256	$	686,744	
12% debentures		295,123		618,227	
9% debentures		261,806		-	
9% debentures charges		7,000		-	
	$	1,183,185	$	1,304,971	-9.3%
Non-cash interest expense					
Restructuring bonus - 9% debentures	$	129,924	$	-	
Accretion charge on 9% debentures (Fiscal 2018) and 12% debentures (Fiscal 2017)	$	142,638	$	60,227	
	$	272,562	$	60,227	
Total interest expense	**$**	**1,455,747**	**$**	**1,365,198**	**6.6%**

The company deployed the funds available to it under loan payable and debentures with merchants activated under its CIBC/TD program's APM product. The funds deployed are reflected as transaction credits on the consolidated statement of financial position. The funds available under the debentures were also used for other working capital purposes.

Non-recurring Item

A gain on debt restructuring of $1,795,103 has been recognized on the refinancing. This 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.

	9% debentures
	Non-recurring item
Costs to close the refinancing	$ (193,807)
Extingusiment 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 of Fiscal 2018 compared to Fiscal 2017 are tabulated:

	Fiscal 2018	Fiscal 2017	Inc./(Dec)
	$	$	$
Revenues	$ 7,586,757	$ 9,150,012	$ (1,563,255)
Gross margin	68.7%	65.6%	
Gross profit	$ 5,211,787	$ 6,000,938	$ (789,151)
Earnings (loss) from operations before depreciation, amortization and interest	$ 917,915	$ 321,758	$ 596,157
(Loss) and comprehensive (loss) before non-recurring item	$ (570,805)	$ (1,206,347)	$ (635,542)
Net profit/(loss) and Comprehensive profit/(loss)	$ 1,224,298	$ (1,206,347)	$ 2,430,645
Basic and Diluted loss per share	$ 0.00	$ (0.01)	

The $1,563,255 drop in the company's revenues reflects mainly the decline in CIBC/TD revenues of $1,274,749. Gross margin improvement (68.7% for Fiscal 2018 compared to 65.6% for Fiscal 2017) reflects improvements in CIBC/TD program (73.2% for Fiscal 2018 compared to 70.4% for Fiscal 2017) and Aeroplan program (46.8% for Fiscal 2018 compared to 42.5% for Fiscal 2017). Gross profit decline of $789,151 primarily reflects the $720,141 decline in gross profit from CIBC/TD program which in turn reflects decline in revenues. Fiscal 2018 SG&A expenses are $1,385,308 lower compared to Fiscal 2017, primarily reflecting (i) rightsizing of the company staffing, (ii) lower headcount in sales organization pending recruitment, (iii) write-back of provisions post restructuring and (iv) refund of taxes paid in prior years. Details are provided in sections Selling Expenses and G&A. The improvement of $596,157 in earnings from operations before depreciation, amortization and interest reflects lower gross profit offset by lower SG&A. There is decrease in stated interest cost ($121,786) and an increase in non-cash interest ($212,335) – see Interest Expense section - resulting in a net increase in interest cost of $90,549 and this is offset by decrease in depreciation and amortization expense ($129,934). The result is a decrease in loss before non-recurring item. Fiscal 2018 loss of $570,805 compared to Fiscal 2017 loss of $1,206,347.

After accounting for the Fiscal 2018 non-recurring item ($1,795,103) Fiscal 2018 reports a net profit of $1,224,298 compared to a net loss of $1,206,347 for Fiscal 2017.

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

Working Capital and Liquidity Management

The utilization of liquidity during Fiscal 2018 compared to Fiscal 2017 is illustrated in the tabulation:

	Fiscal 2018	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)	$ 1,224,298	$ (1,206,347)
Adjustments for non cash expenses	(978,076)	223,134
Profit/(Loss) after adjustment for non cash expenses	246,222	(983,213)
Cash balances at start of the period	367,357	658,678
Dec in loan payable	(49,031)	(1,056,846)
Inc in funds from 9% debentures	400,000	-
Dec in accounts receivable	68,195	244,885
	$ 1,032,743	**$ (1,136,496)**
Utilization of funds		
Cash balances at end of periods	$ 635,836	$ 367,357
Inc/(Dec) in transaction credits	42,714	(1,802,550)
Dec in accounts payable and accrued liabilities	388,416	324,844
Changes in all other working capital items	(38,102)	(26,147)
Capital expenditures	3,879	-
	$ 1,032,743	**$ (1,136,496)**

