ADVANTEX

ADVANTEX® MARKETING INTERNATIONAL INC.
Annual Report to Shareholders
For the Fiscal Year ended June 30, 2013

Dear Shareholders,

I am pleased to share the achievements of Fiscal year ended June 30, 2013, and the developments that will shape Fiscal year ending June 30, 2014.

Advantex has a tremendous asset in the 2,000 small and mid-sized independent merchants participating in its programs across Canada. Our partners, Canadian Imperial Bank of Commerce ("CIBC") and Aeroplan Canada Inc. ("Aeroplan") place great value on the incremental rewards their customers and members earn when completing purchases at our merchants. Our merchant partners see the benefit of reaching out to affluent consumers.

Year in Review – Fiscal Year ended June 30, 2013 ("Fiscal 2013")

Advantex is reporting a net income. While the net income was lower compared with the previous fiscal year, it was an achievement in a challenging business environment.

We increased average merchant participation by 15%, to 1,269, in the legacy programs we operate in partnership with CIBC and Aeroplan, but the legacy program revenues were flat compared to previous fiscal year. During Fiscal 2013 the uncertain economy took a toll on consumer spending at merchants participating in our programs, and this is a significant reason for revenues coming in lower than expectation, and a higher than expected expense for delinquencies.

We seized the opportunity to acquire the Aeroplan marketing assets of a competitor, and completed the acquisition in January, 2013. This action has given us access to an additional 700 merchants, and the ability to develop a new business model (the loyalty rewards re-seller revenue model). This new business helped us to increase our Fiscal 2013 revenues compared to previous year, and solidify a profit this year.

We had hopes of developing a program and revenues from our relationship with Canadian Tire Group ("CTG"). CTG changed their focus, therefore, this relationship did not progress beyond the pilot stage and ended at the end of Fiscal 2013.

Our agreements with CIBC, Aeroplan, and financial partners were all falling due between August and December, 2013. We started negotiations with our partners, and the agreements, as of date hereof, are now either renewed or we expect to have the renewal in place by calendar year end.

The Year Ahead –Fiscal Year ending June 30, 2014 ("Fiscal 2014")

We head into Fiscal 2014 and see a challenging and changing environment. Let me say at the outset that Advantex has proved to be resilient in the past and will overcome the circumstances as they unfold.

In October we announced the renewal of our agreement with CIBC with the initial term ending September 30, 2016. You may be aware that CIBC, The Toronto-Dominion Bank ("TD"), and Aimia signed a tripartite agreement, pursuant to which CIBC has sold 50% of its credit card portfolio with the aeroplan mile reward feature ("sold portfolio") to TD effective January 1, 2014. This event changed the landscape for Advantex and 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.

The relationship with Aeroplan is strong, and the prospects from loyalty rewards re-seller program are promising.

Our financial partners are supportive. Accord Financial Inc. ("Accord") extended the term of its credit facility for a one year term ending in December, 2014. We use this facility to support our Advance Purchase Marketing program under which we provide participating merchants loyalty marketing, business intelligence, and unsecured working capital by pre- purchasing the merchants future sales on designated credit cards. We worked with the primary holder of the 14% debentures and 12% debentures to extend the term of the debentures from September 30, 2013 to December 31, 2013. We announced that we entered into a term sheet to refinance between $5 million and $5.5 million of the 14% debentures and 12% debentures. We expect to re-finance the debentures.

With the continuing support of employees, partners, and the Board, Advantex will succeed in overcoming the challenges and developing opportunities.

I want to thank you for your support.

(Signed) – "Kelly Ambrose"

Kelly E. Ambrose
President and Chief Executive Officer

Date: October 28, 2013

This Letter to Shareholders 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 includes expectations regarding renewal of agreements; expectation of negotiating and finalizing a refinancing of debentures on the terms set out in the term sheet; expectation with respect to the effect the sale of the sold portfolio will have on revenues, earnings and the Company's value proposition. Forward-looking information reflects the current expectations or beliefs of the Company based on information currently available to the Company. 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, without limitation, those listed under "General Risks and Uncertainties" and "Economic Dependence" in the Company's Management Discussion and Analysis for the fiscal year ended June 30, 2013. 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.

ADVANTEX

ADVANTEX® MARKETING INTERNATIONAL INC.
Management's Discussion and Analysis of Operating Results
For the Fiscal years ended June 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") as at October 28, 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 twelve months ended June 30, 2013, compared to the twelve months ended June 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 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 audited consolidated financial statements.

Overall Performance

Advantex is a leader in the marketing services industry. The Company develops and manages merchant-based loyalty programs for 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") (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 (collectively "Retail programs").

Advantex earns revenue as customers make purchases at participating merchants.

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 year ended June 30, 2013 ("Fiscal 2013").

While the Fiscal 2013 net income of $36,000 is lower compared to net income of $227,000 for year ended June 30, 2012 ("Fiscal 2012"), Fiscal 2013 was a very challenging business environment.

The story of Fiscal 2013 revolves around the uncertain economy, and the Company's success in overcoming the challenge.

The primary source of the Company's revenues is the programs it operates in partnership with CIBC. The uncertain economy has adversely impacted the Company's financial performance threefold:

1. Reduction in consumer spending at merchants participating in the Company's programs. This is a significant cause of Fiscal 2013 revenues from Legacy programs (see section Revenue in this document) increasing only 0.2% in Fiscal 2013 compared to Fiscal 2012 despite a year over increase of 15.3% increase in merchant participation. Legacy programs account for over 90% of revenues in Fiscal 2013 and Fiscal 2012;
2. Reduction in the amounts small merchants are willing to spend on their marketing. For the Company the result is longer selling, and a shorter retention cycles. This is reflected in a flat merchant count during the fourth quarter of Fiscal 2013 compared to the corresponding period in the previous year, and comes through in our revenues; and
3. Increasing incidence of merchants closing down or defaulting on their obligations. This is reflected in an increase in expense for delinquent accounts and consequently a compression of our gross margins.

In January, 2013 the Company completed the acquisition of a competitor's (Futura Loyalty Group Inc.) Aeroplan channel marketing assets and added a new revenue model ("Re-seller"). The Company operates this program in partnership with Aeroplan. The timely successful integration, and the additive revenue of $621,000 and gross profit of $355,000 are an encouraging development.

The Company kept its Fiscal 2013 selling, general & administrative expenses flat compared to Fiscal 2012, and yet we were able to achieve a higher average level of merchant participation during Fiscal 2013 compared to Fiscal 2012, and absorb the acquisition.

The Company was able to keep its Fiscal 2013 earnings from operations before depreciation, amortization and interest flat compared to Fiscal 2012.

Fiscal 2013 also reflects the write-off of its investment in a corporation engaged in the couponing business which ceased business. Fiscal 2013 non-cash expenses comprising non-cash interest from accretion charges on debentures, and depreciation and amortization at $1,139,000 were $164,000 higher compared to Fiscal 2012 and eroded the Fiscal 2013 net income.

Highlights of Financial Performance.

	Fiscal 2013	Fiscal 2012	Inc./(Dec)
Average number of merchants participating in Legacy programs (see Revenue section in this document)	1,269	1,101	15.3%
Revenues			
Legacy programs (see section Revenue in this document)			
operated in partnership with CIBC	$15,033,000	$14,804,000	
operated in partnership with Aeroplan	774,000	965,000	
	$15,807,000	$15,769,000	0.2%
Re-seller program	621,000	-	
Other	428,000	127,000	
Retail programs	**$16,856,000**	**$15,896,000**	**6.0%**
Misc., and interest	54,000	-	
	$16,910,000	**$15,896,000**	**6.4%**
Gross profit	**$11,360,000**	**$11,469,000**	**(1.0)%**
Earnings from operations before depreciation, amortization and interest (“EBITDA” *)	**$ 3,323,000**	**$ 3,214,000**	**3.4%**
Net Income	**$ 36,000**	**$ 227,000**	**(84.1)%**

* 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. In case of the Company, for Fiscal 2013 and Fiscal 2012, per consolidated financial statements for year ended June 30, 2013, earnings from operations before depreciation, amortization and interest is the nearest equivalent to EBITDA.

Post Fiscal 2013, the Company has exciting developments to report. These are key steps to securing our financial future, and include:

1. Renewed its agreement with CIBC. 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;
2. Renewed its 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 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 a three year term. 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. Advantex will have the right, on each of the first business day of 2015 and 2016, to redeem, for face value, 25% of the New Debentures issued. The Company expects to successfully negotiate and finalize the refinancing of the debentures.

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.

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 the year ended June 30, 2013 ("Fiscal 2013") compared to year ended June 30, 2012 ("Fiscal 2012") is set out in the following sections.

Results of Operations

	Fiscal 2013	Fiscal 2012
	$	$
Revenues		
Retail programs	$16,856,000	$15,896,000
Misc., and interest income	54,000	-
	16,910,000	**15,896,000**
Direct expenses	5,550,000	4,427,000
Gross Profit	**11,360,000**	**11,469,000**
Selling, and General & Administrative expenses	8,037,000	8,255,000
Earnings from operations before depreciation, amortization and interest	**3,323,000**	**3,214,000**
Cash interest expense on loan payable and debentures	2,048,000	2,012,000
Earnings from operations before depreciation, amortization and non-cash interest	**1,275,000**	**1,202,000**
Non-cash expenses		
Write-off of investment	100,000	-
Depreciation and amortization	541,000	435,000
Non-cash interest expense on debentures	598,000	540,000
Net income	**$ 36,000**	**$227,000**
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.

