



ADVANTEX

ADVANTEX® MARKETING INTERNATIONAL INC.

Management's Discussion and Analysis of Operating Results

For the Three month periods ended September 30, 2013 and 2012

This management's discussion and analysis has been prepared based on information available to Advantex Marketing International Inc. ("Advantex" or "the Company") and is dated as at November 21, 2013. 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 three month period ended September 30, 2013, compared to the three month period ended September 30, 2012. This management's discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements and the related notes for the twelve months ended June 30, 2013, and the interim consolidated financial statements and the related notes for the three months ended September 30, 2013 which are available on www.sedar.com. All dollar amounts are stated in Canadian Dollar, which is the Company's presentation and functional currency, unless otherwise noted. All dollar amounts have been rounded and do not tie directly to the consolidated financial statements.

Overall Performance

Advantex is a leader in the marketing services industry. The Company develops and manages merchant-based loyalty programs for organizations through which their customers accelerate earning frequent flyer miles and/or other rewards on purchases at participating merchants. Under the umbrella of each program, Advantex provides participating merchants with marketing, customer incentives and additionally pre-purchase of merchants' future sales through its Advance Purchase Marketing® ("APM") model.

Advantex partners with Canadian Imperial Bank of Commerce ("CIBC"), and Aeroplan Canada Inc. ("Aeroplan") which is a subsidiary of Aimia Inc. (collectively "Affinity partners"). On a combined basis, Advantex has contractual marketing access to about five million Canadian consumers with above-average personal and household income. The Company's merchant partner base currently consists of about 2,000 merchants operating in several 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 categories.

Advantex earns revenue as customers make purchases at merchants participating in either the APM or Marketing Only programs (together "Legacy programs"). Advantex also earns revenue from sales of aeroplan miles to merchants ("Re-seller program").

Advantex common shares are traded on the Canadian National Stock Exchange ("CNSX") under the symbol ADX.

The Company is pleased to report a net income for three months ended September 30, 2013.

Summary

The Company's revenues are significantly dependent on the loyalty marketing programs, targeted at holders of designated CIBC credit cards, it has operated in partnership with CIBC since 1995. A significant portion of the CIBC credit card portfolio carries the aeroplane miles reward feature, the outcome of decade old partnership between CIBC and Aimia Inc. ("Aimia"), owner of Aeroplan loyalty program. The three months ended September 30, 2013 fell in the period when CIBC – The Toronto Dominion Bank ("TD") and Aimia formed a tripartite arrangement that will become effective January 2014. This represents a change in the prevailing two way CIBC and Aimia arrangement, and during this period of uncertainty prospective merchants put their participation decision on hold. In addition, the difficult market conditions continued to affect the marketing budgets of small independent merchants. The result is that three months ended September 30, 2013 was a difficult selling environment for the Company's Legacy programs.

The financial performance for three months ended September 30, 2013 ("Q1 Fiscal 2014") has to be put in the context of the above noted circumstance, and to report a net income is an achievement.

Highlights

The highlights of the financial performance of Q1 Fiscal 2014 compared to three months ended September 30, 2012 ("Q1 Fiscal 2013") are tabulated:

	<u>Q1 Fiscal 2014</u>	<u>Q1 Fiscal 2013</u>	<u>Inc./Dec)</u>
Average number of merchants participating in Legacy programs (see Revenue section in this document)	1,255	1,324	(5.2)%
Revenues			
Legacy programs (see section Revenue in this document)	\$4,208,000	\$4,392,000	(4.2)%
Re-seller program	340,000	-	
Retail programs	\$4,548,000	\$4,392,000	3.6%
Miscellaneous income	-	12,000	
	\$4,548,000	\$4,404,000	3.3%
Gross profit	\$2,944,000	\$3,028,000	(2.8)%
Earnings from operations before depreciation, amortization and interest ("EBITDA" *)	\$ 824,000	\$1,040,000	(20.8)%
Net Income	\$ 56,000	\$ 274,000	(79.6)%

* EBITDA is a non-GAAP financial measure which does not have any standardized meaning prescribed by the issuer's GAAP and is unlikely to be comparable to similar measures presented by other issuers. It is provided as additional information to assist readers in understanding a component of the Company's financial performance. In case of the Company, for Q1 Fiscal 2014 and Q1 Fiscal 2013, per consolidated financial statements for three months ended September 30, 2013, earnings from operations before depreciation, amortization and interest is the nearest equivalent to EBITDA.

Q1 Fiscal 2014 compared to Q1 Fiscal 2013

The difficult selling environment is reflected in lower merchant participation in the Company's Legacy programs during Q1 Fiscal 2014 compared to Q1 Fiscal 2013, and this in turn is reflected in the decline in the Legacy program revenues during Q1 Fiscal 2014 compared to Q1 Fiscal 2013. The combined Legacy programs and Re-seller program (together "Retail programs") revenues are up because of the addition of the Re-seller program which the Company began to operate in February 2013.

Direct expenses for the Legacy programs during Q1 Fiscal 2014 increased compared to Q1 Fiscal 2013 as the Company increasingly used higher cardholder awards to incent new merchant sign ups and as a retention tool. The Company met its primary program goal for its CIBC program, covering the period November 2012 to October 2013, and this support payment from CIBC kept the direct expenses for Q1 Fiscal 2014 in check.

Company gross profit for Q1 Fiscal 2014 consequently is lower compared to Q1 Fiscal 2013. The Re-seller program gross profit helped to offset some of the decline from the Legacy programs.

Legacy programs selling expenses for Q1 Fiscal 2014 decreased in line with the decline in program revenues. The Re-seller program selling expenses reflect the sales organization to operate and develop the program.

General and Administrative expenses saw a moderate increase to support the operation of the Company's Retail programs.

The above are reflected in a lower net income for Q1 Fiscal 2014 compared to Q1 Fiscal 2013.

Developments post September 30, 2013

We advised these in the MD&A for year ended June 30, 2013, and are included here to provide a context for the rest of fiscal year ending June 30, 2014 and the Outlook.