In December 2017 the company completed a restructuring of its financial partnership. The restructuring is explained in sections Loan Payable and 12% Non-Convertible Debentures Payable and 9% Non-Convertible Debentures Payable in this document. Post restructuring 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 June 30, 2018 was $600,000.

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.

Capital expenditures, during Fiscal 2018 and Fiscal 2017 funded through operating leases, relate to the investment in the company's IT infrastructure and software development, necessary to support the company's current activities and growth.

Changes in working capital. Transaction credits, accounts receivable, accounts payable and accrued liabilities and other working capital items. The significant item is decrease in accounts payable and accrued liabilities of $388,416and 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 Fiscal 2017 the changes reflect decrease in transaction credits, net of provision for delinquent accounts, of $1,802,550 which is primarily a reflection of decrease in merchant participation. Decrease in accounts receivable of $244,885 reflects lower accounts receivable ($96,828) from merchants participating in the Aeroplan program primarily reflecting lower billings. Decrease in accounts payable and accrued liabilities reflects (i) payments, per payment plan, to affinity partners, and decrease in activity levels; and (ii) interest on 12% debentures for period January 1, 2017 to June 15, 2017 (due June 15, 2017) of $281,554.

Financing activities. 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. 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, 2019. 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 2019 to be similar to Fiscal 2018.

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 other factors are timing difference between the company's ongoing collection of transaction credits from and deploying advances to merchants, payments of accounts payable, funds from Affinity partners towards marketing initiatives. The additional consideration at June 30, 2018 is the cash raised following the close of restructuring with its financial partners. Furthermore, cash surplus to immediate operating requirements was used to reduce the loan payable and consequently the interest cost. Balance of such cash at June 30, 2018 was $600,000.

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 beyond Fiscal year ended 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, Aimia, Accord and holders of 9% debentures and it believes it has their support.

While the company has significant shareholders deficit and current liabilities exceed current assets at June 30, 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 its 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 June 30, 2018 were due as follow:

Contractual obligations	Total	Less than 1 year	1 to 3 years	4 to 5 years
	$	$	$	$
Loan payable	$ 4,427,390	$ 4,427,390	$ -	$ -
9% debentures	$ 5,559,000	$ -	$ -	$ 5,559,000
Operating leases	$ 55,581	$ 33,879	$ 21,702	$ -
	$ 10,041,971	**$ 4,461,269**	**$ 21,702**	**$ 5,559,000**

In addition, 9% debenture interest of $1,751,085 is payable for the period June 16, 2018 to maturity on December 31, 2021. The company also has a liability of restructuring bonus for $1,000,620 to the holders of the 9% debentures 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.

Furthermore, in August 2017 the company renewed its lease for the company's head office for five year term ending August 31, 2022. The commitment from July 2018 to August 2022 is $323,629.

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 $4.4 million of the facility at June 30, 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 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 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.

Selected Annual and Quarterly Information

The following financial data has been derived from the company's annual audited consolidated financial statements for the past three fiscal years ended June 30, 2018, June 30, 2017, and June 30, 2016.

(In millions of dollars except per share amounts)			
	Fiscal 2018	Fiscal 2017	Fiscal 2016
	$	$	$
Revenues	7.6	9.2	11.3
Net income/(loss) *	1.2	(1.2)	(0.9)
Loss per share - Basic and Diluted	-	(0.01)	(0.01)
Total assets	6.5	6.3	8.8
Current liabilities	7.3	12.9	14.2
Long-term liabilities	4.6	-	-
No cash dividend declared per common share			
* Fiscal 2018 net profit includes non-recurring item, gain on debt restructuring of $1.8 million			

Working capital represented by current assets less current liabilities as at June 30 for the past three fiscal years was:

	Fiscal 2018	Fiscal 2017	Fiscal 2016
	$	$	$
Working capital	(851,175)	(6,652,518)	(5,609,078)

Composition of total assets is tabulated:

	Fiscal 2018	Fiscal 2017	Fiscal 2016
	$	$	$
Cash and cash equivalents	636,000	367,000	659,000
Accounts receivable	112,000	181,000	425,000
Transaction credits	5,592,000	5,550,000	7,352,000
Inventory	-	35,000	40,000
Prepaid expenses and sundry assets	79,000	82,000	104,000
Property, plant and equipment	44,000	72,000	116,000
Intangibles	-	1,000	120,000
	6,463,000	6,288,000	8,816,000

Transaction credits, and cash and cash equivalents account for the significant share of total assets, representing over 85% for each of the above fiscal years. The change in transaction credits, net of provision for delinquent accounts, primarily reflects the decline in the number of merchants participating in the APM product of the company's CIBC/TD program. CIBC/TD program accounts for the significant portion of the company's revenues and gross profit (section Economic Dependence in this document). The reasons for the decline in merchant participation in the CIBC/TD program during Fiscal 2018 and Fiscal 2017 are explained in the section Revenue in this document.

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 pre-purchase of future sales from existing and new merchants, the following is the additional considerations.

As at June 30, 2016 included in cash and cash equivalents are funds totaling $124,499 provided by Affinity partners CIBC and TD (as at June 30, 2017 $Nil, as at June 30, 2018 $Nil).

The company's transaction credits are primarily funded by its loan payable, and debentures. Loan payable carries a first charge against the merchant transaction credits funded by its proceeds. The debentures have a general security agreement over all the assets of the company and its subsidiaries.

Please refer to the section on Results of Operations section in this document for an analysis of Fiscal 2018 and Fiscal 2017.

Fiscal 2017 compared to Fiscal 2016

The results for Fiscal 2017 and Fiscal 2016 were:

		Fiscal 2017	Fiscal 2016
Net loss and Comprehensive loss		$ (1,206,347)	$ (907,443)

Highlights of Fiscal 2017 compared to Fiscal 2016 (in millions of dollars):

Operational Highlights.

	Revenues	Gross profit	SG&A	Earnings from operations before depreciation, amortization and interest	Stated and Non cash interest	Net loss
Fiscal 2017	9.2	6.0	5.7	0.3	1.3	(1.2)
Fiscal 2016	11.3	7.6	6.2	1.4	1.8	(0.9)

The company's results for the Fiscal 2017 reflected scarcity of working capital to invest in business. This is reflected in the decline in the average # of merchants participating in the core program (739 during Fiscal 2017 vs. 860 during Fiscal 2016) and consequently decline in revenues.

Income Statement – Fiscal 2017 compared to Fiscal 2016

Revenues

- The difficult operational environment, a continuation of the situation during Fiscal 2016, explained above, is reflected - via the slow-down in selling, and a retention challenge - in the lower merchant participation in the company's CIBC/TD program during Fiscal 2017 and consequently the decline in the CIBC/TD program revenues. In addition price reductions – to expand/maintain merchant participation - was a factor.
- The Fiscal 2017 Aeroplan program revenues are lower compared to Fiscal 2016 reflecting a decline in merchant participation, 514 during Fiscal 2017 compared to 633 during Fiscal 2016. This primarily reflected Aimia's long term agreement with a customer that excluded the company from selling and operating in a business segment and the effect continued to be felt during Fiscal 2017. A wholesale account partially offset the decline in sales of aeroplan miles and regular merchant accounts.

Direct expenses

- For the CIBC/TD program during Fiscal 2017 direct expenses declined 17.1%% and tracked the 20.8% decline in revenues.

- Aeroplan program. During Fiscal 2016 the direct expenses decline of 6.4% tracked the 5.7% decline in revenues.

