



# ADVANTEX

## **ADVANTEX® MARKETING INTERNATIONAL INC.**

### **Management's Discussion and Analysis of Operating Results**

For the three and six month periods ended December 31, 2014 and 2013

This management's discussion and analysis ("MD&A") has been prepared based on information available to Advantex Marketing International Inc. ("Advantex" or "the Company") as at March 2, 2015. MD&A is a narrative explanation to enable the reader to assess material changes in the financial condition and results of operations of the Company during the three and six month periods ended December 31, 2014 compared to the three and six month periods ended December 31, 2013. 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, 2014, and the interim consolidated financial statements and the related notes for the three and six months ended December 31, 2014, which are available on [www.sedar.com](http://www.sedar.com). All dollar amounts are stated in Canadian Dollar, which is the Company's presentation and functional currency, unless otherwise noted. Certain dollar amounts have been rounded and do not tie directly to the interim and audited consolidated financial statements.

### **Overall Performance**

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

On a combined basis, Advantex has contractual marketing access to millions of Canadian and US consumers with above-average personal and household income. The Company's merchant partner base currently consists of about 1,600 merchants 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; book and newspaper stores; health and beauty centres; dry cleaners; gift stores; home décor; automotive dealers, service centers; and tire dealerships, many of which are leaders in their respective business segment.

Advantex earns its revenue from merchants participating in its CIBC/TD program, in the form of an agreed marketing fee, for every purchase completed using an eligible CIBC and TD credit card at their establishments. Advantex earns its revenue in the Aeroplan program from selling consumer rewards (aeroplan miles), at an agreed price per consumer reward, to participating merchants. Merchants participating in the Caesars program pay an agreed monthly participation fee.

Advantex's common shares are traded on the Canadian Securities Exchange ("CSE") under the symbol ADX.

## Summary – Three and six months ended December 31, 2014

At the start of our Fiscal 2015 year we stated that for the Company to be financially profitable on a long term basis the Company needed to grow its merchant base in all operational businesses now that long term contracts with CIBC, TD, Aeroplan and Caesars were secured.

The Company's core business is the CIBC/TD program. The Company went from a merchant participation of 1,214 at the end of June 30, 2013 to 1,022 at the end of June 30, 2014. The Company's goal is to rebuild its merchant participation back to the level of over 1,300 it enjoyed in the early part of calendar 2013. It sits at just over 900 at end of December 2014. Given the change in its operational environment, during the six months ended December 31, 2014 the Company has been re-working its go to market strategy and value proposition for merchants. The Company has not achieved its merchant acquisition goals in the first six months of Fiscal 2015. Significant changes to its business model have been made in consultation with its financial partner Accord Financial Inc. ("Accord") that now make the CIBC/TD business proposition far more competitive. We expect that these changes will allow us to once again grow our merchant population. We have adjusted our current year target to 1,000 merchants and along with staffing and cost reductions made and announced in January 2015 we believe that we have stabilized our financial situation.

The Company's goal from the Aeroplan program has been to grow its merchant base in order to achieve its annual Aimia miles target and lessen its over-dependence on the CIBC-TD program. The Company sold about 85 million aeroplan miles during calendar 2014 and its goal for calendar 2015 is to grow by 10%. This program now generates a significant level of the Company's revenues and gross profit (see section Economic Dependence in this document). The target for the next four calendar years are as follows: 2015 – 93.5 million; 2016 – 102.8 million; 2017 – 113.1 million and 2018 - 124.4 million. The Company is currently not on target to achieve its calendar 2015 goal of 92.5 million miles and we are in discussions with Aeroplan to identify growth opportunities.

The Caesars program is an expansion opportunity for the Company in the US. The program expansion was first launched in February 2015 in Philadelphia market. Currently approximately 60 merchants are participating in the program. The Company's goal is to have over 400 participating merchants in Philadelphia in twelve months' time and the experience to date indicates the goal is achievable.

In future quarters the Company will be updating its performance to its goals.

## Highlights of financial performance for the three and six month period ended December 31, 2014

The highlights of the financial performance for the three and six month period ended December 31, 2014 ("Q2 Fiscal 2015" and "YTD Fiscal 2015") compared to the three and six month period ended December 31, 2013 ("Q2 Fiscal 2014" and "YTD Fiscal 2014") is tabulated.

	Q2 Fiscal 2015	Q2 Fiscal 2014	YTD Fiscal 2015	YTD Fiscal 2014
	\$	\$	\$	\$
<b>Revenues</b>				
CIBC/TD program	3,089,353	3,943,117	6,082,209	8,041,699
Aeroplan program	702,774	665,757	1,231,656	1,115,342
Caesars program	7,863	-	15,677	-
<b>Retail programs</b>	<b>3,799,990</b>	<b>4,608,874</b>	<b>7,329,542</b>	<b>9,157,041</b>
Misc. income	-	-	45	-
<b>Total Revenue</b>	<b>3,799,990</b>	<b>4,608,874</b>	<b>7,329,587</b>	<b>9,157,041</b>
<b>Gross profit</b>	<b>2,590,926</b>	<b>2,872,967</b>	<b>5,171,025</b>	<b>5,817,038</b>
<b>Earnings from operations before depreciation, amortization and interest ("EBITDA" *)</b>	<b>419,239</b>	<b>733,893</b>	<b>1,035,506</b>	<b>1,557,583</b>
<b>Net income / (loss)</b>	<b>(144,079)</b>	<b>74,983</b>	<b>(124,273)</b>	<b>130,864</b>

\* EBITDA 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. In case of the Company, for the above tabulated periods, per interim consolidated financial statements for the three and six months ended December 31, 2014, Earnings from operations before depreciation, amortization and interest is the nearest equivalent to EBITDA.

### **Income Statement – Q2 Fiscal 2015 compared to Q2 Fiscal 2014**

#### TD/CIBC program

The 20.2% decline in merchant participation is reflected in the 21.7% decline in revenues. The decline in merchant participation is discussed in the section Overall Performance in this document. Gross profit is down \$299,420 reflecting primarily decline in revenues. The sales staffing costs were flat to year ago reflecting our desire to grow our merchant base. Selling expenses overall were down 10.6% reflecting lower administrative cost during the quarter.

