ADVANTEX

ADVANTEX® MARKETING INTERNATIONAL INC.
Management's Discussion and Analysis of Operating Results
For the fiscal years ended June 30, 2016 and 2015

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, 2016. 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, 2016, compared to the twelve months ended June 30, 2015. 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, 2016, 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 1,300 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; 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.

12 months ended June 30, 2016 ("Fiscal 2016")

While the direction of the financial performance tracks the company's expectation of a gradual recovery after over-coming the structural and competitive challenges of the previous fiscal year, the recovery is not as strong as expected due to lower than expected merchant participation in the CIBC/TD program. The financial performance reflects the scarcity of working capital - post restructuring – to invest in the business to offset more than expected low growth economic environment.

The company is reporting an improvement in its financial performance for Fiscal 2016 compared to 12 months ended June 30, 2015 ("Fiscal 2015").

Highlights of financial performance for the Fiscal 2016 and Fiscal 2015

	Fiscal 2016	Fiscal 2015
	$	$
Revenues		
CIBC/TD program	$ 9,600,935	$ 10,916,883
Aeroplan program	1,589,509	2,313,518
Caesars program	83,191	67,446
Misc	45	45
	$ 11,273,680	**$ 13,297,892**
Gross profit	**$ 7,579,735**	**$ 8,131,565**
Gross margin. 67.2% - Fiscal 2016 vs. 61.1% - Fiscal 2015		
Earnings from operations before depreciation, amortization, interest and restructuring	**$ 1,409,782**	**$ 208,659**
Restructuring cost	**$ -**	**$ 1,001,321**
Earnings (loss) from operations before depreciation, amortization and interest	**$ 1,409,782**	**$ (792,662)**
Net loss and Comprehensive loss	**$ (907,443)**	**$ (3,070,603)**

The restructuring during the third and fourth quarters of Fiscal 2015 gave the company the platform for a gradual re-build of merchant participation in its existing programs, launch new programs and increase its revenues. The operating costs during Fiscal 2016 were aligned to medium term operating levels.

Affinity and Financial partnerships

- In March 2016 the company renewed its agreement with TD for an additional one year term expiring in June 2017.
- In April 2016 the company announced extension of its agreement with CIBC until December 2016. In September 2016 the company and CIBC announced extension of agreement to September 30, 2017. The agreement now removes all exclusivity arrangements and leaves the company free to pursue partnerships with Canadian banks in addition to CIBC and TD.
- 12% Non-Convertible Debentures Payable ("new 12% debentures"). 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.

- 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 2017.

Income Statement – Fiscal 2016 compared to Fiscal 2015

The revenues of Fiscal 2016 were $2,024,212 (15.2%) lower compared to Fiscal 2015 reflecting a decline in the CIBC/TD program revenues of $1,315,948 (12.1%) and Aeroplan program revenues of $724,009 (31.3%). The CIBC/TD program revenues accounted for 85.2% of Fiscal 2016 revenues (82.1% of Fiscal 2015). The decline primarily reflects lower merchant participation in the CIBC/TD program (average participation 860 merchants during Fiscal 2016 compared to 952 during Fiscal 2015). An additive factor is the price reductions – to expand/maintain the merchant participation – reflected in lower CIBC/TD program revenues. Aeroplan program revenues decline partially reflects the exit of a large account effective October 1, 2015. This is outcome of Aimia's long term agreement with a customer that has excluded the company from selling and operating in a business segment. The additional impact is that there is a gradual loss of merchants – they exit from the program upon expiry of their agreement with the company - from the business segment. Loss of a wholesale account in mid Fiscal 2015 was a contributory factor in Fiscal 2016 revenues being lower compared to Fiscal 2015.

The gross profit of Fiscal 2016 was $551,830 (6.8%) lower compared to Fiscal 2015. CIBC/TD gross profit was lower by $232,234 (3.3%) and Aeroplan program gross profit was lower by $294,162 (30.5%). Decline in CIBC/TD program gross profit reflects decline in revenues partially offset by better gross margin at 71.7% compared to 65.2% for Fiscal 2015. Decline in Aeroplan program gross profit reflects lower revenues. The Fiscal 2016 gross margin was flat to Fiscal 2015. The CIBC/TD program gross profit accounted for 90.8% of Fiscal 2016 gross profit (87.5% of Fiscal 2015).

Selling, General and Administrative ("SG&A") expenses were $1,752,953 lower reflecting the cost management initiated during the third and fourth quarters of Fiscal 2015. The company was focused on ensuring its costs were supported by operating levels in order to ensure availability of cash to meet it operating requirements and commitments including severances post restructuring.

Fiscal 2015 reflects restructuring cost of $1,001,321. Fiscal 2016 $nil. The company settled all severances on due dates in Fiscal 2015 and Fiscal 2016.

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, 2016 – for Fiscal 2016 was $210,000 compared to $2,398,643 for Fiscal 2015.

Stated interest cost was modestly higher by $13,801. The change primarily reflects the 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. This fee is reflected in Fiscal 2016 interest cost. Fiscal 2015 reflects fees payable of $58,500 connected to changes in Fiscal year ended June 30, 2014 to the new 12% debentures agreement.

The non-cash expenses comprising accretion charges on new 12% debentures, and depreciation and amortization were marginally higher ($25,483) in Fiscal 2016 compared to Fiscal 2015.

The net loss of $907,443 for Fiscal 2016 was an improvement of $2,163,160 compared to Fiscal 2015.

Balance Sheet – Fiscal 2016 compared to Fiscal 2015

Transaction credits at June 30, 2016 of $7,352,262 compared to $7,819,647 at June 30, 2015. The change reflects decrease in transaction credits, net of provision for delinquent accounts, of $467,385 which is primarily a reflection of a decrease in merchant participation. Transaction credits account for 83% of Fiscal 2016 total assets (Fiscal 2015 75%).

Cash and cash equivalents declined $503,931 reflecting operational performance during year ended June 30, 2016, 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, 2016 $124,499 compared to $281,412 at June 30, 2015).

