ADVANTEX

ADVANTEX® MARKETING INTERNATIONAL INC.
Management's Discussion and Analysis of Operating Results
For the three and six month periods ended December 31, 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 March 3, 2014. 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 and six month periods ended December 31, 2013, compared to the three and six month periods ended December 31, 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 and six months ended December 31, 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 its Affinity partners Canadian Imperial Bank of Commerce ("CIBC") and Aimia Inc. ("Aimia"). The programs the Company operates in partnership with CIBC ("Bank program") and Aimia ("Aeroplan program") enable holders of designated CIBC credit cards and Aimia members (holders and members together "consumers") to accelerate earning frequent flyer miles and/or other rewards ("consumer rewards") on completing purchases at participating merchants. Under the umbrella of each program, Advantex markets participating merchants to consumers and on behalf of the merchants issues consumer rewards, provides merchants with business intelligence connected to the spending behaviour of consumers, and at its sole discretion provides merchants with working capital by the pre-purchase of their future sales.

On a combined basis, Advantex has contractual marketing access to more than 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 across Canada in diverse business segments: restaurants; golf courses; independent inns, resorts and selected hotels; spas; retailers of men's and ladies fashion, footwear and accessories; retailers of sporting goods; florists and garden centres; book and newspaper stores; health and beauty centres; dry cleaners; gift stores; home décor; automotive dealers, service centers; and tire dealerships, many of which are leaders in their respective business segment.

Advantex earns its revenue from merchants participating in its Bank program, in the form of an agreed marketing fee, for every purchase completed using a CIBC credit card at their establishments. Advantex earns its revenue in the Aeroplan program from selling consumer rewards, at an agreed price per consumer reward, to participating merchants.

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

The Company is pleased to report a net income for three and six months December 31, 2013. While the net income is lower compared to corresponding periods in the previous year it has been achieved in a difficult

business environment and speaks to the Company's ability to overcome current challenges and prepare for future opportunities.

Summary

The Company's revenues are significantly dependent on its Bank program which it has operated in partnership with CIBC since 1995 and is targeted at holders of designated CIBC credit cards. (section Economic Dependence in this document). Until December 31, 2013 a significant portion of the CIBC credit card portfolio carried the aeroplan miles consumer rewards feature ("aeroplan portfolio"), the outcome of decade old partnership between CIBC and Aimia, the owner of Aeroplan loyalty program. The rest of the CIBC credit card portfolio carries other consumer rewards features including CIBC's proprietary Aventura points.

The three and six months ended December 31, 2013 fell in the period when CIBC, The Toronto Dominion Bank ("TD"), and Aimia formed a tripartite arrangement that became effective January 2014, and under which CIBC sold a significant part of its aeroplan portfolio to TD. In the aftermath of CIBC's decision respecting its aeroplan portfolio, the credit card space is witnessing intense competition amongst Canadian banks. Since the Company currently has a relationship with CIBC only, during this period amongst the other risk factors two additional risk factors emerged in addition to the difficult market conditions which continued to affect the marketing budgets of small independent merchants and affected our merchant selling and retention cycles. First, the result of the above noted market activity by Canadian banks is reflected in the changing consumer preferences connected to usage of credit cards and their purchases completed using CIBC credit cards at participating merchants, and second, merchant perception of the attractiveness of the Bank program operated by the Company has suffered and this is reflected in merchant participation level (section Revenue in this document)..

Since the Company earns its revenue from merchants participating in its Bank program, in the form of an agreed marketing fee, for every purchase completed using a CIBC credit card at their establishments, the above noted factors had a direct negative effect on the Company's financial performance for the three and six months ended December 31, 2013.

The Company is taking steps to broaden its Affinity partner relationships and prepare a platform for improving its financial performance as explained in the sections below.

Developments

These are included here to provide a context for the rest of fiscal year ending June 30, 2014 and the Outlook.

The Company is currently in discussions with TD to operate a merchant based loyalty program for TD. The discussion, although in initial stages, is encouraging, but no assurances can be given on the outcome or its timing. The Company is focused on securing this arrangement at the earliest to offset the decline in its revenues once TD takes over the operation of the aeroplan portfolio it has purchased from CIBC. The current transition date is June 30, 2014. A successful conclusion has the potential to stabilize and / or improve the value proposition to existing and prospective merchants, and potentially increase merchant participation and consequently revenues and earnings.

CIBC on its part has launched an aggressive media campaign ("Even Penguins Can Fly") to promote the advantages of its Aventura cards, the value and flexibility of its currency. The Company's existing Bank program issues these consumer rewards and sees the CIBC media program as a positive development.

In January 2014 the Company and Aimia extended the term of their agreement to March 31, 2014, to allow them to continue under their current agreement while continuing their discussions about the potential terms of a new agreement for Advantex to operate Aimia's Aeroplan loyalty program in the independent business segment. The Company believes there is potential for growth in revenues and profitability from this activity.

The Company has an agreement with Caesars Entertainment Corporation ("Caesars") to operate a pilot merchant based loyalty program ("Caesars program") for Caesar's Total Rewards loyalty program. The pilot is underway since end November 2013 in a test market in the USA. The Company believes this pilot could be a precursor to a full program across the USA, and while no assurances can be given at this stage on such an outcome the Company believes the USA is an untapped market for its product offerings and its services would be in demand. The Company earned no revenue from the Caesars program during three and six months ended December 31, 2013.

Highlights of financial performance for three and six months ended December 31, 2013

The highlights of the financial performance for the three and six months ended December 2013 ("Q2 Fiscal 2014" and "YTD Fiscal 2014" respectively) compared to the three and six months ended December 31, 2012 ("Q2 Fiscal 2013" and "YTD Fiscal 2013" respectively) is tabulated:

	Q2 Fiscal 2014	**Q2 Fiscal 2013**	**YTD Fiscal 2014**	**YTD Fiscal 2013**
	$	$	$	$
Revenues				
Bank program	3,843,000	4,099,000	7,868,000	8,308,000
Aeroplan program	766,000	288,000	1,289,000	470,000
Retail programs	**4,609,000**	**4,387,000**	**9,157,000**	**8,778,000**
Miscellaneous income	-	41,000	-	53,000
Total revenue	**4,609,000**	**4,428,000**	**9,157,000**	**8,831,000**
Gross profit	**2,873,000**	**3,012,000**	**5,817,000**	**6,039,000**
Earnings from operations before depreciation, amortization and interest ("EBITDA" *)	**734,000**	**1,026,000**	**1,558,000**	**2,066,000**
Net Income	**75,000**	**124,000**	**131,000**	**398,000**

* EBITDA is a non-GAAP financial measure which does not have any standardized meaning prescribed by the issuer's GAAP and is unlikely to be comparable to similar measures presented by other issuers. It is provided as additional information to assist readers in understanding a component of the Company's financial performance. In case of the Company, for the above tabulated periods, per consolidated financial statements for the three and six months ended December 31, 2013, earnings from operations before depreciation, amortization and interest is the nearest equivalent to EBITDA.