#### Aeroplan program

The revenues were up 5.6%. During fiscal year ended June 30, 2014, Aimia provided the Company with the business of one of its re-seller which filed for bankruptcy and revenues reflect the pickup from this business. Gross margin was marginally lower. Gross profit consequently was flat. Selling expenses were higher reflecting increase in sales staffing headcount to capitalize on growth opportunities.

#### Caesars

The results reflect set-up of selling organization to launch the program expansion in February 2015. The preparatory work was in line with expectations.

#### General and Administrative ("G&A") expenses

In total flat. However, the largest component, compensation of non-sales staff increased 8.8% reflecting investment in infrastructure to support the growth plans of the Company.

#### Cash interest expense

Lower by 22.7%, reflecting lower borrowing. The utilization of the loan payable was lower reflecting lower merchant participation. The debentures were re-financed for a lesser amount in December 2013, see section Interest expense in this document.

Non-cash expenses representing non-cash interest (accretion charges) was higher by \$55,477 related to the refinancing of the debentures. Depreciation/amortization was lower by \$34,298. Several intangible assets comprising software were fully amortized by fiscal year ended June 30, 2014 resulting in lower amortization.

### **Income Statement – YTD Fiscal 2015 compared to YTD Fiscal 2014**

#### TD/CIBC program

The 19.3% decline in merchant participation is reflected in the 24.4% decline in revenues. The decline in merchant participation is discussed in the section Overall Performance in this document. Gross profit is down \$768,280 reflecting primarily decline in revenues. Overall, selling expenses were 13.4% lower reflecting lower headcount during Q1 Fiscal 2015 which was soon after the launch of the TD program in mid June 2014.

#### Aeroplan program

The revenues were up 10.4%. During fiscal year ended June 30, 2014, Aimia provided the Company with the business of one of its re-seller which filed for bankruptcy and revenues reflect the pickup from this business. Gross margin was up reflecting growth in revenues from merchants with higher margins. Gross profit consequently was \$107,636 higher. Selling expenses were flat.

## Caesars

The results reflect set-up of selling organization, especially during Q2 Fiscal 2015, to launch the program expansion in February 2015.

### General and Administrative (“G&A”) expenses

In total flat. However, the largest component, compensation of non-sales staff increased 7.4% reflecting investment in infrastructure to support the growth plans of the Company. The increase was primarily offset by higher amount of capitalization of internal costs expended on software development connected to ensuring operability of the Company’s merchant based programs.

### Cash interest expense

Lower by 18.1%, reflecting lower borrowing. The utilization of the loan payable was lower reflecting lower merchant participation. The debentures were re-financed for a lesser amount in December 2013, see section Interest expense in this document.

Non-cash expenses representing non-cash interest (accretion charges) was higher by \$9,913 related to the refinancing of the debentures. Depreciation/amortization was lower by \$91,279. Several intangible assets comprising software were fully amortized by fiscal year ended June 30, 2014 resulting in lower amortization.

## Results of Operations

	Q2 Fiscal 2015	Q2 Fiscal 2014	YTD Fiscal 2015	YTD Fiscal 2014
	\$	\$	\$	\$
<b>Revenue</b> – Retail programs	\$3,799,990	\$4,608,874	\$7,329,542	\$9,157,041
Misc., and interest income	-	-	45	-
<b>Total revenue</b>	<b>\$3,799,990</b>	<b>\$4,608,874</b>	<b>\$7,329,587</b>	<b>\$9,157,041</b>
Direct expenses	1,209,064	1,735,907	2,158,562	3,340,003
<b>Gross Profit</b>	<b>2,590,926</b>	<b>2,872,967</b>	<b>5,171,025</b>	<b>5,817,038</b>
<b>Earnings from operations before depreciation, amortization and interest</b>	<b>419,239</b>	<b>733,893</b>	<b>1,035,506</b>	<b>1,557,583</b>
Cash interest expense on loan payable and debentures	397,612	514,383	842,074	1,027,648
Earnings from operations before depreciation, amortization and accretion charges	21,627	219,510	193,432	529,935
Depreciation and amortization	110,229	144,527	203,459	294,738
Non-cash interest expense on debentures (accretion charges)	55,477	-	114,246	104,333
<b>Net income / (loss)</b>	<b>\$(144,079)</b>	<b>\$ 74,983</b>	<b>\$(124,273)</b>	<b>\$130,864</b>
Other comprehensive income	-	-	-	-
<b>Net Income / (loss) and comprehensive income / (loss)</b>	<b>\$(144,079)</b>	<b>\$ 74,983</b>	<b>\$(124,273)</b>	<b>\$130,864</b>

	Q2 Fiscal 2015	Q2 Fiscal 2014	YTD Fiscal 2015	YTD Fiscal 2014
Basic earnings per share	\$0.00	\$0.00	\$0.00	\$0.00
Diluted earnings per share	\$0.00	\$0.00	\$0.00	\$0.00

Extract from the Statement of Financial Position

	At December 31, 2014	At June 30, 2014	(Decrease) / Increase
	\$	\$	\$
Current assets	\$11,569,123	\$ 13,173,537	\$(1,604,414)
Total assets	\$12,370,511	\$13,940,849	\$(1,570,338)
Shareholders' deficit	\$(1,519,335)	\$(1,395,062)	\$ 124,273

The decline in Current assets and Total assets reflects:

1. A decline in Transaction credits of \$889,286. This partially reflects lower merchant participation in the CIBC/TD program. 1,022 merchants at June 30, 2014 and 908 at December 31, 2014; and
2. Decrease in Cash and cash equivalents of \$774,270. This partially reflects reduction of \$575,321 in Accounts payable and accrued liabilities.

The movement in Shareholders deficit reflects net loss for YTD Fiscal 2015.

Extracts from the Statement of Cash Flow

	For the six months ended	
	December 31, 2014	December 31, 2013
	\$	\$
Net cash provided by (used in) operating activities		
: Net income / (loss) after adjustments for non-cash expenses	\$ 193,432	\$ 529,935
: Changes in items of working capital	\$ 254,823	\$ 1,562,944
	\$ 448,555	\$ 2,092,879
Net cash (used in) investing activities	\$ (237,535)	\$ (185,226)
Net cash (used in) financing activities	\$ (984,990)	\$ (2,832,721)
(Decrease) in cash and cash equivalents	\$ (774,270)	\$ (925,068)
Cash and cash equivalents at start of period	\$ 1,815,805	\$ 1,773,672
Cash and cash equivalents at end of period	\$ 1,041,535	\$ 848,604

Changes in working capital

During YTD Fiscal 2015 the changes primarily reflect a decline in Transaction credits (\$889,286) which is a reflection of a decline in merchant participation and a reduction in Accounts payable and accrued liabilities (\$575,321). YTD Fiscal 2014 primarily reflects a decrease in Transaction credits (\$1,535,705) and an increase in Accounts payable and accrued liabilities (\$829,130).