The intangible assets decreased $358,071. 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 $1,181,413, and together with the change in intangibles the primary reasons for decline in total assets of $1,589,170.

The amount due on the loan payable decreased $178,258 reflecting decrease in merchant participation and transaction credits.

A detailed look at the results for Fiscal 2016 compared to Fiscal 2015 is set out in the following sections.

Outlook

The company has had to overcome structural and competitive challenges during Fiscal 2015 and Fiscal 2016. While it has successfully done so, the financial cost in terms of righting its business deprived it of working capital to support the growth of the business. This is reflected in lower merchant participation levels – the key indicator of the health of the business - during Fiscal 2016 compared to Fiscal 2015.

The company's new 12% debentures mature December 31, 2016. The company does not have the ability to re-pay the new 12% debentures on maturity. While in the past the company was able to re-finance its new 12% debentures it has a weak balance sheet and there can be no assurance the company will be successful in either re-financing its new 12% debentures or raise additional capital in the form of either debt and or equity to support the growth of the business.

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 Advantex is well positioned to gain a wider share of this market with its proprietary technology and its outstanding partners. Based on initial discussions with organizations across North America it believes it has the opportunity to expand its operations beyond Canada. But to do so it needs access to working capital.

The company is operating in a weak economy and given its difficult operating environment, without access to additional working capital it is not expecting improvement in financial performance during the next twelve months.

The company believes it has the support of its Affinity and Financial partners, and its staff. The company renewed its agreement with TD for an additional one year term expiring in June 2017. In September 2016 the company announced extension of its agreement with CIBC until September 30, 2017. The company and Aimia are close to finalizing the restructuring of the commercial terms of the agreement. In September 2016 the company secured an extension of the maturity date to December 31, 2016 from September 30, 2016 of the new 12% debentures. However, there is no assurance of continued support in the absence of improvement in the company's financial performance.

Results of Operations

	Fiscal 2016	Fiscal 2015
	$	$
Revenue	**$ 11,273,680**	**$ 13,297,892**
Direct Expenses - Cost of cardholder rewards and marketing merchants to cardholders	3,114,217	3,712,992
Direct Expenses - Expense for provision against delinquent accounts	579,728	1,453,335
Gross profit	**$ 7,579,735**	**$ 8,131,565**
Selling and General & Administrative	6,169,953	7,922,906
Earnings from operations before depreciation, amortization, interest and restructuring	**$ 1,409,782**	**$ 208,659**
Cash interest on loan payable and debentures	1,619,782	1,605,981
Earnings (loss) from operations before depreciation, amortization, non-cash interest on debentures (accretion charges) and restructuring	**$ (210,000)**	**$ (1,397,322)**
Depreciation and amortization	463,472	444,785
Non cash interest expense on debentures	233,971	227,175
Loss before restructuring cost	**$ (907,443)**	**$ (2,069,282)**
Restructuring cost	-	1,001,321
Net loss and Comprehensive loss	**$ (907,443)**	**$ (3,070,603)**
Basic and Diluted loss per share	**$ (0.01)**	**$ (0.02)**

Extract from the Statement of Financial Position

	At June 30, 2016	At June 30, 2015	Increase/ (Decrease)
	$	$	$
Current assets	$ 8,579,940	$ 9,761,353	$ (1,181,413)
Total assets	$ 8,815,910	$ 10,405,080	$ (1,589,170)
Shareholders' deficiency	$ (5,373,108)	$ (4,465,665)	$ 907,443

The change in current assets primarily reflects a decrease in transaction credits (net of provision for delinquent accounts) of $467,385, decrease in cash and cash equivalents of $503,931 and decrease in accounts receivable and inventory of $140,004. 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, 2016 $124,499 compared to $281,412 at June 30, 2015).

The change in the total assets primarily reflects decrease in the current assets. The intangible assets decreased $358,071. 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 2016.

Extracts from the Statement of Cash Flow

	Fiscal 2016	Fiscal 2015	Change
	$	$	$
Net loss	$ (907,443)	$ (3,070,603)	$ 2,163,160
Adjustments for non cash expenses	697,443	671,960	25,483
Income after adjustments for non cash expenses	$ (210,000)	$ (2,398,643)	$ 2,188,643
Decrease in severance payable	(627,033)	(374,288)	(252,745)
Changes in working capital	567,075	3,207,790	(2,640,715)
Net cash used in financing activities supporting working capital	(178,258)	(766,855)	588,597
Net cash used in operations and financing	$ (448,216)	$ (331,996)	$ (116,220)
Net cash used in investing activities	(55,715)	(321,200)	265,485
Decrease in cash and cash equivalents	(503,931)	$ (653,196)	$ 149,265
Cash and cash equivalents at start of year	$ 1,162,609	$ 1,815,805	$ (653,196)
Cash and cash equivalents at end of year	$ 658,678	$ 1,162,609	$ (503,931)

Changes in working capital. Transaction credits, accounts receivable, accounts payable and accrued liabilities and other working capital items. 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 and accrued liabilities is $627,033 the company used to settle severances consequent to restructuring during Fiscal 2015. During Fiscal 2015 the changes primarily reflect decrease in transaction credits, net of provision for delinquent accounts, of $2,459,059 which is a reflection of a decrease in merchant participation. In addition, reflected in accounts payable and accrued liabilities is $374,288 the company used to settle severances consequent to restructuring during Fiscal 2015.

Financing activities. During Fiscal 2016 and Fiscal 2015 decrease in loan payable reflects lower 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 year ending June 30, 2017 the company expects capital expenditures to be on par with Fiscal year ended June 30, 2016. In the fourth quarter of Fiscal 2015 and Q1 Fiscal 2016 the company was able to secure leasing arrangements to meet the cost of IT hardware and its operationalizing. The financial commitments on these leases is provided in the section Contractual Obligations in this document. The company expects to secure lease arrangements for significant expenditures during Fiscal year ending June 30, 2017.

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, 2016, 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 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.

