ADVANTEX

Letter to Shareholders for the Fiscal year ended June 30, 2017

Dear Shareholders,

Review of fiscal year

The company has had to overcome partnership and competitive challenges since July 2013. While we have successfully done this, by the beginning of this fiscal year the financial cost in terms of righting our business deprived us of the working capital necessary to maintain and support the growth of the business.

Limited access to working capital has hindered the company's ability to invest in resources necessary to increase and retain merchants participating in the CIBC/TD program. The resulting decline in merchant participation is reflected in the financial performance of the company.

Future prospects

The company's assets are its affinity partnerships with CIBC, TD, Aimia and Caesars, its merchant portfolio and its unique product offerings which seamlessly connect, through the company's proprietary technology, merchants to consumers. The company believes that it has a unique product, working capital and loyalty marketing at affordable prices, for the small independent merchant space. The company's systems and processes can rapidly onboard new affinity partners and the business is scalable. Loyalty marketing is a multi-billion dollar business in North America and the company is well positioned to gain a wider share of this market with its proprietary technology and its outstanding partners.

To achieve its financial goals the company needs access to working capital. Furthermore, the company's new 12% debentures mature October 31, 2017 and have to be re-financed.

In response to this situation the company has developed a financial restructuring plan ('Plan"). The Plan requires accommodations from the company's employees, its affinity partners and its financial backers. Successful implementation would enable the company to re-finance the new 12% debentures and provide working capital to support a gradual sustained recovery of its business. Some measures have been implemented while others are in process. The company expects the Plan to be fully implemented by December 31, 2017. The company believes implementing the Plan is the best way to ensure it is able to transition to the next phase of recovery of its business and will ultimately benefit all of its stakeholders.

I would like to thank you, our staff, partners, merchants and the Board of directors for continuing support.

"Kelly E. Ambrose"
Kelly E. Ambrose
President and CEO
October 26, 2017

Forward-Looking Information

The letter to shareholders contains “forward-looking statements” within the meaning of applicable securities laws relating to the future business and operations of Advantex, including those relating to its product, systems, scalability, size of the market and its ability to secure a market share, implementation of the Plan, timeline for implementation of the Plan and outcomes upon implementation of the Plan. Readers are cautioned not to place undue reliance on forward-looking statements. Actual results and developments may differ materially from those contemplated by these statements. The business and operations of Advantex described herein is dependent on a number of factors and is subject to a number of risks and uncertainties. Factors that could cause actual results to differ materially include those listed under “Working Capital and Liquidity Management”, “General Risks and Uncertainties” and “Economic Dependence” in Advantex’s Management’s Discussion and Analysis for the year ended June 30, 2017.

The statements in the letter to shareholders are made as of date hereof. Forward-looking statements are made based on management’s beliefs, estimates and opinions on the date the statements are made and Advantex undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change, except as required by applicable law.

ADVANTEX® MARKETING INTERNATIONAL INC.
Management's Discussion and Analysis of Operating Results
For the fiscal years ended June 30, 2017 and 2016

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 26, 2017. 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, 2017, compared to the twelve months ended June 30, 2016. This MD&A should be read in conjunction with the company's audited consolidated financial statements and the related notes for the twelve months ended June 30, 2017, and 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 1,030 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.

12 months ended June 30, 2017 ("Fiscal 2017")

During Fiscal 2017 the company's focus was to stabilize operations in an environment where it had limited access to working capital. The limited access to working capital hindered the company's ability to invest in resources necessary to influence new enrollment and retention of merchants participating in the CIBC/TD program. The resulting decline in merchant participation is reflected in the financial performance and financial position.

The company was able to secure agreement with the majority holder of its 12% non-convertible debentures payable to extend the original maturity date of September 30, 2016. The most recent extension took the maturity date to October 31, 2017.

The company was working with its exclusive financial advisor to refinance the 12% non-convertible debentures and seek growth funds to capitalize on expansion opportunities.

The financial highlights for Fiscal 2017 compared to 12 months ended June 30, 2016 ("Fiscal 2016") are summarized in the tabulation:

Highlights of financial performance for the Fiscal 2017 and Fiscal 2016

	Fiscal 2017	Fiscal 2016
	$	$
Revenues		
CIBC/TD program	$ 7,607,604	$ 9,600,935
Aeroplan program	1,499,133	1,589,509
Caesars program	39,751	83,191
Misc	3,524	45
	$ 9,150,012	**$ 11,273,680**
Gross profit	**$ 6,000,938**	**$ 7,579,735**
Gross margin. 65.6% - Fiscal 2017 vs. 67.2% - Fiscal 2016		
Earnings from operations before depreciation, amortization, interest and restructuring	**$ 321,758**	**$ 1,409,782**
Net loss and Comprehensive loss	**$ (1,206,347)**	**$ (907,443)**

Affinity and Financial partnerships

- In March 2017 the company renewed its agreement with TD for an additional one year term expiring in June 2018.
- In July 2017 the company announced extension of its agreement with CIBC until March 31, 2018. In September 2016 the company and CIBC announced extension of agreement to September 30, 2017.
- 12% Non-Convertible Debentures Payable ("new 12% debentures"). Original maturity on September 30, 2016 extended to October 31, 2017.
- Accord Financial Inc. ("Accord"). The loan payable agreement is subject to automatic renewal for periods of one year unless earlier terminated by either party upon 180 days' notice prior to end of term. The current term of the loan payable expires in December 2018.

Income Statement – Fiscal 2017 compared to Fiscal 2016

The revenues of Fiscal 2017 were $2,123,668 (18.8%) lower compared to Fiscal 2016 reflecting mainly a decline in the CIBC/TD program revenues of $1,993,331 (20.8%). The CIBC/TD program revenues accounted for 83.1% of Fiscal 2017 revenues (85.2% of Fiscal 2016). The decline primarily reflects lower merchant participation in the CIBC/TD program (average participation 739 merchants during Fiscal 2017 compared to 860 during Fiscal 2016). An additive factor is the price reductions – to expand/maintain the merchant participation – reflected in lower CIBC/TD program revenues.

The gross profit of Fiscal 2017 was $1,578,797 (20.8%) lower compared to Fiscal 2016. CIBC/TD gross profit was lower by $1,529,130 (22.2%). Decline in CIBC/TD program gross profit reflects decline in revenues and a lower gross margin at 70.4% compared to 71.7% for Fiscal 2016. The decline in CIBC/TD gross margin reflects increase in direct costs. The CIBC/TD program gross profit accounted for 89.2% of Fiscal 2017 gross profit (90.8% of Fiscal 2016). The company's Fiscal 2017 gross margin was 65.6% (Fiscal 2016 67.2%) reflecting decline in CIBC/TD gross margin.

Selling, General and Administrative ("SG&A") expenses were $490,773 lower reflecting the cost management initiated during Fiscal 2015. The Fiscal 2017 SG&A expenses reflect higher legal costs connected to the efforts to re-finance and re-capitalize.

The cash burn – defined by the company as Earnings (loss) 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, 2017 – for Fiscal 2017 was $983,213 compared to $210,000 for Fiscal 2016.

Stated interest cost was lower by $314,811. The drop reflects lower interest paid on loan payable (Fiscal 2017 $686,744 compared to $896,669 for Fiscal 2016) which is a reflection of the decline in merchant participation and the resulting reduction in utilization of loan payable to pre-purchase future sales from merchants. Fiscal 2016 reflects fees on the new 12% debentures. At March 31, 2016 the company was in breach of all its financial covenants. The company secured a waiver to the breach of all its financial covenants at March 31, 2016 and was charged a fee of $103,180 by the debenture holders.

The non-cash expenses comprising accretion charges on new 12% debentures, and depreciation and amortization were lower ($474,309) in Fiscal 2017 compared to Fiscal 2016.

The net loss of $1,206,347 for Fiscal 2017 is $298,904 higher compared to Fiscal 2016 net loss of $907,443.

Balance Sheet – Fiscal 2017 compared to Fiscal 2016

Transaction credits at June 30, 2017 of $5,549,712 compared to $7,352,262 at June 30, 2016. The change reflects decrease in transaction credits, net of provision for delinquent accounts, of $1,802,550 which is primarily a reflection of a decrease in merchant participation. Transaction credits account for 88% of Fiscal 2017 total assets (Fiscal 2016 83%).

Cash and cash equivalents declined $291,321 reflecting operational performance during year ended June 30, 2017, the timing difference between the company's ongoing deployment and collection of transaction credits from merchants participating in its CIBC/TD program's APM product, and lower balances of Affinity partner funds which are designated for initiatives to promote the program (at June 30, 2017 $nil compared to $124,499 at June 30, 2016).

The intangible assets decreased $119,000. This reflects amortization of amounts capitalized in prior periods related to operationalizing the TD agreement in Fiscal 2015 and enhancing the operability of the company's merchant based programs. The costs are amortized over the shorter of useful life of the software and term of Affinity partner agreement.

The decline in transaction credits and cash are the primary reasons for decline in current assets of $2,364,903, and together with the change in intangibles the primary reasons for decline in total assets of $2,527,810.

The amount due on the loan payable decreased $1,056,846 reflecting decrease in merchant participation and transaction credits.

Accounts payable and accrued liabilities decreased $324,844 reflecting lower activity level, settlement of affinity partner dues under payment plans, and accrued and unpaid interest and fees payable to new 12% debentures (Fiscal 2017 $410,176 compared to Fiscal 2016 $128,552).

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

Outlook

The company's assets are its Affinity partnerships with CIBC, TD, Aimia and Caesars, its merchant portfolio and its unique product offerings which seamlessly connect, through the company's proprietary technology, merchants to consumers. The company believes that it has a unique product, working capital and loyalty marketing at affordable prices, for the small independent merchant space. The company's systems and processes can rapidly onboard new affinity partners and the business is scalable. Loyalty marketing is a multi-billion dollar business in North America and the company is well positioned to gain a wider share of this market with its proprietary technology and its outstanding partners. But to do so it needs access to working capital.

The company has had partnership and competitive challenges since early Fiscal 2014. The financial cost in terms of righting its business deprived it of working capital to maintain and support the growth of the business. This is reflected in declining merchant participation levels since Fiscal 2013, the most recent year the company was profitable. Furthermore, the company's new 12% debentures mature October 31, 2017 and have to be re-financed.

In response to this situation the company has developed a financial restructuring plan ('Plan"). The Plan requires accommodations from the company's employees, its affinity partners and its financial backers. Successful implementation would enable the company to re-finance the new 12% debentures and provide working capital to support a gradual sustained recovery of its business. Some measures have been implemented while others are in process. The company expects the Plan to be fully implemented by December 31, 2017. The company believes implementing the Plan is the best way to ensure it is able to transition to the next phase of recovery of its business and will ultimately benefit all of its stakeholders.

Results of Operations

	Fiscal 2017	Fiscal 2016
	$	$
Revenue	**$ 9,150,012**	**$ 11,273,680**
Direct Expenses - Cost of cardholder rewards and marketing merchants to cardholders	2,545,735	3,114,217
Direct Expenses - Expense for provision against delinquent accounts	603,339	579,728
Gross profit	**$ 6,000,938**	**$ 7,579,735**
Selling and General & Administrative	5,679,180	6,169,953
Earnings from operations before depreciation, amortization, interest and restructuring	**$ 321,758**	**$ 1,409,782**
Cash interest on loan payable and debentures	1,304,971	1,619,782
Earnings (loss) from operations before depreciation, amortization and non-cash interest on debentures (accretion charges)	**$ (983,213)**	**$ (210,000)**
Depreciation and amortization	162,907	463,472
Non cash interest expense on debentures	60,227	233,971
Net loss and Comprehensive loss	**$ (1,206,346)**	**$ (907,443)**
Basic and Diluted loss per share	**$ (0.01)**	**$ (0.01)**

Extract from the Statement of Financial Position

	At June 30, 2017	At June 30, 2016	Increase/ (Decrease)
	$	$	$
Current assets	$ 6,215,037	$ 8,579,940	$ (2,364,903)
Total assets	$ 6,288,100	$ 8,815,910	$ (2,527,810)
Shareholders' deficiency	$ (6,579,455)	$ (5,373,108)	$ 1,206,347

The change in current assets primarily reflects a decrease in transaction credits (net of provision for delinquent accounts) of $1,802,550, decrease in cash and cash equivalents of $291,321 and decrease in accounts receivable and inventory of $249,761. The decrease in transaction credits primarily reflects lower merchant participation in the CIBC/TD program. The cash balances at the end of a quarter / year reflect utilization of cash in and by the operations of the company, the timing difference between the company's ongoing deployment and collection of transaction credits from merchants participating in its CIBC/TD program's APM product, and lower balances of Affinity partner funds which are designated for initiatives to promote the program (at June 30, 2017 $nil compared to $124,499 at June 30, 2016).

The change in the total assets primarily reflects decrease in the current assets. The intangible assets decreased $119,000. This reflects amortization of amounts capitalized in prior periods related to operationalizing the TD agreement in Fiscal 2015 and enhancing the operability of the company's merchant based programs. The costs are amortized over the shorter of useful life of the software and term of Affinity partner agreement.