Changes in financing activities

YTD Fiscal 2015 reflects decline in the utilization of Loan payable and this is the direct outcome of the decline in the merchants participating in the CIBC/TD program. YTD Fiscal 2014 reflects the debenture re-financing.

*The presentations in Results of Operations section are not set out in accordance with International Financial Reporting Standards ("IFRS"). The presentations are extracts from the interim consolidated financial statement for the three and six months ended December 31, 2014, 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 models. 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 models.

The Aeroplan program operates the Re-seller model.

The Caesars program operates the Participation fee model.

The nature of the Company's programs is as follows:

**Advance Purchase Marketing ("APM"):** The Company acquires the rights to cash flow from future 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 any card from CIBC portfolio of credit cards and TD aeroplan 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 that the merchant owes.

**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. Certain agreements with merchants carry a commitment for merchants to issue a minimum number of aeroplan miles during the term of their agreement with the Company.

**Participation fee:** The Company markets participating merchants to 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 the:

1. Number of participating merchants;
2. Market penetration of the CIBC/TD credit cards;
3. Economic environment. The uncertain economy is affecting consumer spending habits;
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 model is higher compared to Marketing Only.

The revenues from the Re-seller model 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. For the six months ended December 31, 2014 the merchants participating were carried over from the pilot launch in Memphis and soft launch in November 2014 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.

	Q2 Fiscal 2015	Q2 Fiscal 2014	Inc./ (Dec)	YTD Fiscal 2015	YTD Fiscal 2014	Inc./ (Dec)
<b>Avg. # of merchants participating during the period</b>						
CIBC/TD program	943	1,181	(20.2)%	967	1,198	(19.3)%
Aeroplan program	609	802	(24.1)%	606	789	(23.2)%
	\$	\$	%	\$	\$	%
<b>Revenues</b>						
CIBC/TD program	3,089,353	3,943,117	(21.7)%	6,082,209	8,041,699	(24.4)%
Aeroplan program	702,774	665,757	5.6%	1,231,656	1,115,342	10.4%
Caesars program	7,863	-		15,677	-	
Retail programs	3,799,990	4,608,874	(17.6)%	7,329,542	9,157,041	(20.0)%
Misc.	-	-		45	-	
<b>Total Revenues</b>	<b>3,799,990</b>	<b>4,608,874</b>	<b>(17.6)%</b>	<b>7,329,587</b>	<b>9,157,041</b>	<b>(20.0)%</b>

During three months ended June 30, 2014, OK Tires did not renew their agreement which created a significant effect on the Aeroplan reseller population (235), but a proportionately modest impact on revenues.

### Direct Expenses

In the CIBC/TD program, direct expenses include costs of consumer rewards which the Company purchases from its Affinity partners, 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 its Affinity partner. Other costs include cost of marketing and advertising on behalf of merchants and provision against receivables.

	Q2 Fiscal 2015	Q2 Fiscal 2014	Inc./ (Dec)	YTD Fiscal 2015	YTD Fiscal 2014	Inc./ (Dec)
	\$	\$	%	\$	\$	%
<b>Revenues</b>						
CIBC/TD program	3,089,353	3,943,117	(21.7)%	6,082,209	8,041,699	(24.4)%
Aeroplan program	702,774	665,757	5.6%	1,231,656	1,115,342	10.4%
Caesars program	7,863	-		15,677		
<b>Direct expenses</b>						
CIBC/TD program	806,895	1,361,239	(40.7)%	1,483,814	2,675,024	(44.5)%
Aeroplan program	404,890	374,668	8.1%	673,657	664,979	1.3%
Caesars program	(2,721)	-		1,091	-	

#### CIBC/TD program

	Change Q2 Fiscal 2015 vs. Q2 Fiscal 2014	Change YTD Fiscal 2015 vs. YTD Fiscal 2014
	\$	\$
Consumer rewards	(279,640)	(734,977)
Marketing including digital	(124,161)	(184,485)
Expense for delinquent accounts	<u>(150,543)</u>	<u>(271,748)</u>
	<u>(554,344)</u>	<u>(1,191,210)</u>

The decline in cost of consumer rewards reflects a decline in merchant population and a rate reduction, effective January-March 2014, for a certain class of consumer rewards. Q2 Fiscal 2014 and YTD Fiscal 2014 reflects the investment in merchant incentives to retain and grow our merchant base. The cost of additional consumer rewards was \$89,000 and \$304,000 for Q2 Fiscal 2014 and YTD Fiscal 2014 respectively.

Both CIBC and TD directly spent significant amounts to market the program. Point of sale, program websites were refreshed in case of CIBC and created for first time by TD. The Company marketing spending consequently was lower compared to corresponding period in the previous year.

Lower expense for delinquent accounts. We allocated lower expenses for delinquent accounts. While merchants participating in the CIBC/TD program continue to experience difficult business conditions, the Company believes it has reduced its risk in this area by scaling back its APM product in business segments with high incidence of delinquencies and reducing the amount of transaction credits it purchases from merchants. The Company continues to monitor the credit and collection environment to determine the amounts of transaction credits it purchases from merchants and the collection prospects of delinquent accounts.

## Gross Profit

	Q2 Fiscal 2015	Q2 Fiscal 2014	Inc./ (Dec)	YTD Fiscal 2015	YTD Fiscal 2014	Inc./ (Dec)
	\$	\$	\$	\$	\$	\$
CIBC/TD program	2,282,458	2,581,878	(299,420)	4,598,395	5,366,675	(768,280)
Aeroplan program	297,884	291,089	6,795	557,999	450,363	107,636
Caesars program	10,584	-	10,584	14,586	-	14,586
Misc.	-	-	-	45	-	45
	<b>2,590,926</b>	<b>2,872,967</b>	<b>(282,041)</b>	<b>5,171,025</b>	<b>5,817,038</b>	<b>(646,013)</b>

CIBC/TD program gross profit for Q2 Fiscal 2015 and YTD Fiscal 2015 compared to corresponding period previous year reflects a) decline in revenues and b) improvement in gross margin reflecting lower direct expenses.