Revenue

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

Advantex 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**. As a result of the acquisition announced February 1, 2013 and its agreement with Aeroplan, the Company has a new business model. 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.

Currently the APM and Marketing Only programs (together "Legacy programs") 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.

	Fiscal 2013	Fiscal 2012	Inc./(Dec)
Legacy programs - # of participating merchants			
Start of year	1,279	923	
End of year	1,259	1,279	
Average for the year	1,269	1,101	15.3%
Re-seller program - # of participating merchants at end of year	700	nil	
Revenues			
	$	$	
APM	$11,128,000	$10,958,000	
Marketing Only	4,679,000	4,811,000	
Legacy programs	**15,807,000**	**15,769,000**	**0.2%**
Re-seller	621,000	-	
Sales of Aeronotes	42,000	53,000	
Sales of digital marketing services (“Dms”)	386,000	74,000	
Total Retail programs	**16,856,000**	**15,896,000**	**6.0%**
Miscellaneous income	29,000	-	
Interest income	25,000	-	
Total revenues	**$16,910,000**	**$15,896,000**	**6.4%**
Average annual revenue per merchant participating in Legacy programs	*$12,456*	*$14,322*	*(13.0)%*

The Company expects to increase the engagement of participating merchants in the Re-seller program, to the mutual benefit of merchants and the Company.

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.

	Fiscal 2013	Fiscal 2012	Inc./(Dec)
	$	**$**	
Revenues - Legacy programs	$15,807,000	$15,769,000	0.2%
Re-seller program	621,000	-	
Sales of aeronotes, and Dms	428,000	127,000	
	$16,856,000	$15,896,000	6.0%
Direct expenses – Legacy programs	**$ 4,939,000**	**$ 4,332,000**	**14.0%**
Re-seller program	**266,000**	**-**	
Sales of aeronotes, and Dms	**345,000**	**95,000**	
	$ 5,550,000	**$ 4,427,000**	**25.4%**

The increase in direct expenses respecting Legacy programs primarily reflects a higher expense for delinquent accounts (Fiscal 2013 $945,000 vs. $494,000 for Fiscal 2012). The difficult economic conditions have created a financial challenge for small independent merchants, the Company’s market, and this is reflected in higher delinquencies. The cost of cardholder awards is the other factor for increase in Legacy programs direct costs, reflecting an increase in merchant participation in the segments with a higher cost of cardholder awards.

The Company is continuously monitoring the credit environment and adjusting its due diligence and collection processes, and believes it has appropriate controls to manage delinquency risk. The small merchant space does not have access to funding from banks, and the difficult economy creates an opportunity for the Company to expand its APM program to credit-worthy merchants.

Gross Profit

Company gross profit was $11,360,000 in Fiscal 2013 compared to $11,469,000 in Fiscal 2012 reflecting a decline in Legacy programs gross profit partially offset primarily by the Re-seller program.

	Fiscal 2013	**Fiscal 2012**	**Inc./(Dec)**
	$	**$**	
Legacy programs	$10,868,000	$11,437,000	$(569,000)
Re-seller program	355,000	-	355,000
All other Retail programs	83,000	32,000	51,000
Misc., and interest income	54,000	-	54,000
	$11,360,000	**$11,469,000**	**$(109,000)**

The decline in Legacy programs Gross Margin (Fiscal 2013 at 68.8% compared to 72.5% for Fiscal 2012), 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 the remuneration of sales staff, transaction processing and other selling activities.

	Fiscal 2013	**Fiscal 2012**	**Inc./(Dec)**
	$	**$**	
Change in Retail programs revenues			6.0%
Selling Expenses – Retail programs	**$3,612,000**	**$3,759,000**	**(3.9)%**
Re-seller program	**158,000**	**-**	
	$3,770,000	**$3,759,000**	**0.3%**

The Company initiated a limited lay-off from the end of November, 2012 to March 31, 2013 of staff primarily connected to the Retail programs sales organization to coincide with its historical low revenue season.

During Fiscal 2013 the Company started to build a sales organization to develop its Re-seller 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).

	Fiscal 2013	Fiscal 2012	Inc./(Dec)
	$	$	$
Change in Retail programs revenues			6.0%
G&A			
Compensation for non-sales staff	$3,292,000	$3,228,000	2.0%
Less: Software development costs capitalized (details provided under section Capital Expenditures in this document)	(201,000)	(126,000)	
	3,091,000	3,102,000	(0.4)%
Capital and income taxes	27,000	32,000	
Stock based compensation	15,000	66,000	
All other G&A expenses	1,134,000	1,296,000	
	$4,267,000	**$4,496,000**	**(5.1)%**

Compensation costs, which represent over 70% of total G&A expense, were flat.

Fiscal 2013 stock based compensation expense was for a grant of 2,400,000 stock options in March, 2013. Details are provided under the section Stock Options in this document.

Expenses grouped in above tabulation as All other G&A expenses, for Fiscal 2013 reflect a write-back of provisions no longer required.

Interest Expense

The interest expense is tabulated:

	Fiscal 2013	Fiscal 2012	Inc./(Dec)
	$	$	$
Stated interest			
Loan payable	$1,065,000	$ 983,000	$ 82,000
14% debentures	244,000	253,000	$ (9,000)
12% debentures	739,000	776,000	$(37,000)
	$2,048,000	**$2,012,000**	$ 36,000
Non cash interest,14% debentures and 12% debentures accretion charges	**$ 598,000**	**$ 540,000**	$ 58,000
Total interest expense	**$2,646,000**	**$2,552,000**	**$ 94,000**

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 increase in stated interest expense on loan payable is the result of the higher draws on the loan payable. The average utilization during Fiscal 2013 was $6.9 million compared to $6.0 million during Fiscal 2012. The Company benefitted from a lower interest rate during Fiscal 2013 and this is described under section Loan Payable in this document.

The decrease in the stated interest expense on the 14% debentures and 12% debentures reflects amounts prepaid in July, 2012 pursuant to debt prepayment agreements as follows:

1. $66,000 in the aggregate principal amount was prepaid on the 14% debentures; and
2. $310,033 in the aggregate principal amount was prepaid on the 12% debentures.

Net Income

The net income for Fiscal 2013 was $36,000 (Basic and Diluted Earnings per share of $0.00) compared to a net income of $227,000 (Basic and Diluted Loss per share of $0.00) for Fiscal 2012.

Highlights of Fiscal 2013 compared to Fiscal 2012 are tabulated:

	Fiscal 2013	Fiscal 2012	Inc./(Dec)
Revenues	$ 16,910,000	$ 15,896,000	$1,014,000
Gross Profit	$ 11,360,000	$ 11,469,000	$ (109,000)
Earnings from operations before depreciation, amortization and interest	$ 3,323,000	$ 3,214,000	$ 109,000
Net Income	$ 36,000	$ 227,000	$ (191,000)

Fiscal 2013 revenues and direct costs increased $1,014,000 and $1,123,000 respectively compared to Fiscal 2012, leading to a decline in gross profit of $109,000.

Fiscal 2013 selling, and general & administrative expenses for Fiscal 2013 were $218,000 lower compared to Fiscal 2012, resulting in earnings from operations before depreciation, amortization and interest for Fiscal 2013 that is essentially flat compared to Fiscal 2012.

Interest cost for Fiscal 2013 was $2,646,000 and was $94,000 higher compared to Fiscal 2012. Non-cash interest representing accretion charges on the 14% debentures and 12% debentures accounted for $58,000 of the increase over Fiscal 2012.

The Company had a $100,000 write-off of an investment in Fiscal 2013. Depreciation and amortization for Fiscal 2013 was $541,000 compared to $435,000 for Fiscal 2012.

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

Working Capital and Liquidity Management

The utilization of liquidity during Fiscal 2013 compared to Fiscal 2012 is illustrated in the following tabulation:

	Fiscal 2013	Fiscal 2012
FUNDS AVAILABLE TO EXPAND APM PROGRAM (Transaction credits) AND MEET WORKING CAPITAL REQUIREMENTS		
1. Net income	$ 36,000	$ 227,000
Add back non-cash expenses	1,254,000	1,041,000
Income before non-cash expenses *	$ 1,290,000	$ 1,268,000
2. Increase in utilization of loan payable	$ 384,000	$ 1,798,000
3. Cash balances at start of the period	$ 1,085,000	$ (78,000)
4. Increase in accounts payable and accrued liabilities	$ -	$ 376,000
Funds Available	**$ 2,759,000**	**$ 3,364,000**
UTILIZATION		
1. (Decrease)/Increase in transactions credits under APM program	$ (463,000)	$ 1,687,000
2. Cash balances at end of period	$ 1,774,000	$ 1,085,000
3. Change in accounts receivable, inventory, and prepaid expenses / sundry assets	$ (472,000)	$ 329,000
4. Decrease in accounts payable	$ 708,000	$ -
5. Capital expenditures	$ 828,000	$ 226,000
6. Debentures early prepayment / renewal additional transaction costs	$ 384,000	$ 37,000
Utilization	**$ 2,759,000**	**$ 3,364,000**

***** 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 – write-off of investment; depreciation of property, plant and equipment, and intangible assets; stock based compensation; and accretion charge for debentures – to net income for the year, which are disclosed in the consolidated financial statements for year ended June 30, 2013 under the section consolidated statements of cash flow.