Gross profit

- The overall company gross margin for Fiscal 2017 at 65.6% was slightly lower compared to 67.2% for Fiscal 2016. This reflected slight decline in CIBC/TD program gross margin at 70.4% for Fiscal 2017 compared to 71.7% for Fiscal 2016. Aeroplan program margin was flat at 42.5% for Fiscal 2017 vs 42.1% for Fiscal 2016.
- The decline in gross profit (Fiscal 2017 $6,000,938 compared to Fiscal 2016 $7,579,735) reflects decline in revenues and gross margin.

Selling and Marketing expenses and General and Administration ("SG&A")

- Due to the deficiency of working capital the process to re-build the sales organization after the Fiscal 2015 restructuring was held back. Fiscal 2017 selling expenses were 22.2% lower while the revenues declined 18.8%.
- Fiscal 2017 G&A at $3,704,898 was flat compared to Fiscal 2016 at $3,633,679. Fiscal 2016 reflected cost structure post the restructuring completed in Fiscal 2015.

Interest cost

- Fiscal 2017 $1,365,198 compared to Fiscal 2016 $1,853,753. Break-down is:
- Stated interest expense ($686,744 for Fiscal 2017 compared to $896,669 for Fiscal 2016) on loan payable reflected the lower utilization of funds under this line of credit facility. The lower utilization of line of credit facility reflected decline in merchant participation.
- Stated interest expense on 12% debentures in Fiscal 2017 ($618,227) was flat compared to Fiscal 2016 ($619,933).
- Fees payable ($103,180 Fiscal 2016 compared to $Nil in Fiscal 2017). Fiscal 2016 fees payable are connected to waiver of March 2016 12% debentures financial covenant breach.
- Accretion charge – non cash interest expense - on 12% debentures during Fiscal 2017 was $60,227 compared to $233,971 during Fiscal 2016. The lower accretion charge reflected the 12% debentures being accreted at principal amount on the balance sheet in Fiscal 2017.

The above factors resulted in an increase in net loss (Fiscal 2017 $1,206,347 compared to Fiscal 2016 $907,443).

Cash and Working capital movement during Fiscal 2017

	Cash	Working capital
	$	$
As at July 1, 2016	**$ 658,678**	**$ (5,609,078)**
Movement during the year		
Income before non-cash expenses *	(983,213)	-
Changes from non- cash working capital items	1,748,738	(1,748,738)
Financing activities - loan payable	(1,056,846)	1,056,846
Financing activities - debentures	-	(60,227)
Changes in cash balances	-	(291,321)
	$ (291,321)	$ (1,043,440)
As at June 30, 2017	**$ 367,357**	**$ (6,652,518)**

* Income before non-cash expenses is a non-GAAP financial measure which does not have any standardized meaning prescribed by the issuer's GAAP and is unlikely to be comparable to similar measures presented by other issuers. It is provided as additional information to assist readers in understanding a component of the company's financial performance; as it is the company's assessment of the cash generated from its operating

activities prior to changes in working capital items. Income before non-cash expenses during Fiscal 2017 is arrived after adding back expenses not affecting cash - depreciation of property, plant and equipment, and amortization of intangible assets; and accretion charge for debentures – to net (loss) for the year, which is disclosed in the audited consolidated financial statements for year ended June 30, 2018 and June 30, 2017 under the section consolidated statements of cash flow.

Summary of Quarterly Results

In millions of dollars, except per share amounts					
Fiscal 2018					
	Q1	Q2	Q3	Q4	Total
	Sep 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	
	$	$	$	$	$
Revenues	2.0	2.0	1.7	1.9	7.6
% of annual revenues	26.3%	26.3%	22.4%	25.0%	100.0%
Net income/(loss)	(0.2)	1.8	(0.1)	(0.3)	1.2
Loss per share - Basic and Diluted	-	0.1	-	-	-
Fiscal 2017					
	Q1	Q2	Q3	Q4	Total
	Sep 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	
	$	$	$	$	$
Revenues	2.6	2.4	1.9	2.3	9.2
% of annual revenues	28.3%	26.1%	20.6%	25.0%	100.0%
Net income/(loss)	(0.1)	(0.2)	(0.5)	(0.4)	(1.2)
Loss per share - Basic and Diluted	-	-	-	-	(0.01)

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.

