

**FTC CARDS INC.  
INTERIM REPORT TO SHAREHOLDERS  
FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2014 WITH  
COMPARATIVES FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2013  
(Expressed in Canadian dollars)**

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MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2014 WITH COMPARATIVES  
FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2013

(Dated: November 20, 2014)

Management's Responsibility for Financial Reporting

These interim unaudited consolidated financial statements have been prepared by management using Brazilian accounting policies which are essentially identical to "International Financial Reporting Standards – IFRS" and these statements are also in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. The information contained in this document has also been prepared by management and is consistent with the data contained in the interim unaudited consolidated financial statements.

The Company's certifying officers, based on their knowledge, having exercised reasonable diligence, are also responsible to ensure that these filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by these filings, and this financial report together with the other financial information included in these filings fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the date of and for the periods presented in these filings.

The Board of Directors approves the financial report and ensures that management has discharged its financial responsibilities. The Board's review is accomplished principally through the Audit Committee, which meets periodically to review all financial reports prior to filing.

Certain statements in this report may constitute forward-looking statements that are subject to risks and uncertainties. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. Consequently, readers should not place any undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they were made.

In particular, forward looking comments regarding the Company's status and viability included in the "Liquidity" section are views of management only, and actual results and outcomes could be materially different from management's estimates and expectations. The reader is advised to review the risks related to the Company's operations and reporting, detailed in the sections entitled, "Financial and Capital Risk Management", all of which affect management's views and expectations.

**Corporate Structure**

FTC Cards Inc. ("FTC Canada" and the "Company") was incorporated under the name "0934977 B.C. Ltd." under the laws of the Province of British Columbia by articles of incorporation dated March 9, 2012. On May 16, 2012, the name was changed to "FTC Cards Inc."

The Company was not initially a reporting issuer (or the equivalent) in any jurisdiction and the common shares of FTC Canada are not listed or quoted for trading on any stock exchange. Following the completion of the Arrangement agreement on July 3, 2012, the Company became a reporting issuer in British Columbia.

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The Company was incorporated for the purposes of completing the reorganization whereby pursuant to the terms of the Arrangement agreement between its parent CTF Technologies Inc., (“CTF”), and the purchaser, on July 3, 2012, the Company ceased to be a wholly-owned subsidiary of CTF and all of the issued and outstanding FTC Canada shares were distributed to the former CTF Shareholders.

Following the completion of the Arrangement agreement, FTC Canada now owns approximately 90.5% of the equity of FTC Cards Processamento e Serviços de Fidelização Ltda. (“FTC Brazil”) and has assumed the management of the business of FTC Brazil. FTC Brazil is a limited liability company (*sociedade limitada*) under the laws of Brazil and was incorporated on April 7, 2011. The balance of the equity in FTC Brazil is held by Technis Planejamento e Gestão em Negócios Ltda. (“Technis”), a limited liability company (*sociedade limitada*) under the laws of Brazil and an unrelated party.

The registered and records office of FTC Canada. is located at 1500 Royal Centre, 1055 West Georgia Street, Vancouver, British Columbia, V6E 4N7. The head office of FTC Canada is located at 2000-1066 West Hastings Street, Vancouver, British Columbia, V6E 3X2. The registered and head office of FTC Brazil is located at Alameda Tocantins, No. 125, 33rd floor, room 3302, Building 01 of Condomínio West Side - Alphaville, in the city of Barueri, State of São Paulo, Brazil.

### **Business of the Company**

FTC Brazil was formed in 2011 for the purposes of developing a business of providing data processing to support a program of promotions, awards and loyalty programs and credit card processing targeted at the franchise gas stations of Petrobras Distribuidora S.A. (“**Petrobras**”). FTC Brazil is continuing the business originally developed by CTF Technologies do Brasil Ltda., a subsidiary of CTF Technologies Inc., under an agreement entered into with Petrobras.

As an Acquirer, the Company receives a portion, determined by contract, of the commission revenues arising from the application of the Merchant Discount Rate, (“MDR”) to all credit and debit card transactions processed for fuel and other purchases at designated Petrobras outlets. Revenues are also received from the monthly rental, installation and maintenance of card processing equipment provided to merchants.

In addition, the Company has developed and is continuing to develop an expanded set of loyalty programs to promote customer brand loyalty for Petrobras and other clients, from which it earns fees on a monthly basis.

The Company’s costs of operations include staff and other costs for datacentre processing, communications, call centre operation, and website support for both clients and registered loyalty program users, and other costs includes sales and marketing, administration and other corporate costs.

### **Going Concern**

These interim unaudited consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue to operate in the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Should the Company be unable to continue as a going concern, the basis of reporting the carrying values of assets may be adjusted.