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. 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 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 2016	Fiscal 2015	Inc./(Dec)	Inc./(Dec)
Avg. # of merchants participating during the periods				
CIBC/TD program	860	952		-9.7%
Aeroplan program	633	666		-5.0%
	$	$	$	
Revenues				
CIBC/TD program	$ 9,600,935	$ 10,916,883	$ (1,315,948)	-12.1%
Aeroplan program	1,589,509	2,313,518	(724,009)	-31.3%
Caesars program	83,191	67,446	15,745	
Misc	45	45	(0)	
	$ 11,273,680	**$ 13,297,892**	**$ (2,024,212)**	

CIBC/TD program

During Fiscal 2015 the company was impacted by the June 2014 change to the CIBC-Aeroplan relationship which saw TD take over about half of CIBC's aero based credit cards. This added complexity and the cost and resources needed to build a new loyalty marketing program created a difficult selling and merchant retention environment for its CIBC/TD program, resulting in decline in merchant participation from 1,022 at the end of June 30, 2014 to 839 at end of March 2015.

By April 2015 the company's new, upgraded and combined CIBC/TD loyalty marketing program was launched with a much stronger value proposition. From beginning of April 2015 the merchant participation was back on growth track, increasing from a low of 839 merchants at end of March 2015 to 921 at end of December 2015. Historically the January – March period is the low selling season and after allowing for merchants terminating their participation the merchant participation dipped to 879 at the end of March, 2016. The fourth quarter of Fiscal 2016 saw additional staffing changes in the sales organization. The company did not fill these positions because of the slow economy and pending evaluation of its go to market strategy. The company has filled all these positions as of the date hereof. The merchant count declined to 838 at June 30, 2016 reflecting below strength sales organization. The company expects a gradual bounce back in the merchant participation from the second quarter of Fiscal year ending June 30, 2017.

The lower merchant participation during Fiscal 2016 compared to Fiscal 2015 and marketing fee reduction – implemented towards the end of the third quarter of Fiscal 2015 to boost new merchant participation and improve retention – are the primary reasons for the declines in the program revenues.

A weak economy impacted both years in terms of selling and retention.

Aeroplan program

Participating merchants purchased 46.6 million aeroplan miles during Fiscal 2016 compared to 71.7 million miles during Fiscal 2015.

A merchant which in Fiscal 2015 accounted for 18% of the revenues from the Aeroplan program exited the program effective October 1, 2015. Another factor reflected in Fiscal 2016 is Aimia's long term agreement with a customer that has excluded the company from selling and operating in a business segment. There was a gradual loss of merchants – they exit from the program upon expiry of their agreement with the company - from the business segment.

The company lost a distributor account in the second half of Fiscal year ended June 30, 2015. This account accounted for over 7% of Fiscal 2015 revenues.

The weak economy has an impact on consumer spending. Lower spending would be reflected in lower issuance of aeroplan miles by participating merchants.

Profile of merchant portfolio also impacts aeroplan mile issuances.

The above factors are reflected in the revenues decline of Fiscal 2016 compared to Fiscal 2015.

The average selling price per aeroplan mile at $0.034 for Fiscal 2016 was flat compared to Fiscal 2015.

Direct Expenses

In the CIBC/TD program, direct expenses include costs of consumer rewards which the company purchases from CIBC and TD, the cost of marketing and advertising on behalf of merchants, cost of sales related to sale of aeronotes, cost of sales of digital marketing services and 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.

	Fiscal 2016	Fiscal 2015	Inc./(Dec)
	$	$	%
Revenues			
CIBC/TD program	$ 9,600,935	$ 10,916,883	-12.1%
Aeroplan program	1,589,509	2,313,518	-31.3%
Caesars program	83,191	67,446	23.3%
Misc	45	45	
	$ 11,273,680	**$ 13,297,892**	**-15.2%**
Direct expenses			
CIBC/TD program	$ 2,716,747	$ 3,800,461	-28.5%
Aeroplan program	920,489	1,350,336	-31.8%
Caesars program	56,709	15,530	265.2%
	$ 3,693,945	**$ 5,166,327**	**-28.5%**

CIBC/TD program

The program costs are tabulated:

	Fiscal 2016	Fiscal 2015	Inc./(Dec)
	$	$	%
Avg. # of merchants participating during the periods	860	952	-9.7%
Revenue	$ 9,600,935	$ 10,916,883	-12.1%
Direct expenses			
Consumer rewards	$ 1,516,223	$ 1,707,248	-11.2%
Marketing and advertising	811,332	788,920	2.8%
Marketing support by Affinity partners	(138,500)	(120,489)	-14.9%
Expense for delinquent accounts	527,692	1,424,782	-63.0%
	$ 2,716,747	$ 3,800,461	-28.5%

The Fiscal 2016 decline in cost of consumer rewards primarily reflects decline in merchant population.

The increase in marketing and advertising costs relative to merchant participation and revenues reflects: 1) increase in marketing of participating merchants to TD aeroplan credit card holders; Fiscal 2015 was right after the company incorporated TD into its program and the marketing plan was not firmed up, 2) timing of marketing expenditures which vary in a fiscal year, 3) level of direct marketing of the program by the Affinity partners to their credit card holders.

The Fiscal 2016 expense for delinquent accounts is to expectations. Fiscal 2015 expense reflects increase in provision to write down delinquent accounts. Towards the end of Q2 of Fiscal 2015 the company discontinued use of legal action to pursue delinquent accounts and switched to using a collection agency with hands on experience in collections. Given the then prevailing economic realities and input of the collection agency the company reassessed the collection prospects and took a prudent approach with a significant write-down of delinquent accounts. 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.

	Fiscal 2016	Fiscal 2015	Inc./(Dec)
	$	$	%
Avg. # of merchants participating during the periods	633	666	-5.0%
Revenue	$ 1,589,509	$ 2,313,518	-31.3%
Direct expenses			
Consumer rewards	892,566	1,273,498	-29.9%
Misc., including expense for delinquent accounts	27,923	76,838	-63.7%
	$ 920,489	$ 1,350,336	-31.8%

Gross Profit

Gross margins of Fiscal 2016 compared to Fiscal 2015 are tabulated. Improvement in CIBC/TD program gross margin reflects lower direct expenses which are explained in section Direct Expenses in this document.