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

Extracts from the Statement of Cash Flow

	Fiscal 2017	Fiscal 2016	Change
	$	$	$
Net loss	$ (1,206,347)	$ (907,443)	$ (298,904)
Adjustments for non cash expenses	223,134	697,443	- 474,309
Income after adjustments for non cash expenses	$ (983,213)	$ (210,000)	$ (773,213)
Decrease in severance payable	-	(627,033)	627,033
Changes in working capital	1,748,738	567,075	1,181,663
Net cash used in financing activities	(1,056,846)	(178,258)	(878,588)
Net cash used in operations and financing	$ (291,321)	$ (448,216)	$ 156,895
Net cash used in investing activities	-	(55,715)	55,715
Decrease in cash and cash equivalents	(291,321)	$ (503,931)	$ 212,610
Cash and cash equivalents at start of year	$ 658,678	$ 1,162,609	$ (503,931)
Cash and cash equivalents at end of year	$ 367,357	$ 658,678	$ (291,321)

Changes in working capital. Transaction credits, accounts receivable, accounts payable and accrued liabilities and other working capital items. During Fiscal 2017 changes reflect decrease in transaction credits, net of provision for delinquent accounts, of $1,802,550 which is a reflection of a 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 payments, per payment plan, to affinity partners and decrease in activity level. Also included in accounts payable and accrued liabilities is accrued and unpaid interest on new 12% debentures ($410,176 for Fiscal 2017 covering interest for period January 1, 2017 to June 30, 2017 and fees compared to interest and fees of $128,552 for Fiscal 2016). During Fiscal 2016 the changes reflect decrease in transaction credits, net of provision for delinquent accounts, of $467,385 which is a reflection of a decrease in merchant participation. In addition, reflected in accounts payable is $627,033 the company used to settle severances consequent to restructuring during Fiscal 2015.

Financing activities. During Fiscal 2017 and Fiscal 2016 movement in loan payable reflects changes in merchant participation. Merchant participation is discussed in the section Revenue.

Investing activities. These are discussed in section Capital Resources in this document. For the Fiscal 2017 the capital expenditures were $nil. During Fiscal 2016 $55,715. The company expects capital expenditures for Fiscal 2018 to be on par with Fiscal 2016. The company expects to secure lease arrangements for significant expenditures during Fiscal year ending June 30, 2018. The financial commitments on existing leases is provided in the section Contractual Obligations in this document.

The 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, 2017, and have been included to provide additional analysis for the reader.

Revenue

The company's revenue is derived from merchants participating in its Retail programs which currently consist of the CIBC/TD program, the Aeroplan program and Caesars program.

The Retail programs have four business products. APM, Marketing Only, Re-seller and Participation fee which are described later in this section.

The CIBC/TD program operates the APM, and Marketing Only business products.

The Aeroplan program operates the Re-seller product.

The Caesars program operates the Participation fee product.

The nature of the company's products is as follows:

Advance Purchase Marketing ("APM"): The company acquires the rights to cash flow from future designated CIBC and TD credit card transactions at a discount from participating merchants (transaction credits on consolidated statement of financial position) and promotes the merchant by way of targeted marketing to holders of designated CIBC/TD credit cards, issues consumer rewards to consumers when they complete purchases at participating merchants, and provides merchants with business intelligence connected to the spending behaviour of consumers. The company's revenue is from the purchases completed at the participating merchants using designated CIBC and TD credit cards, net of the company's costs to acquire the transaction credits. Proceeds from the amount spent on above noted CIBC/TD credit cards at participating merchants are received by the company and a predetermined portion is applied to reduce the transaction credit balance.

Marketing Only: The company does not acquire transaction credits. In all other respects Marketing Only is similar to APM. Revenue is earned in the form of an agreed marketing fee for every purchase completed using CIBC/TD credit card (as defined under APM) at participating merchants.

Re-seller: The company sells aeroplan miles to small and mid-sized retailers and service providers. Revenue is recognized, at the agreed price per aeroplan mile, when the participating merchant issues aeroplan miles to an Aeroplan member completing a qualifying transaction at the merchant.

Participation fee: The company markets participating merchants to Caesars Total Rewards members and the merchant issues total rewards loyalty points to Total Rewards members completing a qualifying transaction at the merchant. The merchant pays an agreed monthly fee to Advantex.

The drivers for revenues from the CIBC/TD program are:

1. Number of participating merchants;
2. Market penetration of the CIBC/TD credit cards;
3. Economic environment;
4. Mix of merchants in terms of their volume of CIBC/TD credit card transactions; and
5. Participation levels in APM and Marketing Only. The fees that a merchant would pay for participation in the APM product is higher compared to Marketing Only.

The revenues from the Re-seller product reflect the number of participating merchants, traffic of aeroplan members completing purchases at participating merchants and the level of engagement of participating merchants in the program.

The revenues from the Caesars program are dependent on the number of participating merchants. The program expansion was launched in February 2015 in the Philadelphia market. About 60 merchants are participating in the program as of date hereof.

The company believes the primary driver of revenues across all programs is the number of merchants participating in the programs.

The revenue trends are provided in the tabulation.

	Fiscal 2017	Fiscal 2016	Inc./(Dec)	Inc./(Dec)
Avg. # of merchants participating during the periods				
CIBC/TD program	739	860		-14.0%
Aeroplan program	514	633		-18.8%
	$	$	$	
Revenues				
CIBC/TD program	$ 7,607,604	$ 9,600,935	$ (1,993,330)	-20.8%
Aeroplan program	1,499,133	1,589,509	(90,376)	-5.7%
Caesars program	39,751	83,191	(43,440)	
Misc	3,524	45	3,479	
	$ 9,150,012	**$ 11,273,680**	**$ (2,123,667)**	

CIBC/TD program

The lower merchant participation during Fiscal 2017 compared to Fiscal 2016 and reflection of the full impact during Fiscal 2017 of the marketing fee reduction - which was implemented towards the end of the third quarter of Fiscal year ended June 30, 2015 to boost new merchant participation and improve retention - are the primary reasons for the decline (20.8%) in the program revenues.

The lower merchant participation during Fiscal 2017 reflects primarily lower sales staffing levels compared to corresponding periods in the previous year. The lower selling costs during Fiscal 2017 compared to corresponding periods in the previous year mainly reflect lower headcount consequent to some staff reductions during 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. Due to the deficiency in working capital this re-building process is taking longer than expected and the company expects a delay in bounce back of merchant participation until the optimal sales team is in place and it has sufficient working capital to pre-purchase future sales from merchants wishing to enroll in the company’s APM product.

Aeroplan program

During Fiscal 2016 Aimia’s long term agreement with a customer had precluded the company from selling and operating in a certain business segment. There was a gradual loss of merchants – they exited from the program upon expiry of their agreement with the company - from the business segment. This is the primary reason for decline in merchant population during Fiscal 2017 compared to Fiscal 2016. In addition, the company could not invest in sales staff.

A wholesale account partially offset the decline in sales of aeroplan miles and revenues from regular merchant accounts.

The decline in revenues from regular merchant accounts primarily reflects decline in merchant participation.

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 related to sale of aeronotes, 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 2017	Fiscal 2016	Inc./(Dec)
	$	$	%
Revenues			
CIBC/TD program	$ 7,607,604	$ 9,600,935	-20.8%
Aeroplan program	1,499,133	1,589,509	-5.7%
Caesars program	39,751	83,191	-52.2%
Misc	3,524	45	
	$ 9,150,012	**$ 11,273,680**	**-18.8%**
Direct expenses			
CIBC/TD program	$ 2,252,546	$ 2,716,747	-17.1%
Aeroplan program	861,871	920,489	-6.4%
Caesars program	34,657	56,709	-38.9%
	$ 3,149,074	**$ 3,693,945**	**-14.8%**

CIBC/TD program

The program costs are tabulated:

	Fiscal 2017	Fiscal 2016	Inc./(Dec)
	$	$	%
Avg. # of merchants participating during the periods	739	860	-14.0%
Revenue	$ 7,607,604	$ 9,600,935	-20.8%
Direct expenses			
Consumer rewards	$ 1,279,435	$ 1,516,223	-15.6%
Marketing and advertising	476,925	811,332	-41.2%
Marketing support by Affinity partners	(125,000)	(138,500)	9.7%
Expense for delinquent accounts	621,186	527,692	17.7%
	$ 2,252,546	$ 2,716,747	-17.1%

The Fiscal 2017 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 2017 expense for delinquent accounts – at 8.2% of revenues - is ahead of expectations noted at March 31, 2017 and Fiscal 2016 at 5.5%. The company now expects the expense for Fiscal year ending June 30, 2018 to trend Fiscal 2017. Given the recovery trends the company adopted a more conservative provisioning. 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 revenues and merchant mix especially retail vs. wholesale.

	Fiscal 2017	Fiscal 2016	Inc./(Dec)
	$	$	%
Avg. # of merchants participating during the periods	514	633	-18.8%
Revenue	$ 1,499,133	$ 1,589,509	-5.7%
Direct expenses			
Consumer rewards	884,871	892,566	-0.9%
Misc., including expense for delinquent accounts	(23,000)	27,923	-182.4%
	$ 861,871	$ 920,489	-6.4%

Gross Profit

Gross margins of Fiscal 2017 compared to Fiscal 2016 are tabulated. Decline in CIBC/TD program gross margin reflects higher direct expenses which are explained in section Direct Expenses in this document.

	Fiscal 2017	Fiscal 2016
CIBC/TD program	70.4%	71.7%
Aeroplan program	42.5%	42.1%

The company gross profit was lower in Fiscal 2017 compared to Fiscal 2016 primarily reflecting a decline in revenues of CIBC/TD and Aeroplan programs. Gross profit is tabulated.

	Fiscal 2017	Fiscal 2016	Inc./(Dec)
	$	$	%
CIBC/TD program	$ 5,355,058	$ 6,884,188	-22.2%
Aeroplan program	$ 637,262	669,020	-4.7%
Caesars program	$ 5,094	26,482	-80.8%
Misc	$ 3,524	45	
	$ 6,000,938	**$ 7,579,735**	**-20.8%**

Selling Expenses

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

	Fiscal 2017	Fiscal 2016	Inc./(Dec)
	$	$	%
Revenues			
CIBC/TD program	$ 7,607,604	$ 9,600,935	-20.8%
Aeroplan program	1,499,133	1,589,509	-5.7%
Caesars program	39,751	83,191	-52.2%
Misc	3,524	45	0.0%
	$ 9,150,012	**$ 11,273,680**	**-18.8%**
Selling expenses			
CIBC/TD program	$ 1,761,387	$ 2,043,293	-13.8%
Aeroplan program	81,236	299,488	-72.9%
Caesars program	131,659	193,493	-32.0%
	$ 1,974,282	**$ 2,536,274**	**-22.2%**
Remuneration of sales staff	$ 1,800,965	$ 2,267,594	
Remuneration as % of selling expenses	91.2%	89.4%	

CIBC/TD program

The lower selling costs during Fiscal 2017 compared to Fiscal 2016 reflect lower headcount during 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 is taking longer than expected and the company expects a delay in bounce back of merchant participation until the optimal sales team is in place and it has sufficient working capital to pre-purchase future sales from merchants wishing to enroll in the company's APM product.

Aeroplan program

The lower selling costs during Fiscal 2017 compared to F2016 reflect lower headcount during Fiscal 2017. The company believes the current headcount is adequate for current activity level. Additional manpower would be required to support growth.

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 2017	Fiscal 2016	Inc./(Dec)
	$	$	%
Change in revenues			**-18.8%**
G&A			
Compensation for non-sales staff	$ 2,521,712	$ 2,531,359	-0.4%
Less: software development costs capitalized (details provided under section Capital Expenditures in this document)	-	(55,716)	
	$ 2,521,712	$ 2,475,643	1.9%
All other G&A expenses	1,183,186	1,158,036	
	$ 3,704,898	**$ 3,633,679**	**2.0%**

Compensation

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

All other expenses

Fiscal 2017 are flat compared to Fiscal 2016. The Fiscal 2017 expenses reflect higher legal costs connected to the efforts to re-finance and re-capitalize.

Interest Expense

The interest expense is tabulated:

	Fiscal 2017	Fiscal 2016	Inc./(Dec)
	$	$	%
Stated ("Cash") interest expense			
Loan payable	$ 686,744	$ 896,669	
new 12% debentures	618,227	619,933	
new 12% debentures - fees	-	103,180	
	$ 1,304,971	$ 1,619,782	-19.4%
Non cash interest (accretion charge) on new 12% debentures	$ 60,227	$ 233,971	
	$ 1,365,198	**$ 1,853,753**	**-26.4%**

The company deployed the funds available to it under loan payable and new 12% debentures with merchants activated under its CIBC/TD program's APM product. The funds deployed are reflected as transaction credits on the consolidated statement of financial position. The funds available under the new 12% debentures were also used for other working capital purposes.

Stated interest expense on loan payable reflects the utilization of funds under this line of credit facility and prime rate which determines the facility interest rate (prime rate of a certain Canadian bank plus 11.5%). Average month end utilization of loan payable during Fiscal 2017 was $4,652,000 compared to $6,085,000 during Fiscal 2016.

The new 12% debentures in the principal amount of $5,159,000 carry a coupon of 12%. Fees payable on the new 12% debentures are described in the section 12% Non-Convertible Debentures Payable in this document.