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

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, and14% 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 June 30, 2013 was $7.1 million); it is a demand facility; and it requires the Company to co-fund a certain portion of the transaction credits deployed with merchants under the APM program.

The Company generally carries minimal cash balances as it attempts to maximize the funds deployed with merchants (transaction credits on the statement of financial position) participating in its APM program. 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.

In January 2013 the company was advised by Canada Revenue Agency ("CRA") that the Company's objection to the notice of re-assessment issued by the CRA in 2009 in connection with Goods and Services Tax was allowed, the reassessment was reversed, and a notice of re-assessment in the amount of $824,000 was issued. The Company received the amount in February, 2013. This is reflected in the reduction in accounts receivables at June 30, 2013.

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.

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 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 a three year term. 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. Advantex will have the right, on each of the first business day of 2015 and 2016, to redeem, for face value, 25% of the New Debentures issued. The Company expects to successfully negotiate and 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 June 30, 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	$7.1	$7.1	$-	$-	$-
14% debentures	$1.7	$1.7	$-	$-	$-
12% debentures	$6.2	$6.2	$-	$-	$-
Operating Leases	$0.5	$0.1	$0.3	$0.1	$-

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 Company reached a certain amount of draw against the facility, and consequently, per the agreement, it is paying a reduced interest rate, of 11.5% plus prime of a certain Canadian bank, on the entire facility effective January 1, 2012.

As at June 30, 2013, the Company had utilized $7.1 million of the facility (as at June 30, 2012 $6.7 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 June 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 the14% 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 14% 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 June 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.

Selected Annual and Quarterly Information

The following financial data has been derived from the Company's annual audited consolidated financial statements for the past three fiscal years ended June 30, 2013, June 30, 2012 and year ended June 30, 2011 ("Fiscal 2011").

(in millions of dollars, except per share amounts)	F 2013	F 2012	F 2011
Revenue	$ 16.90	$ 15.90	$ 13.50
Net Income/(Loss) for the year	$ 0.04	$ 0.20	$ (0.50)
Basic Earnings/ (Loss) Per Common Share	$ 0.00	$ 0.00	$ (0.00)
Diluted Earnings/(Loss) per Common Share	$ 0.00	$ 0.00	$ (0.00)
Total Assets	$ 17.30	$ 17.30	$ 14.40
Current Liabilities	$ 18.30	$ 10.80	$ 8.80
Long-term Liabilities	$ 0.00	$ 7.60	$ 7.00
No Cash Dividends declared per common share			

For Fiscal 2013 and Fiscal 2012, the basic earnings per share was $0.00, consequently the impact from the potential exercise of all dilutive securities would be negligible. Given that in Fiscal 2011, the Company reported a net loss, the effect of potential exercise of all the dilutive securities would be anti-dilutive.

Working capital represented by current assets less loan payable, and accounts payable and accrued liabilities (including those of discontinued operations), and bank indebtedness as at June 30 for the past three fiscal years was:

(in millions of dollars)	F 2013	F 2012	F 2011
	$ 5.9	$ 5.8	$ 4.8

Composition of total assets is tabulated

	F 2013	F 2012	F 2011
Cash and cash equivalents	$ 1,774,000	$ 1,085,000	$ 5,000
Accounts receivable	599,000	966,000	842,000
Transaction credits	13,633,000	14,096,000	12,408,000
Inventory	140,000	204,000	66,000
Prepaid expenses and sundry assets	273,000	315,000	249,000
Investment	-	100,000	100,000
Property, plant and equipment	300,000	222,000	264,000
Intangibles	540,000	330,000	497,000
Total Assets	$17,259,000	$ 17,318,000	$14,431,000

Transaction credits, and cash and cash equivalents account for a significant part, Fiscal 2013 over 90%; Fiscal 2012 and Fiscal 2011 over 85%, of the total assets of the Company. The change in transaction credits reflects partially the change in the number of merchants participating in the Company's APM program, and the amount of transaction credits deployed with its existing merchants. The Company believes that increasing the amount of transaction credits under its APM program will result in higher revenue and, consequently improve the Company's results and cash flows. The Company generally carries minimal cash balances as it attempts to maximize the funds deployed with merchants (transaction credits on consolidated statement of financial position) participating in its APM program. 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. The Company's transaction credits are primarily funded by its loan payable, 14% debentures, and 12% debentures. Loan payable, and 14% debentures carry a first charge against the merchant transaction credits funded by their respective proceeds. The 12% debentures have a general security agreement over all the assets of the Company and its subsidiaries.

Please refer to the section on Results of Operations section in this document for an analysis of Fiscal 2013 and Fiscal 2012.

The results for Fiscal 2012 and Fiscal 2011 were:

(In millions of dollars)

	F 2012	**F 2011**
Net Income / (Loss)	$ 0.20	$ (0.50)

Highlights of Fiscal 2012 compared to Fiscal 2011:

1. Increase in revenues – Fiscal 2012 $15.9 million compared to $13.5 million from continuing operations for Fiscal 2011.
2. Operational Highlights.

	Revenue	Gross Profit	SG&A	Earnings from Operations before amortization and interest	Stated and Non-cash Interest	Net Income / (Loss)
F 2012	$ 15.9 m	$ 11.5 m	$ 8.3 m	$ 3.2 m	$ 2.6 m	$ 0.2 m
F 2011	$ 13.5 m	$ 9.1 m	$ 6.9 m	$ 2.2 m	$ 2.2 m	$ (0.5) m
Better/ (worse)	17.8%	26.4%	20.3%	$ 1.0 m	$ 0.4 m	$ 0.7 m

3. The success of Fiscal 2012 was a record year in terms of net income and offset the disappointment of a net loss for Fiscal 2011 after the milestone of reporting a net income for year ended June 30, 2010.
4. The operational issue during Fiscal 2011 was the high cost of cardholder awards following the launch of Aeroplan sponsored program in September, 2010. Corrective actions were taken during March 2011 to lower the costs of cardholder awards.
5. During Fiscal 2012 the average number of participating merchants was 1,101 compared to 823 during Fiscal 2011, an increase of 33.8%. The growth was the driver for increase in Fiscal 2012 revenues vs. Fiscal 2011.
6. Fiscal 2012 gross profit was higher vs. Fiscal 2011, reflecting increase in revenues and better gross margin (Fiscal 2012 at 72.1% vs. 67.0% for Fiscal 2011).
7. Fiscal 2012 increase in selling expenses (29.3% vs. Fiscal 2011) reflected increase in headcount in the sales organization, to capitalize on the revenue growth opportunities.
8. Working capital was $5.8 million as at June 30, 2012 compared to $4.8 million as at June 30, 2011. The movement of cash and cash equivalents, and working capital is provided in below noted tabulation. (in millions of dollars)

	Cash	Working Capital **
As at July 1, 2011	**$(0.1)**	**$4.8**
Income before non-cash expenses *	1.3	0.0
Changes from non-cash working capital items, including those of discontinued operations	(1.7)	1.7
Financing activities - loan payable	1.8	(1.8)
Purchase of property, plant and equipment	(0.2)	0.0
Changes in cash balances	-	1.2
Movement during the twelve months	**1.2**	**1.1**
As at June 30, 2012	**$1.1**	**$5.8**

* Income before non-cash expenses is a non-GAAP financial measure which does not have any standardized meaning prescribed by the issuer's GAAP and is unlikely to be comparable to similar measures presented by other issuers. It is provided as additional information to assist readers in understanding a component of the Company's financial performance; as it is the Company's assessment of the cash generated from its operating activities prior to changes in working capital items. Income before non-cash expenses during Fiscal 2012 is arrived after adding back expenses not affecting cash - depreciation of property, plant and equipment, and intangible assets; stock based compensation; and accretion charge for debentures – to net income for the year, which are disclosed in the consolidated financial statements for year ended June 30, 2013 under the section consolidated statements of cash flow.

** Working capital represented by current assets less loan payable, and accounts payable and accrued liabilities (including those of discontinued operations), and bank indebtedness.

Some numbers may not add due to rounding.

Summary of Quarterly Results

Fiscal Year June 30, 2013

(in millions of dollars, except per share amounts)	Q1 Sept 30 2012	Q2 Dec 31 2012	Q3 Mar 31 2013	Q4 June 30 2013	Total
Revenue	$ 4.4	$ 4.4	$ 3.6	$ 4.5	$ 16.9
Percentage of Annual Revenue	26%	26%	21%	27%	100 %
Net Income/(Loss)	$ 0.3	$ 0.1	$ (0.6)	$ 0.2	$ 0.0
Basic and Diluted Earnings Per Common Share	$ 0.00	$ 0.00	$ (0.00)	$ 0.00	$ 0.00

Fiscal Year June 30, 2012

(in millions of dollars, except per share amounts)	Q1 Sept 30 2011	Q2 Dec 31 2011	Q3 Mar 31 2012	Q4 June 30 2012	Total
Revenue	$ 3.9	$ 4.2	$ 3.5	$ 4.3	$ 15.9
Percentage of Annual Revenue	25%	26 %	22%	27%	100 %
Net Income/(Loss)	$ 0.3	$ 0.2	$ (0.4)	$ 0.1	$ 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.