	Fiscal 2016	Fiscal 2015
CIBC/TD program	71.7%	65.2%
Aeroplan program	42.1%	41.6%

The company gross profit was lower in Fiscal 2016 compared to Fiscal 2015 reflecting a decline in revenues of CIBC/TD and Aeroplan programs partially offset by improvement of CIBC/TD program gross margin in Fiscal 2016.

	Fiscal 2016	Fiscal 2015	Inc./(Dec)
	$	$	%
CIBC/TD program	$ 6,884,188	$ 7,116,422	-3.3%
Aeroplan program	$ 669,020	963,182	-30.5%
Caesars program	$ 26,482	51,916	-49.0%
Misc	$ 45	45	
	$ 7,579,735	**$ 8,131,565**	**-6.8%**

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 2016	Fiscal 2015	Inc./(Dec)
	$	$	%
Revenues			
CIBC/TD program	$ 9,600,935	$ 10,916,883	-12.1%
Aeroplan program	1,589,509	2,313,518	-31.3%
Caesars program	83,191	67,446	23.3%
Misc	45	45	0.0%
	$ 11,273,680	**$ 13,297,892**	**-15.2%**
Selling expenses			
CIBC/TD program	$ 2,043,293	$ 2,629,400	-22.3%
Aeroplan program	299,488	404,341	-25.9%
Caesars program	193,493	396,689	-51.2%
	$ 2,536,274	**$ 3,430,430**	**-26.1%**
Remuneration of sales staff	$ 2,267,594	$ 2,998,617	
Remuneration as % of selling expenses	89.4%	87.4%	

CIBC/TD program

The lower selling costs reflect re-organization of sales group and company-wide reduction of remuneration both of which were implemented in the third quarter of Fiscal 2015.

The lower selling costs during Fiscal 2015 also reflect lower headcount consequent to some staff reductions during November 2015 through April 2016. The company did not fill these positions because of the slow selling season from December 2015 to mid-February 2016, slow economy and pending evaluation of its go to market strategy. The company has filled all these positions as of the date hereof.

Aeroplan program

The sales group was re-organized during the fourth quarter of Fiscal 2015 to improve engagement of participating merchants into the program and develop new business especially the new business segment of independent grocery. Given that revenues are lagging expectations and the new grocery segment is now expected to take longer to exploit than previously expected, during November 2015 the company reduced the headcount to further adjust and re-focus the sales organization.

General and Administrative Expenses ("G&A")

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

	Fiscal 2016	Fiscal 2015	Inc./(Dec)
	$	$	%
Change in revenues			**-15.2%**
G&A			
Compensation for non-sales staff	$ 2,531,358	$ 3,432,745	-26.3%
Less: software development costs capitalized (details provided under section Capital Expenditures in this document)	(55,715)	(264,103)	
	$ 2,475,643	$ 3,168,642	-21.9%
All other G&A expenses	1,158,036	1,323,834	
	$ 3,633,679	**$ 4,492,476**	**-19.1%**

Compensation

The decrease in compensation during Fiscal 2016 reflects the reduction in headcount consequent to the restructuring during the third and fourth quarters of Fiscal 2015 and the company-wide reduction in remuneration implemented in the third and fourth quarters of Fiscal 2015. The restructuring mainly effected management positions.

Fiscal 2016 reflects an increase in remuneration of certain staff who were promoted and took over increased responsibilities following the restructuring.

All other expenses

Fiscal 2016 are lower and reflect the increased focus on cost management.

Restructuring cost

The company announced in January 2015 its plan to adjust the headcount to prevailing and expected medium term activity level. The plan primarily effected management positions. The plan was implemented in two phases. Phase one, restructuring the Canadian operations was completed by March 31, 2015. Phase two, which was the smaller of the two phases, was connected primarily to the US operations and was completed by June 30, 2015. The restructuring cost of $1,001,321 which reflects the severances of staff, was fully provided in Fiscal 2015 and fully paid in Fiscal 2016.

Interest Expense

The interest expense is tabulated:

	Fiscal 2016	Fiscal 2015	Inc./(Dec)
	$	$	%
Stated ("Cash") interest expense			
Loan payable	$ 896,669	$ 928,401	
new 12% debentures	619,933	619,080	
new 12% debentures - fees	103,180	58,500	
	$ 1,619,782	$ 1,605,981	0.9%
Non cash interest (accretion charge) on new 12% debentures	$ 233,971	$ 227,175	
	$ 1,853,753	**$ 1,833,156**	**1.1%**

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 2016 was $6,084,765 compared to $6,145,758 during Fiscal 2015.

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 2016 compared to Fiscal 2015 are tabulated:

	Fiscal 2016	Fiscal 2015	Inc./(Dec)
	$	$	$
Revenues	$ 11,273,680	$ 13,297,892	$ (2,024,212)
Gross margin	67.2%	61.1%	
Gross profit	$ 7,579,735	$ 8,131,565	$ (551,830)
Restructuring cost	$ -	$ 1,001,321	$ (1,001,321)
Earnings (loss) from operations before depreciation, amortization and interest	$ 1,409,782	$ (792,662)	$ 2,202,444
Net loss and Comprehensive loss	$ (907,443)	$ (3,070,603)	$ 2,163,160
Basic and Diluted loss per share	$ (0.01)	$ (0.02)	

The $2,024,212 drop in the company's revenues reflects mainly the decline in CIBC/TD revenues of $1,315,948. Gross margin improvement reflects improvement in CIBC/TD program, 71.7% for Fiscal 2016 compared to 65.2% for Fiscal 2015. Gross profit decline of $551,830 reflects the $232,234 decline in gross profit from CIBC/TD program and $294,162 decline in Aeroplan program gross profit. Fiscal 2016 SG&A expenses are $1,752,953 lower compared to Fiscal 2015. The improvement of $2,202,444 in earnings from operations before depreciation, amortization and interest reflect lower SG&A which offsets decline in gross profit and $nil of restructuring cost (Fiscal 2015 reflects $1,001,321 of restructuring cost which represents the severances of staff and is discussed under section Restructuring cost in this document). Marginal increase in interest cost ($20,597) – see Interest Expense section – and depreciation and amortization expense ($18,687). Fiscal 2016 net loss of $907,443 reflects an improvement of $2,163,160 compared to Fiscal 2015.