Income Statement - Q2 Fiscal 2014 and YTD Fiscal 2014 (together "current periods") compared to Q2 Fiscal 2013 and YTD Fiscal 2013 (together "previous periods")

The difficult selling and retention environment explained under *Summary* in this section is reflected in lower merchant participation in the Company's Bank program during current periods, and in the decline in the Bank program revenues during current periods compared to previous periods. The combined Bank program and Aeroplan program (together "Retail programs") revenues are up because of the contributions of the Aeroplan program.

Direct expenses for the Bank program during current periods increased compared to previous periods as the Company increasingly used higher consumer rewards to incentivize new merchant sign ups and as a retention tool. This measure was necessitated to partially mitigate the difficult selling and retention cycles. The Company met the annual program goals determined in consultation with CIBC, and CIBC's support payments are reflected in YTD Fiscal 2014 and YTD Fiscal 2013. Current periods direct expenses also reflect a higher expense compared to previous periods because of the need for higher expense for delinquent accounts

respecting merchants participating in the Bank program's Advance Purchase Marketing ("APM") model (Further details on APM provided in Revenue section). The higher level of merchant delinquencies is the result of a difficult economy on independent merchants. The Company is scaling back its APM model in those business segments which have had a higher historical incidence of delinquencies, and the Company believes this step along-with its existing credit and collection processes are adequate to mitigate the impact of future merchant delinquencies on its operational performance.

Company gross profit for current periods consequently is lower compared to previous periods. The Aeroplan program gross profit helped to offset some of the decline from the Bank program.

During current periods the Bank program selling expenses declined. This reflects a lower headcount in advance of the low revenue period of January – March. Current periods selling expenses also reflect Aeroplan program which expanded from an acquisition announced in February, 2013. The Company has developed the selling organization to operate and develop this program. Additional resources will be added to develop the Bank program, subsequent to an agreement with TD, and the Aeroplan program, upon renewal of agreement with Aimia, during next 3-4 months to capitalize on the growth opportunities.

Current periods General and Administrative expenses saw an increase to support the operation of the Company's Retail programs. In addition, current periods also reflect expenditure to launch the pilot Caesars program in a test market in the USA.

During current periods interest expense was lower compared to previous periods. The cash interest was flat compared to previous periods, and the savings were in lower non-cash expenses because there were no accretion expenses during Q2 Fiscal 2014. The Company's two debentures were extended from September 30, 2013 to December 31, 2013 and there were no accretion charges during the extension period.

The above factors resulted in a lower net income for current periods compared to previous periods.

Balance Sheet – current periods compared to previous periods

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

The Company used the proceeds of the new 12% debentures plus cash on hand to repay its 14% non-convertible debentures payable ("14% debentures") and 12% non-convertible debentures payable ("old 12% debentures") (14% debentures and old 12% debentures together "Debentures"). The Company repaid $7,896,000 in aggregate principal amount of the Debentures plus accrued interest thereon. The common share purchase warrants issued with the Debentures were not exercised and expired as of December 31, 2013.

The new 12% debentures were issued as units. Each unit comprises (i) $1,000 face value secured non-convertible debentures of the Company bearing interest at 12% per annum, payable semi-annually, and maturing September 30, 2016, and (ii) 8,150 common shares in the capital of the Company. The Company issued 5,159 units that included 42,045,850 common shares.

The transaction has the following benefits for shareholders:

1. Significantly improved the capital structure by reducing the fully diluted common shares by 24.5% from 197.9 million to 149.5 million, a reduction of 48.4 million common shares.
2. Future savings in cash interest by reducing the amount refinanced;
3. The structure of the new 12% debentures results in substantially lower non-cash expense (accretion charges). This will improve the income statement, and showcase the Company's operational performance; and
4. Provides financial stability. This is important for potential new partners (*Developments* in this section).

A detailed look at the results for Q2 Fiscal 2014 and YTD Fiscal 2014 compared to Q2 Fiscal 2013 and YTD Fiscal 2013 is set out in the following sections.

Results of Operations

	Q2 Fiscal 2014	Q2 Fiscal 2013	YTD Fiscal 2014	YTD Fiscal 2013
	$	**$**	**$**	**$**
Revenue – Retail programs	$4,609,000	$4,387,000	$9,157,000	$8,778,000
Misc., and interest income	-	41,000	-	53,000
	$4,609,000	**$4,428,000**	**$9,157,000**	**$8,831,000**
Direct expenses	1,736,000	1,416,000	3,340,000	2,792,000
Gross Profit	**2,873,000**	**3,012,000**	**5,817,000**	**6,039,000**
Selling, and General & Administrative expenses	2,139,000	1,986,000	4,259,000	3,973,000
Earnings from operations before depreciation, amortization and interest	**734,000**	**1,026,000**	**1,558,000**	**2,066,000**
Cash interest expense on loan payable and debentures	514,000	514,000	1,028,000	1,031,000
Earnings from operations before non-cash expenses	220,000	512,000	530,000	1,035,000
Write-off of investment	-	100,000	-	100,000
Depreciation and amortization	145,000	138,000	295,000	245,000
Non-cash interest expense on debentures	-	150,000	104,000	292,000
Net income	**$ 75,000**	**$124,000**	**$131,000**	**$398,000**
Basic and diluted earnings per share	**$0.00**	**$0.00**	**$0.00**	**$0.00**

Extract from the Statement of Financial Position

	At December 31, 2013	At June 30, 2013	(Decrease) / Increase
	$	$	$
Current assets	$14,760,000	$16,419,000	$(1,659,000)
Total assets	$15,490,000	$17,258,000	$(1,768,000)
Shareholders' deficit	$ (502,000)	$(1,053,000)	$ (551,000)

The change in current assets and total assets reflects:

1. Utilization of cash at hand together with proceeds of the new 12% debentures of $5,159,000 to repay its 14% debentures and old 12% debentures. The Company repaid $7,896,000 in aggregate principal amount of the Debentures plus accrued interest thereon (sections Overall Performance and 12% Non-convertible Debentures Payable in this document);
2. Reduction in transaction credits – amounts due from merchants participating in the Bank program's APM model – reflecting the decline in merchant participation (sections Overall Performance, Revenue, and Working Capital and Liquidity Management in this document) ; and
3. Increase in amounts due from an Affinity partner primarily in connection with re-branding initiative launched by them.