Fourth Quarter of Fiscal 2013 (Q4 F13) vs. Fourth Quarter of Fiscal 2012 (Q4 F12)

Overview

The average number of merchants participating in the Legacy programs during Q4 F13, at 1,264, compared to 1,240 during Q4 F12.

The Q4 F13 Legacy programs revenues saw a 8.1% compression reflecting lower consumer spending at participating merchants, and mix of merchants with lower overall sales. The decline in revenues from Legacy programs was offset by revenue from the Re-seller program.

The Q4 F12 direct expenses for Legacy programs declined by 1.4% compared to Q4 F13. While the reserve for delinquencies was higher in Q4 F12, this was more than offset by the decline in spending on marketing activities on behalf of participating merchants reflecting CIBC support towards marketing activities.

While gross profit was essentially flat, the Q4 F13 selling and general and administrative expenses were lower compared to Q4 F12, and this was reflected in higher earnings from operations before depreciation, amortization and interest, and net income.

Q4 F13 selling expenses were $54,000 lower compared to Q4 F12. Legacy programs selling expenses were lower during Q4 F13 vs. Q4 F12, but offset by Q4 F13 selling expenses reflecting the buildup of a sales organization to develop its Re-seller program. Q4 F13 General and administrative expenses were $148,000 lower compared to Q4 F12, reflecting lower expense for stock based compensation (Q4 F13 $15,000 vs. $66,000 for Q4 F12), and higher capitalization of internal costs expended on software development (Q4 F13 $61,000 vs. $31,000 for Q4 F12).

Analysis of Q4 F13 compared to Q4 F12

	Q4 F13	Q4 F 12	Inc./(Dec)
Average number of merchants participating in Legacy programs	1,250	1,249	
	$	$	
Revenues			
Legacy programs	$3,916,000	$4,259,000	(8.1)%
Re-seller program	470,000	-	
Other Retail programs	100,000	74,000	
	4,486,000	**4,333,000**	**3.5%**
Direct Expenses			
Legacy programs	1,177,000	1,194,000	(1.4)%
Re-seller program	192,000	-	
Other Retail programs	79,000	75,000	
	1,448,000	**1,269,000**	**14.1%**
Gross Profit	**3,038,000**	**3,064,000**	**(0.8)%**
Selling, G&A	**2,012,000**	**2,214,000**	**(9.1)%**
Earnings from Operations before depreciation, amortization and interest	**1,026,000**	**850,000**	**20.7%**
Stated interest	514,000	518,000	
Non-cash interest	153,000	137,000	
Depreciation and Amortization	153,000	122,000	
Net Income	**$206,000**	**$73,000**	**182.2%**

Capital Resources

Expenditures for property, plant and equipment, and intangible assets for year ended June 30, 2013 were $828,000 (Fiscal 2012 – $226,000).

Fiscal 2013 includes capitalization of $201,000 of internal costs expended on software development connected to ensuring operability of the Company’s loyalty marketing programs sponsored by CIBC and Aeroplan (Fiscal 2012 - $126,000). The costs are being amortized over the shorter of useful life of the software and term of Affinity partner agreement.

Expenditures for intangibles include the assets acquired for $122,000 from Futura Loyalty Group Inc. consisting of (i) channel program agreement with Aeroplan; (ii) agreements with merchants covering about 700 locations, and (iii) inventory of point of purchase and marketing material.

As of date hereof, the capital expenditures during Fiscal 2014 are expected to be in the nature of updating of the Company’s infrastructure and software development.

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 audited 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.

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 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 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:

	June 30, 2013	June 30, 2012
	$	$
Transaction credits	14,440,000	15,315,000
Accounts receivable	599,000	966,000
Allowance	(807,000)	(1,220,000)
Per statement of financial position	14,232,000	15,061,000
Amounts due from CRA, included in accounts receivable (received in February 2013)	-	(800,000)
Maximum exposure to credit risk	14,232,000	14,261,000

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

	June 30, 2013	June 30, 2012
	$	$
Impaired transaction credits	2,168,000	2,276,000
Allowance	(808,000)	(1,220,000)
Impaired transaction credits not allowed for	1,360,000	1,056,000

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 11,643,704. 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 Fiscal 2013 and Fiscal 2012 is tabulated.

	Fiscal 2013	**Fiscal 2012**
	Number of Options	
Outstanding at start of year	11,027,790	11,207,290
Granted	2,400,000	3,530,000
Forfeited	(150,000)	(609,500)
Expired	(2,836,360)	(3,100,000)
Outstanding at end of year	10,441,430	11,027,790

Fiscal 2013 grant of 2,400,000 stock options in March, 2013 was to directors and certain employees of the Company.

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

	June 30, 2013	June 30, 2012
Maximum number reserved for issuance	11,643,704	11,643,704
Less: Outstanding at end of year	(10,441,430)	(11,027,790)
Number of options available for future issuance	1,202,274	615,914

The Company recorded $15,000 of stock-based compensation expense in Fiscal 2013 compared to $66,000 in Fiscal 2012. There was a corresponding increase in contributed surplus.

Outstanding Share Data

Outstanding shares

As at date hereof, June 30, 2013, and 2012, the number of issued and outstanding common shares of the Company outstanding 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 warrants attached to 14% debentures	3,444,400	0.040	December 31, 2013
Common shares issuable on exercise of common share 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 11,643,704.	10,441,430	Ranging between $0.01 and $0.05.	Ranging between March 2014 and March 2018
TOTAL	**100,942,321**		

9,863,988 common share warrants issued in January / February, 2009 to convertible debenture holders were not exercised and expired in December, 2011.

In July, 2012, 4,517,621 common share purchase warrants of the Company were surrendered to the Company. The number of common share purchase warrants surrendered was proportionate to the number of 14% debentures and 12% debentures prepaid. The debentures prepaid were pursuant to two debt repayment agreements.

500,000 common share purchase warrants issued in May, 2011 to an agent on completion of the financing of 14% debentures and 12% debentures were not exercised and expired.

Transactions with Related Parties

As at June 30, 2013 and 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.

Outlook

The next twelve to eighteen month period is one of challenges and opportunities.

The challenges come from two sources. The economic uncertainty is likely to continue and will be a significant factor. The decision by CIBC to sell about half of its portfolio of credit cards featuring aeroplan miles rewards is the other significant event. Both of these will put severe pressure on the Company's ability to maintain its current merchant count, its revenues, and report net income.

The positives are that 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 two challenges. The Company's financial partners are supporting the Company.

The task is to maximize the opportunities from existing partnerships, and secure the potential partnership in a time frame that offsets the material and adverse from the CIBC decision. Although the Company is 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.

A potential further risk dilution event was the Company signing an agreement in February 2012 with the Canadian Tire Group ("CTG"). The pilot phase was expected to be followed by an expansion in Ontario in July, 2013. CTG has changed its strategy and consequently this potential partnership is at an end.

Illustration of economic dependence on CIBC

Revenue	Fiscal 2013		Fiscal 2012	
	$	%	$	%
Programs operated in partnership with CIBC	$ 15.0 m	88.8%	$ 14.8 m	93.1%
Programs operated in partnership with Aeroplan	$ 1.4 m	8.2%	$ 1.0 m	6.3%
All other revenues	$ 0.5 m	3.0%	$ 0.1 m	0.6%
Total	$ 16.9 m	100.0%	$ 15.9 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 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 negotiate and 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 year ended June 30, 2013 the Company incurred interest expense of $1,065,000 on utilization of loan payable. Had the interest rate, for year ended June 30, 2013, been 10% higher the interest expense on loan payable would be $1,172,000, an increase of $107,000.

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 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: belief that the post Fiscal 2013 developments are key steps to securing its financial future; expectation of negotiating and finalizing a refinancing of debentures on the terms set out in the term sheet; expectation of securing a multi-year renewal of its agreement with Aeroplan; impact of the sold portfolio on the Company's revenues and earnings; 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; ability to manage the delinquency risk; belief that the difficult economy creates an opportunity to expand the APM program; belief that increasing the amount of transaction credits will result in higher revenues and improve results and cash flows; expectation of capital expenditures during Fiscal 2014; belief that 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 its ability to compete effectively; 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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To our Shareholders:

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the information and representations contained in these consolidated financial statements and other sections of the Annual Report for year ended June 30, 2013

The Company maintains appropriate processes to ensure that relevant and reliable financial information is produced. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) using the accounting policies described therein. The significant accounting policies which management believes are appropriate for the Company are described in note 4 to the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing management's performance of its financial reporting responsibilities. An Audit Committee, a majority of whose members are non-management Directors, is appointed by the Board. The Audit Committee reviews the consolidated financial statements, adequacy and internal controls, the audit process and financial reporting with management and the external auditors. The Audit Committee reports to the Directors prior to the approval of the audited consolidated financial statements for publication.