Net Loss

Highlights of Fiscal 2017 compared to Fiscal 2016 are tabulated:

	Fiscal 2017	Fiscal 2016	Inc./(Dec)
	$	$	$
Revenues	$ 9,150,012	$ 11,273,680	$ (2,123,668)
Gross margin	65.6%	67.2%	
Gross profit	$ 6,000,938	$ 7,579,735	$ (1,578,797)
Earnings (loss) from operations before depreciation, amortization and interest	$ 321,758	$ 1,409,782	$ (1,088,024)
Net loss and Comprehensive loss	$ (1,206,347)	$ (907,443)	$ (298,904)
Basic and Diluted loss per share	$ (0.01)	$ (0.01)	

The $2,123,668 drop in the company's revenues reflects mainly the decline in CIBC/TD revenues of $1,993,330. Gross margin decline primarily reflects drop in CIBC/TD program, 70.4% for Fiscal 2017 compared to 71.7% for Fiscal 2016. Gross profit decline of $1,578,797 primarily reflects the $1,529,130 decline in gross profit from CIBC/TD program. Fiscal 2017 SG&A expenses are $490,773 lower compared to Fiscal 2016. The decline of $1,088,024 in earnings from operations before depreciation, amortization and interest reflect lower gross profit offset partially by lower SG&A. Decrease in interest cost ($488,555) – see Interest Expense section – and depreciation and amortization expense ($300,565) partially offset decline in earnings from operations before depreciation, amortization and interest. Fiscal 2017 net loss of $1,206,347 is higher compared to Fiscal 2016.

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

Working Capital and Liquidity Management

The utilization of liquidity during Fiscal 2017 compared to Fiscal 2016 is illustrated in the tabulation:

	Fiscal 2017	Fiscal 2016
	$	$
Funds available to expand the CIBC/TD programs APM product (Transaction credits on the balance sheet) and meet working capital needs		
Net loss	$ (1,206,347)	$ (907,443)
Adjustments for non cash expenses	223,134	697,443
Loss after adjustment for non cash expenses	(983,213)	(210,000)
Cash balances at start of the period	658,678	1,162,609
Dec. in loan payable	(1,056,846)	(178,258)
Dec. in accounts receivable	244,885	35,044
	$ (1,136,496)	**$ 809,395**
Utilization of funds		
Cash balances at end of periods	$ 367,357	$ 658,678
Dec. in transaction credits	(1,802,550)	(467,385)
Dec. in accounts payable and accrued liabilities	324,844	737,440
Changes in all other working capital items	(26,147)	(175,053)
Capital expenditures	-	55,715
	$ (1,136,496)	**$ 809,395**

The cash and cash equivalents, and accounts receivable at June 30, 2017 include $nil of amounts received/receivable from our Affinity partners CIBC and TD to be invested in marketing the program (at June 30, 2016 $239,354). Accounts payable and accrued liabilities at June 30, 2016 reflect the corresponding liability.

The company believes that increasing the amount of the transaction credits deployed with merchants under the CIBC/TD program's APM product will result in higher revenue and, consequently, improve the company's financial results and cash flows. Generally, the change in transaction credits partially reflects the change in the number of merchants participating in the APM product, as well as the amount of transaction credits deployed with its existing merchants.

Capital expenditures relate primarily to the investment in the company's IT infrastructure and software development. The investments are necessary to support the company's growth and program expectations of its partners.

Changes in working capital. Transaction credits, accounts receivable, accounts payable and accrued liabilities and other working capital items. During Fiscal 2017 changes reflect decrease in transaction credits, net of provision for delinquent accounts, of $1,802,550 which is a reflection of a 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 payments, per payment plan, to affinity partners and decrease in activity level. Also included in accounts payable and accrued liabilities is accrued and unpaid interest on new 12% debentures ($410,176 for Fiscal 2017 covering interest for period January 1, 2017 to June 30, 2017 and fees compared to interest and fees of $128,552 for Fiscal 2016). During Fiscal 2016 the changes reflect decrease in transaction credits, net of provision for delinquent accounts, of $467,385 which is a reflection of a decrease in merchant participation. In addition, reflected in accounts payable is $627,033 the company used to settle severances consequent to restructuring during Fiscal 2015.

Financing activities. During Fiscal 2017 and Fiscal 2016 movement in loan payable reflects changes in merchant participation. Merchant participation is discussed in the section Revenue.

Investing activities. These are discussed in section Capital Resources in this document. For the Fiscal 2017 the capital expenditures were $nil. During Fiscal 2016 $55,715. The company expects capital expenditures for Fiscal 2018 to be on par with Fiscal 2016. The company expects to secure lease arrangements for significant expenditures during Fiscal year ending June 30, 2018. The financial commitments on existing leases is provided in the section Contractual Obligations in this document.

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

While, generally the cash balances at the end of a quarter / year reflect cash generated /(used) by operations [profit (loss) before depreciation of property, plant and equipment, and amortization of intangible assets; and non-cash interest on debentures], the timing difference between the company's ongoing collection of transaction credits from merchants participating in its CIBC/TD program's APM product and deploying advances to existing and new merchants, the following are the additional considerations:

As at June 30, 2016, as noted earlier in this section, also included in cash and cash equivalents are funds totaling $124,499 provided by Affinity partners CIBC and TD. At June 30, 2017 $Nil.

The company's operations are funded by debt – loan payable and new 12% debentures (see sections Loan Payable and 12% Non-Convertible Debentures Payable in this document). To continue its current operations and fund growth beyond Fiscal 2017, the company requires continued access to its existing levels of debt and access to additional working capital in the form of debt and or equity to meet operational needs including payments to its partners CIBC, TD and Aimia, meet debenture interest payments, and to support the growth of the company, including the APM product, as described under the section General Risks and Uncertainties in this document.

At present, the need for capital to expand the APM product is partially satisfied by the loan payable (facility credit limit of $8.5 million and utilization at June 30, 2017 and June 30, 2016 of $4.5 million and $5.5 million respectively). However, there are limitations including; a credit limit of $8.5 million; it is a demand facility; it requires the company to co-fund 15% of the transaction credits deployed with merchants under the APM product and the company's restricted cash position limits its ability to do so; and is only available to expand the APM product. The loan payable agreement expires in December 2018.

The new 12% debentures were issued by the company on December 30, 2013 in the principal amount of $5,159,000 with an initial maturity date of September 30, 2016. The proceeds of the new 12% debentures are used for working capital purposes. The new 12% debentures agreement requires the company to meet on a quarterly basis certain financial covenants. At March 31, 2015 the company was in breach of all its financial covenants and the company secured a waiver of the breach at March 31, 2015. The debenture holders amended and re-set all financial covenants effective quarter ended June 30, 2015 until quarter ending June 30, 2016. The company met the amended financial covenants at June 30, 2015, September 30, 2015 and December 31, 2015. At March 31, 2016 the company was in breach of all its financial covenants. The company secured a waiver to the breach of all its financial covenants at March 31, 2016 and was charged a fee of $103,180 by the debenture holders. At June 30, 2016 the company was in breach of all its financial covenants. Recognizing that the company does not have the ability to repay the debentures on maturity the company commenced discussions with the debenture holders. In September 2016 the company secured a waiver to the breach of all its financial covenants at June 30, 2016. In addition, the company and the debenture holders agreed to extend the maturity of the new 12% debentures to December 31, 2016 from September 30, 2016, and at the same time financial covenants at September 30, 2016 were established. The company was in breach of all its financial covenants at September 30, 2016. In December 2016 the company secured an extension of the maturity date to March 31, 2017 but not a waiver to the breach of financial covenants at September 30, 2016.

The company was in breach of all its financial covenants at December 31, 2016. In March 2017 the company secured an extension of the maturity date to June 30, 2017 but not a waiver to the breach of financial covenants at December 31, 2016. The company was in breach of all its financial covenants at March 31, 2017. In June 2017 the company secured an extension of the maturity date to September 30, 2017 but not a waiver to the breach of financial covenants at March 31, 2017. The company is in breach of all its financial covenants at June 30, 2017. In September 2017 the company secured an extension of the maturity date to October 31, 2017 but not a waiver to the breach of financial covenants at June 30, 2017. The new 12% debentures are secured by a general security interest over the assets of the company and its subsidiaries. If the company breaches a financial covenant or is unable to pay either interest or its debts as they came due, it would be in default under the new 12% debentures agreement and, as a result, the new 12% debentures holders would have the right to waive the event of default, demand immediate payment of the new 12% debentures in full or modify the terms and conditions of the new 12% debentures including key terms such as repayment terms, interest rates and security. If the company is unable to secure alternative financing to pay interest or repay the new 12% debentures, the new 12% debentures holders would have the right to realize upon a part or all of the security held by them. The company has a decade + relationship with the primary holder (about 60%) of the new 12% debentures – a Toronto based firm investing on behalf of its managed accounts. Related parties holdings at June 30, 2017 of the new 12% debentures were about $1.2 million (about 24% of the new 12% debentures), see section Related party transactions in this document. The primary holder of the new 12% debentures is also the primary shareholder of the company as it beneficially owns or exercises control or direction through about 15% of the company's common shares (as of October 13, 2017) held on behalf of its managed accounts.

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

The consolidated financial statements have been prepared in accordance with accounting principles applicable to a going concern which contemplates that the company will be able to realize its assets and settle its liabilities in the normal course as they come due during the normal course of operations for the foreseeable future. When a company is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity is required to disclose those uncertainties. The company has a shareholders' deficiency of $6,579,455 and negative working capital of $6,652,518 as at June 30, 2017. There is uncertainty surrounding:

1. The re-financing of the new 12% debentures maturing October 31, 2017; and
2. The access to existing and additional working capital in the form of debt and or equity to meet operational needs including payments to its partners CIBC, TD and Aimia, payment of new 12% debentures interest for period January 1, 2017 to maturity and to support the growth of the company.

As a result, this may cast significant doubt on the validity of going concern assumption and the company's ability to continue as a going concern after June 30, 2017 and hence the ultimate use of accounting principles applicable to a going concern.

The company's future success is dependent on retaining its existing relationships with CIBC, TD, and Aimia; continued access to its existing levels of debt capital; additional capital in the form of debt or equity; ensuring profitability; and generating positive cash flows from operations. The company's business plan includes renewal of its agreements with CIBC, TD, and Aimia; refinancing of its current loans; the receipt of waivers or agreement amendments where breaches occur; and raise of additional capital. While in the past the company has been successful in renewal of its agreement with CIBC, TD, and Aimia, refinancing its debentures and loan payable, obtaining waivers or agreement amendments, there can be no assurance these initiatives will continue to be successful. In addition, there can be no assurance the company will be successful in securing additional capital which is required to meet operational needs including payments to its partners CIBC, TD and Aimia, payment of new 12% debentures interest for period January 1, 2017 to maturity and to support the growth of the company.

The consolidated financial statements do not include any adjustments or disclosures that may result from the company's ability to continue as a going concern. If the going concern assumption were not appropriate for these consolidated financial statements, adjustments may be necessary in the carrying values of assets and liabilities and the reported expenses and balance sheet classifications; and such adjustments could be material.

The company has had to overcome partnership and competitive challenges since early Fiscal 2014. The Company has had declining merchant participation levels since Fiscal 2013 and the company's new 12% debentures mature October 31, 2017 and have to be re-financed.

In response to this situation the company has developed a financial restructuring plan ('Plan"). The Plan requires accommodations from the company's employees, its affinity partners and its financial backers. Successful implementation would enable the company to re-finance the new 12% debentures and provide working capital to support a gradual sustained recovery of its business. Some measures have been implemented while others are in process. The company expects the Plan to be fully implemented by December 31, 2017. The company believes implementing the Plan is the best way to ensure it is able to transition to the next phase of recovery of its business.

Contractual Obligations

Contractual obligations as at June 30, 2017 were due as follow:

Contractual obligations	Total	Less than 1 year	1 to 3 years	4 to 5 years
	$	$	$	$
Loan payable	$ 4,476,421	$ 4,476,421	$ -	$ -
New 12% debentures	$ 5,159,000	$ 5,159,000	$ -	$ -
Operating leases	$ 78,316	$ 58,567	$ 19,749	$ -
	$ 9,713,736	**$ 9,693,988**	**$ 19,749**	**$ -**

In addition, new 12% debenture interest of $515,900 is payable for the period January 1, 2017 to maturity on October 31, 2017. The company also has a liability for $103,180 to the holders of the new 12% debentures respecting fee charged by the holders for waiving breach of financial covenants at March 31, 2016.

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

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

Loan Payable

The loan payable is a line of credit facility ("facility") with Accord to be used exclusively to fund the merchants participating in the APM product in the business segments available to the company under its agreements with CIBC, TD and Aimia. As security, the provider has first charge to all transaction credits funded from the facility.

The facility was established in December 2007. The current term of the loan payable expires in December 2018.

The facility has a limit of $8.5 million. Interest is calculated daily on the amount outstanding and charged monthly at an interest rate equivalent to prime rate of a certain Canadian bank plus 11.5% per annum. In certain circumstances the loan payable amount is repayable on demand to Accord.

The Company had utilized $4.5 million of the facility as at June 30, 2017 (as at June 30, 2016 $5.5 million).

In addition to loan payable, since February 2017 Accord has given the company access to a $100,000 overdraft facility. The facility is used for working capital needs. The term of this facility expires December 31, 2017. It is repayable on demand.

12% Non-Convertible Debentures Payable

On December 30, 2013, the company completed a refinancing by way of a private placement of 12% non-convertible debentures ("new 12% debentures") in the principal amount of $5,159,000.
The new 12% debentures were issued as units. Each unit comprised (i) $1,000 face value secured non-convertible debentures of the company bearing interest at 12% per annum, payable semi-annually, and with 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.