1. Renewed agreement with CIBC. The initial term of the new agreement is through September 30, 2016;
2. Renewed agreement with Accord Financial Inc. ("Accord"). The term of the credit facility under the loan payable is extended to December, 2014;
3. Maturity of the 14% non-convertible debentures ("14% debentures"), and 12% non-convertible debentures ("12% debentures") is extended to December 31, 2013. The Company has entered into a term sheet to refinance, subject to regulatory and shareholder approval (if required), between \$5 million and \$5.5 million to replace its existing debentures with a single debenture. As part of the refinancing, the Company intends to issue units comprised of (a) secured non-convertible debentures with face value of \$1,000 bearing interest at 12% per annum (the "New Debentures") and (b) 8,150 common shares in the capital of the Company. The Company expects to finalize the refinancing of the debentures in December 2013;
4. The Company is negotiating a multi-year renewal of its agreement with Aeroplan, and expects to secure a renewal. The agreement expires December 31, 2013; and
5. The decision by CIBC to sell about 50% of its credit card portfolio featuring aeroplan miles rewards ("sold portfolio") to The Toronto Dominion Bank ("TD") effective January 1, 2014, is a material event for the Company. From January, 2014 up until the sold portfolio is converted to

TD (“transition period”), the Company expects to receive the transactions respecting the sold portfolio, such that during the transition period the Company does not expect a material adverse impact on its revenues and earnings. The agreement with CIBC allows the Company to operate its Legacy program for TD. The Company has commenced discussions with TD. The Company believes it operates a unique loyalty rewards accelerator program that would be an attractive proposition for TD in general, and in particular, would enable TD to continue providing the benefits the credit card holders were receiving from CIBC. A successful conclusion has the potential to improve the Company’s ability to increase the value proposition to prospective merchants, potentially increase merchant count and consequently its revenues and earnings.

A detailed look at the results for Q1 Fiscal 2014 is set out in the following sections.

Results of Operations

	Q1 Fiscal 2014	Q1 Fiscal 2013
	\$	\$
Revenues		
Retail programs	\$4,548,000	\$4,392,000
Misc., and interest income	-	12,000
	4,548,000	4,404,000
Direct expenses	1,604,000	1,376,000
Gross Profit	2,944,000	3,028,000
Selling, and General & Administrative expenses	2,120,000	1,988,000
Earnings from operations before depreciation, amortization and interest	824,000	1,040,000
Cash interest expense on loan payable and debentures	513,000	517,000
Earnings from operations before depreciation, amortization and non-cash interest	311,000	523,000
Non-cash expenses		
Depreciation and amortization	151,000	108,000
Non-cash interest expense on debentures	104,000	141,000
Net income	\$ 56,000	\$ 274,000
Basic and diluted earnings per share	\$0.00	\$0.00

The presentation in Results of Operations section is not set out in accordance with International Financial Reporting Standards (“IFRS”) but has been included to provide additional analysis for the reader.

The current assets of \$16.3 million and total assets of \$17.1 million as at the end of September 30, 2013 were comparable to current assets of \$16.4 million and total assets of \$17.3 million as at June 30, 2013. The shareholders’ deficiency as at September 30, 2013 was \$1.0 million compared to \$1.1 million as at June 30, 2013.

Revenue

Advantex revenue is derived from merchants participating in its Retail programs.

Advantex’s Retail programs have three business models. Revenue can vary significantly from year to year, depending on the number of merchants participating under each model:

- (1) **Advance Purchase Marketing Model (“APM”)**: The Company acquires the rights to cash flow from future designated credit card transactions at a discount from participating merchants (transaction credits on consolidated statement of financial position) and promotes the merchant,

by way of cardholder incentives through its loyalty marketing programs, and targeted marketing programs. The Company's revenue is from the designated credit card receipts at participating establishments, net of the Company's costs to acquire the transaction credits. Proceeds from the spend on designated credit cards are received by the Company and a predetermined portion is applied to reduce the transaction credit balance that the merchant owes.

- (2) **Marketing Only Model:** Merchants participate in the loyalty/marketing programs without the Company acquiring transaction credits. In this model, Advantex provides loyalty rewards and marketing support for participating merchants and earns its revenue, based on an agreed percentage of each designated card transaction in exchange for the services it provides participating establishments.
- (3) **Re-seller of Loyalty Rewards.** The Company sells aeroplane miles to small and mid-sized retailers and service providers. Revenue is recognized, at the agreed price per aeroplane mile, when the participating merchant issues aeroplane miles to an Aeroplane member completing a qualifying transaction at the merchant. Certain agreements with merchants carry a commitment for merchants to issue a minimum number of aeroplane miles during the term of their agreement with the Company.

Currently Legacy programs, consisting of APM and Marketing Only, provide the significant share of the Company's revenues. Since, in these programs, the Company earns revenue as consumers make purchases using designated credit cards at participating merchants, the drivers of revenues are:

1. Number of participating merchants;
2. Economic environment. The uncertain economy is affecting consumer spending habits;
3. Mix of merchants in terms of their volume of designated credit card transactions; and
4. Participation levels in APM and Marketing Only programs. The fees that a merchant would pay for participation in the APM program is higher compared to Marketing Only program.

The revenues from the Re-seller program reflect the number of participating merchants, and the level of engagement of participating merchants in the program.

The trend of revenue is provided in the tabulation.

	<u>Q1 Fiscal</u> <u>2014</u>	<u>Q1 Fiscal</u> <u>2013</u>	<u>Inc./(Dec)</u>
<u>Legacy programs - # of participating merchants</u>			
Start of period	1,259	1,279	
End of period	<u>1,251</u>	<u>1,368</u>	
Average for the period	<u>1,255</u>	<u>1,324</u>	(5.2)%
<u>Re-seller program - # of participating merchants at end of period</u>	<u>700</u>	<u>nil</u>	
<u>Revenues</u>	<u>\$</u>	<u>\$</u>	
APM	\$2,846,000	\$3,002,000	
Marketing Only	1,304,000	1,296,000	
Sales of digital marketing services	<u>58,000</u>	<u>94,000</u>	
<u>Legacy programs</u>	<u>4,208,000</u>	<u>4,392,000</u>	(4.2)%
Re-seller	<u>340,000</u>	<u>-</u>	
<u>Retail programs</u>	<u>4,548,000</u>	<u>4,392,000</u>	3.6%
Miscellaneous income	-	12,000	
<u>Total revenues</u>	<u>\$4,548,000</u>	<u>\$4,404,000</u>	3.3%
<i>Average annual revenue per merchant participating in Legacy programs (straight-line extrapolation of trend for the quarter)</i>	<i>\$13,412</i>	<i>\$13,269</i>	<i>1.1%</i>

As noted under the section Overall Performance, until cleared up in mid- September 2013, the uncertainty surrounding the CIBC – Aimia relationship combined with a weak economy to create a compressed market for the Company’s programs, and this hampered the Company’s ability to sign new merchants during Q1 Fiscal 2014. The decline in merchant participation is reflected in lower Q1 Fiscal 2014 Legacy programs revenues compared to Q1 Fiscal 2013.