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

Working Capital and Liquidity Management

The utilization of liquidity during Fiscal 2016 compared to Fiscal 2015 is illustrated in the tabulation:

	Fiscal 2016	Fiscal 2015
	$	$
Funds available to expand the CIBC/TD programs APM product (Transaction credits on the balance sheet) and meet working capital needs		
Net loss	$ (907,443)	$ (3,070,603)
Adjustments for non cash expenses	697,443	671,960
Loss after adjustment for non cash expenses	(210,000)	(2,398,643)
Cash balances at start of the period	1,162,609	1,815,805
Dec. in loan payable	(178,258)	(742,649)
Dec. in accounts receivable	35,044	348,743
Inc. in accounts payable and accrued liabilities	-	74,514
	$ 809,395	**$ (902,230)**
Utilization of funds		
Cash balances at end of periods	$ 658,678	$ 1,162,609
Dec. in transaction credits	(467,385)	(2,459,059)
Dec. in accounts payable and accrued liabilities	737,440	-
Changes in all other working capital items	(175,053)	48,814
Capital expenditures	55,715	321,200
Misc. expenditures	-	24,206
	$ 809,395	**$ (902,230)**

The cash and cash equivalents, and accounts receivable as at June 30, 2016 include $239,354 of amounts received/receivable from our Affinity partners CIBC and TD to be invested in marketing the program (as at June 30, 2015 $356,162 and as at June 30, 2014 $360,170). Accounts payable and accrued liabilities as at June 30, 2016, June 30, 2015 and June 30, 2014 reflect the corresponding liability. During April 2016 CIBC cancelled a project and the company returned $185,840 connected with the project.

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 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 and accrued liabilities is $627,033 the company used to settle severances consequent to restructuring during Fiscal 2015. During Fiscal 2015 the changes primarily reflect decrease in transaction credits, net of provision for delinquent accounts, of $2,459,059 which is a reflection of a decrease in merchant participation. In addition, reflected in accounts payable and accrued liabilities is $374,288 the company used to settle severances consequent to restructuring during Fiscal 2015.

Financing activities. During Fiscal 2016 and Fiscal 2015 decrease in loan payable reflects lower 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 year ending June 30, 2017 the company expects capital expenditures to be on par with Fiscal 2016. In the fourth quarter of Fiscal 2015 and Q1 Fiscal 2016 the company was able to secure leasing arrangements to meet the cost of IT hardware and its operationalizing. The financial commitments on these leases is provided in the section Contractual Obligations in this document. The company expects to secure lease arrangements for significant expenditures during Fiscal year ending June 30, 2017.

The company carries cash balances sufficient to meet its operational needs. From time to time the company enters into payment plans with vendors. The company has reached a payment plan with CIBC to settle outstanding amounts (as at June 30, 2016 $490,878) by July 31, 2017. The payment plan calls for monthly payments. Failure by the company to comply with the payment plan will constitute a material breach and CIBC may choose, at its discretion, to terminate its agreement with the company.

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 is 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. As at June 30, 2015 $281,412.

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 2016, 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, 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, 2016 and June 30, 2015 of $5.5 million and $5.7 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 is only available to expand the APM product. The loan payable agreement expires in December 2017.

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 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 old 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, 2016 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 (over 15% of the company's common shares as at October 14, 2016).

The company is seeking to re-finance its new 12% debentures and secure additional capital to continue its operations and execute its expansion plans. While in the past the company has been successful in obtaining waivers and debt amendments, and refinancing its debentures, there can be no assurance these initiatives will continue to be successful.

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 $5,373,108 and negative working capital of $5,609,078 as at June 30, 2016. There is uncertainty surrounding:

1. The re-financing of the new 12% debentures maturing December 31, 2016; and
2. The 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 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, 2016 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, 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 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.

Contractual Obligations

Contractual obligations as at June 30, 2016 were due as follow.

Contractual obligations	Total	Less than 1 year	1 to 3 years	4 to 5 years
	$	$	$	$
Loan payable	$ 5,533,267	$ 5,533,267	$ -	$ -
New 12% debentures	$ 5,159,000	$ 5,159,000	$ -	$ -
Operating leases	$ 235,821	$ 157,505	$ 78,316	$ -
	$ 10,928,088	**$ 10,849,772**	**$ 78,316**	**$ -**

In addition, new 12% debenture interest of $336,604 is payable for the period June 16, 2016 to maturity on December 31, 2016. 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.

A significant portion of the commitments for premises is for the company's head office. The lease expires in September, 2017.

Additional commitments

In November 2014 the company renewed its agreement ("agreement") with Aimia for a five year term ending April 30, 2019. The 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. The agreement carried a minimum annual commitment for the company to purchase aeroplan miles.

The company did not meet its calendar 2015 purchase commitment. Per the agreement, the shortfall was carried forward and added to the company's commitment for calendar 2016. The company was on course to fall short of its calendar 2016 purchase commitment. The company and Aimia are close to finalizing the restructuring of the commercial terms of the agreement. Based on agreed upon terms, the company estimates that no additional accruals are required.

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 amounts due from merchants funded from the facility.

The facility was established in December 2007. The current term of the loan payable expires in December 2017.

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 $5.5 million of the facility as at June 30, 2016 (as at June 30, 2015 $5.7 million).

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.

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 (aggregate principal amount of $6,151,967 plus accrued interest thereon) and 14% debentures (aggregate principal amount of $1,744,000 plus accrued interest thereon), both maturing December 31, 2013. The 87,056,491 common share warrants attached to the old 12% debentures and 3,444,400 common share warrants attached to 14% debentures were not exercised and expired as of December 31, 2013.