Aeroplan program gross profit for Q2 Fiscal 2015 is flat compared to Q2 Fiscal 2014 reflecting a modest increase in revenues offset by a decline in gross margin due to an increase in promotional activity in the automotive segment. YTD Fiscal 2015 gross profit is up 23.9% compared to corresponding period previous year reflecting increase in revenues and improvement in gross margin due to growth in revenues from merchants with higher margins.

## Selling Expenses

Selling expenses include expenses arising from remuneration of sales staff, transaction processing and other selling activities.

	Q2 Fiscal 2015	Q2 Fiscal 2014	Inc./ (Dec)	YTD Fiscal 2015	YTD Fiscal 2014	Inc./ (Dec)
	\$	\$	%	\$	\$	%
<b>Revenues</b>						
CIBC/TD program	3,089,353	3,943,117	(21.7)%	6,082,209	8,041,699	(24.4)%
Aeroplan program	702,774	665,757	5.6%	1,231,656	1,115,342	10.4%
Caesars program	7,863	-		15,677	-	
<b>Selling expenses</b>						
CIBC/TD program	745,197	833,094	(10.6)%	1,472,963	1,700,868	(13.4)%
Aeroplan program	147,688	112,375	31.4%	239,984	246,579	(2.7)%
Caesars program	97,929	-		109,990	-	
	<b>990,814</b>	<b>945,469</b>		<b>1,822,937</b>	<b>1,947,447</b>	

Selling expenses in their aggregate during Q2 Fiscal 2015 increased to support the growth opportunities with our new contracts.

## 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).

	Q2 Fiscal 2015	Q2 Fiscal 2014	Inc./ (Dec)	YTD Fiscal 2015	YTD Fiscal 2014	Inc./ (Dec)
	\$	\$		\$	\$	
Change in Retail program Revenues			<b>(17.6)%</b>			<b>(20.0)%</b>
G&A						
Compensation for non-sales staff	928,481	853,610	8.8%	1,825,553	1,700,343	7.4%
Less: software development costs capitalized (details provided under section Capital Expenditures in this document)	(84,809)	(50,684)		(169,300)	(79,171)	
	843,672	802,926		1,656,253	1,621,172	
All other G&A expenses	337,201	390,679		656,329	690,836	
	<b>1,180,873</b>	<b>1,193,605</b>	<b>(1.1)%</b>	<b>2,312,582</b>	<b>2,312,008</b>	<b>0.0%</b>

### Compensation

Increase in Q2 Fiscal 2015 and YTD Fiscal 2015 compared to corresponding periods in the previous year reflect increase in headcount. Increase reflects investment in infrastructure to support the growth plans of the Company.

Q2 Fiscal 2015 and YTD Fiscal 2015 includes capitalization of \$84,809 and \$169,300 respectively of internal costs expended on software development connected to ensuring operability of the Company’s merchant based programs sponsored by CIBC, TD and Aimia. This compares to \$50,684 and \$79,171 in Q2 Fiscal 2014 and YTD Fiscal 2014 respectively. A significant portion of the capitalization during YTD Fiscal 2015 relates to operationalizing the TD agreement.

## Interest Expense

The interest expense is tabulated:

	Q2 Fiscal 2015	Q2 Fiscal 2014	Inc./ (Dec)	YTD Fiscal 2015	YTD Fiscal 2014	Inc./ (Dec)
	\$	\$		\$	\$	
Stated interest expense						
Loan payable	222,070	265,320		471,490	530,967	
14% debentures	-	61,542		-	123,084	
old 12% debentures	-	184,129		-	370,205	
new 12% debentures	156,042	3,392		312,084	3,392	
new 12% debentures – fees payable	19,500	-		58,500	-	
<b>Total stated interest</b>	<b>397,612</b>	<b>514,383</b>	<b>(22.7)%</b>	<b>842,074</b>	<b>1,027,648</b>	<b>(18.1)%</b>
Non-cash interest (accretion charges on debentures). Q2 Fiscal 2015 respecting new 12% debentures, and Q2 Fiscal 2014 reflecting 14% debentures, old 12% debentures and new 12% debentures	55,477	-		114,246	104,333	
<b>Total interest expense</b>	<b>453,089</b>	<b>514,383</b>	<b>(11.9)%</b>	<b>956,320</b>	<b>1,131,981</b>	<b>(15.5)%</b>

The Company deployed the funds available to it under loan payable and 14% debentures with merchants activated under its CIBC/TD program's APM model. The funds available under the old 12% debentures were used for working capital purposes as well as being deployed with merchants activated under the APM model. Since the repayment of the 14% debentures and old 12% debentures, the funds available under the new 12% debentures are used for working capital purposes as well as being deployed with merchants activated under the APM model. The funds deployed are reflected as transaction credits on the consolidated statement of financial position.

Stated interest expense on loan payable reflects the lower utilization of funds under this line of credit facility.

The structure of the new 12% debentures results in a lower accretion cost.

Fees payable on the new 12% debentures are described in the section 12% Non-Convertible Debentures Payable.

## Net Income

Highlights of Q2 Fiscal 2015 and YTD Fiscal 2015 compared to corresponding periods in the previous year is tabulated:

### Q2

	Q2 Fiscal 2015	Q2 Fiscal 2014	Inc./(Dec)
Revenues	\$3,799,990	\$4,608,874	\$ (808,884)
Gross Profit	\$2,590,926	\$2,872,967	\$ (282,041)
Earnings from operations before depreciation, amortization and interest	\$ 419,239	\$ 733,893	\$ (314,654)
Net Income / (loss)	\$ (144,079)	\$ 74,983	\$ (219,062)
Basic and Fully Diluted earnings per share	\$0.00	\$0.00	

The \$808,884 drop in the Company's revenues reflects mainly the decline in CIBC/TD revenues. Gross profit decline of \$282,041 reflects the revenue decline of CIBC/TD program. Selling expenses and General & Administrative expenses reflect an increase in headcount to capitalize on the growth opportunities across all programs. Lower interest cost (\$61,294) – see Interest Expense section – and depreciation and amortization expense (\$34,298) offset the drop of \$314,654 in earnings from operations before depreciation, amortization and interest.