The Company’s earnings for the period from inception on March 09, 2012 to December 31, 2013 amounted to \$2,299,469, and its working capital was approximately \$7,115,852 at September 30, 2014. As a going concern, the Company is dependent upon its ability to maintain future profitable operations and to maintain access to financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company not be able to continue as a going concern.

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Results of Operations for the Three Months Ended September 30, 2014:

Consolidated revenues for the third quarter ended September 30, 2014 included the contribution from its share of the operations of FTC Brasil and amounted to \$4,332,593, up 43 per cent from the revenues of \$3,009,476 recorded in the comparable third quarter in the prior year. The revenues this quarter are substantially higher than those of the prior period due primarily to a 33 per cent increase in the number of monthly loyalty transactions over the prior period level, when the program was in its early stages of operation. In addition, transaction revenues for fuel purchases rose 9 per cent over the prior period also contributing to an MDR revenue gain.

The costs of operations include both the costs for outsourced processing and for all in-house call centre and technical support for its operations and amounted to \$2,933,679 for the third quarter of this year, 62 per cent higher than the prior year third quarter level of \$1,810,422. The increase in costs reflects the growth in the loyalty program operations. As a result of the higher costs in the quarter offset to some degree by the higher revenues, the Company experienced a decline in the gross margin from 39 per cent in the third quarter of 2013 to 32 per cent this quarter.

Other costs for the quarter included sales and marketing of \$931,860, significantly higher than expended in the comparable quarter in 2013, the increase primarily related to the enhanced promotion of the loyalty programs developed for Petrobras, but targeted to attract new subscribers, and administration costs of \$826,690, 40 per cent higher than that incurred in the third quarter of 2013 of \$591,816, the increase a result of continued additions to support staff.

Total other costs amounted to \$1,514,706, net of interest income of \$274,578 earned on surplus funds on hand, so that the Company suffered a loss for the third quarter of 2014 of (\$217,238) or \$0.00 per share, of which (\$172,305) or \$0.00 per share is attributable to the Company, whereas in the prior comparable period of 2013, the Company earned a profit of \$415,032 or \$0.00 per share.

Results of Operations for the Nine Months Ended September 30, 2014:

Consolidated revenues for the first nine months ended September 30, 2014 included the contribution from its share of the operations of FTC Brasil and amounted to \$12,146,921, up 30 per cent over the revenues for the comparable period in 2013 of \$9,293,074. The improvement, as was the case for the third quarter, reflects the additions to the number of loyalty program participants, up 27 per cent over the comparable prior year period, as well as a 10 per cent gain in credit card sales revenues for the same period, and on which the MDR is based.

The costs of operations for the first nine months of 2014 amounted to \$7,273,358, up 17 per cent over the comparable prior year costs of \$6,204,698. The increase in costs of operations reflects primarily the growth in the loyalty program. As a result of the revenue gains in 2014, the Company realized an improvement in the gross margin from 33 per cent in 2013 to 40 per cent for the first nine months of this year.

Other costs incurred in the first nine months of the current year included sales and marketing of \$1,748,847, which is 250 per cent higher than the 2013 level of \$493,476, the increase primarily reflecting the focus on the promotion of the loyalty programs to promote further growth in corporate sponsor participation. Administration costs of \$2,261,665 in 2014 were 8 per cent lower than those incurred in the first nine months of 2013 of \$2,465,994. The lower administration costs reflect the absence this year of special management fees payable for support from the Company's previous parent, which were payable in the prior year and ended on July 3, 2013, and which were included in the nine month costs of 2013.

Total other costs amounted to \$3,502,366, net of interest income of \$597,962 earned on surplus funds on hand, so that the Company earned an after-tax profit for the first nine months of 2014 of \$602,928 or \$0.01 per share, of which \$572,112 or \$0.01 per share is attributable to the Company, whereas in the prior comparable period of 2013, the Company earned only \$43,825 or \$0.00 per share.

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Selected Annual Financial Information:

	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
	\$	\$	\$
Total revenues	14,229,000	11,186,000	N/A
Profit/(Loss) before discontinued operations and extraordinary items:			
(i) total for the year	581,000	1,983,000	N/A
(ii) per share	0.01	0.03	N/A
(iii) per share fully diluted	0.01	0.03	N/A
Net loss:			
(i) total for the year	581,000	1,983,000	
(ii) per share	0.01	0.03	N/A
(iii) per share fully diluted	0.01	0.03	N/A
Total assets	17,246,000	16,838,000	N/A
Total long-term financial liabilities	1,409,000	606,000	N/A
Cash dividends declared per-share	Nil	N/A	N/A

For 2013, revenues rose 27 per cent over the prior year level, reflecting the benefit of the first full year of operations as well as growth in both the number of purchase transactions processed and usage by loyalty program members from which revenues are generated. However, costs of operations were also higher so that the gross margin declined from 44 to 40 per cent in the current year. Other costs were more than double the prior year costs due to the inclusion of transitional costs for management support from the predecessor company, CTF Technologies Inc., which support ended on July 3, 2013. Overall, net income for 2013 of \$581,000 or \$0.01 per share was down 70 per cent from the prior year.