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 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 company paid the interest and the fees 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 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, 2016, June 30, 2015, and June 30, 2014.

(In millions of dollars except per share amounts)			
	Fiscal 2016	Fiscal 2015	Fiscal 2014
	$	$	$
Revenues	11.3	13.3	16.5
Net income/(loss)	(0.9)	(3.1)	(0.7)
Loss per share - Basic and Diluted	(0.01)	(0.02)	-
Total assets	8.8	10.4	13.9
Current liabilities	14.2	10.0	10.7
Long-term liabilities	-	4.9	4.7
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 2016	Fiscal 2015	Fiscal 2014
Working capital	(5,609,078)	(244,590)	2,499,459

Composition of total assets is tabulated:

	Fiscal 2016	Fiscal 2015	Fiscal 2014
	$	$	$
Cash and cash equivalents	659,000	1,163,000	1,816,000
Accounts receivable	425,000	460,000	809,000
Transaction credits	7,352,000	7,820,000	10,279,000
Inventory	40,000	145,000	91,000
Prepaid expenses and sundry assets	104,000	173,000	179,000
Property, plant and equipment	116,000	166,000	237,000
Intangibles	120,000	478,000	530,000
	8,816,000	10,405,000	13,941,000

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). APM product accounts for about 65% of the merchants participating in the CIBC/TD program. The reasons for the decline in merchant participation in the CIBC/TD program during Fiscal 2015 and Fiscal 2016 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 deploying advances to existing and new merchants, the following is the additional considerations.

1) 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, 2014 $360,170; and
2) As at June 30, 2014 they reflect a) temporary working capital funding of $200,000 provided by Accord and b) deferring of semi – annual interest of $285,000 due on June 15, 2014 to new 12% debentures (see

section 12% Non-Convertible Debentures Payable), in order to offset the temporary decline in revenues and liquidity for the period June 2014 to launch of the TD program.

The company's transaction credits are primarily funded by its loan payable, 14% debentures (refinanced end December 2013), old 12% debentures (refinanced end December 2013), and new 12% debentures (since January 2014). Loan payable, and 14% debentures carry a first charge against the merchant transaction credits funded by their respective proceeds. The old 12% debentures had and 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 2016 and Fiscal 2015.

The results for Fiscal 2015 and Fiscal 2014 were:

	Fiscal 2015	Fiscal 2014
Net loss and Comprehensive loss	$ (3,070,603)	$ (762,628)

Highlights of Fiscal 2015 compared to Fiscal 2014:

Operational Highlights.

	Revenues	Gross profit	SG&A	Earnings from operations before depreciation, amortization and interest	Stated and Non cash interest	Net (loss)
Fiscal 2015	13.3	8.1	8.9	(0.8)	1.8	(3.1)
Fiscal 2014	16.5	10.2	8.3	1.9	2.1	(0.7)
SG&A for Fiscal 2015 includes restructuring cost of $1.0 million						

SG&A in above tabulation includes restructuring costs of $1.0 million during Fiscal 2015.

The company's results for the Fiscal 2015 reflect two operating environments.

During the first nine months of Fiscal 2015 the company had to deal with a radically changed business environment. For 3 and 9 months ended March 31, 2015, the structural and one-time adjustments that affected the results of Fiscal 2015 were:

1. Structural. The company continued to be impacted by the June 2014 change to the CIBC-Aeroplan relationship which saw TD take over about half of CIBC's aero based credit cards. This added complexity and the cost and resources needed to build a new loyalty marketing program created a difficult selling and merchant retention environment for its core program;
2. Competitive. The working capital feature of the CIBC/TD program's APM product was under significant pricing pressure from competitors;
3. Restructuring. In January 2015 the company announced a plan to adjust its headcount to the prevailing and expected medium term activity level. The resulting non-recurring cost is in terms of severances. Most of these changes affected management positions. Sales positions that will regenerate the eventual growth of the company were not affected;
4. Reserve for delinquent accounts. For the last few quarters of Fiscal 2015 the company had seen an increase in delinquencies by its merchants due to challenging economic conditions. Until the first quarter of Fiscal 2015 the company pursued legal action against delinquent accounts. Towards end of the second quarter the company switched to using a collection agency with hands on experience in collections. and

5. Investment. The company launched a loyalty program in February 2015 with Caesars in Philadelphia, US. The Caesars program is an expansion opportunity for the company in the US. The set-up and launch had a financial cost.

During the final three months of Fiscal 2015 the company introduced changes in response to its market conditions:

1. Structural. A new, upgraded and combined CIBC/TD loyalty marketing program was launched. It presents merchants with a much stronger value proposition and the company believes it is now in a better position to retain and further expand its merchant base;
2. Competitive. With the support of its financial partner Accord Financial Inc. ("Accord") the company returned the product to a competitive position in terms of pricing and features;
3. Restructuring. In the final phase changes to the Aeroplan and Caesars business were implemented;
4. Reserve for delinquent accounts. Given the prevailing economic realities and input of the collection agency the company reassessed the collection prospects and took a prudent approach with a significant write down of delinquent accounts. The new process to deal with delinquent accounts is quicker on follow up, potentially improving the prospects of collection. The second benefit is that it is cost effective compared to the legal process. The company regularly re-visits its under-writing processes and believes that together with its financial partners it has adequate due diligence processes and analytics to determine which merchants are eligible to receive advances from the company and consequently expects to mitigate the impact of future merchant delinquencies on its operational performance.
5. Investment. As at end of Fiscal 2015 approximately 70 merchants are participating in the Caesars program. The company has the go-ahead to expand the program to Atlantic City.

Income Statement – Fiscal 2015 compared to Fiscal 2014

Revenues

- The difficult operational environment explained 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 2015 and consequently the decline in the CIBC/TD program revenues.
- The Fiscal 2015 Aeroplan program revenues are 7.6% lower compared to Fiscal 2014 reflecting a decline in merchant participation. As well during Fiscal 2014 Aimia provided the company with the business of one of its re-seller which filed for bankruptcy and revenues from that business included some one-time business.