The revenues from digital marketing services are generated from sales to merchants participating in Legacy programs and effective Q1 Fiscal 2014 are being reported as a part of Legacy programs.

Since the acquisition of the Re-seller business in January 2013, the Company has been working with participating merchants to increase the merchants’ usage of aeroplane miles as a marketing tool. The typical participating merchant in this program is a mid-sized business with multiple locations compared to small independents in the Legacy programs, and consequently the Re-seller program has a longer selling cycle. Company expects to gradually increase its revenues from the Re-seller program.

Direct Expenses

Direct expenses include cardholder award costs, the cost of marketing and advertising on behalf of merchants, cost of sales related to the sale of aeronotes, cost of sales of digital marketing services, and a provision against receivables under all programs.

	<u>Q1 Fiscal</u> <u>2014</u>	<u>Q1 Fiscal</u> <u>2013</u>	<u>Inc./</u> <u>(Dec)</u>
	\$	\$	
Revenues - Legacy programs	\$4,208,000	\$4,392,000	(4.2)%
Re-seller program	<u>340,000</u>	<u>-</u>	
	\$4,548,000	\$4,392,000	3.6%
Direct expenses – Legacy programs	\$1,393,000	\$1,376,000	1.2%
Re-seller program	<u>211,000</u>	<u>-</u>	
	\$1,604,000	\$1,376,000	16.6%

The Q1 Fiscal 2014 increase in direct expenses respecting Legacy programs reflects higher cardholder awards costs (\$153,000 higher compared to Q1 Fiscal 2013), and a higher expense for delinquent accounts (\$201,000 for Q1 Fiscal 2014 vs. \$160,000 for Q1 Fiscal 2013), partially offset by marketing support from CIBC of \$115,000 (Q1 Fiscal 2012 \$nil). The increase in cost of cardholder awards reflects increasing usage by the Company of aeroplane miles as a selling and retention tool. The Company believes it has the measure of merchant delinquencies which are primarily the outcome of economic conditions.

Gross Profit

Company gross profit was \$2,944,000 in Q1 Fiscal 2014 compared to \$3,028,000 in Q1 Fiscal 2013 reflecting a decline in Legacy programs gross profit partially offset by the Re-seller program.

	<u>Q1 Fiscal</u> <u>2014</u>	<u>Q1 Fiscal</u> <u>2013</u>	<u>Inc./</u> <u>(Dec)</u>
	\$	\$	
Legacy programs	\$2,815,000	\$3,016,000	\$(201,000)
Re-seller program	129,000	-	129,000
Miscellaneous income	-	12,000	(12,000)
	\$2,944,000	\$3,028,000	\$ (84,000)

The decline in Legacy programs Gross Margin (Q1 Fiscal 2014 at 66.9% compared to 68.8% for Q1 Fiscal 2013), is attributable to the increase in direct expenses as is explained under the section Direct expenses in this document.

Re-seller program is a new activity effective February, 2013.

Selling Expenses

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

	<u>Q1 Fiscal</u> <u>2014</u>	<u>Q1 Fiscal</u> <u>2013</u>	<u>Inc./</u> <u>(Dec)</u>
	\$	\$	
Revenues – Legacy programs	\$4,208,000	\$4,392,000	(4.2)%
Re-seller program	<u>340,000</u>	-	
	<u>\$4,548,000</u>	<u>\$4,392,000</u>	
Selling Expenses – Retail programs	\$868,000	\$910,000	(4.6)%
Re-seller program	<u>134,000</u>	-	
	\$1,002,000	\$910,000	

The Legacy program selling expenses declined in response to decrease in revenues.

Re-seller program is a new activity effective February, 2013, and the Company has developed the selling organization to operate and develop this program.

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).

	<u>Q1 Fiscal</u> <u>2014</u>	<u>Q1 Fiscal</u> <u>2013</u>	<u>Inc./</u> <u>(Dec)</u>
	\$	\$	\$
Change in Retail programs revenues			3.6%
G&A			
Compensation for non-sales staff	\$ 851,000	\$ 791,000	7.6%
Less: Software development costs capitalized (details provided under section Capital Expenditures in this document)	<u>(24,000)</u>	<u>(18,000)</u>	
	827,000	773,000	7.0%
All other G&A expenses	<u>291,000</u>	<u>305,000</u>	
	\$1,118,000	\$1,078,000	3.7%

Compensation costs, which represent over 70% of total G&A expense, increased to support the operation of the Company's Retail programs consisting of Legacy programs and the Re-seller program.

Interest Expense

The interest expense is tabulated:

	Q1 Fiscal 2014	Q1 Fiscal 2013	Inc./Dec)
	\$	\$	\$
Stated interest			
Loan payable	\$265,000	\$268,000	\$ (3,000)
14% debentures	62,000	62,000	\$ -
12% debentures	<u>186,000</u>	<u>187,000</u>	<u>\$ (1,000)</u>
	\$513,000	\$517,000	\$ (4,000)
Non cash interest , 14% debentures and 12% debentures accretion charges	\$104,000	\$141,000	\$(37,000)
Total interest expense	\$617,000	\$658,000	\$(41,000)

The Company deploys the funds available to it under its loan payable, and 14% debentures with merchants activated under its Advance Purchase Marketing ("APM") program. The funds available under the 12% debentures are used for working capital purposes including being deployed with merchants activated under the APM program. The funds deployed are reflected as transaction credits on the consolidated statement of financial position.

The utilization of the loan payable during Q1 Fiscal 2014 was flat compared to Q1 Fiscal 2013.

As at September 30, 2013 the 14% debentures and 12% debentures are fully accreted to their maturity value of \$1,744,000 and \$6,151,967 respectively on the consolidated statement of financial position.

Net Income

The net income for Q1 Fiscal 2014 was \$56,000 (Basic and Diluted Earnings per share of \$0.00) compared to a net income of \$274,000 (Basic and Diluted Loss per share of \$0.00) for Q1 Fiscal 2013.