BDO Canada LLP, the Company's external auditors, audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express their opinion on the consolidated financial statements.

(Signed) – "Kelly Ambrose"	(Signed) - "Mukesh Sabharwal"
Kelly E. Ambrose President and Chief Executive Officer	Mukesh Sabharwal V.P. and Chief Financial Officer

Tel: 905 946 1066
Fax: 905 946 9524
www.bdo.ca

BDO Canada LLP
60 Columbia Way, Suite 300
Markham ON L3R 0C9 Canada

Independent Auditor's Report

To the Shareholders of
Advantex Marketing International Inc.

We have audited the accompanying consolidated financial statements of Advantex Marketing International Inc. and its subsidiaries, which comprise the statements of financial position as at June 30, 2013, and the consolidated statements of comprehensive income, changes in equity, and cash flows for the year ended June 30, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Advantex Marketing International Inc. and its subsidiaries as at June 30, 2013 and its financial performance and its cash flows for the year ended June 30, 2013 in accordance with International Financial Reporting Standards.

Comparative Information

The consolidated financial statements of Advantex Marketing International Inc. as at and for the year ended June 30, 2012 were audited by another auditor who expressed an unmodified opinion on those financial statements on October 23, 2012.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario
October 28, 2013

Advantex Marketing International Inc.
Consolidated Statements of Financial Position
(expressed in Canadian dollars)

	June 30, 2013	June 30, 2012
Assets		
Current assets		
Cash and cash equivalents	1,773,672	1,084,773
Accounts receivable (note 17)	599,339	966,437
Transaction credits	13,632,654	14,095,373
Inventory (note 5)	139,985	204,355
Prepaid expenses and sundry assets	273,519	315,454
	$16,419,169	**$16,666,392**
Non-current assets		
Investment (note 6)	-	100,000
Property, plant and equipment (note 7a)	299,528	222,132
Intangible assets (note 7b)	539,545	330,018
	839,073	**652,150**
Total assets	**$17,258,242**	**$17,318,542**
Liabilities		
Current liabilities		
Loan payable (note 8)	7,099,371	6,715,691
Accounts payable and accrued liabilities	3,420,130	4,128,264
14% Non-convertible debentures payable (note 9)	1,736,298	-
12% Non-convertible debentures payable (note 10)	6,055,336	-
	$18,311,135	**$10,843,955**
Non-current liabilities		
14% Non-convertible debentures payable (note 9)	-	1,770,606
12% Non-convertible debentures payable (note 10)	-	5,779,957
	$ -	**$7,550,563**
Total Liabilities	**$18,311,395**	**$18,394,518**
Shareholders' deficiency		
Share capital (note 11)	24,110,096	24,110,096
Contributed surplus (note 12)	808,167	793,198
Equity portion of debentures (note 10)	2,114,341	2,114,341
Warrants (note 9/10)	1,167,874	1,196,013
Deficit	(29,253,371)	(29,289,624)
Total deficiency	**$(1,052,893)**	**$(1,075,976)**
Total liabilities and deficiency	**$17,258,242**	**$17,318,542**

Economic and Financial dependence (note 2),Commitments and contingencies (note 17), and Subsequent events (note 20)

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board:

Director: Signed "William Polley"
William Polley

Director: Signed "Kelly Ambrose"
Kelly E. Ambrose

Advantex Marketing International Inc.
Consolidated Statements of Income and Comprehensive Income
For the years ended June 30, 2013 and 2012
(expressed in Canadian dollars)

	2013	**2012**
	$	**$**
Revenues	16,909,808	15,895,402
Direct expenses	5,549,977	4,427,082
	11,359,831	11,468,320
Operating Expenses		
Selling and marketing	3,770,393	3,758,766
General and administrative	4,266,296	4,496,048
Earnings from operations before depreciation, amortization and interest	3,323,142	3,213,506
Interest expense:		
Stated interest expense – loan payable, and debentures	2,047,785	2,012,320
Non-cash interest expense on debentures	597,665	539,662
	677,692	661,524
Write-off of investment	100,000	-
Depreciation of property, plant and equipment, and amortization of intangible assets	541,439	434,881
Net income and Comprehensive income	**36,253**	**226,643**
Earnings per share:		
Basic and Diluted (note 19)	**0.00**	**0.00**

The accompanying notes are an integral part of these consolidated financial statements.

Advantex Marketing International Inc.
Consolidated Statements of Changes in Deficiency
For the years ended June 30, 2013 and June 30, 2012
(expressed in Canadian dollars)

	Class A preference shares	Common shares	Contributed surplus	Equity portion of debentures	Warrants	Deficit	Total
	$	$	$	$	$	$	$
Balance – July 1, 2011	**3,815**	**24,106,281**	**726,795**	**2,114,341**	**1,196,013**	**(29,516,267)**	**(1,369,022)**
Net income and comprehensive income for the year						226,643	226,643
Stock based compensation							
Value of services recognized			66,403				66,403
Balance – June 30, 2012	**3,815**	**24,106,281**	**793,198**	**2,114,341**	**1,196,013**	**(29,289,624)**	**(1,075,976)**
Balance – July 1, 2012	**3,815**	**24,106,281**	**793,198**	**2,114,341**	**1,196,013**	**(29,289,624)**	**(1,075,976)**
Net income and comprehensive income for the year						36,253	36,253
Stock based compensation							
Value of services recognized			14,969				14,969
Partial repayment of debentures (notes 9 and 10)					(28,139)		(28,139)
Balance – June 30, 2013	**3,815**	**24,106,281**	**808,167**	**2,114,341**	**1,167,874**	**(29,253,371)**	**(1,052,893)**

The accompanying notes are an integral part of these consolidated financial statements.

Advantex Marketing International Inc.
Consolidated Statements of Cash Flow
For the years ended June 30, 2013 and 2012
(expressed in Canadian dollars)

	2013	2012
Cash flow provided by / (used in)		
Operating activities		
Net income for the year	$36,253	$226,643
Adjustments for:		
Write-off of investment	100,000	-
Depreciation of property, plant and equipment, and amortization of intangible assets	541,439	434,881
Stock-based compensation	14,969	66,403
Accretion charge for debentures	597,665	539,662
	1,290,326	1,267,589
Changes in items of working capital		
Accounts receivable	367,098	(124,188)
Transaction credits	462,719	(1,687,313)
Inventory	64,370	(137,904)
Prepaid expenses and sundry assets	41,935	(66,913)
Accounts payable and accrued liabilities	(708,134)	376,461
	227,988	(1,639,857)
Net cash provided by / (used in) operating activities	**1,518,314**	**(372,268)**
Investing activities		
Purchase of property, plant and equipment, and intangible assets	(828,362)	(225,854)
Net cash (used in) investing activities	**(828,362)**	**(225,854)**
Financing activities		
Proceeds from loan payable	383,680	1,798,245
Partial repayment of debentures	(376,033)	-
Debenture partial repayment / renewal – additional transaction costs	(8,700)	(37,088)
Net cash generated from / (used in) financing activities	**(1,053)**	**1,761,157**
Increase (decrease) in cash and cash equivalents during the year	$688,899	$1,163,035
- From continuing operations	877,514	1,264,207
- From discontinued operations (note 16)	(188,615)	(101,172)
Increase in cash and cash equivalents	$688,899	$1,163,035
Cash and cash equivalents, including bank indebtedness – Beginning of year	1,084,773	(78,262)
Cash and cash equivalents – End of year	1,773,672	1,084,773

Additional Information

	2013	2012
Interest paid	$2,058,694	$1,893.320
For purposes of the cash flow statement, cash comprises:		
Cash	$1,768,672	$1,079,773
Term deposits	$ 5,000	$ 5,000
	$1,773,672	$1,084,773

The accompanying notes are an integral part of these consolidated financial statements.

1 General information

Advantex Marketing International Inc. and its subsidiaries (together the company or Advantex) is a public company with common shares listed on the Canadian National Stock Exchange (trading symbol ADX). Advantex operates in the marketing services industry. The company develops and manages loyalty programs for a financial institution and other major organizations through which their customers earn frequent flyer miles or points on purchases at participating merchants. Under the umbrella of each program, Advantex provides merchants with marketing, customer incentives and additionally pre-purchase of merchants' future sales through its Advance Purchase Marketing (APM) program. Advantex is incorporated and domiciled in Canada, and the address of its registered office is Suite 606, 600 Alden Road, Markham, Ontario, L3R 0E7.

2 Economic and Financial Dependence

Economic Dependence

A significant portion of the company's revenues is dependent upon its agreement with Canadian Imperial Bank of Commerce ("CIBC"). This agreement enables the company to develop and manage merchant based programs under which the company markets participating merchants to holders of designated CIBC credit cards. On behalf of participating merchants the company awards incremental rewards - over and above those issued by CIBC – to holders of designated credit cards when they complete purchases at their establishments. The company earns its revenue when CIBC credit cards holders complete purchases at participating merchants.

In September, 2013 the company renewed its existing arrangement with CIBC, and signed a new agreement ("new agreement") for an initial term through September 30, 2016. CIBC may, at its option, renew, on the same terms and conditions for up to two additional one year periods. The new agreement can be terminated by CIBC under certain conditions during the initial and renewal terms.