Fourth Quarter of Fiscal 2018 (Q4 F 2018) vs. Fourth Quarter of Fiscal 2017 (Q4 F 2017)

Overview

Tabulation of financial performance- Q4 F 2018

	CIBC/TD program	Aeroplan program	Caesars program	Corporate	Total
	$	$	$	$	$
Revenues	1,533,761	408,874	7,030	-	1,949,665
Direct expenses	425,700	236,628	17,804	-	680,132
Gross profit	1,108,061	172,246	(10,774)	-	1,269,533
Gross margin	72.2%	42.1%	-153.3%		65.1%
Selling & marketing	501,249	4,632	52,472	-	558,353
General & administrative					604,145
Earnings from operations before depreciation, amortization and interest					107,035
Stated interest					273,394
					(166,359)
Accretion charges and restructuring bonus					133,805
Depreciation and amortization					7,333
Net loss					(307,497)

Tabulation of financial performance – Q4 F 2017

	CIBC/TD program	Aeroplan program	Caesars program	Corporate	Total
	$	$	$	$	$
Revenues	1,827,885	406,692	9,740	3,491	2,247,808
Direct expenses	588,699	243,884	9,513	-	842,096
Gross profit	1,239,186	162,808	227	3,491	1,405,712
Gross margin	67.8%	40.0%	2.3%		62.5%
Selling & marketing	452,848	8,440	33,397	-	494,685
General & administrative					897,688
Earnings from operations before depreciation, amortization and interest					13,339
Stated interest					315,714
					(302,375)
Accretion charges and performance bonus					-
Depreciation and amortization					17,797
Net loss					(320,172)

Analysis of Q4 F 2018 compared to Q4 F 2017

CIBC/TD program

	Q4 F 2018	Q4 F 2017	Change
Average # of participating merchants	581	659	-11.8%
Revenue	$ 1,533,761	$ 1,827,885	-16.1%
Direct costs			
Consumer rewards	265,596	314,959	-15.7%
Marketing and advertizing	120,458	109,947	9.6%
Expense for delinquent accounts	39,646	163,793	-75.8%
	$ 425,700	$ 588,699	-27.7%
Gross profit	$ 1,108,061	$ 1,239,186	
Gross margin	72.2%	67.8%	

The lower merchant participation is explained in section Revenue in this document.

The lower revenues primarily reflect merchant count.

The Q4 F 2018 decline in cost of consumer rewards primarily reflects decline in merchant population and revenues.

Increase in marketing and advertising costs relative to merchant participation and revenues primarily reflects timing of marketing expenditures which vary in a fiscal year. Timing is driven by marketing needs of the merchant portfolio and the marketing calendars of Affinity partners.

Q4 F 2018 expense for delinquent accounts – at 2.6% of revenues - is lower than expectations and Q4 F 2017 expense at 9.0%. The company expects the expense for Fiscal year ending June 30, 2019 to be about 1% ahead of Fiscal 2018 rate of 4.3% (Fiscal 2017 was 8.2%). Given the recovery trends the company is adopting a more conservative provisioning. Delinquencies are discussed in the section Critical Accounting Estimates – Credit Risk.

Aeroplan program

	Q4 F 2018	Q4 F 2017	Change
Revenue - Reseller	$ 365,269	$ 368,285	-0.8%
Revenue - Processing (no direct costs)	43,605	38,407	13.5%
	$ 408,874	$ 406,692	0.5%
Direct costs			
Consumer rewards	236,628	243,884	-3.0%
Misc., including expense for delinquent accounts	-	-	
	$ 236,628	$ 243,884	-3.0%
Gross profit	$ 172,246	$ 162,808	
Gross margin	47.2%	44.2%	

Selling & marketing and General & administrative ("SG&A")

Q4 F 2018 SG&A were $229,875 lower compared to Q4 F 2017, primarily reflecting provision for severances in Q4 F 2017 of $158,018. Also, Q4 F 2018 reflects savings from cost alignment to expected activity levels.