Direct expenses

- For the CIBC/TD program during Fiscal 2015 declined 22.4% while the revenues declined 22.2%.
    1. 34.6% decline in cost of consumer rewards reflects a decline in merchant population and rate reductions. Fiscal 2014 reflects investment in merchant incentives to retain and grow our merchant base;
    2. 32.9% decline in marketing spending primarily reflects decline in merchant population. Furthermore, CIBC and TD directly spent significant amounts during Fiscal 2015 to market the program to their credit card holders. The company's marketing spending consequently was lower compared to corresponding period in the previous year; and
    3. Increase in expense for delinquent accounts in Fiscal 2015.

- Aeroplan program. The direct expenses decline 5.4% compared to decline in revenue of 7.6%.

Gross profit

- The overall company gross margin for Fiscal 2015 at 61.1% is flat compared to Fiscal 2014.
- The decline in gross profit (Fiscal 2015 $8,131,565 compared to Fiscal 2014 $10,209,657) reflects decline in revenues.

Selling expenses

- CIBC/TD and Aeroplan programs. The decline tracked the decline in revenues
- CIBC/TD program. Decline of 18.7% compared to 22.2% decline in revenues.

- Aeroplan program. Decline of 19.1% compared to a decline in revenues of 7.6%.
- Caesars program. Fiscal 2015 reflected costs connected to launch of the program.

General and Administrative. Fiscal 2015 was flat compared to Fiscal 2014.
Restructuring cost. Fiscal 2015 reflects the costs of severances (Fiscal 2014 $nil restructuring cost).

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 reflects reduction in the debt. 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. The company used the proceeds of the new 12% debentures plus cash on hand to repay its 14% non-convertible debentures payable and old 12% non-convertible debentures payable.
- Fees payable ($58,500 Fiscal 2015 compared to $6,500 in Fiscal 2014) on the new 12% debentures are connected to changes in Fiscal 2014 to the debenture agreement and is described in the section 12% Non-Convertible Debentures Payable in this document.

The above factors resulted in an increase in net loss.

Cash and Working capital movement during Fiscal 2015

	Cash	Working capital **
	$	$
As at July 1, 2014	**$ 1,815,805**	**$ 2,499,459**
Movement during the year		
Income from non-cash expenses *	(2,398,643)	-
Changes from non- cash working capital items	2,833,502	(2,833,502)
Financing activities - loan payable	(742,649)	742,649
Financing activities - debentures	(24,206)	-
Purchase of property, plant, euipment and intangibles	(321,200)	-
Changes in cash balances	-	(653,196)
	$ (653,196)	$ (2,744,049)
As at June 30, 2015	**$ 1,162,609**	**$ (244,590)**

* 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 2015 is arrived after adding back expenses not affecting cash - depreciation of property, plant and equipment, and 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, 2015 and June 30, 2014 under the section consolidated statements of cash flow.

Summary of Quarterly Results

In millions of dollars, except per share amounts					
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)
Fiscal 2015					
	Q1	Q2	Q3	Q4	Total
	Sep 30, 2014	Dec 31, 2014	Mar 31, 2015	Jun 30, 2015	
	$	$	$	$	$
Revenues	3.5	3.8	2.7	3.3	13.3
% of annual revenues	26.3%	28.6%	20.3%	24.8%	100.0%
Net income/(loss)	-	(0.1)	(2.6)	(0.4)	(3.1)
Loss per share - Basic and Diluted	-	-	(0.02)	-	(0.02)

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 2016 (Q4 F 2016) vs. Fourth Quarter of Fiscal 2015 (Q4 F 2015)

Overview

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
Restructuring cost					-
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)

Tabulation of financial performance – Q4 F 2015

	CIBC/TD program	Aeroplan program	Caesars program	Corporate	Total
	$	$	$	$	$
Revenues	2,587,639	632,906	28,951	45	3,249,541
Direct expenses	592,857	439,004	8,583	-	1,040,444
Gross profit	1,994,782	193,902	20,368	45	2,209,097
Gross margin	77.1%	30.6%	70.4%		68.0%
Selling & marketing	601,787	47,955	137,073	-	786,815
General & administrative					1,027,236
Restructuring cost					195,429
Earnings from operations before depreciation, amortization and interest					199,617
Stated interest					390,857
					(191,240)
Accretion charges					56,796
Depreciation and amortization					116,139
Net loss					(364,175)

Analysis of Q4 F 2016 compared to Q4 F 2015

CIBC/TD program

	Q4 F 2016	Q4 F 2015	Change
Average # of participating merchants	859	872	-1.5%
Revenue	$ 2,356,648	$ 2,587,639	-8.9%
Direct costs			
Consumer rewards	376,979	398,595	-5.4%
Marketing and advertizing	279,190	132,626	110.5%
Expense for delinquent accounts	153,511	61,636	149.1%
	$ 809,680	$ 592,857	36.6%
Gross profit	$ 1,546,968	$ 1,994,782	
Gross margin	65.6%	77.1%	

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

The lower revenues reflect merchant count and marketing fee reduction – implemented towards the end of the third quarter of Fiscal 2015 - to boost new merchant participation and improve retention.

The increase in marketing and advertising costs relative to merchant participation and revenues reflects: 1) increase in marketing of participating merchants to TD aeroplan credit card holders; Fiscal 2015 was the year the company incorporated TD into its program and the marketing plan was not firmed up, 2) timing of marketing expenditures which vary in a fiscal year, 3) level of direct marketing of the program by the Affinity partners to their credit card holders. The company expects to trend fiscal year ending June 30, 2017 annual marketing and advertising costs at the Fiscal 2016 trend of 8.5% of revenues.

Q4 Fiscal 2016 expense for delinquent accounts is to expectation at 6.5% of revenues (Fiscal 2016 5.5% of revenues).