### YTD

	YTD Fiscal 2014	YTD Fiscal 2013	Inc./(Dec)
Revenues	\$7,329,587	\$9,157,041	\$(1,827,454)
Gross Profit	\$5,171,025	\$5,817,038	\$ (646,013)
Earnings from operations before depreciation, amortization and interest	\$1,035,506	\$1,557,583	\$ (522,077)
Net Income / (loss)	\$ (124,273)	\$ 130,864	\$ (255,137)
Basic and Fully Diluted earnings per share	\$0.00	\$0.00	

The \$1,827,454 drop in the Company's revenues reflects mainly the decline in CIBC/TD revenues of \$1,959,490. Gross profit decline of \$646,013 reflects the revenue decline of CIBC/TD program (\$768,280) offset by increase in Aeroplan program gross profit of \$107,636. Selling expenses and G&A reflect a lower headcount during Q1 Fiscal 2015 and offset some of the drop in the gross profit. Lower interest cost (\$175,661) – see Interest Expense section – and depreciation and amortization expense (\$91,279) offset the drop of \$532,077 in earnings from operations before depreciation, amortization and interest. Several intangible assets comprising software were fully amortized by Fiscal year ended June 30, 2014 resulting in lower amortization in YTD Fiscal 2015.

## Working Capital and Liquidity Management

The utilization of liquidity during Q2 Fiscal 2015 and YTD Fiscal 2015 compared to Q2 Fiscal 2014 and YTD Fiscal 2014 is illustrated in the following tabulation:

	YTD Fiscal 2015	YTD Fiscal 2014
	\$	\$
Net cash provided by (used in) operating activities		
Net income / (loss) after adjustments for non-cash expenses *	193,432	529,935
Changes in items of working capital	<u>254,823</u>	<u>1,562,944</u>
	448,255	2,092,879
Net cash (used in) investing activities	(237,535)	(185,226)
Net cash (used in) financing activities	<u>(984,990)</u>	<u>(2,832,721)</u>
(Decrease) in cash and cash equivalents	(774,270)	(925,068)
<b>Cash and cash equivalents at start of period</b>	<b><u>1,815,805</u></b>	<b><u>1,773,672</u></b>
<b>Cash and cash equivalents at end of period</b>	<b><u>1,041,535</u></b>	<b><u>848,604</u></b>

\* 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 after adjustments for non-cash expenses 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 income / (loss) for the three and six months, which are disclosed in the consolidated financial statements for three and six months ended December 31, 2014 under the section consolidated statements of cash flow.

The cash and cash equivalents, and accounts receivable as at December 31, 2014 include \$423,144 of amounts received from our Affinity partners CIBC and TD to be invested in marketing the program. Accounts payable and accrued liabilities as at December 31, 2014 reflect the corresponding liability.

Changes in working capital. During Q2 Fiscal 2015 primarily reflect decline in transaction credits (\$889,286) which is a reflection of decline in merchant participation and reduction in accounts payable and accrued liabilities (\$575,321). Q2 Fiscal 2014 primarily reflects decrease in transaction credits (\$1,535,705) and an increase in accounts payable and accrued liabilities (\$829,130). The Company believes that increasing the amount of the transaction credits deployed with merchants under the CIBC/TD program's APM model 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 model, as well as the amount of transaction credits deployed with its existing merchants.

Changes in investing activities relate to capital expenditures. They are discussed under the section Capital Resources in this document. Capital expenditures for Q2 Fiscal 2015, YTD Fiscal 2015 and corresponding periods in the previous year relate to the investment in the Company's infrastructure and software development. The investments are necessary to support the Company's growth and program expectations of our partners.

Changes in financing activities. Q2 Fiscal 2015 and YTD Fiscal 2015 reflects decline in the utilization of Loan payable and this is the direct outcome of the decline in the merchants participating in the CIBC/TD program. Q2 Fiscal 2014 reflects the debenture re-financing.

The Company carries cash balances sufficient to meet its operational needs, and sustain and expand merchant participation in the APM model. While, generally the cash balances at the end of a quarter / year reflect the timing difference between the Company's ongoing collection of transaction credits from merchants participating in its CIBC/TD program's APM model, and deploying advances to existing and new merchants, the following are additional considerations:

- (i) As at December 31, 2014. As noted earlier in this section, also included in cash and cash equivalents are funds totaling \$423,141 provided by Affinity partners CIBC and TD (at June 30, 2014 \$360,170); and
- (ii) Until December 30, 2013 the cash balances also included an element of cash that the Company used to re-pay the 14% debentures and old 12% debentures which were refinanced at December 30, 2013.

The Company's operations are funded by debt. To continue its current operations and fund growth during fiscal year ending 2015, the Company requires continued access to its existing levels of debt. The Company has secured a one year renewal of the loan payable agreement. The agreement now expires in December 2015. In December 2013, the Company completed a refinancing by way of a private placement of new 12% debentures in the principal amount of \$5,159,000. The new 12% debentures mature September 30, 2016. The Company used

the proceeds of the new 12% debentures plus cash on hand to repay the old 12% debentures and 14% debentures. The Company repaid \$7,896,000 in aggregate principal amount of the old 12% debentures and 14% debentures plus accrued interest thereon.

At present, the need for capital to expand the APM model is satisfied by the loan payable, however there are limitations including; a credit limit of \$8.5 million; it is a demand facility; and it requires the Company to co-fund a certain portion of the transaction credits deployed with merchants under the APM model.

Additional capital in the form of debt and/or equity will be required to fund the continued expansion of the Company's business expansion goals, including the APM model, as described under the section General Risks and Uncertainties in this document.

The Company does not participate in off balance sheet financing arrangements.