The change in shareholders' deficit reflects the net income for the six months ended December 31, 2013 and the increase in share capital on issuance of common shares as part of the debenture refinancing.

Extracts from the Statement of Cash Flow

	For the six months ended	
	December 31, 2013	December 31, 2012
	$	$
Net cash provided by (used in) operating activities		
: Net income after adjustments for non-cash expenses	$ 530,000	$ 1,035,000
: Changes in items of working capital	$ 1,563,000	$(1,392,000)
	$ 2,093,000	$ (357,000)
Net cash (used in) investing activities	$ (185,000)	$ (380,000)
Net cash (used in) financing activities	$(2,833,000)	$ (570,000)
(Decrease) in cash and cash equivalents	$ (925,000)	$(1,307,000)
Cash and cash equivalents at start of period	$ 1,774,000	$ 1,085,000
Cash and cash equivalents at end of period	$ 849,000	$ (222,000)

During the six months ended December 31, 2013 the changes in working capital reflect primarily a decline in transaction credits, and an increase in accounts receivable; and accounts payable and accrued liabilities. Six months ended December 31, 2012 reflected an increase in transaction credits and a decrease in accounts payable and accrued expenses. During six months ended December 31, 2013 the uncertainty surrounding the CIBC – Aimia relationship within a weak economy combined with the market activity in the credit card space by the Canadian banks to create a compressed market for the Company's Bank program, and consequently a decline in the number of participating merchants. The change in transaction credits reflects partially the change in the number of merchants participating in the APM model, as well as the amount of transaction credits deployed with its existing merchants.

The net cash used in investing activities is expenditures for property, plant, equipment and computer software. This is discussed in section Capital Resources.

The debenture refinancing and the repayment of 14% and old 12% debentures is reflected in the net cash used in financing activities during six months ended December 31, 2013. Six months ended December 31, 2012 reflect the partial early repayment of the 14% and old 12% debentures. Additional details are provided in the sections 14% Non-Convertible Debentures Payable and 12% Non-Convertible Debentures Payable.

The presentations in Results of Operations section are not set out in accordance with International Financial Reporting Standards ("IFRS"). The presentations are extracts from the interim consolidated financial statement for the three and six months ended December 31, 2013, and have been included to provide additional analysis for the reader.

Revenue

Advantex revenue is derived from merchants participating in its Retail programs which currently consist of the Bank program and the Aeroplan program.

The Bank program has two business models. APM, and Marketing Only. Over 70% of the Bank program revenues during current periods and previous periods were earned from the APM model.

The Aeroplan program operates the Re-seller model. As a result of the acquisition of certain assets of Futura Loyalty Group Inc. announced February 1, 2013, and the Company's agreement with Aeroplan, the Company increased the portfolio of merchants participating in its Re-seller model.

(1) **Advance Purchase Marketing**: The Company acquires the rights to cash flow from future CIBC credit card transactions at a discount from participating merchants (transaction credits on consolidated statement

of financial position) and promotes the merchant by way of targeted marketing to holders of designated CIBC credit cards, issues consumer rewards to consumers when they complete purchases at participating merchants, and provides merchants with business intelligence connected to the spending behaviour of consumers. The Company's revenue is from the purchases completed at the participating merchants using CIBC credit cards, net of the Company's costs to acquire the transaction credits. Proceeds from the amount spent on CIBC credit cards at participating merchants are received by the Company and a predetermined portion is applied to reduce the transaction credit balance that the merchant owes.

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

(3) **Re-seller**: The Company sells aeroplan miles to small and mid-sized retailers and service providers. Revenue is recognized, at the agreed price per aeroplan mile, when the participating merchant issues aeroplan miles to an Aeroplan member completing a qualifying transaction at the merchant. Certain agreements with merchants carry a commitment for merchants to issue a minimum number of aeroplan miles during the term of their agreement with the Company.

The drivers for revenues from the Bank program are:

1. Number of participating merchants;
2. Market penetration of the CIBC credit cards. This is a significant factor since start of Fiscal 2014 (*Summary* under section Overall Performance in this document);
3. Economic environment. The uncertain economy is affecting consumer spending habits;
4. Mix of merchants in terms of their volume of CIBC credit card transactions; and
5. Participation levels in APM and Marketing Only. The fees that a merchant would pay for participation in the APM model is higher compared to Marketing Only.

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

The revenue trends are provided in the tabulation.

	Q2 Fiscal 2014	Q2 Fiscal 2013	Inc./ (Dec)	YTD Fiscal 2014	YTD Fiscal 2013	Inc./ (Dec)
Avg. # of merchants participating during the period						
Bank program	1,122	1,247	(10.0)%	1,138	1,233	(7.7)%
Aeroplan program	829	111		815	111	
	$	$	%	$	$	%
Revenues						
Bank program	3,843,000	4,099,000	(6.2)%	7,868,000	8,308,000	(5.3)%
Aeroplan program	766,000	288,000		1,289,000	470,000	
Miscellaneous income	-	17,000		-	29,000	
Retail programs	**4,609,000**	**4,404,000**	**4.7%**	**9,157,000**	**8,807,000**	**4.0%**
Interest income	-	24,000		-	24,000	
Total Revenues	**4,609,000**	**4,428,000**	**4.1%**	**9,157,000**	**8,831,000**	**3.7%**

As we reported in the three months ended September 30, 2013 MD&A (Q1 MD&A), 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 Bank program and this hampered the Company's ability to

sign new merchants during this period. With CIBC selling about 50% of its credit card portfolio featuring aeroplan miles rewards to TD, the uncertainty continued and the Bank program has a lower attractiveness resulting in longer selling and shorter retention cycles. These factors are reflected in a decline in the merchant participation during Q2 Fiscal 2014 and YTD Fiscal 2014 compared to corresponding periods in the previous year.

The decline in merchant participation is reflected in lower Q2 Fiscal 2014 and YTD Fiscal 2014 Bank program revenues compared to corresponding periods in the previous year. An additional contributory factor to the decline in revenues during Q2 Fiscal 2014 and YTD Fiscal 2014 is the effect of heightened competition amongst Canadian banks in the credit card segment and the changing consumer preferences connected to usage of credit cards and their purchases completed using CIBC credit cards at participating merchants.