Highlights of Q1 Fiscal 2014 compared to Q1 Fiscal 2013 are tabulated:

	Q1 Fiscal 2014	Q1 Fiscal 2013	Inc./Dec)
Revenues	\$4,548,000	\$4,404,000	\$ 144,000
Gross Profit	\$2,944,000	\$3,028,000	\$ (84,000)
Earnings from operations before depreciation, amortization and interest	\$ 824,000	\$1,040,000	\$ (216,000)
Net Income	\$ 56,000	\$ 274,000	\$ (218,000)
Basic and Fully Diluted earnings per share	\$0.00	\$0.00	

A significant portion of the Company's revenues are from the Legacy programs. The decline in merchant participation in Legacy programs during Q1 Fiscal 2014 compared to Q1 Fiscal 2013 was

the result of the compressed market for the Company's programs partially due to the uncertainty surrounding the CIBC – Aimia relationship. This is discussed in the section Overall Performance.

Q1 Fiscal 2014 revenues and direct costs increased \$144,000 and \$228,000 respectively compared to Q1 Fiscal 2013, leading to a decline in gross profit of \$84,000.

Q1 Fiscal 2014 selling, and general & administrative expenses were \$132,000 higher compared to Q1 Fiscal 2013, resulting in a decline of \$216,000 in earnings from operations before depreciation, amortization and interest for Q1 Fiscal 2014 compared to Q1 Fiscal 2013.

Interest cost for Q1 Fiscal 2014 was \$617,000, a reduction of \$41,000 compared to Q1 Fiscal 2013. Non-cash interest representing accretion charges on the 14% debentures and 12% debentures accounted for \$37,000 of the decrease over Q1 Fiscal 2013.

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

Working Capital and Liquidity Management

The utilization of liquidity during Q1 Fiscal 2014 compared to Q1 Fiscal 2013 is illustrated in the following tabulation:

	Q1 Fiscal 2014	Q1 Fiscal 2013
FUNDS AVAILABLE TO EXPAND APM PROGRAM (Transaction credits) AND MEET WORKING CAPITAL REQUIREMENTS		
1. Net income	\$ 56,000	\$ 274,000
Add back non-cash expenses	<u>254,000</u>	<u>249,000</u>
Income before non-cash expenses *	\$ 310,000	\$ 523,000
2. Cash balances at start of the period	\$ 1,774,000	\$ 1,085,000
3. Decrease in transaction credits under APM program	<u>\$ 370,000</u>	<u>\$ 81,000</u>
Funds Available	\$ 2,454,000	\$ 1,689,000
UTILIZATION		
1. Decrease in utilization of loan payable	\$ 451,000	\$ 175,000
2. Cash balances at end of period	\$ 1,685,000	\$ 618,000
3. Change in accounts receivable, inventory, and prepaid expenses / sundry assets	\$ 332,000	\$ 145,000
4. (Increase)/Decrease in accounts payable	\$ (128,000)	\$ 315,000
5. Capital expenditures	\$ 114,000	\$ 51,000
6. Partial early repayment of 14% debentures and 12% debentures (collectively "Debentures")	\$ -	\$ 376,000
7. Debentures early prepayment additional transaction costs	\$ -	\$ 9,000
Utilization	\$ 2,454,000	\$ 1,689,000

* 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 is arrived after adding back expenses not affecting cash - depreciation of property, plant and equipment, and amortization of intangible assets; and accretion charge for debentures - to net income for the three months, which are disclosed in the consolidated financial statements for three months ended September 30, 2013 under the section consolidated statements of cash flow.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity when obligations are due.

The Company believes that increasing the amount of the transaction credits deployed with merchants under its APM program will result in higher revenue and, consequently, improve the Company's results and cash flows. As noted under the section Overall Performance, until it was cleared up in mid- September 2013, the uncertainty surrounding the CIBC – Aeroplan relationship combined with a weak economy to create a compressed market for the Company's programs, and consequently a decline in number of participating merchants during Q1 Fiscal 2014. The change in transaction credits reflects partially the change in the number of merchants participating in the Company's APM program, and as well as the amount of transaction credits deployed with its existing merchants.

Income before non-cash expenses* and cash received from financing activities related to draw against loan payable is used to fund merchants participating in the Company's APM program. The Income before non-cash expenses* is also utilized to meet the Company's other working capital and capital expenditure requirements.

The Company deploys the funds available to it under its loan payable, and 14% debentures with merchants activated under its APM program. The funds available under the 12% debentures are used for working capital purposes including being deployed with merchants activated under the APM program. The proceeds of the 14% debentures, and 12% debentures are fully deployed. At present, the need for capital to expand the APM program is satisfied by the loan payable, however there are limitations including; a credit limit of \$8.5 million (utilization at September 30, 2013 was \$6.7 million compared to \$7.1 million at June 30, 2013); it is a demand facility; and it requires the Company to co-fund a certain portion of the transaction credits deployed with merchants under the APM program.

The Company generally carries minimal cash balances as it attempts to maximize the funds deployed with merchants (transaction credits on the consolidated statement of financial position) participating in its APM program. While, generally the cash balances at the end of a quarter / year reflect the timing difference between the Company's ongoing collection of transaction credits from merchants participating in its programs, and deploying advances to existing and new merchants, as at September 30, 2013 the cash balances also include a significant element of cash that the Company intends will be used to re-pay the Debentures on maturity and complete the refinancing explained later in this section.

Capital expenditures are discussed under the section Capital Resources in this document. As of the date hereof, the capital expenditures for Fiscal 2014 are expected to relate to the updating of the Company's infrastructure and software development, and are expected to be on par with activity levels in Fiscal year ended June 30, 2013.

In July, 2012, pursuant to a debt prepayment agreement, the Company prepaid \$310,033 in the aggregate principal amount of 12% debentures plus accrued and unpaid interest thereon, and pursuant to a second debt prepayment agreement prepaid \$66,000 in the aggregate principal amount of 14% debentures plus accrued and unpaid interest thereon.

The Company's operations are funded by debt. To continue its current operations and fund growth during Fiscal 2014 requires the Company to have continued access to its existing levels of debt. The Company has secured a one year renewal of the loan payable agreement. The agreement now expires in December, 2014. The September 30, 2013 maturity date of the 14% debentures and 12% debentures was extended to October 31, 2013 and then to December 31, 2013. The Company has announced that it has entered into a term sheet to refinance, subject to regulatory and shareholder

approval (if required), between \$5 million and \$5.5 million of the 14% debentures and 12% debentures for maturity on September 30, 2016. As part of the refinancing, the Company intends to issue units comprised of (a) secured non-convertible debentures with face value of \$1,000 bearing interest at 12% per annum (the “New Debentures”) and (b) 8,150 common shares in the capital of the Company. The Company expects to successfully finalize the refinancing of the debentures.