Under the agreement, the proceeds of the new 12% debentures are to be used for working capital purposes.

The new 12% debentures are secured by a general security interest over the assets of the company and its subsidiaries. The significant financial covenants of the new 12% debentures require the company to meet (i) commencing the quarter ended December 31, 2013, on a quarterly basis a defined level of designated current assets, and interest coverage, and (ii) commencing January 31, 2014, on a monthly basis a defined level of credit card spend, on which the company earns its revenue, at merchants participating in its loyalty programs (as part of the re-set of the financial covenants, described later in this section, this financial covenant was cancelled effective April 2015).

In June 2014, the debenture holders agreed to a) re-set the financial covenants and b) defer the semi-annual interest due June 15, 2014 and this was now payable in two equal instalments due October 15, 2014 and November 15, 2014. The company agreed to pay a fee of $65,000 to the debenture holders for the above changes to the new 12% debentures. The fee and the deferred interest were paid on the due dates. The company met the revised financial covenants as at June 30, 2014, September 30, 2014 and December 31, 2014. At March 31, 2015 the company was in breach of all its financial covenants and the company secured a waiver of the breach at March 31, 2015. The debenture holders amended and re-set all financial covenants effective quarter ended June 30, 2015 until quarter ending June 30, 2016. The company met the amended financial covenants at June 30, 2015, September 30, 2015 and December 31, 2015. At March 31, 2016 the company was in breach of all its financial covenants. The company secured a waiver to the breach of all its financial covenants at March 31, 2016 and was charged a fee of $103,180 by the debenture holders. As at June 30, 2016 the company was in breach of all its financial covenants. In September 2016 the company secured a waiver to the breach of all its financial covenants at June 30, 2016. In addition, the company and the debenture holders agreed to extend the maturity of the new 12% debentures to December 31, 2016 from September 30, 2016, and at the same time financial covenants at September 30, 2016 were established. The company was in breach of all its financial covenants at September 30, 2016. In December 2016 the company secured an extension of the maturity date to March 31, 2017 but not a waiver to the breach of financial covenants at September 30, 2016. The company was in breach of all its financial covenants at December 31, 2016. In March 2017 the company secured an extension of the maturity date to June 30, 2017 but not a waiver to the breach of financial covenants at December 31, 2016. The company was in breach of all its financial covenants at March 31, 2017. In June 2017 the company secured an extension of the maturity date to September 30, 2017 but not a waiver to the breach of financial covenants at March 31, 2017. The company was in breach of all its financial covenants at June 30, 2017. In September 2017 the company secured an extension of the maturity date to October 31, 2017 but not a waiver to the breach of financial covenants at June 30, 2017.

The new 12% debentures are secured by a general security interest over the assets of the company and its subsidiaries. If the company were to breach a financial covenant or were unable to pay its debts as they came due, it would be in default under the new 12% debentures agreement and, as a result, the new 12% debentures holders would have the right to waive the event of default, demand immediate payment of the new 12% debentures in full or modify the terms and conditions of the new 12% debentures including key terms such as repayment terms, interest rates and security. If the company is unable to secure alternative financing to repay the new 12% debentures, the new 12% debentures holders would have the right to realize upon a part or all of the security held by them.

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, 2017, June 30, 2016, and June 30, 2015.

(In millions of dollars except per share amounts)			
	Fiscal 2017	Fiscal 2016	Fiscal 2015
	$	$	$
Revenues	9.2	11.3	13.3
Net income/(loss)	(1.2)	(0.9)	(3.1)
Loss per share - Basic and Diluted	(0.01)	(0.01)	(0.02)
Total assets	6.3	8.8	10.4
Current liabilities	12.9	14.2	10.0
Long-term liabilities	-	-	4.9
No cash dividend declared per common share			

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

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Working capital	(6,652,518)	(5,609,078)	(244,590)

Composition of total assets is tabulated:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
	$	$	$
Cash and cash equivalents	367,000	659,000	1,163,000
Accounts receivable	181,000	425,000	460,000
Transaction credits	5,550,000	7,352,000	7,820,000
Inventory	35,000	40,000	145,000
Prepaid expenses and sundry assets	82,000	104,000	173,000
Property, plant and equipment	72,000	116,000	166,000
Intangibles	1,000	120,000	478,000
	6,288,000	8,816,000	10,405,000

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 2016 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, 2015 $281,412. As at June 30, 2017 $Nil.

The company's transaction credits are primarily funded by its loan payable, and new 12% debentures. Loan payable carries a first charge against the merchant transaction credits funded by its proceeds. The new 12% 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 2017 and Fiscal 2016.

The results for Fiscal 2016 and Fiscal 2015 were:

	Fiscal 2016	Fiscal 2015
Net loss and Comprehensive loss	$ (907,443)	$ (3,070,603)

Highlights of Fiscal 2016 compared to Fiscal 2015 (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 2016	11.3	7.6	6.2	1.4	1.8	(0.9)
Fiscal 2015	13.3	8.1	8.9	(0.8)	1.8	(3.1)
SG&A for Fiscal 2015 includes restructuring cost of $1.0 million						

The company's results for the Fiscal 2016 reflected:

1. Structural changes implemented. Reflected in lower SG&A costs aligned to expected medium term activity levels; and
2. Scarcity of working capital – post restructuring – to invest in business. This is reflected in the decline in the average # of merchants participating in the core program (860 during Fiscal 2016 vs. 952 during Fiscal 2015) and consequently decline in revenues.

Income Statement – Fiscal 2016 compared to Fiscal 2015

Revenues

- The difficult operational environment 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 2016 and consequently the decline in the CIBC/TD program revenues. In addition price reductions – to expand/maintain merchant participation - was a factor.
- The Fiscal 2016 Aeroplan program revenues are lower compared to Fiscal 2015 reflecting a decline in merchant participation. This primarily reflected Aimia's long term agreement with a customer that excluded the company from selling and operating in a business segment. In addition the loss of a

wholesale account in mid Fiscal 2015 was a contributory factor in Fiscal 2016 revenues being lower compared to Fiscal 2015.

Direct expenses

- For the CIBC/TD program during Fiscal 2016 declined 28.5% while the revenues declined 12.1% primarily reflecting 63% decline in the expense for delinquent accounts (Fiscal 2016 $527,692 compared to $1,424,782 for Fiscal 2015).

- Aeroplan program. During Fiscal 2016 the direct expenses decline tracked decline in revenues.

Gross profit

- The overall company gross margin for Fiscal 2016 at 67.2% improved compared to 61.1% in Fiscal 2015 due to improvement in the gross margin in Fiscal 2016 for CIBC/TD program.
- The decline in gross profit (Fiscal 2016 $7,579,735 compared to Fiscal 2015 $8,131,565) reflects decline in revenues partially offset by improvement in gross margin.

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

- Decline reflects re-organization of sales groups and reduction in headcount consequent to restructuring during Fiscal 2015.
- Fiscal 2015 reflected a restructuring charge of $1,001,321 (Fiscal 2016 $Nil).
- Fiscal 2016 SG&A lower by $2,754,274

Interest cost

- Stated interest expense on loan payable reflects the lower utilization of funds under this line of credit facility. The lower utilization of line of credit facility reflects decline in merchant participation.
- Stated interest expense on debentures and the accretion charge in Fiscal 2016 were flat compared to Fiscal 2015.
- Fees payable ($103,180 Fiscal 2016 compared to $58,500 in Fiscal 2015) on the new 12% debentures offset the lower interest on loan payable. Fiscal 2015 fees payable are connected to changes in Fiscal 2014 to the debenture agreement and Fiscal 2016 fees payable are connected to waiver of March 2016 financial covenant breach.

The above factors resulted in a decrease in net loss.

Cash and Working capital movement during Fiscal 2016

	Cash	Working capital
	$	$
As at July 1, 2015	**$ 1,162,609**	**$ (244,590)**
Movement during the year		
Income before non-cash expenses *	(210,000)	-
Changes from non- cash working capital items	(59,958)	59,958
Financing activities - loan payable	(178,258)	178,258
Financing activities - debentures	-	(5,098,773)
Purchase of property, plant, equipment and intangibles	(55,715)	-
Changes in cash balances	-	(503,931)
	$ (503,931)	$ (5,364,488)
As at June 30, 2016	**$ 658,678**	**$ (5,609,078)**

* 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 2016 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, 2017 and June 30, 2016 under the section consolidated statements of cash flow.

Summary of Quarterly Results

In millions of dollars, except per share amounts					
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)
Fiscal 2016					
	Q1	Q2	Q3	Q4	Total
	Sep 30, 2015	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	
	$	$	$	$	$
Revenues	3.0	3.1	2.4	2.8	11.3
% of annual revenues	26.5%	27.4%	21.2%	24.9%	100.0%
Net income/(loss)	(0.1)	-	(0.5)	(0.3)	(0.9)
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 2017 (Q4 F 2017) vs. Fourth Quarter of Fiscal 2016 (Q4 F 2016)

Overview

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					-
Depreciation and amortization					17,797
Net loss					(320,172)

Tabulation of financial performance – Q4 F 2016

	CIBC/TD program	Aeroplan program	Caesars program	Corporate	Total
	$	$	$	$	$
Revenues	2,356,649	376,630	13,604	-	2,746,883
Direct expenses	809,680	203,828	17,770	-	1,031,278
Gross profit	1,546,969	172,802	(4,166)	-	1,715,605
Gross margin	65.6%	45.9%	-30.6%		62.5%
Selling & marketing	429,622	58,320	21,607	-	509,549
General & administrative					933,927
Earnings from operations before depreciation, amortization and interest					272,129
Stated interest					358,850
					(86,721)
Accretion charges					59,527
Depreciation and amortization					112,251
Net loss					(258,499)

Analysis of Q4 F 2017 compared to Q4 F 2016

CIBC/TD program

	Q4 F 2017	Q4 F 2016	Change
Average # of participating merchants	659	859	-23.3%
Revenue	$ 1,827,885	$ 2,356,648	-22.4%
Direct costs			
Consumer rewards	314,959	376,979	-16.5%
Marketing and advertizing	109,947	279,190	-60.6%
Expense for delinquent accounts	163,793	153,511	6.7%
	$ 588,699	$ 809,680	-27.3%
Gross profit	$ 1,239,186	$ 1,546,968	
Gross margin	67.8%	65.6%	

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

The lower revenues primarily reflect merchant count.

The Q4 F 2017 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.

Q4 F 2017 expense for delinquent accounts – at 9.0% of revenues - is ahead of expectations and Q4 F 2016 expense at 6.5%. The company now expects the expense for Fiscal year ending June 30, 2018 to trend Fiscal 2017 rate of 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 2017	Q4 F 2016	Change
Revenue	$ 406,692	$ 376,630	8.0%
Direct costs			
Consumer rewards	243,884	197,828	23.3%
Misc., including expense for delinquent accounts	-	6,000	
	$ 243,884	$ 203,828	19.7%
Gross profit	$ 162,808	$ 172,802	
Gross margin	40.0%	45.9%	

Revenue from a wholesale account offset the decline in revenues from regular retail accounts. The decline in revenues from regular accounts reflects decline in merchant count.

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

Q4 F 2017 SG&A were $51,103 lower compared to Q4 F 2016. Reflects cost alignment to expected activity levels.

Interest cost

Q4 F 2017 is lower compared to Q4 F 2016 reflecting lower utilization of loan payable consequent to decline in merchant participation. 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 a higher net loss. Q4 F 2017 $320,172 compared to Q4 F 2016 at $258,499.

Capital Resources

Expenditures for property, plant and equipment and intangible assets for Fiscal 2017 were $Nil compared to $55,715 for Fiscal 2016.

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

Fiscal 2016 includes internal costs capitalized of $55,715. The capitalization during Fiscal 2016 relates to operationalizing and enhancing the operability of the company's merchant based programs. The costs are being amortized over the shorter of useful life of the software and term of Affinity partner agreement.

For the next Fiscal year the company expects capital expenditures to be similar compared to Fiscal 2016 trends. The expenditures would be operationalizing and enhancing the operability of the company's merchant based programs.

The company signed leases for IT equipment. 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, 2017.

Contingent liabilities

A significant amount of estimation is applied in evaluating the company's uncertain tax provision with the Canada Revenue Agency (CRA), as described in note 14 to the audited consolidated financial statements for year ended June 30, 2017, and in the final paragraph in the General Risks and Uncertainties section of this document, and whether a tax provision is required.

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

Going concern

The company tests the going concern assumption on a quarterly basis. The company determines this from its financial forecasts that are prepared on its expectation regarding continuation of its agreement with CIBC and TD, continuation of its agreement with Aimia, continued access to existing sources of debt, obtaining waivers and debt amendments; ability to re-finance its new 12% debentures on their maturity, ability to access additional sources of debt, growth of its existing business, and development of new lines of business. The company's audited consolidated financial statements for year ended June 30, 2017 carry a going concern note (note 2b).

Financial instruments – fair value

The carrying value of accounts receivable, transaction credits, accounts payable and accrued liabilities, loan payable and new 12% debentures approximate their fair values due to the short-term maturity of these instruments.