We reported in Q1 MD&A on our efforts to increase participating merchants' engagement with the Aeroplan program's Re-seller model, and for merchants to leverage their ability to issue aeroplan miles as a powerful marketing tool. We have positive reception to our approach. The typical participating merchant is a mid-sized business with multiple locations compared to small independents in the Bank program, and while it is a longer selling cycle it is expected to have higher merchant retention rate. The Company expects to gradually increase its revenues from this activity.

Direct Expenses

Direct expenses include costs of consumer rewards which the Company purchases from its Affinity partners, the cost of marketing and advertising on behalf of merchants, cost of sales related to sale of aeronotes, cost of sales of digital marketing services, and provision against receivables under all programs.

	Q2 Fiscal 2014	Q2 Fiscal 2013	Inc./ (Dec)	YTD Fiscal 2014	YTD Fiscal 2013	Inc./ (Dec)
	$	$	%	$	$	%
Revenues						
Bank program	3,843,000	4,099,000	(6.2)%	7,868,000	8,308,0000	(5.3)%
Aeroplan program	766,000	288,000		1,289,000	470,000	
Direct expenses						
Bank program	1,332,000	1,292,000	3.1%	2,648,000	2,589,000	2.3%
Aeroplan program	404,000	124,000		692,000	203,000	

The Q2 Fiscal 2014 increase in direct expenses respecting the Bank program primarily reflects an increase in expense for delinquent accounts. The expense was $50,000 higher for Q2 Fiscal 2014 compared to Q2 2013.

YTD Fiscal 2014 increase in direct expenses respecting the Bank program reflects an increase in consumer reward costs (higher by $166,000 for YTD Fiscal 2014 compared to YTD Fiscal 2013) and an increase in expense for delinquent accounts (higher by $91,000 for YTD Fiscal 2014 compared to YTD Fiscal 2013). Costs connected to marketing on behalf of merchants during YTD Fiscal 2014 were lower compared to YTD Fiscal 2013, and this partially reflects timing of marketing initiatives which vary from period to period.

The increase in cost of consumer rewards reflects increasing usage by the Company of bonus aeroplan miles as a selling and retention tool. To support the Company's efforts its Affinity partners have reduced the cost to the Company of certain categories of consumer rewards from the January – March 2014 quarter.

The higher level of merchant delinquencies is the result of a difficult economy on independent merchants. 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 Company is scaling back its APM model in those business segments which have had a higher historical incidence of delinquencies, and the Company believes this step along-with its existing credit and collection processes are adequate to mitigate the impact of future merchant delinquencies on its operational performance.

Gross Profit

Company gross profit was lower in Q2 Fiscal 2014 and YTD Fiscal 2014 compared to corresponding periods in the previous year reflecting a decline in Bank program gross profit partially offset by the Aeroplan program.

	Q2 Fiscal 2014	Q2 Fiscal 2013	Inc./ (Dec)	YTD Fiscal 2014	YTD Fiscal 2013	Inc./ (Dec)
	$	**$**	**$**	**$**	**$**	**$**
Bank program	2,511,000	2,807,000	(296,000)	5,220,000	5,719,000	(499,000)
Aeroplan program	362,000	164,000	198,000	597,000	267,000	330,000
Misc. & Interest income	-	41,000	(41,000)	-	53,000	(53,000)
	2,873,000	**3,012,000**	**(139,000)**	**5,817,000**	**6,039,000**	**(222,000)**

The decline in Bank program Gross margin (Q2 Fiscal 2014 at 65.3% compared to 68.5% for Q2 Fiscal 2013, and YTD Fiscal 2014 at 66.3% compared to 68.8% for YTD Fiscal 2013), is attributable to the increase in direct expenses as is explained under the section Direct Expenses in this document.

Selling Expenses

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

	Q2 Fiscal 2014	Q2 Fiscal 2013	Inc./ (Dec)	YTD Fiscal 2014	YTD Fiscal 2013	Inc./ (Dec)
	$	$	%	$	$	%
Revenues						
Bank program	3,843,000	4,099,000	(6.2)%	7,868,000	8,308,000	(5.3)%
Aeroplan program	766,000	288,000		1,289,000	470,000	
Selling expenses						
Bank program	849,000	914,000	(7.1)%	1,733,000	1,787,000	(3.0)%
Aeroplan program	71,000	64,000		164,000	101,000	

The decline in Bank program selling expenses reflects a lower headcount that the Company did not replace in advance of the low revenue period of January – March. The Company will re-build its headcount in the next 2-4 months to increase sales momentum.

The Re-seller model of the Aeroplan program increased its volume reflecting the acquisition of merchant portfolio announced February 1, 2013, and the Company has developed the selling organization to operate and develop its growth. Upon renewal of the existing agreement with Aimia, additional resources will be added in next 3-4 months to capitalize on the growth opportunities.

General and Administrative Expenses ("G&A")

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

	Q2 Fiscal 2014	Q2 Fiscal 2013	Inc./ (Dec)	YTD Fiscal 2014	YTD Fiscal 2013	Inc./ (Dec)
	$	$		$	$	
Increase in Retail program Revenues			**4.7%**			**4.0%**
G&A						
Compensation for non-sales staff	848,000	770,000	10.1%	1,703,000	1,561,000	9.1%
Less: software development costs capitalized (details provided under section Capital Expenditures in this document)	(51,000)	(44,000)		(79,000)	(61,000)	
	797,000	726,000		1,624,000	1,500,000	
Expenses connected to launch of pilot Caesars program	36,000	-		61,000	-	
All other G&A expenses	386,000	282,000		677,000	585,000	
	1,219,000	**1,008,000**	**20.9%**	**2,362,000**	**2,085,000**	**13.3%**

Compensation

Q2 Fiscal 2014 and YTD Fiscal 2014 compensation reflects an increase in headcount to support the operation of the Aeroplan program.

Q2 Fiscal 2013 and YTD Fiscal 2013 reflect a lay-off initiated at the end of November, 2012 which included staff that are part of G&A. This was done in advance of low revenue period January – March.

Both periods reflect increase in remuneration of certain staff.

Other Expenses

Q2 Fiscal 2013 and YTD Fiscal 2013 reflect write-back of provisions no longer required. In other respects Q2 Fiscal 2014 and YTD Fiscal 2014 are comparable to corresponding periods in the previous year.