## Contractual Obligations

Contractual obligations as at December 31, 2014 were due as follow. (In millions of dollars)

Contractual obligations	Total	Payments due by period		
		Less than 1 year	1 to 3 years	4 to 5 years
	\$ M	\$ M	\$ M	\$ M
Loan Payable	5.5	5.5		
New 12% debentures	5.2		5.2	
Operating leases	0.3	0.1	0.2	
Other contractual obligations	8.9	2.1	4.3	2.5
<b>Total contractual obligations</b>	<b>19.9</b>	<b>7.7</b>	<b>9.7</b>	<b>2.5</b>

### Other contractual obligations

The renewed agreement enables the Company to operate Aimia's Aeroplan loyalty program in the independent merchant business segment, primarily as a re-seller of aeroplan miles. Per the renewed agreement, which has an initial term expiring April 30, 2019, the Company has an annual commitment to purchase minimum aeroplan miles. The annual commitment is tabulated. The Company met the calendar 2014 purchase commitment. It sold the aeroplan miles and this is reflected as revenue of the Aeroplan program.

Calendar year	Annual commitment
2014	\$1,700,000
2015	\$1,870,000
2016	\$2,057,000
2017	\$2,262,700
2018	\$2,488,970

In February, 2012 the Company signed an agreement with a service provider to purchase software over a three year term. Reflecting a subsequent understanding, the annual purchase commitment was applicable only from August 1, 2013 and it is \$192,000. The Company sells this software to merchants participating in its programs.

## 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 program 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 amounts due from merchants funded from the facility.

The facility was established in December 2007. On October 2, 2014, the Company announced that this agreement has now been extended to December 2015.

The facility has a limit of \$8.5 million. The Company is paying an interest rate on the entire facility 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 \$5.5 million of the facility as at December 31, 2014 (as at June 30, 2014 \$6.5 million).

#### **14% Non-Convertible Debentures Payable**

The 14% debentures, issued in May 2011 and partially repaid in July 2012 pursuant to a debt repayment agreement, in the principal amount of \$1,744,000 had an initial maturity date of September 30, 2013. The 3,444,400 common share purchase warrants of the Company (each a "warrant") issued with the 14% debentures had an initial expiration date of September 30, 2013.

During period ended December 31, 2013 the Company and the holders of the 14% debentures agreed to extend the term of the 14% debenture and warrants to December 31, 2013.

On December 30, 2013, the Company repaid the 14% debentures.

The 3,444,400 warrants were not exercised and expired as of December 31, 2013.

#### **12% Non-Convertible Debentures Payable**

The old 12% debentures, issued in May 2011 and partially repaid in July 2012 pursuant to a debt repayment agreement, in the principal amount of \$6,151,967 had an initial maturity date of September 30, 2013. The 87,056,491 common share purchase warrants of the Company (each a "warrant") issued with the old 12% debentures had an initial expiration date of September 30, 2013.

During period ended December 31, 2013 the Company and the holders of the old 12% debentures agreed to extend the term of the old 12% debenture and warrants to December 31, 2013.

On December 30, 2013, the Company completed a refinancing by way of a private placement of new 12% debentures in the principal amount of \$5,159,000.

As of December 31, 2013 the Company used the proceeds of the new 12% debentures plus cash on hand to repay the old 12% debentures and 14% debentures (section 14% Non-Convertible Debentures Payable in this document). The Company repaid \$6,151,967 in aggregate principal amount of the old 12% debentures plus accrued interest thereon. The 87,056,491 warrants were not exercised and expired as of December 31, 2013.

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

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 which was 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 and \$58,500 is expensed in the six months ended December 31, 2014 (\$6,500 expensed in year ended June 30, 2014). The Company paid the interest and the fees on the due dates. The Company met

the revised financial covenants as at June 30, 2014. The Company met its quarterly financial covenants as at September 30, 2014 and December 31, 2014.

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.

### Summary of Quarterly Results

(in millions of dollars, except per share amounts)	Q3 Fiscal 2014	Q4 Fiscal 2014	Q1 Fiscal 2015	Q2 Fiscal 2015	Total
	Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	Dec 31, 2014	
Revenue	\$3.6	\$3.8	\$3.5	\$3.8	\$14.7
Percent of Annual revenue	24.6%	25.8%	23.8%	25.8%	100.0%
Net income/(loss)	\$(0.4)	\$(0.4)	\$0.0	\$(0.1)	\$(0.9)
Basic earnings per share	-	-	-	-	-
Diluted earnings per share	-	-	-	-	-

(in millions of dollars, except per share amounts)	Q3 Fiscal 2013	Q4 Fiscal 2013	Q1 Fiscal 2014	Q2 Fiscal 2014	Total
	Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	Dec 31, 2013	
Revenue	\$3.6	\$4.5	\$4.5	\$4.6	\$17.2
Percent of Annual revenue	20.9%	26.2%	26.2%	26.7%	100.0%
Net income/(loss)	\$(0.6)	\$0.2	\$0.0	\$0.1	\$(0.3)
Basic earnings per share	-	-	-	-	-
Diluted earnings per share	-	-	-	-	-

The fluctuations in the Company's quarterly revenues from its Retail programs reflect seasonal consumer behavior at merchants participating in the Retail programs, as well as the other factors described under section Revenue in this document.

The fluctuations in the Company's quarterly results reflect revenues and the costs to earn the revenues.

### Capital Resources

Expenditures for property, plant and equipment and intangible assets for Q2 Fiscal 2015 were \$109,045 compared to \$70,989 for Q2 Fiscal 2014, while YTD Fiscal expenditures were \$237,535 compared to \$185,226 for YTD Fiscal 2014.

The Q2 Fiscal 2015 expenditures included \$21,335 for computer hardware and \$87,710 for computer software (Q2 Fiscal 2014 \$23,594 and \$47,395 respectively). The YTD Fiscal 2015 expenditures included \$27,316 for

computer hardware and \$210,219 for computer software (YTD Fiscal 2014 \$35,698 and \$149,528 respectively). The capital expenditures for Q2 Fiscal 2015 and YTD Fiscal 2015 relate to investing in the Company's infrastructure and software, and are flat compared to corresponding periods in the previous year.

Q2 Fiscal 2015 includes capitalization of \$84,809 of internal costs expended on software development connected to ensuring operability of the Company's merchant based programs sponsored by CIBC, TD and Aimia compared to \$50,684 in Q2 Fiscal 2014. YTD Fiscal 2015 includes capitalization of \$169,300 of internal costs expended on software development connected to ensuring operability of the Company's merchant based programs sponsored by CIBC, TD and Aimia compared to \$79,171 in YTD Fiscal 2014. The capitalization during Q2 Fiscal 2015 and YTD Fiscal 2015 mainly relates to operationalizing the TD agreement 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 fiscal year ending June 30, 2015, the Company expects capital expenditures to be more than fiscal year ended June 30, 2014. The expected increase would be to support the expanding requirements, particularly those connected to security of data, provided by Affinity partners, which the Company uses to operate its programs and to launch programs with other potential Affinity partners.