Credit risk

The company has certain business risks linked to the collection of its transaction credits. Under the APM product the company generally acquires the rights to cash flow from future designated credit card transactions ("future sales") at a discount from participating merchants ("transaction credits" on consolidated statement of financial position). These transaction credits are estimated to be fully extinguishable within 30 – 210 days. Until these transaction credits have been extinguished through designated cardholder spend at participating merchants, there is a credit risk, and an increase in credit risk associated with the longer time frame approaching and/or exceeding 210 days. In the event of default, the company has set up escalating collection measures, and an allowance is determined on specifically identified transaction credit balances that are delinquent and amount of the specific provision is determined based on whether the account has been referred to collection agency, for legal action, whether the company's attempt to debit the merchant's bank account for payments due to the company has been rejected, the underlying reason for the rejections, and the company's historical experience on recoveries.

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

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

	June 30, 2017	June 30, 2016
	$	$
Transaction credits	$ 6,078,872	$ 7,994,349
Accounts receivable	181,771	447,720
Allowance	(530,414)	(664,405)
Per statement of financial position	$ 5,730,229	$ 7,777,664
Maximum exposure to credit risk	$ 5,730,229	$ 7,777,664

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

	June 30, 2017	June 30, 2016
	$	$
Impaired transaction credits	$ 613,754	$ 833,379
Allowance	(529,160)	(642,087)
Impaired transaction credits not allowed for	$ 84,594	$ 191,292

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.

At the Annual and Special Meeting of the Shareholders held on December 22, 2009 the company received approval from the shareholders to implement a stock option plan ("2009 stock option plan") which is 12% fixed maximum number of common shares issuable based on issued and outstanding common shares (calculated on a non-diluted basis). In June 2017, the directors of the company approved continuation of the

2009 stock option plan to date of the annual meeting of shareholders in 2017. The number of employee stock options issuable per the Company's stock option plan is 16,688,546.

Movement during Fiscal 2017 and Fiscal 2016 is tabulated.

	Fiscal 2017	Fiscal 2016
	Number of options	
Outstanding at start of the year	4,100,000	8,590,000
Expired	(2,560,000)	(3,900,000)
Forfeited	(50,000)	(590,000)
Outstanding at end of the year	1,490,000	4,100,000

The number of stock options available for future issuance as at June 30, 2017 compared to June 30, 2016 is as follows:

	Fiscal 2017	Fiscal 2016
	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)	(4,100,000)
Number of options available for future issuance	15,198,546	12,588,546

There was no stock based compensation expense during Fiscal 2017 (the expense in Fiscal 2016 was $Nil).

Outstanding Share Data

As of the date hereof, June 30, 2017 and June 30, 2016 the number of issued and outstanding common shares of the company is 139,071,218. The number of common shares is provided by the company's transfer agent AST Trust Company.

As of date hereof, the company was committed to issuing 1,490,000 additional common shares pursuant to the 2009 stock option plan.

Related party transactions

Directors and Officers

In December 2013 the following related parties purchased new 12% debentures, on terms and conditions applicable to the other subscribers (section 12% Non-Convertible Debentures Payable in this document). The holdings of debentures are tabulated:

	June 30, 2017	June 30, 2016
	$	$
Director, Chief Executive Officer - K. Ambrose	$ 500,000	$ 500,000
Director, Chairman of the Board of Directors - S. Burns	$ 50,000	$ 50,000
Director - W.Polley	$ 50,000	$ 50,000
Director - M. Lavine	$ 500,000	$ 500,000
Chief Financial Officer - M.Sabharwal	$ 115,000	$ 115,000
	$ 1,215,000	**$ 1,215,000**

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

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

Economic Dependence

A significant portion of the company's current revenue is dependent upon its value-added loyalty program agreement with CIBC and TD under which consumer rewards are awarded to holders of designated CIBC and TD credit cards when they complete purchases at merchants participating in Advantex's CIBC/TD program. The significance to the company of the CIBC and TD agreements can best be assessed by comparing its revenues from its relationship with CIBC and TD with that of other programs as tabulated at the end of this section.

The company's relationship with CIBC has been in place for about two decades and has been through several multi-year renewal terms. The current agreement was renewed effective September 1, 2016 and prior to its expiry on September 30, 2017 it was extended to March 31, 2018. The company and CIBC are in discussions on a renewal. 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. The agreement renews automatically for additional one year terms unless TD provides notice not to renew. The current term of the agreement expires in June 2018. If TD does not renew the agreement or exercises its right to terminate the agreement upon at least four months prior notice or retains a competing service provider the company could be materially and adversely affected.

The company's revenue from the CIBC/TD programs is dependent on the number of merchants participating in the CIBC/TD program, dollar spending by holders of designated CIBC credit cards and TD aeroplan credit cards at participating merchants and the economic environment. Since the dollar spending by holders of designated CIBC and TD 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 year ended June 30, 2017	Fiscal year ended June 30, 2016	Fiscal year ended June 30, 2015
		% of company Total	
CIBC/TD program revenues	83.1%	85.2%	82.1%
CIBC/TD program gross profit	89.2%	90.8%	87.5%

General Risks and Uncertainties

As indicated in the Economic Dependence section of this document a significant portion of the company's current revenue is dependent on its value-added loyalty agreement with CIBC. The company's relationship with CIBC has been in place for about two decades and has been through several multi-year renewal terms. The current agreement was renewed effective September 1, 2016 and prior to its expiry on September 30, 2017 it was extended to March 31, 2018. The company and CIBC are in discussions on a renewal. If CIBC does not renew the agreement or exercises its right to terminate the existing agreement upon at least six months prior notice or retains a competing service provider the company could be materially and adversely affected.

In September 2013, CIBC, TD, and Aimia announced they had come to a tripartite arrangement effective January 2014, and under which CIBC sold a significant part of its Aeroplan portfolio to TD. In June 2014, the company entered into an agreement with TD. The agreement with TD had an initial term of two years. The agreement renews automatically for additional one year terms unless TD provides notice not to renew. The current term of the agreement expires in June 2018. If TD does not renew the agreement or exercises its right to terminate the agreement upon at least four months prior notice the company could be materially and adversely affected.

The company's revenue from the CIBC/TD programs is dependent on the number of merchants participating in the CIBC/TD program, dollar spending by holders of designated CIBC credit cards and TD aeroplan credit cards at participating merchants and the economic environment. Since the dollar spending by holders of designated CIBC and TD credit cards is dependent upon the banks credit card portfolio, the company believes that the agreements with two banks mitigate the risk of dependence on one partner.

The company's working capital needs are currently partially provided by debt in the form of new 12% debentures maturing October 31, 2017 and loan payable. The company's relationship with the new 12% debentures holders, and providers of loan payable facility span a decade. The term of the loan payable expires in December 2018. At June 30, 2017 there is about $4.0 million room on the loan payable and the need for capital to expand the APM product is partially satisfied by the loan payable. The loan payable credit facility requires the company to co-fund 15% of the transaction credits deployed with merchants under the APM product and the company has limited ability to co-fund the 15%. To be able to operate and advance its business the company needs to be able to access the loan payable facility and have funds to co-fund. The loan payable is a demand facility. The new 12% debentures carry financial covenants. The company does not have the ability to repay the new 12% debentures maturing October 31, 2017 and the accrued and unpaid interest – since January 1, 2017 - thereon. The company is in breach of all its financial covenants at June 30, 2017. The new 12% debentures are secured by a general security interest over the assets of the company and its subsidiaries. If the company were to breach a financial covenant or were unable to pay its debts as they came due, it would be in default under the new 12% debentures agreement and, as a result, the new 12% debentures holders would have the right to waive the event of default, demand immediate payment of the new 12% debentures in full or modify the terms and conditions of the new 12% debentures including key terms such as repayment terms, interest rates and security. If the company is unable to secure alternative financing to repay the new 12% debentures, the new 12% debentures holders would have the right to realize upon a part or all of the security held by them; see section Working Capital and Liquidity Management in this document for a fuller discussion of the risks. Consequently, general market conditions or the financial status of the company in terms of its profitability, cash flows and strength of its consolidated balance sheet may eliminate or limit access to existing sources of debt, and / or may limit access to additional financing and / or alternative funding to replace existing debt, or the terms of accessible debt may be uneconomic and this could materially and adversely affect the company.

The company believes that increasing the amount of the transaction credits deployed with merchants under its CIBC/TD program's APM product will result in higher revenue and, consequently, improve the company's financial results and cash flows. The company requires additional debt financing and or equity to scale its ability in this area. If the company is not successful in raising additional debt financing and equity, its ability to expand its merchant base and increase revenue may be impeded, resulting in reduced growth in cash flows from operations. This could affect the company's liquidity and working capital position. Any debt structure would need to recognize the general security interest over the company's assets held by the new 12% debentures holders.

The company has certain business risks linked to the collection of its transaction credits. Under the CIBC/TD program's APM product the company acquires the rights to cash flow from future designated credit card transactions ("future sales") at a discount from participating merchants ("transaction credits" on consolidated statement of financial position). These transaction credits are generally estimated to be fully extinguishable within 30 – 210 days of the funds being deployed with the merchant. Management has implemented review and monitoring procedures to assess the creditworthiness and ongoing eligibility of merchants if they wish to benefit from larger purchases of their future sales. Until these transaction credits have been extinguished through designated cardholder spend at participating merchants there is a credit risk, and an increase in credit risk associated with the longer time frame approaching and/or exceeding 210 days. In the event of default, the company has set up escalating collection measures, and an allowance is determined on specifically identified transaction credit balances that are delinquent and amount of the specific provision is determined based on whether the account has been referred to a collection agency, for legal action, whether the company's attempt to debit the merchant's bank account for payments due to the company has been rejected, the underlying reason for the rejections, and the company's historical experience on recoveries. Deterioration in either the credit environment or the company's monitoring processes and a resulting increase in bad debts would adversely impact the financial status of the company thereby affecting its attractiveness as a borrower and its ability to access existing or additional or alternative debt or debt at economic terms and this could materially and adversely affect the company.

The company's activities are funded by two sources of debt. The new 12% debentures has a fixed interest rate, and loan payable which carries a floating interest rate. While the company is not exposed to interest rate risk on account of new 12% debentures, its future cash flows are exposed to interest risk from the floating interest rate payable, calculated as prime rate of a certain Canadian bank plus 11.5%, on loan payable. While the company does not use derivative instruments to reduce its exposure to interest rate risk, it believes it can pass on, to merchants participating in its programs, a portion of a significant adverse interest rate movement on its loan payable. As disclosed under the section Interest Expense in this document, for the year ended June 30, 2017, the company incurred interest expense of $686,744 on utilization of loan payable. Had the interest rate, for the year ended June 30, 2017, been 10% higher the interest expense on loan payable would have been $755,419 an increase of $68,674.

The company's operations are dependent on the abilities, experience and efforts of its management and highly skilled workforce. While the company has entered into employment agreements with key management personnel and other employees, and each of these agreements includes confidentiality and non-competition clauses, the business prospects of the company could be adversely affected if any of these people were unable or unwilling to continue their employment with the company.

The merchant based loyalty programs that the company develops and manages for CIBC, TD and Aimia, are dependent upon ongoing consumer interest in accumulating frequent flyer miles for the purpose of obtaining reward air travel on designated airlines. Due to the security difficulties being experienced by the airline industry overall, and in general continuous devaluation of frequent flyer miles, there is a risk that the underlying frequent flyer currencies used in these programs could become unavailable to the company, or that consumer interest in accumulating these awards could decline. This, in turn, may result in difficulties in acquiring and retaining merchants and may adversely affect the company's revenue and direct costs.

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

In the ordinary course of business, the company is subject to ongoing audits by tax authorities. While the company believes that its tax filing positions are appropriate and supportable, from time to time, certain matters are reviewed and challenged by the tax authorities. The company regularly reviews the potential for adverse outcomes in respect of tax matters and believes that any ultimate disposition of a reassessment will not have a material adverse impact on its liquidity, consolidated financial position or results of operations due to adequate provisioning for these tax matters. Should an outcome materially differ from existing provisions, the company's effective tax rate, its earnings, and its liquidity and working capital position could be affected positively or negatively in the period in which matters are resolved.

Forward-Looking Information

This Management's Discussion and Analysis contains certain "forward-looking information". All information, other than information comprised of historical fact, that addresses activities, events or developments that the company believes, expects or anticipates will or may occur in the future constitutes forward-looking information. Forward-looking information is typically identified by words such as: anticipate, believe, expect, goal, intend, plan, will, may, should, could and other similar expressions. Such forward-looking information relates to, without limitation, information regarding the company's: belief it has a unique product for the small independent merchant market; expectations from its processes and systems and belief the business is scalable; expectation of the size of the loyalty marketing market; belief in its ability to gain a share of the market; expectations from expansion outside Canada; estimation of the amount of working capital required to expand operations; belief in its ability to implement the Plan; expectation of timeline for implementation of the Plan and expectation of outcomes upon implementation of the Plan; expectations of financial performance; belief it has the support of its partners and staff; expectation of capital expenditures during fiscal year ending June 30, 2018; expectation of securing lease arrangements for significant capital expenditures; belief the primary driver of revenues is merchant participation; expectation of bounce-back in merchant participation and its timing; belief an increase in transaction credits will positively effect financial performance and cash flows; expectation of and from finalizing the restructuring of the commercial terms of agreement with Aimia and the timing of finalization; belief in its ability to retain and expand its merchant base; belief agreements with CIBC and TD mitigate the risk of dependence on one partner; ability to manage credit and collection risk; expectations of delinquency expense during fiscal year ending June 30, 2018; belief current G&A staffing is adequate to handle current and medium term activity levels; expectation of adverse interest rate increase it can pass onto merchants; expectation of its ability to compete; belief in the appropriateness of its tax filings ; and other information regarding financial and business prospects and financial outlook is forward-looking information.