Interest Expense

The interest expense is tabulated:

	Q2 Fiscal 2014	Q2 Fiscal 2013	Inc./(Dec)	YTD Fiscal 2014	YTD Fiscal 2013	Inc./(Dec)
	$	$		$	$	
Stated interest expense						
➢ Loan payable	266,000	267,000		531,000	535,000	
➢ 14% debentures	61,000	61,000		123,000	123,000	
➢ old 12% debentures	184,000	186,000		371,000	373,000	
➢ new 12% debentures	3,000	-		3,000	-	
➢ Total stated interest	**514,000**	**514,000**	**0.0%**	**1,028,000**	**1,031,000**	**(0.3)%**
Non cash interest on 14% debentures and old 12% debentures	-	150,000		104,000	292,000	
Total interest expense	**514,000**	**664,000**		**1,132,000**	**1,323,000**	

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

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

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Refer to sections 14% Non-Convertible Debentures Payable and 12% Non-Convertible Debentures Payable for the refinancing completed by the Company and the repayment of 14%, and old 12% debentures.

Net Income

Highlights of Q2 Fiscal 2014 and YTD Fiscal 2014 compared to corresponding periods in the previous year is tabulated:

Q2

	Q2 Fiscal 2014	**Q2 Fiscal 2013**	**Inc./(Dec)**
Revenues	$4,609,000	$4,428,000	$ 181,000
Gross Profit	$2,873,000	$3,012,000	$ (139,000)
Earnings from operations before depreciation, amortization and interest	$ 734,000	$1,026,000	$ (292,000)
Net Income	$ 75,000	$ 124,000	$ (49,000)
Basic and Fully Diluted earnings per share	$0.00	$0.00	

YTD

	YTD Fiscal 2014	**YTD Fiscal 2013**	**Inc./(Dec)**
Revenues	$9,157,000	$8,831,000	$ 326,000
Gross Profit	$5,817,000	$6,039,000	$ (222,000)
Earnings from operations before depreciation, amortization and interest	$1,558,000	$2,066,000	$ (508,000)
Net Income	$ 131,000	$ 398,000	$ (267,000)
Basic and Fully Diluted earnings per share	$0.00	$0.00	

A significant portion of the Company's revenues are from the Bank program. The decline in merchant participation in the Bank program during Q2 Fiscal 2014 and YTD Fiscal 2014 compared to corresponding periods in the previous year was the result of the compressed market for the Company's program partially due to the uncertainty surrounding the CIBC – Aimia relationship, and the market activity in the credit card space by the Canadian banks. This is discussed in the sections Overall Performance and Revenue.

Q2 Fiscal 2014 revenues were $181,000 higher compared to Q2 Fiscal 2013 but the direct costs increased $320,000 during the same period, leading to a decline in gross profit of $139,000. YTD Fiscal 2014 revenues were $326,000 higher compared to YTD Fiscal 2013 but the direct costs increased $548,000 during the same period, leading to a decline in gross profit of $222,000.

Q2 Fiscal 2014 selling, and general & administrative expenses were $153,000 higher compared to Q2 Fiscal 2013, resulting in a decline of $292,000 in earnings from operations before depreciation, amortization and interest for Q2 Fiscal 2014 compared to Q2 Fiscal 2013. YTD Fiscal 2014 selling, and general & administrative expenses were $286,000 higher compared to YTD Fiscal 2013, resulting in a decline of $508,000 in earnings from operations before depreciation, amortization and interest for YTD Fiscal 2014 compared to YTD Fiscal 2013.

Interest cost for Q2 Fiscal 2014 was $664,000, a reduction of $150,000 compared to Q2 Fiscal 2013. Non-cash interest representing accretion charges on the 14% debentures and old 12% debentures accounted for all of the decrease over Q2 Fiscal 2013. Interest cost for YTD Fiscal 2014 was $1,132,000, a reduction of $191,000 compared to YTD Fiscal 2013. Non-cash interest representing accretion charges on the 14% debentures and old 12% debentures accounted for $188,000 of the decrease over YTD 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 Q2 Fiscal 2014 and YTD Fiscal 2014 compared to Q2 Fiscal 2013 and YTD Fiscal 2013 is illustrated in the following tabulation:

	Q2 Fiscal 2014	Q2 Fiscal 2013	YTD Fiscal 2014	YTD Fiscal 2013
	$	$	$	$
FUNDS AVAILABLE TO EXPAND THE BANK PROGRAM'S APM MODEL (Transaction credits) AND MEET WORKING CAPITAL REQUIREMENTS				
1. Net income	75,000	124,000	131,000	398,000
Add back non-cash expenses	145,000	389,000	399,000	638,000
Income before non-cash expenses *	220,000	513,000	530,000	1,036,000
2. Cash balances at start of the period	1,685,000	618,000	1,774,000	1,085,000
3. (Decrease) / Increase in utilization of loan payable to increase merchants participating in the APM model	505,000	(11,000)	54,000	(186,000)
4. Accounts payable and accrued liabilities	701,000	-	829,000	-
Funds Available	**3,111,000**	**1,120,000**	**3,187,000**	**1,935,000**
UTILIZATION				
1. (Decrease) / Increase in transactions credits under APM model	(1,166,000)	692,000	(1,536,000)	611,000
2. Cash balances at end of period	849,000	(222,000)	849,000	(222,000)
3. Change in working capital items				
- Current assets	470,000	240,000	802,000	385,000
- Accounts payable and accrued liabilities	-	81,000	-	396,000
4. Capital expenditures	71,000	329,000	185,000	380,000
5. Partial early prepayment of 14% debentures and old 12% debentures	-	-	-	376,000
6. Debentures early prepayment / renewal – additional transaction costs	-	-	-	9,000
7. Repayment of 14% and old 12% debentures	7,896,000	-	7,896,000	-
8. Proceeds from refinancing of new 12% debentures net of costs to close the transaction	(5,009,000)	-	(5,009,000)	-
Utilization	**3,111,000**	**1,120,000**	**3,187,000**	**1,935,000**

* 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 and six months, which are disclosed in the consolidated financial statements for three and six months ended December 31, 2013 under the section consolidated statements of cash flow.