A portion of CIBC's credit card portfolio carries aeroplan miles as reward currency ("aeroplan portfolio"). As part of a tripartite arrangement between CIBC, Aimia, and The Toronto-Dominion Bank ("TD"), CIBC has sold a portion of its aeroplan portfolio to TD. The sale is effective January, 2014. Under a service agreement between CIBC and TD, CIBC will continue to service the aeroplan portfolio sold to TD up until the date that such credit cards are converted to TD.

Since the company's revenue from the programs 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. The decline in revenue will commence from the end of the above referred service agreement between CIBC – TD. There can be no assurance regarding the duration of the service agreement.

The company is pursuing several avenues to offset the expected decline in its CIBC program revenue. One avenue is continuing to expand the revenue from the programs it operates in partnership with Aeroplan Canada Inc. ("Aeroplan"), in particular the re-seller program it acquired in February, 2013 (note 7 b). The company is in varying stages - between initial discussions and launching pilot programs - of developing merchant based loyalty programs for organizations in Canada and USA.

Financial Dependence

The company is funded by debt. The sources of debt are a line of credit facility, and two non-convertible debentures.

The company has access to a line of credit facility under its loan payable (note 8). The loan payable is used exclusively to expand the company's APM program ("transaction credits" on consolidated statements of financial position). The term of the loan payable was renewed for a one year term expiring in December, 2014. The relationship was established in 2007.

The 14% non-convertible debentures payable (note 9) and 12% nonconvertible debentures payable (note 10) (together "Debentures") are the second source of debt for the company. The company has fully deployed the proceeds of the 14% non-convertible debentures payable into its APM program. The proceeds of the 12% non-convertible debentures payable are fully deployed in the business, and are used for purpose of the company's working capital needs, including the APM program. The company has met financial covenants stipulated in the Debentures agreements. The company has a decade long relationship with the primary debenture holder who is reported as a Related Party (note 13). The Debentures which were renewed and refinanced in May, 2011 were due to mature September 30, 2013. With the consent of the primary debenture holder the maturity was extended to December 31, 2013. The company signed a term sheet on October 25, 2013 to refinance the Debentures and this is discussed in note 20.

3 Basis of preparation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements and related notes have been reviewed by the company's audit committee and approved by the company's board of directors on October 28 , 2013.

Accounting standards issued but not yet applied

The IASB has issued the following applicable standards, which have not yet been adopted by the company. Each of the new standards is effective for annual periods beginning on or after July 1, 2013, with early adoption permitted. The company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated interim financial statements or whether to early adopt any of the new requirements.

The following is a description of the new standards:

IFRS 9 - Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015.

IFRS 10 - Consolidated Financial Statements builds on existing principals and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 13 - Fair Value Measurement will improve consistency and reduce complexity by providing, for the first time, a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard is effective for annual periods beginning on or after January 1, 2013.

The following new standards, amendments and interpretations that have not been early adopted in these consolidated financial statements and are not expected to have an effect on the Company's future results and financial position:

IFRS 7 - Financial Instruments: Disclosures - Transfers of Financial Assets
IFRS 11 Joint Arrangements
IFRS 12 - Disclosure of Interest in Other Entities
IAS 19 – Employee Benefits
IAS 27 - Separate Financial Statements

IAS 28 - Investments in Associates and Joint Ventures
IAS 32 - Offsetting Financial Assets and Financial Liabilities
IFRIC 2 – Stripping Costs in the Production Phase of a Surface Mine

4 Summary of significant accounting policies

The significant policies used in the preparation of these consolidated financial statements are described below.

Basis of measurement
The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets to fair value. The financial assets carried at fair value include accounts receivable, and transaction credits.

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing the performance of the operating segments and has been identified as the Chief Executive Officer of the company. The company has only one operating segment.

Significant estimation uncertainties
The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. These significant estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities.

Significant estimates used in the preparation of these consolidated financial statements include, but are not limited to going concern, the recoverability of transaction credits, the assumptions used in the accounting for stock-based compensation, valuation of warrants, and the disclosure of contingent liabilities at the date of the consolidated financial statements, which are described hereunder.

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.

Transaction credits
The company reviews transaction credits quarterly for indication of the amounts that might be impaired. A significant amount of estimation is applied in determining allowance for doubtful accounts, which is established based on the specific credit risk associated with the customer and other relevant information.

The trigger for an account to be classified as impaired is rejection of the company's attempt to debit the customer's bank account for payments due to the company, and the underlying reason for the rejections.

The allowance is determined on specifically identified transaction credit balances that are impaired and the amount of the specific provision is determined based on whether a) customer is (i) bankrupt, (ii) ceased operations, (iii) is in business, b) the account has been referred for legal collection, and c) the company's historical experience on recoveries.

The net realizable amount of transaction credits is disclosed in note 14.

Stock options
Significant estimates and assumptions relating to the option plan are disclosed in note 12. The company uses the Black-Scholes option pricing model to determine the fair value of stock options and expenses the fair value over the estimated vesting periods. A significant assumption is that historical volatility is an indicator of expected volatility which is an input in the Black-Scholes pricing model.

Warrants
Valuation of warrants requires management to make estimates regarding the inputs for option pricing models, such as expected share price volatility. The company uses the Black-Scholes option pricing model to determine the fair value of warrants.

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, and whether a tax provision is required.

Basis of consolidation
The financial statements of the company consolidate the accounts of Advantex and its wholly owned subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

The consolidated financial statements include the accounts of Advantex Dining Corporation, Advantex Marketing Corporation, Advantex Marketing International Inc. (US), Advantex Marketing (Maryland) Inc., 1600011 Ontario Limited, Advantex Systems Limited Partnership, and Advantex GP Inc.

Foreign currency translation
(i) Functional and presentation currency

Items included in the financial statements of each consolidated entity in the Advantex group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is Advantex's functional currency. The foreign currency loss for year ended June 30, 2013 is $9,396 (June 30, 2012 loss of $25,907).

(ii) Translation of transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the consolidated statements of financial position date. Non-monetary assets and liabilities, expenses and other income arising from foreign currency transactions are translated at the approximate exchange rate in effect at the date of the transaction. Exchange gains or losses arising from the translation are included in the determination of income in the current year.

Cash and cash equivalents
Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of ninety days or less. Bank overdrafts are presented within borrowings in the statement of financial position.

Financial instruments
Financial assets and liabilities are recognized when the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of income as part of interest income. Dividends on available-for-sale equity instruments are recognized in the statement of income as part of other gains and losses when the company's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of income and are included in other gains and losses.

(ii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The company's loans and receivables are comprised of transaction credits, accounts receivable and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iii) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, loan payable, 14% non-convertible debentures payable and 12% non-convertible debentures payable. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Loan payable and both 14% and 12% non-convertible debentures are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets
At each reporting date, the company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the company recognizes an impairment loss as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to the statement of profit.

Transaction credits
The company purchases the rights to receive future cash flows associated with designated credit card purchases at a discount from participating establishments. The company continuously reviews its transaction credits and records an estimated allowance for amounts deemed uncollectible.

Inventory
Inventory is stated at the lower of cost and net realizable value. Cost is determined using the first in, first out (FIFO) method. Inventory includes all costs to bring it to a saleable condition. Net realizable value is the estimated selling price less applicable selling expenses.

Inventory includes the following assets:

a) Aeronotes. The cost of the aeronotes includes direct expenses and printing costs.

b) Digital display units. Cost is the purchase price paid by the company.

c) Processing terminals. Cost is the purchase price paid by the company.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of income during the period in which they are incurred.

The major categories of property, plant and equipment are depreciated as follows:

Computer equipment	30% using declining balance method
Furniture and equipment	20% using declining balance method
Leasehold Improvements	Over the life of the lease

Residual values, methods of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of income.

Stock option plan

The company has a stock option plan which is described in note 12. The company uses the Black-Scholes option pricing model to determine the fair value of stock options and expenses the fair value over the estimated vesting periods. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest. Any consideration paid by employees [or directors] on the exercise of stock options is credited to share capital together with any previously recognized compensation expense in contributed surplus.

Identifiable intangible assets

The company's intangible assets consist of:

(i) computer software with finite useful lives. These assets include those purchased from external vendors in which case they are capitalized and amortized on a straight-line basis in the statement of income over 3-5 years, and those developed in-house to support the company's loyalty programs in which case they are capitalized and amortized over their useful life or the term of the affinity partner agreement, whichever is shorter;

(ii) other assets which represents cost of an acquisition the company completed in January 2013. The company acquired all of Futura Loyalty Group Inc.'s ("Futura") Aeroplan Channel Marketing assets ("assets") as per Futura's restructuring under the Companies' Creditors Arrangement Act. The assets acquired consisted of Futura's (i) channel program agreement with Aeroplan; (ii) agreements with merchants covering about 700 locations, and (iii) inventory of point of purchase and marketing material. The purchase price will be amortized on a straight-line basis over the expected useful life covering 47 months through December, 2016.