Forward-looking information reflects the current expectations or beliefs of the company based on information currently available to the company, including certain assumptions and expectations of Management. With respect to the forward-looking information contained in this Management Discussion and Analysis, the company has made assumptions regarding, among other things, continued Affinity partner participation; continued support from its provider of loan payable and holders of new 12% debentures; its ability to re-finance new 12% debentures maturing October 31, 2017; its ability to close the Plan, the timeline to its close and the impact of the same on its business; 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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® Aeroplan is a Registered Trademark of Aimia Canada Inc.; CIBC and TD are Authorized Licensee of the Mark.

ADVANTEX MARKETING INTERNATIONAL INC.
CONSOLIDATED FINANCIAL STATEMENTS
For the years ended June 30, 2017, and June 30, 2016

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To Our Shareholders:

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of the company. Management is responsible for the information and representations contained in these consolidated financial statements and other sections of the Annual Report for year ended June 30, 2017.

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

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

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

(Signed) – "Kelly E. Ambrose"	(Signed) - "Mukesh Sabharwal"
Kelly E. Ambrose President and Chief Executive Officer	Mukesh Sabharwal V.P. and Chief Financial Officer

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Independent Auditor's Report

To the Shareholders of
Advantex Marketing International Inc.

We have audited the accompanying consolidated financial statements of Advantex Marketing International Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at June 30, 2017 and 2016, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency, and cash flows for the years ended June 30, 2017 and 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Advantex Marketing International Inc. and its subsidiaries as at June 30, 2017 and 2016 and its financial performance and its cash flows for the years ended June 30, 2017 and 2016 in accordance with International Financial Reporting Standards.

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BDO Canada LLP
60 Columbia Way, Suite 300
Markham ON L3R 0C9 Canada

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2b in the consolidated financial statements which indicates that the Company has a shareholders' deficiency of $6,579,455 and negative working capital of $6,652,518 as at June 30, 2017. These conditions, along with other matters as set forth in Note 2b, indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

(signed) BDO CANADA LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
October 26, 2017

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

	Note	June 30, 2017		June 30, 2016	
			$		$
Assets					
Current assets					
Cash and cash equivalents		$	367,357	$	658,678
Accounts receivable	12 a		180,517		425,402
Transaction credits	12 a		5,549,712		7,352,262
Inventory	5		35,038		39,914
Prepaid expenses and sundry assets			82,413		103,684
		$	**6,215,037**	**$**	**8,579,940**
Non-current assets					
Property, plant and equipment	6 a	$	72,142	$	116,049
Intangible assets	6 b		921		119,921
		$	**73,063**	**$**	**235,970**
Total assets		**$**	**6,288,100**	**$**	**8,815,910**
Liabilities					
Current liabilities					
Loan payable	7	$	4,476,421	$	5,533,267
Accounts payable and accrued liabilities			3,232,134		3,556,978
12% Non-convertible debentures payable	8		5,159,000		5,098,773
		$	**12,867,555**	**$**	**14,189,018**
Total liabilities		**$**	**12,867,555**	**$**	**14,189,018**
Shareholders' deficiency					
Share capital	9	$	24,530,555	$	24,530,555
Contributed surplus	10 b		4,090,382		4,090,382
Accumulated other comprehensive loss			(47,383)		(47,383)
Deficit			(35,153,009)		(33,946,662)
Total deficiency		**$**	**(6,579,455)**	**$**	**(5,373,108)**
Total liabilities and deficiency		**$**	**6,288,100**	**$**	**8,815,910**

Economic and Financial dependence (note 2a), Going concern (note 2b), Commitments and contingencies (note 14)

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

Approved by the Board

Director: Signed "William Polley"
William Polley

Director: Signed "Kelly Ambrose"
Kelly Ambrose

Advantex Marketing International Inc.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended June 30, 2017 and 2016
(expressed in Canadian dollars)

	Note	2017	2016
		$	$
Revenues	18	$ **9,150,012**	$ **11,273,680**
Direct expenses	17/18	3,149,074	3,693,945
		6,000,938	7,579,735
Operating expenses			
Selling and marketing	17/18	1,974,282	2,536,274
General and administrative	17/18	3,704,898	3,633,679
Earnings from operations before depreciation, amortization and interest		**321,758**	**1,409,782**
Interest expense:			
Stated interest expense - loan payable, and debentures	7/8	1,304,971	1,619,782
Non-cash interest expense on debentures	8	60,227	233,971
		(1,043,440)	(443,971)
Depreciation of property, plant and equipment, and amortization of intangible assets	6 a/b	162,907	463,472
Net loss and comprehensive loss		$ **(1,206,347)**	$ **(907,443)**
Loss per share			
Basic and Diluted	16	$ **(0.01)**	$ **(0.01)**

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

Advantex Marketing International Inc.
Consolidated Statements of Changes in Shareholders' Deficiency
For the years ended June 30, 2017 and June 30, 2016
(expressed in Canadian dollars)

	Class A preference shares	Common shares	Contributed surplus	Accumulated other comprehen - sive loss	Deficit	Total
	$	$	$	$	$	$
Balance - July 1, 2015	**$ 3,815**	**$ 24,526,740**	**$ 4,090,382**	**$ (47,383)**	**$ (33,039,219)**	**$ (4,465,665)**
Net loss and comprehensive loss	-	-	-	-	(907,443)	(907,443)
Balance - June 30, 2016	**$ 3,815**	**$ 24,526,740**	**$ 4,090,382**	**$ (47,383)**	**$ (33,946,662)**	**$ (5,373,108)**
Balance - July 1, 2016	**$ 3,815**	**$ 24,526,740**	**$ 4,090,382**	**$ (47,383)**	**$ (33,946,662)**	**$ (5,373,108)**
Net loss and comprehensive loss	-	-	-	-	(1,206,347)	(1,206,347)
Balance - June 30, 2017	**$ 3,815**	**$ 24,526,740**	**$ 4,090,382**	**$ (47,383)**	**$ (35,153,009)**	**$ (6,579,455)**

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

Advantex Marketing International Inc.
Consolidated Statements of Cash Flow
For the years ended June 30, 2017 and 2016
(expressed in Canadian dollars)

	Note	June 30, 2017	June 30, 2016
		$	$
Operational activities			
Net loss for the year		$ (1,206,347)	$ (907,443)
Adjustments for:			
Depreciation of property, plant and equipment, and amortization of intangible assets	6 a/b	162,907	463,472
Accretion charge for debentures	8	60,227	233,971
		(983,213)	(210,000)
Changes in items of working capital			
Accounts receivable		244,885	35,044
Transaction credits		1,802,550	467,385
Inventory		4,876	104,960
Prepaid expenses and sundry assets		21,271	70,093
Accounts payable and accrued liabilities		(324,844)	(737,440)
		1,748,738	(59,958)
Net cash (used in) provided by operating activities		**$ 765,525**	**$ (269,958)**
Investing activities			
Purchase of property, plant and equipment, and intangible assets		$ -	$ (55,715)
Net cash (used in) investing activities		**$ -**	**$ (55,715)**
Financing activities			
Repayment of loan payable	7	$ (1,056,846)	$ (178,258)
Net cash (used in) financing activities		**$ (1,056,846)**	**$ (178,258)**
Decrease in cash and cash equivalents during the year		**$ (291,321)**	**$ (503,931)**
Cash and cash equivalents at beginning of the year		658,678	1,162,609
Cash and cash equivalents at end of the year		**$ 367,357**	**$ 658,678**
Additional information			
Interest paid		$ 1,023,348	$ 1,516,671
For purposes of the cash flow statement, cash comprises			
Cash		$ 367,357	$ 653,678
Term deposits		-	5,000
		$ 367,357	$ 658,678

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

(expressed in Canadian dollars)

1 General information

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

2 a. Economic and Financial Dependence

Economic Dependence

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

	Fiscal 2017	Fiscal 2016
	% of company Total	
CIBC/TD program revenues	83.1%	85.2%
CIBC/TD program gross profit	89.2%	90.8%

Status of agreements with CIBC and TD

The company has a two decade relationship with CIBC. The most recent renewal of partnership was in September 2013 for an initial three year term expiring September 30, 2016 ("new agreement'). On April 14, 2016 the company announced extension of the new agreement until December 31, 2016, on September 20, 2016 extension of the new agreement until September 30, 2017 and on June 21 2017 extension of the new agreement until March 31, 2018. In addition to CIBC's right to terminate the new agreement at any time by providing at least six months prior written notice to the company, the new agreement can be terminated by CIBC forthwith under certain circumstances.

The company renewed its agreement with TD for one year ending in June 2018. The agreement had an initial term of two years expiring June 2016 and subsequently renewed for one year ending in June 2017. In addition to TD's right to terminate the agreement at any time by providing at least four months prior written notice to the company, the agreement can be terminated by TD immediately under certain circumstances.

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

The Aeroplan program, which is dependent on the company's agreement with Aimia, generated 16.4% and 10.6% respectively of company's revenues and gross profit during year ended June 30, 2017 (2016 – 14.1% and 8.8% respectively). In November 2014 the company renewed its agreement ("agreement") with Aimia for a five year term ending April 30, 2019. The agreement can be terminated by Aimia under certain conditions during the term of the agreement. The company and Aimia are finalizing the restructuring of the commercial terms of the agreement.

The company's segment reporting is provided in note 18.

Financial Dependence

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

Loan payable

The company has access to a line of credit facility under its loan payable (note 7). The loan payable agreement ("agreement") was established in 2007. The loan payable is used exclusively to expand the company's APM product ("transaction credits" on consolidated statements of financial position) which is a significant driver of merchant participation in the CIBC/TD program. The agreement is subject to automatic renewal for periods of one year unless earlier terminated by either party upon 180 days' notice prior to end of term. The current term of the loan payable expires in December 2018. The loan payable is repayable on demand.

In addition to loan payable, since February 2017 the provider of loan payable has given the company access to a $100,000 overdraft facility. The facility is used for working capital needs. The term of this facility expires December 31, 2017. It is repayable on demand.

Non-convertible debentures

The 12% non-convertible debentures payable ("new 12% debentures") were issued by the company on December 30, 2013 (note 8) with an initial maturity date of September 30, 2016. The proceeds of the new 12% debentures are used for working capital purposes. On June 30, 2015, the debenture holders amended and re-set all financial covenants effective quarter ended June 30, 2015 until quarter ending June 30, 2016. At March 31, 2016 the company was in breach of all its financial covenants. The company secured a waiver to the breach of all its financial covenants at March 31, 2016 and was charged a fee of $103,180 by the debenture holders.

At June 30, 2016 the company was in breach of all its financial covenants. Recognizing that the company does not have the ability to repay the debentures on maturity the company commenced discussions with the debenture holders. In September 2016 the company secured a waiver to the breach of all its financial covenants at June 30, 2016 and extension of the maturity date to December 31, 2016. The company was in breach of all its financial covenants at September 30, 2016. In December 2016 the company secured an extension of the maturity date to March 31, 2017 but not a waiver to the breach of financial covenants at September 30, 2016. The company was in breach of all its financial covenants at December 31, 2016. In March 2017 the company secured an extension of the maturity date to June 30, 2017 but not a waiver to the breach of financial covenants at December 31, 2016. The company was in breach of all its financial covenants at March 31, 2017. In June 2017 the company secured an extension of the maturity date to September 30, 2017 but not a waiver to the breach of financial covenants at March 31, 2017. The company was in breach of all its financial covenants at June 3o, 2017. In September 2017 the company secured an extension of the maturity date to October 31, 2017 but not a waiver to the breach of financial covenants at June 30, 2017.

If the company breaches a financial covenant or is unable to pay either interest or its debts as they came due, it would be in default under the new 12% debentures agreement and, as a result, the new 12% debentures holders would have the right to waive the event of default, demand immediate payment of the new 12% debentures in full or modify the terms and conditions of the new 12% debentures including key terms such as repayment terms, interest rates and security. If the company is unable to secure alternative financing to pay interest or repay the new 12% debentures, the new 12% debentures holders would have the right to realize upon a part or all of the security held by them.

The company has a decade old relationship with the primary holder (about 60%) of the new 12% debentures – a Toronto based firm investing on behalf of its managed accounts. The primary holder of the new 12% debentures is also the primary shareholder of the company as it beneficially owns or exercises control or direction through about 15% of the company’s common shares (as of October 13, 2017) held on behalf of its managed accounts. The primary holder of the new 12% debentures in its capacity as exclusive financial advisor was, until September 2017, assisting the company in its efforts to refinance the new 12% debentures. The arrangement ended in September 2017.

Related parties holdings at June 30, 2017 of the new 12% debentures were about $1.2 million (about 24% of the new 12% debentures). Note 11.

2 b. Going concern

These consolidated financial statements have been prepared in accordance with accounting principles applicable to a going concern which contemplates that the company will be able to realize its assets and settle its liabilities in the normal course as they come due during the normal course of operations for the foreseeable future. When a company is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity is required to disclose those uncertainties. The company has a shareholders’ deficiency of $6,579,455 and negative working capital of $6,652,518 as at June 30, 2017. There is uncertainty surrounding:

3. The re-financing of the new 12% debentures maturing October 31, 2017; and
4. The access to existing and additional working capital in the form of debt and or equity to meet operational needs including payments to its partners CIBC, TD and Aimia, payment of new 12% debentures interest for period January 1, 2017 to maturity and to support the growth of the company.