The Company believes that increasing the amount of the transaction credits deployed with merchants under the Bank program's APM model will result in higher revenue and, consequently, improve the Company's financial results and cash flows. As noted under the section Overall Performance, the uncertainty surrounding the CIBC – Aimia relationship within a weak economy combined with the market activity in the credit card space by the Canadian banks to create a compressed market for the Company's Bank program, and

consequently a decline in the number of participating merchants during Q2 Fiscal 2014 and YTD Q2 Fiscal 2014. The change in transaction credits reflects partially the change in the number of merchants participating in the APM model, as well as the amount of transaction credits deployed with its existing merchants. The Company believes that the APM business addresses the marketing and working capital needs of small independent merchants, a segment ignored by financial institutions, and there is potential for future revenue growth.

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 APM model. 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 debentures with merchants activated under its APM model. The funds available under the old 12% debentures were used for working capital purposes including being deployed with merchants activated under the APM model. The funds available under the new 12% debentures are used for working capital purposes including being deployed with merchants under the APM model. At present, the need for capital to expand the APM model is satisfied by the loan payable, however there are limitations including; a credit limit of $8.5 million (utilization at December 31, 2013 was $7.2 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 model.

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 the APM model. While, generally the cash balances at the end of a quarter / year / and at December 31, 2013 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 intended to use to re-pay the Debentures on maturity.

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 the 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 old 12% debentures plus accrued interest thereon, and pursuant to a second debt prepayment agreement prepaid $66,000 in the aggregate principal amount of 14% debentures plus accrued 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. On December 30, 2013, the Company completed a refinancing by way of a private placement of new 12% debentures in the principal amount of $5,159,000. The Company used the proceeds of the new 12% debentures plus cash on hand to repay the old 12% debentures and 14% debentures. The Company repaid $7,895,967 in aggregate principal amount of the old 12% debentures and 14% debentures plus accrued interest thereon.

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

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

Contractual Obligations

Contractual obligations as at December 31, 2013 were due as follow. (in millions of dollars)

		Payments Due by Period			
Contractual obligation	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
Loan Payable	$7.2	$7.2	$-	$-	$-
new 12% debentures	$5.2	$-	$5.2	$-	$-
Operating Leases	$0.5	$0.1	$0.3	$0.1	$-

Additional commitments

The Company had an annual commitment to purchase minimum aeroplan miles as part of its three year agreement with Aimia to operate Aimia's Aeroplan loyalty program in the independent merchant business segment. The Company met its year one purchase annual commitment. Years two and three commitments were re-set by Aimia to equal the purchase volume achieved by the Company.

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

Loan Payable

The loan payable is a line of credit facility ("facility") with Accord Financial Inc. ("Accord") to be used exclusively to fund the merchants participating in the APM model in the business segments available to the Company under its agreements with CIBC and Aeroplan. As security, the provider has first charge to all amounts due from merchants funded from the facility.

The facility was established in December 2007. In October, 2013 the Company and Accord extended the term of the facility for an additional one year period ending in December, 2014.

The facility has a limit of $8.5 million. The Company is paying interest rate on the entire facility equivalent to prime rate of a certain Canadian bank plus 11.5% per annum.

As at December 31, 2013, the Company had utilized $7.2 million of the facility (as at June 30, 2013 $7.1 million).

14% Non-Convertible Debentures Payable

The 14% debentures, issued in May 2011 and partially repaid in July 2012 pursuant to a debt repayment agreement, in the principal amount of $1,744,000 had an initial maturity date of September 30, 2013. The

3,444,400 common share purchase warrants of the Company (each a "warrant") issued with the 14% debentures had an initial expiration date of September 30, 2013.

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

On December 30, 2013, the Company completed a refinancing by way of a private placement of new 12% debentures in the principal amount of $5,159,000 (section 12% Non-Convertible Debentures Payable).

As of December 31, 2013 the Company used the proceeds of the new 12% debentures plus cash on hand to repay the 14% debentures and the old 12% debentures (section 12% Non-Convertible Debentures Payable). The Company repaid $1,744,000 in aggregate principal amount of the 14% debentures plus accrued interest thereon. The 3,444,400 warrants were not exercised and expired as of December 31, 2013.

12% Non-Convertible Debentures Payable

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

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

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

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

The new 12% debentures were issued as units. Each unit comprises (i) $1,000 face value secured non-convertible debentures of the Company bearing interest at 12% per annum, payable semi-annually, and maturing September 30, 2016, and (ii) 8,150 common shares in the capital of the Company. The Company issued 5,159 units and 42,045,850 common shares.

Under the new 12% debentures agreement, the proceeds of the new 12% debentures are to be used for working capital purposes. The new 12% debentures are secured by a general security interest over the assets of the Company and its subsidiaries. The significant financial covenants of the new 12% debentures require the Company to meet (i) commencing the quarter ended December 31, 2013, on a quarterly basis a defined level of designated current assets, and interest coverage, and (ii) commencing January 31, 2014, on a monthly basis a defined level of credit card spend, on which the Company earns its revenue, at merchants participating in its loyalty programs. The Company met its financial covenants as at December 31, 2013 and January 31, 2014.

Summary of Quarterly Results

12 month period ended December 31, 2013

(in millions of dollars, except per share amounts)	Q3 Mar 31 2013	Q4 Jun 30 2013	Q1 Sep 30 2013	Q2 Dec 31 2013	Total
Revenue	$ 3.6	$ 4.5	$ 4.5	$ 4.6	$ 17.2
Percentage of Annual Revenue	21%	26%	26%	27%	100%
Net Income/(Loss)	$ (0.6)	$0.2	$ 0.0	$ 0.1	$ (0.3)
Basic and Diluted Earnings Per Common Share	$ (0.00)	$ 0.00	$ 0.00	$ 0.00	$ (0.00)

12 month period ended December 31, 2012

(in millions of dollars, except per share amounts)	Q3 Mar 31 2012	Q4 Jun 30 2012	Q1 Sep 30 2012	Q2 Dec 31 2012	Total
Revenue	$ 3.5	$ 4.3	$ 4.4	$ 4.4	$ 16.6
Percentage of Annual Revenue	21%	26%	26%	27%	100%
Net Income/(Loss)	$ (0.4)	$ 0.1	$ 0.3	$ 0.1	$ 0.1
Basic and Diluted Earnings Per Common Share:	$ (0.00)	$ 0.00	$ 0.00	$ 0.00	$ 0.00

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 for Q2 Fiscal 2014 and YTD Fiscal 2014 were $71,000 and $185,000 respectively compared to $329,000 and $380,000 respectively for corresponding periods in the previous year. The YTD Fiscal 2014 expenditures consisted of $35,000 computer hardware and $150,000 computer software (YTD Fiscal 2013 $52,000 and $278,000 respectively).