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

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

Contractual Obligations

Contractual obligations as at September 30, 2013 were due as follow.

(in millions of dollars)

<u>Contractual obligation</u>	<u>Total</u>	Payments Due by Period			
		<u>Less than 1 Year</u>	<u>1 to 3 Years</u>	<u>4 to 5 Years</u>	<u>After 5 Years</u>
Loan Payable	\$6.7	\$6.7	\$-	\$-	\$-
14% debentures	\$1.7	\$1.7	\$-	\$-	\$-
12% debentures	\$6.2	\$6.2	\$-	\$-	\$-
Operating Leases	\$0.5	\$0.1	\$0.4	\$-	\$-

Additional commitments

The Company has an annual commitment to purchase minimum aeroplan miles as part of its three year arrangement (“existing agreement”) to develop and manage a loyalty program for its affinity partner, Aeroplan. The Company met its first year commitment of \$700,000 by the due date of December 31, 2011. The Company had a second year commitment, commencing January 1, 2012 and ending December 31, 2012 to purchase \$1,000,000 of aeroplan miles. The Company was able to purchase just over \$700,000 of aeroplan miles. Concurrent with the Company’s acquisition of Futura Loyalty Group Inc.’s (“Futura”) Aeroplan channel marketing assets the Company and Aeroplan reached an understanding to restructure the existing agreement. The restructured arrangement (“arrangement”) combines the existing agreement and the Futura Aeroplan re-seller agreement acquired by the Company. The arrangement has a one year term ending December 31, 2013, and carries a commitment by the Company to purchase \$1,960,135 of aeroplan miles from Aeroplan. The arrangement also calls for the Company to fulfill any of Futura’s commitments in respect of aeroplan miles paid for in advance by merchants to a maximum of \$150,000. Under the arrangement the Company does not have a liability, to Aeroplan, in respect of the shortfall in meeting its second year commitment per the existing agreement. The arrangement was formalized by an agreement in June, 2013. The Company is negotiating for a multi-year renewal of its agreement with Aeroplan and these discussions also cover re-establishing the Company’s commitment for calendar 2013. The Company expects to meet the re-established commitment for calendar 2013.

In February, 2012 the Company signed an agreement with a service provider to purchase software over a three year term. The software provides an integrated platform enabling users to simultaneously manage and schedule their digital marketing campaigns. The Company sells this

software to merchants participating in its programs. The annual purchase commitment, per agreement, commencing July 1, 2012, was \$288,000. As part of negotiations to restructure the relationship, the Company and the service provider reached an understanding to amend, amongst other provisions, the annual purchase commitment to \$192,000 commencing August 1, 2013. The Company has sales of software to meet the revised annual purchase commitment.

Loan Payable

The Company has a credit facility (“facility”) with Accord Financial Inc. (“Accord”) to be used exclusively to acquire transaction credits under its APM program. As security, Accord has first charge to all amounts due from merchants funded from this facility. The facility was set up in December, 2007.

The facility was renewed in October, 2013 for a one year term ending in December, 2014.

The facility has a limit of \$8.5 million. The interest rate is 11.5% plus prime of a certain Canadian bank.

As at September 30, 2013, the Company had utilized \$6.7 million of the facility (as at June 30, 2013 \$7.1 million).

14% Non-Convertible Debentures Payable

In May, 2011 the Company refinanced its 14% non-convertible debentures payable (“old 14% debentures”) by issuing \$1,810,000 of 14% non-convertible debentures payable (“14% debentures”).

The 14% debentures bear interest at 14% per annum, payable quarterly, with a maturity date of September 30, 2013. The 14% debentures carried 3,574,750 common share purchase warrants convertible, during the term of the 14% debentures, into 3,574,750 common shares of the Company at an exercise price of \$0.04 per common share.

In July, 2012 pursuant to a debt prepayment agreement the Company prepaid \$66,000 in the aggregate principal amount of the 14% debentures plus accrued and unpaid interest thereon. Post prepayment the principal amount of the 14% debentures is \$1,744,000. Concurrently with the debt prepayment, 130,350 common share purchase warrants of the Company (each a “Warrant”) were surrendered to the Company. The number of Warrants surrendered was proportionate to the number of 14% debentures prepaid.

The Company has fully deployed the proceeds of the 14% debentures with merchants participating in its APM program.

As at September 30, 2013 the Company met the financial covenant, dollar amount of transaction credits, stipulated in the 14% debentures agreement.

As security, the 14% debenture holders have first charge to all amounts due from merchants funded by the proceeds of the 14% debentures.

In September, 2013 the maturity date of the 14% debentures was extended to October 31, 2013. In October, 2013 the maturity date was extended to December 31, 2013. Concurrently, the expiry date of the Warrants was extended.

12% Non-Convertible Debentures Payable

In May, 2011 the Company completed an early refinancing of its convertible debentures by issuing \$6,462,000 12% non-convertible debentures (“12% debentures”).

The 12% debentures bear interest at 12% per annum, payable semi-annually, with a maturity date of September 30, 2013. The 12% debentures carried 91,443,762 common share purchase warrants convertible, during the term of the 12% debentures, into 91,443,762 common shares of the Company at an exercise price of \$0.04 per common share.

In July, 2012 pursuant to a debt prepayment agreement the Company prepaid \$310,033 in the aggregate principal amount of the 12% debentures plus accrued and unpaid interest thereon. Post prepayment the principal amount of the 12% debentures is \$6,151,967. Concurrently with the debt prepayment, 4,387,271 common share purchase warrants of the Company (each a “Warrant”) were surrendered to the Company. The number of Warrants surrendered was proportionate to the number of 12% debentures prepaid.

The 12% debentures are used for the purpose of the Company’s working capital needs, including funding merchants participating in the APM program.

As at September 30, 2013 the Company met the two financial covenants, interest coverage and current assets, stipulated in the 12% debentures agreement.

The 12% debentures are secured by a general security agreement over all the assets of the Company and its subsidiaries. The significant financial covenants of the 12% debentures require the Company to meet a defined level of current assets and interest cover on a quarterly basis. 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 12% debentures agreement and, as a result, the 12% debentures holders would have the right to waive the event of default, demand immediate payment of the 12% debentures in full or modify the terms and conditions of the 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 12% debentures, the 12% debentures holders would have the right to realize upon a part or all of the security held by them.