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

### **Critical Accounting Estimates**

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

The Company's significant accounting policies are disclosed in note 4 to the audited consolidated financial statements for year ended June 30, 2014.

#### *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 17 to the audited consolidated financial statements for year ended June 30, 2014, and in the final paragraph in the General Risks and Uncertainties section of this document, and whether a tax provision is required.

#### *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, ability to access additional sources of debt, growth of its existing business, and development of new lines of business.

#### *Financial instruments – fair value*

The Company calculates the fair value of certain financial instruments using the Black-Scholes option pricing model. This requires assumptions regarding the risk-free rate of return, the expected life of the instrument, the expected volatility in the price of the common shares of the Company and the expected level of dividends to be paid on the common shares of the Company.

The carrying value of accounts receivable, transaction credits, accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these instruments. The stated value of the loan payable, and non-convertible debenture payable approximate their fair values, as the interest rates are representative of current market rates for loans with similar terms, conditions and maturities.

### *Credit risk*

The Company has certain business risks linked to the collection of its transaction credits. Under the APM model 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 for legal collection, 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 for impaired accounts is as follows:

	<b>December 31, 2014</b>	<b>June 30, 2014</b>
	<b>\$</b>	<b>\$</b>
Transaction credits	10,691,250	11,361,349
Accounts receivable	723,130	809,189
Allowance	<u>(1,301,830)</u>	<u>(1,082,643)</u>
Per statement of financial position	<u>10,112,550</u>	<u>11,087,895</u>
Maximum exposure to credit risk	10,112,550	11,087,895

	<b>December 31, 2014</b>	<b>June 30, 2014</b>
	<b>\$</b>	<b>\$</b>
Impaired transaction credits	2,572,328	2,167,222
Allowance	<u>(1,301,830)</u>	<u>(1,082,643)</u>
Impaired transaction credits not allowed for	1,270,498	1,084,579

### **Stock Options**

The Company has a stock option plan (“2009 stock option plan”) for directors, officers, employees and consultants. The 2009 stock option plan is 12% fixed maximum number of common shares issuable based on 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 (section 12% Non-Convertible Debentures Payable), 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.

In December 2014, the directors of the Company approved continuation of the 2009 stock option plan to date of the annual meeting of shareholders in 2015.

The stock options are non-assignable; the stock option price is to be fixed by the Board of Directors but may not be less than the regulations of the stock exchange on which the Company’s common shares are listed; the term of the stock options may not exceed five years, and payment for the optioned shares is required to be made in full on the exercise of the stock options. The stock options are subject to various vesting provisions, determined by the Board of Directors, ranging from immediate to four years.

Movement during YTD Fiscal 2015 and YTD Fiscal 2014 is tabulated.

	<b>YTD Fiscal 2015</b>	<b>YTD Fiscal 2014</b>
	Number of options	
Outstanding at July 1	10,190,000	10,441,430
Expired	-	-
Forfeited	-	-
Granted	-	-
Outstanding at September 30 and December 31	10,190,000	10,441,430

The number of stock options available for future issuance as at December 31, 2014 compared to December 31, 2013 is as follows:

	<b>YTD Fiscal 2015</b>	<b>YTD Fiscal 2014</b>
Maximum number reserved for issuance	16,688,546	11,643,044
Less: outstanding at end of period	10,190,000	10,441,430
Number of options available for future issuance	6,498,546	1,201,614

There was no stock based compensation expense during YTD Fiscal 2015 and YTD Fiscal 2014.

## **Outstanding Share Data**

### Outstanding common shares

As of June 30, 2014, December 31, 2014 and the date hereof, 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 CST Trust Company.

As of date hereof, the Company was committed to issuing 9,990,000 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:

	<b>December 31, 2014</b>	<b>June 30, 2014</b>
	new 12% debentures	new 12% debentures
Director and Chief Executive Officer – Kelly Ambrose	\$500,000	\$500,000
Director and Chairman of the Board of Directors – Stephen Burns	\$ 50,000	\$ 50,000
Director - Marc Lavine	\$500,000	\$500,000
Director – Rob von der Porten	\$ 50,000	\$ 50,000
Director – William Polley	\$ 50,000	\$ 50,000
Director – Barry Wainstein	\$ 25,000	\$nil
Chief Financial Officer – Mukesh Sabharwal	\$ 115,000	\$ 115,000

## **Outlook**

The Company believes that its long term prospects are positive and expects to improve its financial performance. This is based on its proven business model and its existing Affinity partnerships.

After responding vigorously to the challenges of fiscal year ended June 30, 2014, during the three and six months ended December 31, 2014 the Company has focused on building its merchant base and on its business operations.

The Affinity partnerships with CIBC, TD, Aimia and Caesars give the Company a solid footing in the loyalty marketing space. Loyalty marketing is a multi-billion dollar business in North America and Advantex is well positioned to gain a wider share of this market with its proprietary technology and its outstanding partners.

## **Economic Dependence**

A significant portion of the Company's current revenue is dependent upon its value-added loyalty program agreement with CIBC under which consumer rewards are awarded to holders of certain CIBC credit cards when they complete purchases at merchants participating in Advantex's CIBC/TD program. The significance to the Company of the CIBC agreement can best be assessed by comparing its revenues from its relationship with CIBC with that of other programs as tabulated at the end of this section. The Company has an eighteen year partnership with CIBC. In September, 2013 the Company renewed its existing arrangement with CIBC, and signed a new agreement ("new agreement"). The initial term of the new agreement is through September 30, 2016, which may, at the option of CIBC, be renewed for up to two additional one year periods. The new agreement grants the Company conditional exclusivity rights to market its programs within certain business segments including Dining (restaurants; golf courses; independent inns, resorts and selected hotels; spas). The new agreement can be terminated by CIBC at any time by providing at least six months prior written notice to the Company.