Q2 Fiscal 2014 and YTD Fiscal 2014 include capitalization of $51,000 and $79,000 respectively of internal costs expended on software development connected to ensuring operability of the Company's merchant based programs sponsored by CIBC and Aimia compared to $44,000 and $61,000 respectively for corresponding periods in the previous year. The costs are being amortized over the shorter of useful life of the software and term of Affinity partner agreement.

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

Critical Accounting Estimates

The preparation of the Company's consolidated financial statements, in accordance with 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.

On December 30, 2013, the Company completed a refinancing by way of a private placement of new 12% debentures. The new 12% debentures were issued as units. Each unit comprises secured non-convertible debentures of the Company, and common shares. The fair value of each common share has been determined based on the closing price of the Company's common share on December 31, 2013 which is the date the transaction was completed. Further details are available under section 12% Non-Convertible Debentures Payable in this document.

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

Credit risk

The Company has certain business risks linked to the collection of its transaction credits. Under the regular APM model the Company generally acquires the rights to cash flow from future designated credit card transactions ("future sales") at a discount from participating merchants ("transaction credits" on consolidated statement of financial position). These transaction credits are estimated to be fully extinguishable within 30 – 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 model targeted towards smaller merchants where the transaction credits are estimated to be fully extinguishable within 180 – 210 days, in the initial stages the Company leveraged its experience from operating the regular APM model to design processes to manage risk connected to the modified APM model. 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 model, and b) 180 – 210 days

respecting the modified APM model. 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:

	December 31, 2013	June 30, 2013	December 31, 2012
	$	$	$
Transaction credits	12,973,000	14,440,000	16,340,000
Accounts receivable	1,396,000	599,000	340,000
Allowance	(876,000)	(807,000)	(1,634,000)
Per statement of financial position	13,493,000	14,232,000	15,046,000
Maximum exposure to credit risk	13,493,000	14,232,000	15,046,000

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

	December 31, 2013	June 30, 2013	December 31, 2012
	$	$	$
Impaired transaction credits	2,290,000	2,167,000	3,214,000
Allowance	(876,000)	(807,000)	(1,634,000)
Impaired transaction credits not allowed for	1,414,000	1,360,000	1,580,000

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) at the time the plan was adopted, and accordingly the maximum aggregate number of common shares issuable under the 2009 stock option plan is 11,643,044. In December 2013, the shareholders of the Company approved continuation of the 2009 stock option plan to date of the annual meeting of shareholders in 2014.

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

	YTD Fiscal 2014	**YTD Fiscal 2013**
	Number of Options	
Outstanding at start of year	10,441,430	11,027,790
Expired	-	(1,000,000)
Outstanding at end of September 30, and December 31	10,441,430	10,027,790

The number of stock options outstanding as of the date hereof is 10,441,430.

The number of stock options available for future issuance as at December 31, 2013 compared to December 31, 2012 is as follows:

	December 31, 2013	December 31, 2012
Maximum number reserved for issuance	11,643,044	11,643,044
Less: Outstanding at end of period	(10,441,430)	(10,027,790)
Number of options available for future issuance	1,201,614	1,615,254

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

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

Outstanding Share Data

Outstanding common shares

As of the date hereof, and December 31, 2013 the number of issued and outstanding common shares of the Company was 139,071,218. The position as at June 30, 2013 and the movement to December 31, 2013 is tabulated. The number of common shares is provided by the Company’s transfer agent CST Trust Company.

	Number of shares
Balance as at December 31, 2012 and June 30, 2013	**97,025,368**
Issued as part of the debenture refinancing (12% Non-Convertible Debentures Payable in this document)	42,045,850
Balance as at December 31, 2013	**139,071,218**

As at December 31, 2013, the Company was committed to issuing 10,441,430 additional common shares.

(i) 3,444,400 common share purchase warrants attached to 14% debentures were not exercised and expired as of December 31, 2013.
(ii) 87,056,491 common share purchase warrants attached to old 12% debentures were not exercised and expired as of December 31, 2013.

Related party transactions

Directors and Officers

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

	December 31, 2013			June 30, 2013	
	new 12% debentures	old 12% debentures	14% debentures	old 12% debentures	14% debentures
Director and Chief Executive officer – Kelly Ambrose	$500,000	$nil	$nil	$100,000	$nil
Director and Chairman of the Board of Directors – Stephen Burns	$ 50,000	$nil	$nil	$nil	$nil
Director - Marc Lavine (first term; elected director December 18, 2013)	$500,000	$nil	$nil	$500,000	$nil
Director – Rob von der Porten (first term; elected director December 18, 2013)	$ 50,000	$nil	$nil	$ 40,000	$nil
Director – William Polley	$ 50,000	$nil	$nil	$nil	$nil
Chief Financial Officer – Mukesh Sabharwal	$115,000	$nil	$nil	$ 30,000	$10,000

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

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

Outlook

The Company believes that the sentiments set out in the Outlook section of the MD&A for year ended June 30, 2013 and three months ended September 30, 2013 continue to be applicable.

The challenges identified by the Company are the uncertain economy, reduction in CIBC's credit card portfolio consequent to its decision to sell half of its portfolio of credit cards featuring aeroplan miles rewards, intense competition amongst Canadian banks in the credit card space, and the effect these three factors would have on the Company's revenues. We see the outcome in our results for Q2 Fiscal 2014 and YTD 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 and September 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 Aimia for a multi-year renewal. The agreement with CIBC allows the Company to operate its Bank 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 consumer rewards are awarded to holders of certain CIBC credit cards when they complete purchases at merchants participating in Advantex's Bank program. The significance to the Company of the CIBC agreement can best be assessed by comparing its revenues from its relationship with CIBC with that of other programs as tabulated at the end of this section. The Company has an eighteen year partnership with CIBC. In September, 2013 the Company renewed its existing arrangement with CIBC, and signed a new agreement ("new agreement"). The initial term of the new agreement is through September 30, 2016, which may, at the option of CIBC, be renewed for up to two additional one year periods. The new agreement grants the Company conditional exclusivity rights to market its programs within certain business segments including Dining (restaurants; golf courses; independent inns, resorts and selected hotels; spas). The new agreement can be terminated by CIBC at any time by providing at least six months prior written notice to the Company.