In September, 2013 the maturity date of the 12% debentures was extended to October 31, 2013. In October, 2013 the maturity date was extended to December 31, 2013. Concurrently, the expiry date of the Warrants was extended.

Summary of Quarterly Results

12 month period ended September 30, 2013

(in millions of dollars, except per share amounts)	Q2 Dec 31 <u>2012</u>	Q3 Mar 31 <u>2013</u>	Q4 Jun 30 <u>2013</u>	Q1 Sep 30 <u>2013</u>	<u>Total</u>
Revenue	\$4.4	\$3.6	\$4.5	\$4.5	\$17.0
Percentage of Annual Revenue	25%	21%	27%	27%	100%
Net Income/(Loss)	\$0.1	\$(0.6)	\$0.2	\$0.0	\$(0.3)
Basic and Diluted Earnings Per Common Share	\$ 0.00	\$ (0.00)	\$ 0.00	\$ 0.00	\$(0.00)

12 month period ended September 30, 2012

(in millions of dollars, except per share amounts)	Q2 Dec 31 <u>2011</u>	Q3 Mar 31 <u>2012</u>	Q4 Jun 30 <u>2012</u>	Q1 Sep 30 <u>2012</u>	<u>Total</u>
Revenue	\$4.2	\$3.5	\$4.3	\$4.4	\$16.4
Percentage of Annual Revenue	26%	21%	26%	27%	100 %
Net Income/(Loss)	\$ 0.2	\$ (0.4)	\$ 0.1	\$ 0.3	\$ 0.2
Basic and Diluted Earnings Per Common Share:	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ 0.00	\$ 0.00

Some numbers in the above presentation may not add due to rounding.

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

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

Capital Resources

Expenditures for property, plant and equipment, and intangible assets for Q1 Fiscal 2014 year were \$114,000 (Q1 Fiscal 2013 – \$51,000), and consisted of software (\$102,000) and computer hardware (\$12,000).

Q1 Fiscal 2014 includes capitalization of \$24,000 of internal costs expended on software development connected to ensuring operability of the Company's loyalty marketing programs sponsored by CIBC and Aeroplan (Q1 Fiscal 2013 - \$18,000). The costs are being amortized over the shorter of useful life of the software and term of Affinity partner agreement.

As of date hereof, the capital expenditures during fiscal year ending June 30, 2014 are expected to be in the nature of updating of the Company's infrastructure and software development to operate the Retail programs for existing Affinity partners, and expansion opportunities the Company is pursuing which are noted in section Overall Performance.

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

Critical Accounting Estimates

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

The Company's significant accounting policies are disclosed in note 4 to the audited consolidated financial statements for year ended June 30, 2013.

Contingent liabilities

A significant amount of estimation is applied in evaluating the company's uncertain tax provision with the Canada Revenue Agency (CRA), as described in note 17 to the audited consolidated financial statements for year ended June 30, 2013, 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, continued access to existing sources of debt, ability to access additional sources of debt, growth of its existing business, and development of new lines of business.

Financial instruments – fair value

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

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

Credit risk

The Company has certain business risks linked to the collection of its transaction credits. Under the regular APM program 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 – 120 days. Management has implemented additional 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. With the introduction, during the fourth quarter of fiscal year ended June 30, 2011, of a modified APM program targeted towards smaller merchants where the transaction credits are estimated to be fully extinguishable

within 180 – 210 days, the Company has leveraged its experience from the regular APM program to design processes to manage risk. 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 a) 120 days respecting the regular APM program, and b) 180 – 210 days respecting the modified APM program. In the event of default, the Company has set up escalating collection measures, and an allowance is determined on specifically identified transaction credit balances that are delinquent and amount of the specific provision is determined based on whether the account has been referred for legal collection, whether the Company’s attempt to debit the merchant’s bank account for payments due to the Company has been rejected, the underlying reason for the rejections, and the Company’s historical experience on recoveries.

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

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

	September 30, 2013	June 30, 2013	September 30, 2012
	\$	\$	\$
Transaction credits	14,301,000	14,440,000	15,432,000
Accounts receivable	817,000	599,000	1,044,000
Allowance	<u>(1,039,000)</u>	<u>(807,000)</u>	<u>(1,417,000)</u>
Per statement of financial position	<u>14,079,000</u>	<u>14,232,000</u>	15,059,000
Amounts due from CRA, included in accounts receivable (received in February 2013)	-	-	<u>(800,000)</u>
Maximum exposure to credit risk	<u>14,079,000</u>	<u>14,232,000</u>	<u>14,259,000</u>

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

	September 30, 2013	June 30, 2013	September 30, 2012
	\$	\$	\$
Impaired transaction credits	2,498,000	2,167,000	2,664,000
Allowance	(1,039,000)	(807,000)	(1,417,000)
Impaired transaction credits not allowed for	1,459,000	1,360,000	1,247,000

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 immediately to four years.

At the Annual and Special Meeting of the Shareholders held on December 22, 2009 the Company received approval from the shareholders to implement a stock option plan ("2009 stock option plan") which is 12% fixed maximum number of common shares issuable based on issued and outstanding common shares (calculated on a non-diluted basis), and accordingly the maximum aggregate number of common shares issuable under the 2009 stock option plan is 11,643,044. The 2009 stock option plan expires on the date of annual meeting of shareholders in 2013. The directors intend to approve continuation of the 2009 stock option plan to date of the annual meeting of shareholders in 2014.

Movement during Q1 Fiscal 2014 and Q1 Fiscal 2013 is tabulated.

	<u>Q1 Fiscal 2014</u>	<u>Q1 Fiscal 2013</u>
	<u>Number of Options</u>	
Outstanding at start of year	10,441,430	11,027,790
Expired	-	(1,000,000)
Outstanding at end of year	<u>10,441,430</u>	<u>10,027,790</u>

The number of stock options available for future issuance as at September 30, 2013 compared to September 30, 2012 is as follows:

	<u>September 30,</u> <u>2013</u>	<u>September 30,</u> <u>2012</u>
Maximum number reserved for issuance	11,643,044	11,643,044
Less: Outstanding at end of period	<u>(10,441,430)</u>	<u>(10,027,790)</u>
Number of options available for future issuance	<u>1,201,614</u>	<u>1,615,254</u>

The number of options available for future issuance at June 30, 2013 was 1,201,614.