Interest cost

Q4 F 2018 stated interest is lower by $42,320 reflecting lower interest rates on loan payable and debentures offset by higher debt levels (9% debenture of $5,559,000 during Q4 F 2018 vs 12% debenture of $5,159,000 during Q4 F 2017). The non-cash interest of $133,805 reflects accretion charges and restructuring bonus to do with the 9% debentures (Q4 F 2017 $nil).

Loan payable is used to fund working capital advances to merchants using the company's APM product.

Net loss

The above factors are reflected in Q4 F 2018 loss of $307,497 compared to $320,172 for Q4 F 2017.

Capital Resources

Expenditures for property, plant and equipment and intangible assets for Fiscal 2018 were $3,879 compared to $Nil for Fiscal 2017.

For the next Fiscal year the company expects capital expenditures to be similar compared to Fiscal 2018. The expenditures would be operationalizing and enhancing the operability of the company's merchant based programs.

The company now meets its IT equipment requirement through leasing. The company signed operating leases of $40,090 during Fiscal 2018 (Fiscal 2017 $Nil). The financial commitments are disclosed in section Contractual Obligations in this document.

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 and annual 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 year ended June 30, 2018.

Contingent liabilities

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 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 in Consolidated Financial Statements for year ended June 30, 2018, and under 12% non-convertible debentures payable and 9% non-convertible debentures payable in this document). 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.

Financial instruments – fair value

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

A significant amount of estimation was applied in evaluation 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.

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:

	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 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

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.

The number of employee stock options issuable per the Company's stock option plan is 16,688,546.

Movement during Fiscal 2018 and Fiscal 2017 is tabulated.

	Fiscal 2018	Fiscal 2017
	Number of options	
Outstanding at start of the year	1,490,000	4,100,000
Expired	(1,200,000)	(2,560,000)
Forfeited	(290,000)	(50,000)
Outstanding at end of the year	-	1,490,000

The number of stock options available for future issuance as at June 30, 2018 compared to June 30, 2017 is as follows:

	Fiscal 2018	Fiscal 2017
	Number of options	
Maximum number of shares 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

There was no stock based compensation expense during Fiscal 2018 (the expense in Fiscal 2017 was $Nil).

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.

Outstanding Share Data

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

As of June 30, 2018 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 units comprising 9% debentures and common shares of the company, 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.

	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**

Related parties holdings at June 30, 2018 represent about 24% 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. 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.

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.

	Fiscal 2018		Fiscal 2017	
	$	% of Company Total	$	% of Company Total
CIBC/TD program revenues	$ 6,332,854	83.5%	$ 7,607,604	83.1%
CIBC/TD program gross profit	$ 4,634,917	88.9%	$ 5,355,058	89.2%

General Risks and Uncertainties

As indicated in the Economic Dependence section of this document a significant portion of the company's current revenue is dependent on its value-added loyalty agreement with CIBC 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 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 June 30, 2018 there is about $4.1 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 year ended June 30, 2018, the company incurred interest expense of $619,256 on utilization of loan payable. Had the interest rate, for the year ended June 30, 2018, been 10% higher the interest expense on loan payable would have been $681,182, an increase of $61,926.

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; expectation the sales organization will be optimized during fiscal year ending June 30, 2019; 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; belief it has the support of its Affinity and Financial partners and its staff; estimation of the amount of working capital required to expand operations and the terms and conditions; expectation of capital expenditures during fiscal year ending June 30, 2019; expectation of securing lease arrangements for significant capital expenditures; belief the primary driver of revenues is merchant participation; 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, 2019; expectation of adverse interest rate increase it can pass onto merchants; expectation of its ability to compete; belief in the appropriateness of its tax filings; and other information regarding financial and business prospects and financial outlook is forward-looking information.

Forward-looking information reflects the current expectations or beliefs of the company based on information currently available to the company, including certain assumptions and expectations of Management. With respect to the forward-looking information contained in this Management Discussion and Analysis, the company has made assumptions regarding, among other things, continued Affinity partner participation; continued support from its provider of loan payable and holders of 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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