Impairment of non-financial assets
Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generated units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The impairment loss, if any, is charged to the statements of income and comprehensive income in the year it arises. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Non-convertible debentures
Non-convertible debentures are classified separately on the statements of financial position as a liability and as equity on initial recognition in accordance with IAS 32, Financial Instruments: Presentation. The value of the debt component is determined by discounting the redemption amount at the discount rate for a comparable liability without the conversion feature. The equity component representing the difference between the total proceeds received and the liability component is recorded as a component in equity. Over the term of the instrument, the debt component is accreted to the face value by recording additional interest expense using the effective interest method.

To the extent there are changes to the terms of the outstanding non-convertible these changes may be recorded as a modification or an exchange of debt instruments. A substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

Warrants
Valuation of warrants requires management to make estimates regarding the inputs for option pricing models, such as expected share price volatility. The company uses the Black-Scholes option pricing model to determine the fair value of warrants. Actual results could differ from those estimates. The estimates are considered for each new grant of warrants.

For warrants issued for services, the company determines the fair value of the warrants as the fair value of services received, unless the fair value of services received cannot be determined, in which case the warrants are valued using the Black-Scholes option pricing model.

Provisions
Provisions for legal claims, where applicable, are recognized in other liabilities when the company has a present legal or constructive obligation as a result of past events, and it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Income taxes
Income tax comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred income tax assets and liabilities are presented as non-current.

Revenue

Under all its programs, Advantex provides marketing services to participating establishments and provides awards to designated customers who make purchases at participating establishments.

There are three types of agreements with participating establishments:

(i) Under its APM program the company provides marketing and loyalty services, and also pre-purchases an establishment's future designated credit card sales. In this program the company acquires the rights to future designated credit card transactions at a discount from the face value from participating establishments. The spread between the future credit card transactions and the costs to acquire the rights (cost of transaction credits) represents the revenue that Advantex will ultimately earn. The revenue is recognized, on a pro-rata basis, at the time a consumer makes a designated credit card purchase from a participating establishment enrolled in this program.

(ii) Under its Marketing Only program, the company provides marketing and loyalty services to participating establishments and records as revenue the fee charged for services. The fee is a percentage of designated credit card consumer purchases made at participating establishments enrolled in this program, and is recognized as revenue at the time of consumer purchase.

(iii) Re-seller of Loyalty Rewards. As a result of the acquisition (note 7 b) announced on February 1, 2013 and its agreement with Aeroplan, the company sells aeroplan miles to small and mid-sized retailers and service providers. Revenue is recognized when the participating merchant issues aeroplan miles to an Aeroplan member completing a qualifying transaction at the merchant.

Share capital

Common shares, and preference shares are classified as equity. Incremental costs directly attributable to the issuance of common shares or preference shares are recognized as a deduction from equity. Share capital is described in note 11 to these consolidated financial statements.

Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net income for the period attributable to equity owners of Advantex by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. Advantex's potentially dilutive common shares comprise stock options granted to employees, and warrants.

5 Inventory

Inventory comprises

	June 30, 2013	June 30, 2012
Aeronotes	$38,825	$ -
Digital display units	96,060	187,480
Processing terminals	5,100	16,875
Total	**$139,985**	**$204,355**

Aeronotes
The company utilizes aeroplan miles to incentivize merchants to join its programs, and to execute initiatives, as part of its overall marketing plan, for participating merchants. The company keeps inventory on hand to meet requirements.

Digital display units
The company sells these units to merchants participating in its merchant based loyalty programs.

The units are carried at the lower of cost and net realizable value. Cost is the purchase price paid by the company.

For the year ended June 30, 2013 $91,420 of inventory was recognized as an expense (2012, $30,520)

6 Investment

The company had a small minority interest in Class B common shares of GaggleUp, an Ontario corporation in the couponing business. The investment of $100,000 was classified as available-for-sale and measured at fair value as at June 30, 2012. There was no impairment as at June 30, 2012.

In December, 2012, the company was advised that GaggleUp was ceasing operations. The company does not expect to recover its investment, and it was written-off in the interim consolidated financial statements for the three and six months ended December 31, 2012.

7 Property, plant and equipment and intangible assets

(a) Property, plant and equipment

	Computer equipment	**Furniture and equipment**	**Leasehold Improvements**	**Total**
	$	$	$	$
Year ended June 30, 2012				
Opening net book value	214,697	19,323	30,457	264,477
Additions	75,557	-	-	75,557
Depreciation for the year	105,361	5,458	7,083	117,902
Closing net book value	184,893	13,865	23,374	222,132
At June 30, 2012				
Cost	**396,376**	**77,427**	**31,874**	**505,677**
Accumulated depreciation	**211,483**	**63,562**	**8,500**	**283,545**

Year ended June 30, 2013				
Opening net book value	184,893	13,865	23,374	222,132
Additions	114,135	74,794	-	188,929
Depreciation for the year	92,354	12,804	6,375	111,533
Closing net book value	206,674	75,855	16,999	299,528
At June 30, 2013				
Cost	**340,322**	**152,221**	**31,874**	**524,417**
Accumulated depreciation	**133,648**	**76,366**	**14,875**	**224,889**

(b) Intangible assets

	Computer Software	Other Assets	Total
	$	$	$
Year ended June 30, 2012			
Opening net book value	496,700	-	496,700
Additions	150,297	-	150,297
Amortization for the year	316,979	-	316,979
Closing net book value	330,018	-	330,018
At June 30, 2012			
Cost	**1,493,741**	**-**	**1,493,741**
Accumulated amortization	**1,163,723**	**-**	**1,163,723**
Year ended June 30, 2013			
Opening net book value	330,018	-	330,018
Additions	517,611	121,822	639,433
Amortization for the year	416,946	12,960	429,906
Closing net book value	430,683	108,862	539,545
At June 30, 2013			
Cost	**2,010,832**	**121,822**	**2,132,654**
Accumulated amortization	**1,580,149**	**12,960**	**1,593,109**

On January 31, 2013 the company acquired all of Futura Loyalty Group Inc.'s ("Futura") Aeroplan Channel Marketing assets ("assets") as per Futura's restructuring under the Companies' Creditors Arrangement Act for $121,822. The assets acquired consisted of Futura's (i) channel program agreement with Aeroplan; (ii) agreements with merchants covering about 700 locations, and (iii) inventory of point of purchase and marketing material.

8 Loan payable

	June 30, 2013	June 30, 2012
Opening balance	**$6,715,691**	**$4,917,446**
Additional borrowing	383,680	1,798,245
Closing balance	**$7,099,371**	**$6,715,691**

The facility is used exclusively to acquire transaction credits, under its APM program, from establishments that are in business segments available to the company under its agreements with CIBC and Aeroplan.

The facility is provided by Accord Financial Inc. (“Accord”), and was established in December, 2007. In September, 2010, the company and Accord signed an amending agreement, extending the term of the facility for an additional three year period ending in December, 2013. The facility limit is $8.5 million.

In October, 2013 the company and Accord extended the term of the facility for an additional one year period ending in December, 2014.

Effective January 1, 2012 the company is paying interest rate on the entire facility equivalent to prime rate of a certain Canadian bank plus 11.5% per annum since the company reached a certain amount of draw against the facility. The interest rate prior to January 1, 2012 was the greater of prime rate of a certain Canadian bank plus 12.75% per annum and 15% per annum.

The interest cost during the year ended June 30, 2013 was $1,065,218 (2012 - $983,069).

9 14% Non-convertible debentures payable

In May 2011, the company issued $1,810,000 of 14% debentures (“14% debentures”) to re-finance debentures issued in prior periods. The 14% debentures were issued as units. Each unit consists of a $1,000 secured non –convertible debenture of Advantex Dining Corporation and 1,975 common share purchase warrants of the company. The 14% debentures bear interest at 14% per annum, payable quarterly, and mature on September 30, 2013. Each common share purchase warrant allows the holder to acquire one common share of the company at $0.04 per share during the term of the 14% debentures.

In accordance with IAS 32, the fair value of the 14% debentures has been bifurcated into debt and equity portions using the residual value method.

In July, 2012 pursuant to a debt prepayment agreement the company prepaid $66,000 in aggregate principal amount of the 14% debentures plus accrued and unpaid interest thereon. Post prepayment the principal amount of the remaining 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.

In September, 2013 the company and the holders of the 14% debentures agreed to extend the term of the 14% debentures and common share warrants to October 31, 2013. In October, 2013 the company and the holders of the 14% debentures agreed to extend the term of the 14% debentures and common share warrants to December 31, 2013.

Under the agreement, the proceeds of the 14% debentures are to be used to acquire transaction credits. The proceeds of the 14% debentures are to be held in a separate bank account, set up by the company. As security, the debenture holders have first charge to the balances in the separate bank account as well as all amounts due from establishments funded by the proceeds of the 14% debentures.

Charges related to closing the 14% debentures transaction and the July, 2012 prepayment are being amortized using the effective interest rate method over the term of the debentures.

The 14% debentures include a financial covenant that requires the company to meet a defined level of assets at each quarter end commencing the quarter ended on June 30, 2011. The company met its financial covenant as at June 30, 2013.