There was no stock based compensation expense during Q1 Fiscal 2014 (Q1 Fiscal 2013 \$nil).

Outstanding Share Data

Outstanding shares

As at date hereof, September 30, 2013, and June 30, 2013, the number of issued and outstanding common shares of the Company was 97,025,368. The number of common shares is provided by the Company's transfer agent CST Trust Company.

As at date hereof, the company was committed to issuing additional common shares as follows:

	Number of common shares	Exercise price \$	Expiry
Common shares issuable on exercise of common share purchase warrants attached to 14% debentures	3,444,400	0.040	December 31, 2013
Common shares issuable on exercise of common share purchase warrants attached to 12% debentures	87,056,491	0.040	December 31, 2013
Employee stock options Maximum number issuable under the 2009 stock option plan is 11,643,044.	10,441,430	Ranging between \$0.01 and \$0.05	Ranging between March 2014 and March 2018
TOTAL	100,942,321		

Transactions with Related Parties

As at September 30, 2013, June 30, 2013 and September 30 2012, the related parties, tabulated below, were holders of the debentures described in sections 14% Non-Convertible Debentures Payable, and 12% Non-Convertible Debentures Payable in this document. The related parties purchased debentures on terms and conditions applicable to the other subscribers.

Title	Principal Amount – 14% debentures	Principal Amount – 12% debentures
Chief Executive Officer – Kelly E. Ambrose	\$nil	\$100,000
Chief Financial Officer – Mukesh Sabharwal	\$10,000	\$ 30,000

Trapeze Capital Corp. and Trapeze Asset Management Inc. (together “Trapeze”), on behalf of their respective managed accounts, as of date hereof, held 1,412 units of 14% debentures totaling to \$1,412,000, and 4,499 units of 12% debentures totaling to \$4,499,000. The 14% debentures and 12% debentures (together “Debentures”) held by Trapeze carry common share purchase warrants, convertible during the term of the Debentures, into 66,450,044 common shares of the Company at an exercise price of \$0.04 per common share. On a fully diluted basis, Trapeze is considered a “control person” per securities law, and is reported as a related party in this document.

As more particularly described under sections 14% Non-convertible debentures and 12% Non-convertible debentures payable, Trapeze on behalf of all holders of Debentures agreed to extend the Debentures to October 31, 2013 and then to December 31, 2013.

It is expected that these same informed persons will subscribe for new debentures as part of the debenture refinancing announced on October 28, 2013. Any such subscription will be on terms and conditions applicable to the other subscribers, which are more fully described in the Company’s press release of October 28, 2013.

Outlook

The Company noted in the Outlook section of the MD&A for year ended June 30, 2013 that the next twelve to eighteen month period is one of challenges and opportunities.

The challenges identified were the uncertain economy, and CIBC's decision to sell half of its portfolio of credit cards featuring aeroplan miles rewards and the effect these two factors would have on the Company's revenues. We see the outcome in our results for Q1 Fiscal 2014. The positive is that the Company is able to adjust to the changing circumstances, and is reporting a net income.

The positives are the same as identified at June 30, 2013. To-reiterate, the Company provides unique marketing services to highly visible partners, and has a coalition of about 2,000 merchants which forms a diverse revenue base. CIBC has shown faith in Advantex and signed a multi-year renewal. The Company expects a positive outcome from its negotiations with Aeroplan for a multi-year renewal. The agreement with CIBC allows the Company to operate its Legacy program for TD. The Company has commenced discussions with TD, and a successful outcome would result in a program that has the potential to offset the financial impact of the above noted challenges. The Company's financial partners are supporting the Company.

While the Company continues to be cautiously optimistic of its prospects, given the uncertainties the next twelve to eighteen month period is likely to be financially turbulent.

Economic Dependence

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

Recognizing the risks of overdependence on an Affinity partner and/or a business segment from the perspective of business continuity, and limitation on future revenues and profitability, the Company sought out and signed an agreement with Aeroplan. The agreement was signed in March, 2010 for a term through August 31, 2013, with an option to extend for one additional period of two years by mutual consent of the parties, and could be terminated by Aeroplan under certain conditions prior to August 31, 2013. In 2013, Advantex and Aeroplan re-structured the agreement. (Details provided in section Contractual Obligations in this document), and extended its term to December 31, 2013. This value-added loyalty marketing agreement provides exclusive rights to the Company to market its product offerings in certain business segments including men's and ladies fashion, footwear and accessories business segment ("Fashion retail"). The exclusivity in favour of the Company is conditional upon the Company meeting certain targets on an annual basis. Under certain conditions

the Company can expand its product offering outside permitted business segments, with Aeroplan holding the right of first refusal. The Company launched this program on September 1, 2010.

Illustration of economic dependence on CIBC

Revenue	Q1 Fiscal 2014		Q1 Fiscal 2013	
	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>
Programs operated in partnership with CIBC	\$ 4.0 m	88.9 %	\$ 4.1 m	93.2 %
Programs operated in partnership with Aeroplan	\$ 0.5 m	11.1 %	\$ 0.2 m	4.6 %
All other revenues	<u>\$ 0.0 m</u>	<u>0.0 %</u>	<u>\$ 0.1 m</u>	<u>2.2 %</u>
Total	<u>\$ 4.5 m</u>	<u>100.0%</u>	<u>\$ 4.4 m</u>	<u>100.0%</u>

General Risks and Uncertainties

As indicated in the Economic Dependence section of this document a significant portion of the Company's current revenue is dependent on its value-added loyalty agreement with CIBC. The Company's relationship with CIBC has been in place for about eighteen years and has been through several multi-year renewal terms. The agreement was renewed effective September 30, 2013. The initial term of the agreement is through September 30, 2016, which may, at the option of CIBC, be renewed for up to two additional one year periods. If CIBC exercises its right to either terminate the agreement upon at least six months prior notice or retain a third party service provider to operate a competing program, the Company could be materially and adversely affected. The Company believes that it has begun to limit its economic dependence on CIBC by developing its partnership with Aeroplan.