The Company was incorporated in March 2012 and completed the acquisition of its operating subsidiary on July 03, 2012. Consequently, the revenues of \$11,186,000 are for the six months after the acquisition and reflect the Company's share of the MDR and the rent and installation revenues from POS units for this period primarily. Consolidated net earnings before minority interest were \$1,983,000 or \$0.03, and after minority interest were \$1,787,000 or \$0.03 per share.

Selected Quarterly Financial Information:

	4 <sup>th</sup> Quarter Ended December 31, 2014	3 <sup>rd</sup> Quarter Ended September 30, 2014	2 <sup>nd</sup> Quarter Ended June 30, 2014	1 <sup>st</sup> Quarter Ended March 31, 2014
	\$	\$	\$	\$
(a) Revenue		4,333,000	4,449,000	3,365,000

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(b) Profit (Loss) for period		(217,000)	448,000	372,000
(c) Profit (Loss) per share		(0.00)	0.01	0.00
	4th Quarter Ended December 31, 2013	3rd Quarter Ended September 30, 2013	2nd Quarter Ended June 30, 2013	1st Quarter ended March 31, 2013
(a) Revenue	4,935,000	3,009,000	3,903,000	2,379,000
(b) Profit (Loss) for period	537,000	415,000	232,000	(603,000)
(c) Profit (Loss) per share	0.01	0.01	0.00	(0.01)
	4th Quarter Ended December 31, 2012	3rd Quarter Ended September 30, 2012	2nd Quarter Ended June 30, 2012	Period from March 9, 2012 (date of inception) to March 31, 2012
(a) Revenue	8,739,000	2,446,000	NIL	NIL
(b) Profit (Loss) for period	1,967,000	15,000	1,580	0.00
(c) Profit (Loss) per share	0.03	0.00	0.00	0.00

All of the financial information reported in the table above is in accordance with IFRS reporting standards.

Third quarter revenues were \$4,332,593, a slight decline from those in the previous quarter, but 43 per cent higher than those earned in 2013, due to higher loyalty program participation and higher fuel sales revenues on which the MDR is applied, but the gross margin declined to 32 per cent due to higher costs of operations. Other costs also rose due to higher marketing costs incurred to promote growth for the loyalty programs. Consequently, the Company incurred a loss of (\$217,238), the first in six quarters.

Revenues in the second quarter of 2014 continued to grow to \$4,448,984 over the prior quarter and over the prior comparable quarter of 2013, reflecting the increases in both the number of loyalty card users and transactions and the revenues generated from credit card fuel purchases. Costs of operations were slightly

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lower than for the prior quarter, which helped the gross margin to improve from 31 per cent to 42 per cent. Overall, the net profit rose 92 per cent to \$448,230 for the quarter over the comparable quarter in 2013.

Revenues in the first quarter of 2014 were 41 per cent higher than for the comparable quarter in the prior year, but were down from the fourth quarter 2013 level due to the seasonality of sales at this time of year. The gain over the prior year first quarter was a result of an increase in loyalty program usage as this program gains attraction to users. Operating costs were comparable and so a 13 per cent gross margin improvement resulted. Other costs were lower so an after-tax profit of \$372,000 or \$0.00 per share was earned, of which \$328,000 or \$0.00 per share was allocated to the Company.

For the fourth quarter of 2013, revenues of \$4,935,000 were generated due to higher system usage by Petrobras customers and higher \$volume per sale, both adding to the gain over prior quarters. Costs were consistent with prior quarters, as were other costs, primarily administration, so that net profit continued to grow over the four quarters this year.

In the third quarter, revenues of \$3,009,000 were generated, which is down from the immediately prior quarter, but higher than those in the first quarter of this year, and were higher than those of the comparable quarter in 2012. Costs were in line with previous quarters although the gross margin declined from the third quarter of 2012 when profits were enhanced from the installation of POS units for clients, whereas no similar revenues were generated in 2013. The Company earned \$415,000 or \$0.01 in the quarter.

In the second quarter, revenues of \$3,903,000 were higher than those in the first quarter as revenue generated in support of the user base and the rent and installation of POS terminals were higher than those generated in the first quarter. Costs were higher also for the higher support level required and the POS installations. Other expenses were 23 per cent lower than those for the first quarter as management support costs were reduced. Net earnings for the quarter were \$232,000 or \$0.00 per share.