As a result, this may cast significant doubt on the validity of going concern assumption and the company’s ability to continue as a going concern after June 30, 2017 and hence the ultimate use of accounting principles applicable to a going concern.

The company’s future success is dependent on retaining its existing relationships with CIBC, TD, and Aimia; continued access to its existing levels of debt capital; additional capital in the form of debt or equity; ensuring profitability; and generating positive cash flows from operations. The company’s business plan includes renewal of its agreements with CIBC, TD, and Aimia; refinancing of its current loans; the receipt of waivers or agreement amendments where breaches occur; and raise of additional capital. While in the past the company has been successful in renewal of its agreement with CIBC, TD, and Aimia, refinancing its debentures and loan payable, obtaining waivers or agreement amendments, there can be no assurance these initiatives will continue to be successful. In addition, there can be no assurance the company will be successful in securing additional capital which is required to meet operational needs including payments to its partners CIBC, TD and Aimia, payment of new 12% debentures interest for period January 1, 2017 to maturity and to support the growth of the company.

These consolidated financial statements do not include any adjustments or disclosures that may result from the company’s ability to continue as a going concern. If the going concern assumption were not appropriate for these consolidated financial statements, adjustments may be necessary in the carrying values of assets and liabilities and the reported expenses and balance sheet classifications; and such adjustments could be material.

The company has had partnership and competitive challenges since early Fiscal 2014. The company has had declining merchant participation levels since Fiscal 2013 and the company's new 12% debentures mature October 31, 2017 and have to be re-financed.

In response to this situation the company has developed a financial restructuring plan ('Plan"). The Plan requires accommodations from the company's employees, its affinity partners and its financial backers. Successful implementation would enable the company to re-finance the new 12% debentures and provide working capital to support a gradual sustained recovery of its business. Some measures have been implemented while others are in process. The company expects the Plan to be fully implemented by December 31, 2017. The company believes implementing the Plan is the best way to ensure it is able to transition to the next phase of recovery of its business.

3 Basis of preparation

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

These consolidated financial statements and related notes have been reviewed by the company's audit committee and approved by the company's board of directors on October 26, 2017.

Accounting standards issued but not yet applied

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

The following is a description of the new standards:

IFRS 9 - Financial Instruments

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

IFRS 15 Revenue from Contracts with Customers

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

IFRS 16, Leases

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

4 Summary of significant accounting policies

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

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

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

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

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

Going concern
The company tests the going concern assumption on a quarterly basis. The company determines this from its financial forecasts that are prepared on its expectation regarding continuation of its agreement with CIBC and TD, continued access to existing sources of debt, ability to access additional sources of working capital in the form of either debt or equity, growth of its existing business, and development of new lines of business.

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

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

The allowance is determined on specifically identified transaction credit balances that are impaired and the amount of the specific provision is determined based on whether a) customer is (i) bankrupt, (ii) ceased operations, (iii) is in business, b) the account has been referred for either collection or legal action, and c) the company's historical experience on recoveries.

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

Contingent liabilities
A significant amount of estimation is applied in evaluating the company's uncertain tax provision with the Canada Revenue Agency (CRA) as described in note 14, and whether a tax provision is required.

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

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

Foreign currency translation
(i) Functional and presentation currency

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

(ii) Translation of transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the consolidated statements of financial position date. Non-monetary assets and liabilities, expenses and other income arising from foreign currency transactions are translated at the approximate exchange rate in effect at the date of the transaction. Exchange gains or losses arising from the translation are included in the determination of income in the current year. The foreign currency loss for year ended June 30, 2017 is $7,628 (June 30, 2016 loss of $4,500).

Cash and cash equivalents
Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of ninety days or less.

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

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

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

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

(ii) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, loan payable and new 12% debentures. Financial liabilities at amortized cost are initially recognized at fair value net of any transaction costs incurred, and subsequently measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

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

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

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

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

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

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

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

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

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

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

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

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

(ii) other assets which represents cost of an acquisition the company completed in January 2013. The company acquired all of Futura Loyalty Group Inc.'s ("Futura") Aeroplan Channel Marketing assets ("assets") as per Futura's restructuring under the Companies' Creditors Arrangement Act.

Other assets consisted of Futura's (i) channel program agreement with Aeroplan; (ii) agreements with merchants covering about 700 locations, and (iii) inventory of point of purchase and marketing material. The assets are amortized on a straight-line basis over the expected useful life covering 47 months through December 2016.

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

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

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

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

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

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

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

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

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

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

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

There are three types of agreements with participating establishments:

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

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

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

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

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

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

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. As at June 30, 2017 the company's potentially dilutive common shares comprise stock options granted to employees.

5 Inventory

Inventory comprises

	June 30, 2017	June 30, 2016
	$	$
Processing terminals	35,038	39,914
Total	**$ 35,038**	**$ 39,914**

Processing terminals

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

6 Property, plant and equipment and intangible assets

(a) Property, plant and equipment

	Computer equipment	Furniture and equipment	Leasehold Improvements	Total
	$	$	$	$
Year ended June 30, 2016				
Opening net book value	$ 113,362	$ 48,123	$ 4,250	$ 165,735
Depreciation for the year	34,387	11,049	4,250	49,686
Closing net book value	$ 78,975	$ 37,074	$ -	$ 116,049
At June 30, 2016				
Cost	**$ 412,299**	**$ 160,089**	**$ 31,874**	**$ 604,262**
Accumulated depreciation	**$ 333,324**	**$ 123,015**	**$ 31,874**	**$ 488,213**
Year ended June 30, 2017				
Opening net book value	$ 78,975	$ 37,074	$ -	$ 116,049
Depreciation for the year	34,293	9,614	-	43,907
Closing net book value	$ 44,682	$ 27,460	$ -	$ 72,142
At June 30, 2017				
Cost	**$ 412,299**	**$ 160,089**	**$ 31,874**	**$ 604,262**
Accumulated depreciation	**$ 367,617**	**$ 132,629**	**$ 31,874**	**$ 532,120**

(b) Intangible assets

	Computer Software	Other Assets	Total
	$	$	$
Year ended June 30, 2016			
Opening net book value	$ 431,350	$ 46,642	$ 477,992
Additions	55,715	-	55,715
Amortization for the year	382,670	31,116	413,786
Closing net book value	$ 104,395	$ 15,526	$ 119,921
At June 30, 2016			
Cost	**$ 2,710,120**	**$ 121,822**	**$ 2,831,942**
Accumulated amortization	**$ 2,605,725**	**$ 106,296**	**$ 2,712,021**
Year ended June 30, 2017			
Opening net book value	$ 104,395	$ 15,526	$ 119,921
Amortization for the year	103,474	15,526	119,000
Closing net book value	$ 921	$ -	$ 921
At June 30, 2017			
Cost	**$ 2,710,120**	**$ 121,822**	**$ 2,831,942**
Accumulated amortization	**$ 2,709,199**	**$ 121,822**	**$ 2,831,021**

7 Loan payable

	June 30, 2017	June 30, 2016
	$	$
Balance at start of year	**$ 5,533,267**	**$ 5,711,525**
Decrease in borrowing	(1,056,846)	(178,258)
Balance at end of year	**$ 4,476,421**	**$ 5,533,267**

This line of credit facility ("facility") is provided by Accord Financial Inc. ("Accord"), and was established in December, 2007. The facility limit is $8.5 million. The interest rate on the facility is equivalent to prime rate of a certain Canadian bank plus 11.5% per annum.

The facility is used by the company exclusively to acquire transaction credits, under its APM product, from establishments that are in business segments available to the company under its agreements with CIBC, TD and Aimia.

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

The loan payable agreement is subject to automatic renewal for periods of one year unless earlier terminated by either party upon 180 days' notice prior to end of term. The current term of the loan payable expires in December 2018.

The interest cost during the year ended June 30, 2017 was $686,744 (2016 $896,669).

8 12% Non-convertible debentures payable

On December 30, 2013, the company completed a refinancing by way of a private placement of 12% non-convertible debentures ("new 12% debentures") in the principal amount of $5,159,000.

The new 12% debentures were issued as units. Each unit comprised (i) $1,000 face value secured non-convertible debentures of the company bearing interest at 12% per annum, payable semi-annually, and with 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.

Under the agreement, the proceeds of the new 12% debentures are to be used for working capital purposes.

The new 12% debentures are secured by a general security interest over the assets of the company and its subsidiaries. The significant financial covenants of the new 12% debentures require the company to meet (i) commencing the quarter ended December 31, 2013, on a quarterly basis a defined level of designated current assets, and interest coverage, and (ii) commencing January 31, 2014, on a monthly basis a defined level of credit card spend, on which the company earns its revenue, at merchants participating in its loyalty programs (as part of the re-set of the financial covenants, described later in this section, this financial covenant was cancelled effective April 2015).

In June 2014, the debenture holders agreed to a) re-set the financial covenants and b) defer the semi-annual interest due June 15, 2014 and this was now payable in two equal instalments due October 15, 2014 and November 15, 2014. The company agreed to pay a fee of $65,000 to the debenture holders for the above changes to the new 12% debentures. The fee and the deferred interest were paid on the due dates. The company met the revised financial covenants as at June 30, 2014, September 30, 2014 and December 31, 2014. At March 31, 2015 the company was in breach of all its financial covenants and the company secured a waiver of the breach at March 31, 2015. The debenture holders amended and re-set all financial covenants effective quarter ended June 30, 2015 until quarter ending June 30, 2016. The company met the amended financial covenants at June 30, 2015, September 30, 2015 and December 31, 2015. At March 31, 2016 the company was in breach of all its financial covenants. The company secured a waiver to the breach of all its financial covenants at March 31, 2016 and was charged a fee of $103,180 by the debenture holders. As at June 30, 2016 the company was in breach of all its financial covenants. In September 2016 the company secured a waiver to the breach of all its financial covenants at June 30, 2016. In addition, the company and the debenture holders agreed to extend the maturity of the new 12% debentures to December 31, 2016 from September 30, 2016, and at the same time financial covenants at September 30, 2016 were established. The company was in breach of all its financial covenants at September 30, 2016. In December 2016 the company secured an extension of the maturity date to March 31, 2017 but not a waiver to the breach of financial covenants at September 30, 2016. The company was in breach of all its financial covenants at December 31, 2016. In March 2017 the company secured an extension of the maturity date to June 30, 2017 but not a waiver to the breach of financial covenants at December 31, 2016. The company was in breach of all its financial covenants at March 31, 2017. In June 2017 the company secured an extension of the maturity date to September 30, 2017 but not a waiver to the breach of financial covenants at March 31, 2017. The company was in breach of all its financial covenants at June 3o, 2017. In September 2017 the company secured an extension of the maturity date to October 31, 2017 but not waiver to the breach of financial covenants at June 30, 2017.

The new 12% debentures are secured by a general security interest over the assets of the company and its subsidiaries. If the company were to breach a financial covenant or were unable to pay its debts as they came due, it would be in default under the new 12% debentures agreement and, as a result, the new 12% debentures holders would have the right to waive the event of default, demand immediate payment of the new 12% debentures in full or modify the terms and conditions of the new 12% debentures including key terms such as repayment terms, interest rates and security. If the company is unable to secure alternative financing to repay the new 12% debentures, the new 12% debentures holders would have the right to realize upon a part or all of the security held by them.

Movement on the new 12% debentures

	Debt portion		Share Capital (Note 10 b)	
	$		$	
Balance at June 30, 2015	**$**	**4,864,802**	$	420,459
Accretion charge for the year		233,971		-
Balance at June 30, 2016	**$**	**5,098,773**	**$**	**420,459**
Accretion charge for the year		60,227		-
Balance at June 30, 2017	**$**	**5,159,000**	**$**	**420,459**

Stated interest charges and accretion charges with respect to the debentures are as follows:

	Year ended June 30, 2017				**Year ended June 30, 2016**			
	Stated interest		Accretion charge		Stated interest		Accretion charge	
	$		$		$		$	
new 12% debentures	$	618,227	$	60,227	$	619,933	$	233,971
new 12% debentures fees		-		-		103,180		-
Total	**$**	**618,227**	**$**	**60,227**	**$**	**723,113**	**$**	**233,971**

9 Share capital

(a) Authorized

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

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

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

Common – Unlimited number of shares without par value.

(b) Issued Class A preference shares

	Number of shares	$	
No par value. At June 30, 2017 and 2016	461,887	$	3,815

(c) Issued common shares

	Number of shares	$	
No par value. At June 30, 2017 and 2016	139,071,218	$	24,526,740

The number of issued class A preference shares and common shares is provided by the company's transfer agent, AST Trust Company.

(d) Movement during years ended June 30, 2017 and June 30, 2016 of issued share capital

Class A preference shares and Common shares

No movement during years ended June 30, 2016 and June 30, 2017.

10 Share-based payments

a. Employee stock options

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

At the Annual and Special Meeting of the Shareholders held on December 22, 2009 the company received approval from the shareholders to implement a stock option plan ("2009 stock option plan") which is a fixed maximum number of common shares issuable based on 12% of issued and outstanding common shares (calculated on a non-diluted basis). With the increase in the issued and outstanding common shares of the company consequent to the private placement of the new 12% debentures (note 8), the directors approved a resolution on March 9, 2014 increasing the number of employee stock options issuable per the company's stock option plan from 11,643,044 to 16,688,546.