The Company earns its revenue, from the programs it operates in partnership with CIBC, when CIBC credit card holders complete purchases at merchants participating in the programs. CIBC has sold about 50% of its credit card portfolio featuring aeroplan miles rewards ("sold portfolio") to TD effective January 1, 2014. From January, 2014 up until the sold portfolio is converted to TD ("transition period"), the Company expects to receive the transactions respecting the sold portfolio, such that during the transition period the Company does not expect a material adverse impact on its revenues and earnings. The agreement with CIBC allows the Company to operate its Legacy program for TD. The Company has commenced discussions with TD, and a successful outcome would result in a program that has the potential to offset the material and adverse impact on its revenues and earnings in the post transition period. The Company believes it operates a unique loyalty rewards accelerator program that would be an attractive proposition for the potential partner. However, no assurance can be given respecting: duration of the transition period; decline in the Company's revenues during and post the transition period; if an agreement can be reached with TD and the timing and duration of this agreement; and the potential impact on revenues and earnings from agreement with TD.

The Company's working capital needs are currently entirely provided by debt in the form of 12% debentures, 14% debentures, and loan payable. While the Company utilizes the funds generated from its operations to expand its premier program – Advance Purchase Marketing (APM) under which it acquires the rights to future designated credit card transactions at a discount from the face value from participating merchants, in addition to providing the merchants with loyalty marketing services – to be able to advance its business the Company needs to be able to access the room

available under the loan payable facility. The Company's relationship with the 12% debentures holders, 14% debentures holders, and providers of loan payable facility span about 10 and 5 years respectively. The 12% debentures, and 14% debentures carry financial covenants and since their renewal in May 2011 the Company has met the financial covenants. The 12% debentures, and 14% debentures mature December 31, 2013 and, as set out under Working Capital and Liquidity Management of this document, the Company expects to successfully finalize the refinancing of the debentures. The loan payable is a demand facility, and the term of the loan payable expires in December 2014. 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 APM program will result in higher revenue and, consequently, improve the Company's results and cash flows. The Company requires additional debt financing to scale its ability in this area. If the Company is not successful in raising additional debt financing, its ability to expand its merchant base and increase revenue may be impeded, resulting in reduced growth in cash flows from operations. This could affect the Company's liquidity and working capital position. Any debt structure would need to recognize the general security interest over the Company's assets, held by the 12% debentures holders.

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

The Company's activities are funded by two sources of debt. The 12% debentures and 14% debentures which have fixed interest rates, and loan payable which carries a floating interest rate. While the Company is not exposed to interest rate risk on account of 12% debentures and 14% 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 three months ended September 30, 2013 the Company incurred interest expense of \$265,000 on utilization of loan payable. Had the interest rate, for the three months ended September 30, 2013, been 10% higher the interest expense on loan payable would be \$292,000, an increase of \$27,000.

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

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

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

The Company provides marketing services to retail organizations and, in more general terms, the Company could be considered competitive with other advertising and promotional programs for a portion of a client's total marketing budget. If client promotional spending levels decrease, this could have a material adverse effect on Advantex's revenue. In addition, there are additional loyalty program operators in Canada, targeting the same merchant base as Advantex. In the past, other companies have attempted to develop similar merchant-based coalitions on their own and failed, making Advantex, with its established merchant coalition and proven loyalty systems, a reputable outsourced partner in the Canadian marketplace. Advantex believes its substantial client equity, proprietary systems, breadth of in-house services and significant Affinity partner contracts provide a strong platform for the Company to compete effectively in the North American marketplace and respond to new competition in Canada.

In addition to economic factors, and those factors noted above, the profitability of the Company is also subject to a number of additional risk factors including: continuation of partnership with Affinity partners CIBC and Aeroplan; continuation of partnership with processors (processors provide data to the Company that enables billing and issuance of loyalty rewards under the Aeroplan sponsored Legacy program); competition, changes in regulations - including taxation - affecting the Company's activities, consumer spending behavior; continued demand for the Company's programs by merchants; ability to meet the commitments (described in detail under section Contractual Obligations in this document).

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time, certain matters are reviewed and challenged by the tax authorities. The Company regularly

reviews the potential for adverse outcomes in respect of tax matters and believes that any ultimate disposition of a reassessment will not have a material adverse impact on its liquidity, consolidated financial position or results of operations due to adequate provisioning for these tax matters. Should an outcome materially differ from existing provisions, the Company's effective tax rate, its earnings, and its liquidity and working capital position could be affected positively or negatively in the period in which matters are resolved.

Forward-Looking Information

This Management's Discussion and Analysis contains certain "forward-looking information". All information, other than information comprised of historical fact, that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future constitutes forward-looking information. Forward-looking information is typically identified by words such as: anticipate, believe, expect, goal, intend, plan, will, may, should, could and other similar expressions. Such forward-looking information relates to, without limitation, information regarding the Company's: expectation of refinancing debentures on the terms set out in the term sheet and the timing of the refinancing; expectation of securing a multi-year renewal of its agreement with Aeroplan; impact of the sold portfolio on the Company's revenues and earnings; expectation of receiving transactions respecting sold portfolio during the transition period; ability to secure an agreement to operate a loyalty accelerator program for TD; expectation of the impact on its financial performance from operating a program for TD; expectations from the re-seller program; belief that it has processes to manage delinquency risk; ability to manage the delinquency risk; belief that increasing the amount of transaction credits will result in higher revenues and improve results and cash flows; expectation connected to capital expenditures during Fiscal 2014; belief that the need for capital to expand the APM program is satisfied by loan payable; the Company's expectation of meeting its financial commitment to Aeroplan for calendar 2013; belief that working with Aeroplan will lessen economic dependence on CIBC; expectation of its prospects; belief in the unique nature of its programs; its ability to compete effectively; belief in its ability to pass on a significant portion of any interest rate increase to participating merchants; 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 with the Company; continued support from its provider of loan payable and holders of non-convertible debentures payable; its ability to manage risks connected to collection of transaction credits; current and future economic and market conditions and the impact of same on the Company's business; ongoing consumer interest in accumulating frequent flyer miles; the size of the market for its programs; its ability to increase merchant participation in its programs; its ability to access future financing to expand its APM program and for general working capital needs; ongoing and future revenue sources; future business levels and the cost structure required to operate at those levels; future interest rates; and the appropriateness of its tax filing position.

Forward-looking information is subject to a number of risks, uncertainties and assumptions that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company.

Factors that could cause actual results or events to differ materially from current expectations include, among other things, those listed under “General Risks and Uncertainties” and “Economic Dependence” in this Management Discussion and Analysis.

All forward-looking information speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

Disclosure Controls and Procedures, and Internal Controls Over Financial Reporting

Management is responsible for external reporting. The Company maintains appropriate processes to ensure that relevant and reliable financial information is produced.

Additional Information

Additional information relating to the Company is available at www.sedar.com, 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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