For the first quarter of 2013, revenues of \$2,379,000 in fees earned from its MDR participation, down from the very high level earned in the previous quarter due to one-time installation of POS units and a special promotion to augment customer recognition and usage. Operating costs were consistent with prior quarters, excluding the impact of the costs of the POS installations, but as a result, the gross margin fell to 28 per cent and after all costs of operations, a loss for the quarter resulted of (\$603,650) or (\$0.01).

For the fourth quarter of 2012, the Company earned increased operating revenues of \$8,739,753 and the profit realized grew to \$1,779,033 as usage of the Company's card system rose. Other costs were higher due to the inclusion of the transition support fees, applicable only for the first year of operation.

The Company has completed its first quarter of operations following the successful completion of the arrangement agreement, whereby FTC was spun out from CTF, and reported revenues of \$2,446,247 and a net profit before minority interest of \$15,113.

For the second quarter following incorporation, the Company incurred \$1,580 of administrative expenses from its date of incorporation on March 9, 2012. No revenues were generated in the period. Consequently, the Company incurred a loss amounting to (\$1,580) or (\$1,580) per share for the quarter and year to date.

Capital:

Authorized: Unlimited number of Common shares without par value,

Issued:

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	Number of Shares	Amount \$
Balance , March 09, 2012	1	1
Issued on completion of the arrangement	58,351,051	8,305,105
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Balance, December 31, 2012, December 31, 2013, September 30, 2014 and November 20, 2014	<u>58,351,052</u>	<u>\$ 8,305,106</u>

Liquidity:

The Company earned an after-tax profit of \$602,928 for the first nine months of 2014, but after adjustments for non-cash transactions and working capital account changes, a net cash drawdown resulted of \$1,130,767. Further, the Company expended additional funds amounting to \$755,215 to make hardware and software equipment additions. However, during the first nine months of this year, the Brazilian Reiss has strengthened, which has given rise to a small translation gain of \$154,916 and to an effective increase in the advance from shareholder of \$142,765, both serving to offset the cash drawdown. As a consequence, a net use of funds resulted amounting to \$1,588,301, which served to reduce the cash on hand from the opening level at the beginning of the year of \$6,576,357 to the closing position of \$4,988,056 at September 30, 2014.

Management contemplates that should additional funds be required for the operations of the Company, these will be raised by the issuance of new common shares of equity.

Changes in Accounting Policies (Including Initial Adoption):

New Standards Not Yet Adopted:

The following standards have not yet been adopted and are being evaluated to determine their impact on the Company's financial statements.

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

IFRS 9 is required to be applied for annual periods beginning on or after January 1, 2013. IASB has proposed to move the effective date of IFRS 9 to January 1, 2018.

Financial and Capital Risk Management:

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Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are described below.

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Fair value of financial instruments**

The Company has various financial instruments including cash, accounts receivable, investment, accounts payable and accrued liabilities. Cash and investment are carried at fair value using a level 1 fair value measurement. The carrying values of accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments.

*Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash and cash equivalents are held in large Canadian and Brazilian financial institutions in interest bearing accounts.

The Company's accounts receivable consist mainly of HST and VAT receivable due from the governments of Canada and Brazil respectively.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its capital management as outlined in Note 6 above. Accounts payable relating to the Company's operations and other accounts payable and accrued liabilities are due within one year.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is minimal because these investments roll over daily.

b) Foreign currency risk



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The Company subsidiary operates in Brazil and consequently is subject to fluctuations in the exchange rate of the Brazilian real to the Canadian dollar. The Company does not undertake any hedging activity against this significant foreign currency risk.

The exchange rates at the period-end close for \$ 1.00 Canadian Dollar are as follows:

December 31, 2013:	\$ 2.2207 Brazilian Reais
September 30, 2014:	\$ 2.1848 Brazilian Reais

c) Price risk

The Company is exposed to price risk with respect to commodity prices, particularly fuel, as the Company's revenues directly reflect the pricing of fuels sold to fleet and vehicle owners. The Company currently does not undertake any hedging activity against this exposure.

The Company currently maintains investments in certain marketable securities. There can be no assurance that the Company can exit these positions if required, resulting in proceeds approximating the carrying value of these securities.

Events After the Reporting Date:

Subsequent to the period end, at the request of the minority shareholder of FTC Brasil, the advance from the minority shareholder with interest to September 30, 2014, totaling R\$1,847,479, ( Cdn. \$845,605 ), was repaid on October 17, 2014, and concurrently the 1,750,000 quotas of FTC Brasil held by the shareholder were repurchased and cancelled at a cost of R\$2,464,298, ( Cdn. \$1,127,928 ), such that FTC Brasil became a wholly-owned subsidiary of FTC Cards Inc. with effect from October 1, 2014.