The Board has approved the continuation of the 2009 stock option plan to the date of the next Annual meeting of the Shareholders in 2017.

	Number of employee stock options	Weighted average exercise price - $
Outstanding at July 1, 2015	**8,590,000**	**0.030**
Forfeited	(590,000)	0.030
Expired	(3,900,000)	0.030
Outstanding at June 30, 2016	**4,100,000**	**0.030**
Forfeited	(50,000)	0.050
Expired	(2,560,000)	0.025
Outstanding at June 30, 2017	**1,490,000**	**0.050**
Exercisable at June 30, 2016	**4,100,000**	**0.030**
Exercisable at June 30, 2017	**1,490,000**	**0.050**

The outstanding and exercisable employee stock options at June 30, 2017 were issued at exercise price of $0.05, and have a weighted average remaining contractual life until March 19, 2018.

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

	2017	2016
Maximum number reserved for issuance	16,688,546	16,688,546
Less outstanding at end of period	(1,490,000)	(4,100,000)
Number of options available for future issuance	15,198,546	12,588,546

The company has recorded $nil of stock-based compensation expense during year ended June 30, 2017 (2016 - $nil).

Potentially Dilutive Securities

The potentially dilutive securities as at June 30, 2017 feature in computation of Diluted EPS (note 16).

As at June 30, 2017, the company was committed to issuing 1,490,000 additional common shares upon exercise of 1,490,000 employee stock options with exercise price of $0.05 and expiring March 19, 2018.

As at June 30, 2016 the company was committed to issuing 4,100,000 additional common shares on account of employee stock options.

b. Contributed surplus

The company refinanced the new 12% debentures and repaid the old 12% debentures and 14% debentures (note 8), and following these transactions the amounts held on account of the old 12% debentures and 14% debentures as equity portion of debentures, and warrants were transferred to contributed surplus.

Amounts attributed to contributed surplus are disclosed as a part of shareholders' deficit on the consolidated statement of financial position. The balance at June 30, 2016 and June 30, 2017 is $4,090,382.

11 Related party transactions

Directors and Officers

In December 2013 these related parties purchased new 12% debentures (note 8), on the same terms and conditions applicable to the other subscribers.

The holdings of debentures by related parties are tabulated:

	June 30, 2017	June 30, 2016
	$	$
Director, Chief Executive Officer - K. Ambrose	$ 500,000	$ 500,000
Director, Chairman of the Board of Directors - S. Burns	$ 50,000	$ 50,000
Director - W.Polley	$ 50,000	$ 50,000
Director - M. Lavine	$ 500,000	$ 500,000
Chief Financial Officer - M.Sabharwal	$ 115,000	$ 115,000
	$ 1,215,000	**$ 1,215,000**

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

Compensation awarded to key management included:

	Year ended June 30, 2017	Year ended June 30, 2016
	$	$
Salaries, management bonuses and directors fees	$593,862	$619,264
Share based compensation	-	-
	$593,862	**$619,264**

12 Financial instruments

(a) Credit risk

Credit risk is the risk of financial loss to the company if a customer fails to meet its contractual obligations. The company, in the normal course of business, is exposed to credit risk on its accounts receivable and transaction credits from customers. The company generally acquires the rights to receive future cash flows associated with designated credit card purchases (“future sales”) at a discount from participating establishments (“transaction credits”). These transaction credits are estimated to be fully extinguishable within 30-210 days. Accounts receivable and transaction credits are net of applicable allowance, which is established based on the specific credit risk associated with the customer and other relevant information.

The allowance is determined on specifically identified transaction credit balances that are delinquent and amount of the specific provision is determined based on whether the account has been referred for either collection or 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 net balance of the transaction credits and accounts receivable.

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

	June 30, 2017	June 30, 2016
	$	$
Transaction credits	$ 6,078,872	$ 7,994,349
Accounts receivable	181,771	447,720
Allowance	(530,414)	(664,405)
Per Consolidated Statement of Financial Position	**$ 5,730,229**	**$ 7,777,664**
Maximum exposure to credit risk	**$ 5,730,229**	**$ 7,777,664**

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

	June 30, 2017	June 30, 2016
	$	$
Impaired transaction credits	$ 613,754	$ 833,379
Allowance	(529,160)	(642,087)
Impaired transaction credits not allowed for	**$ 84,594**	**$ 191,292**

Movement on allowance for impaired transaction credits

	June 30, 2017	June 30, 2016
	$	$
Balance brought forward at start of year	**$ 642,087**	**$ 787,236**
Allowance created during the year	663,190	593,705
Impaired accounts written off against allowance	(776,117)	(738,854)
Balance carried forward at end of year	**$ 529,160**	**$ 642,087**

(b) Currency risk

The company operates the Caesars program in the US through its subsidiary Advantex Marketing International (Maryland) Inc., note 4. The subsidiary carries accounts receivables and accounts payable that are denominated in US dollars. The operation is in early stages and the accounts receivable and accounts payable are nominal and are a natural hedge. Therefore, the currency risk is minimal.

Currency risk arises due to fluctuations in foreign currency rates, which could affect the company’s financial results.

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

	June 30, 2017	June 30, 2016
	$	$
Cash and cash equivalents	8,082	4,041
Accounts receivable	7,952	8,917
Accounts payable and accrued liabilities	28,732	17,525

(c) Liquidity risk

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

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

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

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

The contractual maturities of the company's financial liabilities at June 30, 2016 are as follows:

	Total $	Payable within 1 year $	Payable after 1 year – 3 years $
Loan payable – payable on demand (note 7)	$5,533,267	$5,533,267	-
Accounts payable and accrued liabilities	3,556,978	3,556,978	-
New 12% debentures – face amount – maturing December 31, 2016 (note 8)	5,159,000	5,159,000	-
New 12% debentures interest (note 8)	439,784	439,784	-
Total	$14,689,029	$14,689,029	$-

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

(d) Fair value

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

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

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

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

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

(e) Interest rate risk

The company's activities are funded by two sources of debt; the non-convertible debenture (note 8) which has fixed interest rates, and loan payable (note 7) which carries a floating interest rate. While the company is not exposed to interest rate risk on account of its non-convertible debenture, its future cash flows are exposed to interest rate risk from the floating interest rate payable, calculated as prime rate of a certain Canadian bank plus 11.5%, on its loan payable. While the company does not use derivative instruments to reduce its exposure to interest rate risk, it believes it can pass on, to merchants participating in its programs, a portion of a significant adverse interest rate movement on its loan payable.

As disclosed in note 7, during year ended June 30, 2017, the company paid annual interest of $686,744. Interest is calculated daily on the amount outstanding and charged monthly at an interest rate equivalent to prime rate of a certain Canadian bank plus 11.5% per annum. For the year ended June 30, 2017, a 10% increase in interest rates would lead to an additional annual interest cost of $68,674.

13 Capital management

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

Tabulation of capital base

	At June 30, 2017	At June 30, 2016
	$	$
Loan payable – note 7	4,476,421	5,533,267
New 12% debentures – Principal – note 8	5,159,000	5,159,000
Share capital – note 9	24,530,555	24,530,555
Contributed surplus and deficit	(31,110,010)	(29,903,663)
	$ 3,055,966	$5,319,159

14 Commitments and contingencies

Commitments

As at June 30, 2017, the company is committed to minimum payments with respect to existing leases for equipment and premises:

	Equipment	Premises	Total
Not later than one year	$42,670	$15,897	$58,567
Later than one year and not later than five years	$19,749	$nil	$19,749
Later than five years	$nil	$nil	$nil
Total	**$62,419**	**$15,897**	**$78,316**

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

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

Taxation

After an audit in 1998, the Canada Revenue Agency ("CRA") determined that the company was providing marketing services. Since 1998, the company has continued in the same business activities.

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

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

The company did not record a provision based on the company's assessment that it was probable that the company would recover the amount of the reassessment in full.

In January 2013 the company was advised by CRA that the objection was allowed and the reassessment was reversed, and a notice of re-assessment in the amount of $824,430 was issued. The company received the amount in February 2013.

The notice of re-assessment issued in January 2013 did not formally acknowledge the CRA's concurrence with the company's treatment of GST for periods subsequent to fiscal 2007. As a result, the company has filed a notice with CRA to confirm the appropriateness of the company's treatment of GST for the periods subsequent to fiscal 2007. There is no decision as of date of these consolidated financial statements.

Legal matters

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

15 Income taxes

	2017 $	2016 $
Current income taxes	-	-
Deferred income taxes	-	-
	$-	$-

In assessing the ability to realize deferred income tax assets, management considers whether it is more likely or not that some portion or all of the deferred income tax assets will be utilized in the foreseeable future. The ultimate realization of deferred income tax assets is dependent on the generation of future taxable income during the years in which those temporary differences become deductible. As at June 30, 2017, there is no certainty that such deferred income tax assets will be utilized and, therefore, such assets have not been recognized on the consolidated statements of financial position. The majority of unrecognized deferred income tax assets of $4,076,000 (2016 $3,770,000) relate to non-capital losses of $3,997,000 (2016 - $3,720,000).

As at June 30, 2017, the company has gross non-capital income tax losses of approximately $15,083,000 (2016 $14,044,000), which may be carried forward to reduce future income for income tax purposes. The benefit of these losses has not been recognized in these consolidated financial statements. These losses expire between 2018 and 2037.

	$
2018	434,000
2020	124,000
2021	282,000
2022	532,000
2023	189,000
2024	1,705,000
2025	347,000
2026	1,392,000
2027	697,000
2028	1,170,000
2029	675,000
2030	1,000
2031	4,000
2032	490,000
2033	321,000
2035	2,346,000
2036	3,239,000
2037	1,135,000
Total	**15,083,000**

16 Earnings (loss) per share

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

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

	2017	2016
	$	$
Net loss and comprehensive loss	$ (1,206,347)	$ (907,443)
Basic and Diluted EPS		
Average number of issued common shares during the year	139,071,218	139,071,218
Basic EPS	**$ (0.01)**	**$ (0.01)**

The company's potentially dilutive common shares comprise stock options granted to employees (position as at June 30, 2017 and June 30, 2016 tabulated under note 10).

The computation for diluted EPS for 12 months ended June 30, 2017 and June 30, 2016 is not provided because the effect of potential exercise of the dilutive common shares would be anti-dilutive.

17 Nature of Expenses

	Year ended June 30, 2017	Year ended June 30, 2016
	$	$
Direct expenses		
Costs of a) cardholders awards, and marketing and advertising in connection with the company's merchant based loyalty programs; b) cost of sales related to sale of aeronotes; and c) cost of sales of digital marketing services; and	$ 2,545,735	$ 3,114,217
Expense for provision against impaired accounts receivable and transaction credits	603,339	579,728
	$ 3,149,074	**$ 3,693,945**
Selling and Marketing, and General & Administrative		
Salaries and wages including travel	$ 4,418,077	$ 4,840,945
Professional fees	409,598	329,754
Facilities, processing, and office expenses	787,359	940,026
Other	64,146	59,228
	$ 5,679,180	**$ 6,169,953**

18 Segment reporting

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

During year ended June 30, 2017 and 2016 the CIBC/TD program relates to the merchant-based loyalty program the company developed and managed respectively for CIBC and TD.

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

Financial information by reportable segment for period ended June 30, 2017 and 2016 is tabulated.

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

Year ended June 30, 2017

	CIBC/TD program	Aeroplan program	Caesars program	Corporate	Total
	$	$	$	$	$
Revenues	7,607,604	1,499,133	39,751	3,524	9,150,012
Direct expenses	2,252,546	861,871	34,657	-	3,149,074
	5,355,058	637,262	5,094	3,524	6,000,938
Selling & marketing	1,761,387	81,236	131,659	-	1,974,282
General & administrative	3,081,554	607,242	16,102	-	3,704,898
Earnings (loss) from operations before depreciation, amortization and interest	512,117	(51,216)	(142,667)	3,524	321,758
Interest - loan payable	686,744	-	-	-	686,744
Interest - Non convertible debentures payable	564,305	111,200	2,949	-	678,454
Depreciation and amortization	135,498	26,701	708	-	162,907
Segment profit/(loss)	(874,431)	(189,119)	(146,324)	3,524	(1,206,347)

Year ended June 30, 2016

	CIBC/TD program	Aeroplan program	Caesars program	Corporate	Total
	$	$	$	$	$
Revenues	9,600,935	1,589,509	83,191	45	11,273,680
Direct expenses	2,716,747	920,489	56,709	-	3,693,945
	6,884,188	669,020	26,482	45	7,579,735
Selling & marketing	2,043,293	299,488	193,493	-	2,536,274
General & administrative	3,094,540	512,325	26,814	-	3,633,679
Earnings (loss) from operations before depreciation, amortization and interest	1,746,355	(142,793)	(193,825)	45	1,409,782
Interest - loan payable	896,669	-	-	-	896,669
Interest - Non convertible debentures payable	815,079	134,943	7,062	-	957,084
Depreciation and amortization	394,705	65,347	3,420	-	463,472
Segment profit/(loss)	(360,098)	(343,083)	(204,307)	45	(907,443)

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Marc Lavine
William Polley

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President and Chief Executive Officer

Mukesh Sabharwal
VP and Chief Financial Officer

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