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 has an initial term of two years and expires in June 2016. The agreement renews automatically for additional one year terms unless TD provides notice not to renew. The agreement can be terminated by TD at any time by providing at least four months prior written notice to the Company. With the consummation of the TD agreement, indications are that total credit card volumes, and hence revenue per merchant appear to be similar to levels prior to sale by CIBC of a part of

its Aeroplan portfolio to TD. The Company is now poised to reclaim and grow its merchant populations, after fiscal year ended June 30, 2014 declines.

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 CIBC and TD aeroplan credit cards at participating merchants and the economic environment. Since the dollar spending by holders of 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.

Recognizing the risks of overdependence on an Affinity partner and/or a business segment from the perspective of business continuity, and limitation on future revenues and profitability, the Company sought out and signed an agreement with Aimia Canada Inc. (subsidiary of Aimia). The agreement was signed in March, 2010. In November 2014 the Company renewed its agreement ("renewed agreement") with Aimia for a five year term ending April 30, 2019. The renewed agreement can be extended for one additional period of five years by mutual consent. Per the renewed agreement the Company has an annual commitment to purchase minimum aeroplan miles which is tabulated in section Contractual Obligations. Under the renewed agreement, the Company will market the Aeroplan program to independent merchants throughout Canada, enabling them to offer Aeroplan Miles to their customers. The renewed agreement can be terminated by Aimia under certain conditions during the term of the renewed agreement.

Illustration of economic dependence on CIBC/TD program. Revenue and Gross profit (revenue less direct costs )

	YTD Fiscal 2015		YTD Fiscal 2014	
	\$	\$	\$	\$
	Revenue	Gross profit	Revenue	Gross profit
CIBC/TD program	6,082,209	4,598,395	8,041,699	5,366,675
Aeroplan program	1,231,656	557,999	1,115,342	450,363

## 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 eighteen years and has been through several multi-year renewal terms. The agreement was renewed effective September 30, 2013. The initial term of the agreement is through September 30, 2016, which may, at the option of CIBC, be renewed for up to two additional one year periods. If CIBC exercises its right to either terminate the agreement upon at least six months prior notice or retain a third party service provider to operate a competing program, the Company could be materially and adversely affected. The Company believes that it has begun to limit its economic dependence on CIBC by developing its partnership with TD and Aimia.

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 has an initial term of two years and expires in June 2016. The agreement renews automatically for additional one year terms unless TD provides notice not to renew. The agreement can be terminated by TD at any time by providing at least four months prior written notice to the Company. With the consummation of the TD agreement, indications are that total credit card volumes, and hence revenue per merchant appear to be similar to levels prior to sale by CIBC of a part of its Aero portfolio to TD.

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 CIBC and TD aeroplan credit cards at participating merchants. The dollar spending by holders of CIBC and TD aeroplan credit cards is dependent upon the banks credit card portfolio and the economic environment.

The Company's working capital needs are currently entirely provided by debt in the form of new 12% debentures, and loan payable. While the Company utilizes the funds generated from its operations to expand its APM model - under which it acquires the rights to future designated credit card transactions at a discount from the face value from merchants participating in the CIBC/TD program, in addition to providing the merchants with loyalty marketing services - to be able to advance its business the Company needs to be able to access the room available under the loan payable facility. The Company's relationship with the new 12% debentures holders, and providers of loan payable facility span about 10+ and 7 years respectively. The new 12% debentures carry financial covenants and 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. The loan payable is a demand facility, and the term of the loan payable per the announcement on October 2, 2014, expires in December 2015. 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 model will result in higher revenue and, consequently, improve the Company's financial results and cash flows. The Company requires additional debt financing to scale its ability in this area. If the Company is not successful in raising additional debt financing, 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 model 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 for legal collection, 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 six months ended December 31, 2014, the Company incurred interest expense of \$471,490 on utilization of loan payable. Had the interest rate, for the six months ended December 31, 2014, been 10% higher the interest expense on loan payable would have been \$518,639, an increase of \$47,149.

During the past seven years, the Company has added additional sources of debt, and continues to explore avenues to secure debt at better terms.

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 financial and security difficulties being experienced by the airline industry overall, 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 Advantex's revenue. In addition, there are additional loyalty program operators in Canada, targeting the same merchant base as Advantex. In the past, other companies have attempted to develop similar merchant-based coalitions on their own and failed, making Advantex, with its established merchant coalition and proven loyalty systems, a reputable outsourced partner in the Canadian marketplace. Advantex 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 new competition in Canada.

In addition to economic factors, 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; competition; changes in regulations - including taxation - affecting the Company's activities; consumer spending behavior; continued demand for the Company's programs by merchants; and the ability to meet the commitments (described in detail under section Contractual Obligations in this document).

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: expectation that its current long term contracts will enable it to grow its merchant base; belief that it can be financially profitable on a long term basis upon growth of its merchant base; belief that it can rebuild its CIBC/TD program merchant participation to early 2013 level; expectation that participation level of 1,000 merchants in the CIBC/TD program together with the staffing adjustments announced in January 2015 will be sufficient to stabilize its financial situation; belief that it can have over 400 participating merchants in the Caesars program in the next twelve months; belief that increasing amount of transaction credits deployed with merchants will improve its financial results and cash flows; belief that its long term prospects are positive; expectation of improving its financial results;

belief that it operates a proven business model; belief that its affinity partnerships give it a solid footing in the loyalty marketing space; belief that it is well positioned to gain a wider share of the loyalty marketing space; belief that affinity partnerships with TD and Aimia mitigate the financial risk from the economic dependence on the agreement with CIBC; expectation of future delinquencies and its ability to reduce its exposure to future delinquencies; expectation that its current working capital needs are provided by loan payable and new 12% debentures; belief that additional capital in the form of debt and /or equity is required to fund business expansion goals; expectations of capital expenditures and the nature of expenditures during fiscal year ending June 30, 2015; ability to access new sources of debt; belief in its ability to pass on a significant portion of any interest rate increase to participating merchants; belief in its ability to compete effectively and respond to new competition; belief in the appropriateness of its tax filing positions; 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 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; its ability to access future financing to expand the CIBC/TD program's APM model, and for general working capital needs; ongoing and future Affinity partnerships and revenue sources; future business levels and the cost structure 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 "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](http://www.sedar.com), and may also be obtained by request by telephone or facsimile or at the Company's website at [www.advantex.com](http://www.advantex.com).

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