Aeroplan program

	Q4 F 2016	Q4 F 2015	Change
Revenue	$ 376,630	$ 632,906	-40.5%
Direct costs			
Consumer rewards	197,828	433,004	-54.3%
Misc., including expense for delinquent accounts	6,000	6,000	
	$ 203,828	$ 439,004	-53.6%
Gross profit	$ 172,802	$ 193,902	
Gross margin	45.9%	30.6%	

Q4 Fiscal 2015 reflects revenues ($157,191) from sales of aeroplan miles to a wholesale account with lower gross margin.

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

While the company has kept its operating costs during Fiscal 2016 aligned to Fiscal 2016 operating levels, it did not fill some of the vacancies in the sales organization positions pending evaluation of its go to market strategy. The company has filled all these positions as of the date hereof.

SG&A were 20.4% lower compared to Q4 F 2015. Revenues were 15.5% lower compared to Q4 F 2015.

Restructuring cost

Reflects the re-structuring of the company during Fiscal 2015. During the fourth quarter of Fiscal 2015 the company re-organized primarily its Caesars organization and the resulting severance is reflected as the restructuring cost.

Net loss

The above factors are reflected in a lower net loss. Q4 F 2016 $258,499 compared to Q4 F 2015 at $364,175.

Capital Resources

Expenditures for property, plant and equipment and intangible assets for Fiscal 2016 were $55,715 compared to $321,200 for Fiscal 2015.

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 internal costs capitalized total $55,715 compared to $264,103 during Fiscal 2015. The capitalization during Fiscal 2016 and 2015 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, 2016.

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, 2016, 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, 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, 2016 carry a going concern note (note 2b).

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, 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, 2016	June 30, 2015
	$	$
Transaction credits	$ 7,994,349	$ 8,606,883
Accounts receivable	447,720	475,339
Allowance	(664,405)	(802,129)
Per Statement of Financial Position	**$ 7,777,664**	**$ 8,280,093**
Maximum exposure to credit risk	**$ 7,777,664**	**$ 8,280,093**

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

	June 30, 2016		June 30, 2015	
	$		$	
Impaired transaction credits	$	833,379	$	1,136,791
Allowance		(642,087)		(787,236)
Impaired transaction credits not allowed for	**$**	**191,292**	**$**	**349,555**

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 December 2015, the directors of the company approved continuation of the 2009 stock option plan to date of the annual meeting of shareholders in 2016. The number of employee stock options issuable per the Company's stock option plan is 16,688,546.

Movement during Fiscal 2016 and Fiscal 2015 is tabulated.

	Fiscal 2016	Fiscal 2015
	Number of options	
Outstanding at start of the year	8,590,000	10,190,000
Expired	(3,900,000)	-
Forfeited	(590,000)	(1,600,000)
Outstanding at end of the year	4,100,000	8,590,000

The number of stock options available for future issuance as at June 30, 2016 compared to June 30, 2015 is as follows:

	Fiscal 2016	Fiscal 2015
	Number of options	
Maximum number of shares reserved for issuance	16,688,546	16,688,546
Less: outstanding at end of period	(4,100,000)	(8,590,000)
Number of options available for future issuance	12,588,546	8,098,546

There was no stock based compensation expense during Fiscal 2016 (the expense in Fiscal 2015 was $Nil).

Outstanding Share Data

As of the date hereof, June 30, 2016 and June 30, 2015 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 4,100,000 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, 2016		June 30, 2015	
	$		$	
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
Ex-Director - R.von der Porten (Not a director since December 11, 2015)	$	-	$	50,000
Ex-Director - B.Wainstein (Not a director since December 11, 2015)	$	-	$	25,000
Chief Financial Officer - M.Sabharwal	$	115,000	$	115,000
	$	**1,215,000**	**$**	**1,290,000**

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 expires September 30, 2017. The agreement may, at the option of CIBC, be renewed on the same terms and conditions provided that CIBC exercises such option to renew upon providing notice at least four months prior to expiry of initial term or then current renewal term. If CIBC does not renew the agreement or exercises its right to terminate the 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 2017. 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 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. Based on trends for Fiscal 2016 CIBC accounts for over 60% of the CIBC/TD program revenues.

	Fiscal year ended June 30, 2016	Fiscal year ended June 30, 2015	Fiscal year ended June 30, 2014
		% of company Total	
CIBC/TD program revenues	85.2%	82.1%	84.8%
CIBC/TD program gross profit	90.8%	87.5%	89.4%

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 expires September 30, 2017. The agreement may, at the option of CIBC, be renewed on the same terms and conditions provided that CIBC exercises such option to renew upon providing notice at least four months prior to expiry of term. If CIBC does not renew the agreement or exercises its right to terminate the agreement upon at least six months prior notice 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 2017. 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 December 31, 2016, and loan payable. The company's relationship with the new 12% debentures holders, and providers of loan payable facility span about 11+ and 8+ years respectively. The term of the loan payable expires in December 2017. At present, there is about $3.0 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 December 31, 2016. 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, 2016, the company incurred interest expense of $896,669 on utilization of loan payable. Had the interest rate, for the year ended June 30, 2016, been 10% higher the interest expense on loan payable would have been $986,336, an increase of $89,667.

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 loyalty program operators 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 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; continued access to loan payable line of credit facility; continued access to the new 12% debentures; ability to refinance the new 12% debentures maturing December 31, 2016; 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: expectations of recovery and it's timing; expectations of merchant participation; expectation of economic environment; belief the restructuring has given platform for gradual re-build of merchant participation, launch new programs and increase revenues; belief it has a unique product for the small independent merchant market; 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; expectations of financial performance during the next twelve months; belief it has the support of its partners and staff; expectation of capital expenditures during fiscal year ending June 30, 2017; expectation of securing lease arrangements for significant capital expenditures; belief the primary driver of revenues is merchant participation; expectation of gradual bounce-back in merchant participation and its timing; expectation from the grocery segment and the 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; belief in its ability to retain and expand its merchant base; belief agreements with CIBC and TD mitigates the risk of dependence on one partner; ability to manage credit and collection risk; 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 December 31, 2016; 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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