In September 2013, CIBC, TD, and Aimia announced they had come to a tripartite arrangement effective January 2014, and under which CIBC sold a significant part of its aeroplan portfolio to TD. Under a service agreement between CIBC and TD, CIBC would continue to service the aeroplan portfolio sold to TD up until the date that such credit cards were converted to TD. The current transition date is June 30, 2014. Since the Company's revenue from the Bank program it operates for CIBC is dependent on the dollar spending by holders of CIBC credit cards at participating merchants, the sale by CIBC of a portion of its aeroplan portfolio will lead to a decline in the revenue once TD takes over the operation of the aeroplan portfolio it has purchased from CIBC. There can be no assurance regarding the duration of the service agreement. The Company is in direct discussions with TD to operate a loyalty program for TD. The current discussion, although in initial stages, is encouraging, but no assurances can be given on the outcome or its timing.

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 Canada Inc. (subsidiary of Aimia), . 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 Aimia under certain conditions prior to August 31, 2013. In 2013, Advantex and Aimia re-structured the agreement, and extended its term to December 31. 2013. In January 2014 the Company and Aimia extended the term of the agreement to March 31, 2014, to allow them to continue under their current agreement while continuing their discussions about the potential terms of a new agreement. 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"), and automotive sector. 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 Aimia holding the right of first refusal. The Company launched this program on September 1, 2010.

Illustration of economic dependence on CIBC

Revenue	YTD Fiscal 2014		YTD Fiscal 2013	
	$	%	$	%
Programs operated in partnership with CIBC ("Bank program")	$7.9 m	86.0%	$8.3 m	94.0%
Programs operated in partnership with Aimia ("Aeroplan program")	$1.3 m	14.0%	$0.5 m	6.0%
Total	$9.2m	100.0%	$8.8 m	100.0%

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 Aimia.

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 Bank program. 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 current transition date is June 30, 2014. The agreement with CIBC allows the Company to operate its Bank 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 any potential agreement with TD.

The Company's working capital needs are currently entirely provided by debt in the form of new 12% debentures, and loan payable. While the Company utilizes the funds generated from its operations to expand its APM model - under which it acquires the rights to future designated credit card transactions at a discount from the face value from 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 new 12% debentures holders, and providers of loan payable facility span about 10 and 5 years respectively. The new 12% debentures carry financial covenants and since their renewal in December 2013 the Company has met the financial covenants. 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 Bank program's APM model will result in higher revenue and, consequently, improve the Company's financial results and cash flows. The Company requires additional debt financing to scale its ability in this

area. If the Company is not successful in raising additional debt financing, its ability to expand its merchant base and increase revenue may be impeded, resulting in reduced growth in cash flows from operations. This could affect the Company's liquidity and working capital position. Any debt structure would need to recognize the general security interest over the Company's assets, held by the new 12% debentures holders.

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

The Company's activities are funded by two sources of debt. The new 12% debentures has a fixed interest rate, and loan payable which carries a floating interest rate. While the Company is not exposed to interest rate risk on account of new 12% debentures, its future cash flows are exposed to interest risk from the floating interest rate payable, calculated as prime rate of a certain Canadian bank plus 11.5%, on loan payable. While the Company does not use derivative instruments to reduce its exposure to interest rate risk, it believes it can pass on, to merchants participating in its programs, a portion of a significant adverse interest rate movement on its loan payable. As disclosed under the section Interest Expense in this document, for the six months ended December 31, 2013 the Company incurred interest expense of $531,000 on utilization of loan payable. Had the interest rate, for the six months ended December 31, 2013, been 10% higher the interest expense on loan payable would be $584,000, an increase of $53,000.

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

The Company provides marketing services to retail organizations and, in more general terms, the Company could be considered competitive with other advertising and promotional programs for a portion of a client's

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

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

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

Forward-Looking Information

This Management's Discussion and Analysis contains certain "forward-looking information". All information, other than information comprised of historical fact, that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future constitutes forward-looking information. Forward-looking information is typically identified by words such as: anticipate, believe, expect, goal, intend, plan, will, may, should, could and other similar expressions. Such forward-looking information relates to, without limitation, information regarding the Company's: belief in its ability to overcome current challenges and prepare for future opportunities; expectation of a successful outcome, and it's timing, from the discussions with TD; expectation of future prospects on its business from a relationship with TD; expectation of securing relationship with TD by the expected transition date; expectation of a multi-year renewal of its existing agreement with Aimia, and the future prospects from this relationship on its business; expectation of developing the pilot Caesar's program into a full program across the USA; expectation of the USA as a untapped market for its product offerings and its ability to capitalize on the market; belief in its ability to manage merchant delinquency risk; ability to add resources to develop Bank and Aeroplan programs in the next 2-4 months; expectation of future savings in cash interest; belief that merchants participating in the Aeroplan program have a higher retention rate; belief that increasing the amount of the transaction credits deployed with merchants under the Bank program's APM model improves revenues, financial results and cash flows; belief of the attractiveness of the APM model to small independent merchants and the potential of this segment; expectation of amount and nature of capital expenditures for rest of this fiscal year; belief in its ability to adjust to changing circumstances; belief in the unique nature of its programs; expectation of its future prospects; belief that working with Aimia lessens economic dependence on CIBC; expectation that its current working capital needs are provided by loan payable and new 12% debentures; belief in its ability to pass on a significant portion of any interest rate increase to participating merchants; belief in its ability to compete effectively and respond to new competition; and other information regarding financial and business prospects and financial outlook is forward-looking information.

Forward-looking information reflects the current expectations or beliefs of the Company based on information currently available to the Company, including certain assumptions and expectations of Management. With

respect to the forward-looking information contained in this Management Discussion and Analysis, the Company has made assumptions regarding, among other things, continued Affinity partner participation; continued support from its provider of loan payable and holders of new 12% debentures; its ability to manage risks connected to collection of transaction credits; current and future economic and market conditions and the impact of same on its business; ongoing consumer interest in accumulating frequent flyer miles; the size of the market for its programs; its ability to increase merchant participation in its programs; its ability to access future financing to expand the Bank program's APM model, and for general working capital needs; ongoing and future Affinity partnerships and revenue sources; future business levels and the cost structure required to operate at those levels; future interest rates; and the appropriateness of its tax filing position.

Forward-looking information is subject to a number of risks, uncertainties and assumptions that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, those listed under "General Risks and Uncertainties" and "Economic Dependence" in this Management Discussion and Analysis.

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

Disclosure Controls and Procedures, and Internal Controls Over Financial Reporting

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

Additional Information

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