	Debt Portion	Warrant portion
Balance at June 30, 2011	**$1,747,497**	**$30,743**
Additional financing charges	(8,115)	-
Accretion charge	31,224	-
Balance at June 30, 2012	**$1,770,606**	**$30,743**
Prepayment of debt	(65,397)	(603)
Fees incurred on prepayment	(1,922)	-
Accretion charge	33,011	-
Balance at June 30, 2013	**$1,736,298**	**$30,140**

Stated interest and accretion charges with respect to the 14% debentures are as follows:

	Year ended June 30, 2013		**Year ended June 30, 2012**	
	Stated Interest	Accretion charges	Stated Interest	Accretion charges
	$244,128	$33,011	$252,743	$31,224

10 12% Non-convertible debentures payable

The company completed an early refinancing of the convertible debentures payable, in the principal amount of $6,462,000 in May 2011, structured as 12% non-convertible debentures payable ("12% debentures").

The 12% debentures were issued as units. Each unit consists of a $1,000 secured non –convertible debenture and 14,151 common share purchase warrants. The 12% debentures bear interest at 12% per annum, payable semi-annually, and mature on September 30, 2013. Each common share purchase warrant allows the holder to acquire one common share of the company at $0.04 per share during the term of the debentures.

In accordance with IAS 32, the fair value of the 12% debentures has been bifurcated into debt and equity portions using the residual value method.

In July, 2012 pursuant to a debt prepayment agreement the company prepaid $310,033 in aggregate principal amount of the 12% debentures plus accrued and unpaid interest thereon. Post prepayment the principal amount of the remaining 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.

In September, 2013 the company and the holders of the 12% debentures agreed to extend the term of the 12% debentures and common share warrants to October 31, 2013. In October, 2013 the company and the holders of the 12% debentures agreed to extend the term of the 12% debentures and common share warrants to December 31, 2013

Under the agreement, the proceeds of the 12% debentures are to be used for working capital purposes.

Charges related to closing the 12% debentures transaction and the July, 2012 prepayment are being amortized using the effective interest rate method over the term of the debentures.

The 12% debentures are secured by a general security interest over 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 coverage on a quarterly basis, commencing the quarter ended June 30, 2011. The company met its financial covenants as at June 30, 2013.

	Debt portion	Equity portion	Warrants
Balance at June 30, 2011	**$5,300,492**	**$2,114,341**	**$980,526**
Accretion charge	508,438	-	-
Additional financing charges	(28,973)	-	-
Balance at June 30, 2012	**$5,779,957**	**$2,114,341**	**$980,526**
Prepayment of debt	(282,497)	-	(27,536)
Fees incurred on prepayment	(6,778)	-	-
Accretion charge	564,654	-	-
Balance at June 30, 2013	**$6,055,336**	**$2,114,341**	**$952,990**

Stated interest and accretion charges with respect to the 12% debentures are as follows:

	Year ended June 30, 2013		Year ended June 30, 2012	
	Stated Interest	Accretion charges	Stated Interest	Accretion charges
	$738,439	$564,654	$776,508	$508,438

11 Share capital

(a) Authorized

Class A preference – 500,000 shares without par value, non-voting, non-participating, redeemable at the company's option (at an amount not exceeding the per-share stated capital amount and any dividends declared but not paid), 8% (of stated capital amount) non-cumulative dividend rate.

Class B preference – Unlimited number of shares, without par value, issuable in series with rights, privileges, restrictions and conditions determined by the Board of Directors at time of issue.

Class C preference - 125,000 shares without par value, non-voting, non-participating, redeemable at the option of either the holder or the company (at an amount not exceeding the per-share stated capital amount and any dividends declared but not paid), 8% (of stated capital amount) non-cumulative dividend rate.

Common – Unlimited number of shares without par value.

(b) Issued Class A preference shares

	2013	2012	2013	2012
	Number of shares		$	$
No par value	459,781	459,781	$ 3,815	$ 3,815

(c) Issued common shares

	2013	2012	2013	2012
	Number of shares		$	$
No par value	97,025,368	97,025,368	$ 24,106,281	$ 24,106,281

The number of issued class A preference shares and common shares is provided by the company's transfer agent, CST Trust Company.

12 Share-based payments

Employee 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 Canadian National Stock Exchange regulations), 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. All stock options are equity settled. 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 a fixed maximum number of common shares issuable based on 12% of issued and outstanding common shares (calculated on a non-diluted basis), and accordingly the maximum aggregate number of common shares issuable under the Stock Option Plan are 11,643,704. The Board has approved the continuation of the 2009 stock option plan to the date of the next Annual meeting of the Shareholders in 2013.

	Number of employee stock options	Weighted average exercise price $
Outstanding at July 1, 2011	**11,207,290**	**0.04**
Granted	3,530,000	0.025
Forfeited	(609,500)	0.03
Expired	(3,100,000)	0.05
Outstanding at June 30, 2012	**11,027,790**	**0.03**
Granted	2,400,000	0.05
Forfeited	(150,000)	0.03

Expired	(2,836,360)	0.045
Outstanding at June 30, 2013	**10,441,430**	**0.03**
Exercisable at June 30, 2012	**11,027,790**	**0.03**
Exercisable at June 30, 2013	**10,441,430**	**0.03**

The outstanding and exercisable employee stock options at June 30, 2013 were issued at exercise prices ranging between $0.01 and $0.05, and have a weighted average remaining contractual life of 3.7 years.

The number of employee stock options available for future issuance as at June 30 is as follows:

	2013	**2012**
Maximum number reserved for issuance	11,643,704	11,643,704
Less: Outstanding at end of period	(10,441,430)	(11,027,790)
Number of options available for future issuance	**1,202,274**	**615,914**

On March 19, 2013, the company granted an aggregate of 2,400,000 stock options to directors, officers and employees. The stock options have an exercise price of $0.05 per common share and expire on March 19, 2018.

The Black-Scholes option pricing model was used to determine the fair value of the grant in March 2013. Since the grant vested immediately, the entire fair value was expensed in the year. The following assumptions were used in the Black-Scholes option pricing model:

Weighted average common share price - $0.01
Weighted average exercise price - $0.05
Expected life - 5 years
Expected volatility, based on historical volatility, – 121.0%
Risk-free interest rate - 1.6%
Forfeiture rate, based on historical trends– 5.5%
Fair value of each option - $0.006

The company has recorded $14,969 of stock-based compensation expense during year ended June 30, 2013 with respect to the grant of 2,400,000 stock option grant in March, 2013 ($66,403 during year ended June 30, 2012 with respect to the grant of 3,530,000 stock options in February, 2012). There was a corresponding increase in contributed surplus. The expected volatility is based on historical volatility of the company's common shares, which may not necessarily be the actual outcome.

Shareholders' rights plan

At the Annual and Special Meeting of the Shareholders held on December 22, 2010 the company received approval to renew the Shareholders' rights plan ("Plan"). The Plan expires the earliest of the (i) termination time as defined in the Plan; and (ii) the termination of the Annual General Meeting of the company for the year ending 2013. Under the Plan, certain rights become exercisable and permit shareholders to purchase common shares from the company at 50% of the then current market price if any entity or person acquires or announces an intention to acquire 20% or more of the common shares, other than with the approval of the Board of Directors or pursuant to the "permitted bid" procedures, as defined by the Plan.

Potentially Dilutive Securities

As at June 30, 2013, 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 $1.744 million 14% debentures	3,444,400	0.040	December 31, 2013 (note 9)
Common shares issuable on exercise of common share purchase warrants attached to $6.152 million 12% debentures	87,056,491	0.040	December 31, 2013 (note 10)
Employee stock options Maximum number issuable under the existing employee stock option plan is 11,643,704.	10,441,430	Ranging between $0.01 and $0.05. Weighted average exercise price see above table	Ranging between March 2014 and March 2018
TOTAL	**100,942,321**		

Warrants

In December 2011 9,863,988 common share warrants issued in January / February, 2009 to convertible debenture holders were not exercised and expired.

In July, 2012 4,517,621 common share purchase warrants of the company were surrendered to the company. The number of common share purchase warrants surrendered was proportionate to the number of debentures prepaid. The debt prepayment transaction is described in notes 9 and 10 to these consolidated financial statements.

500,000 common share purchase warrants issued to an agent, in May 2011, on completion of the financing of the debentures, described in notes 9 and 10, were not exercised and expired May 10, 2013.

13 Related party transactions

The Chief Executive Officer, and the Chief Financial Officer purchased debentures described in notes 9 and 10, on terms and conditions applicable to the other subscribers. As at June 30, 2013 and 2012, the following related parties are holders of the debentures described in notes 9 and 10.

Title	As at June 30, 2013 and 2012	
	Principal Amount (14% debentures; note 9)	**Principal Amount (12% debentures; note 10)**
Chief Executive Officer	$nil	$100,000
Chief Financial Officer	$10,000	$ 30,000

On completion of the re-financing of debentures (notes 9 and 10), Trapeze Capital Corp. and Trapeze Asset Management Inc. (together "Trapeze"), on behalf of their respective managed accounts had purchased 1,800 units of the 14% debentures (note 9) totalling to $1,800,000 , and 5,672 units of 12% debentures (note 10) totalling to $5,672,000. In July, 2012 pursuant to two debt repayment agreements the company repaid certain units of the 14% debentures and 12% debentures (together "Debentures"). The Debentures were repaid to Trapeze, on behalf of its managed accounts. On a fully diluted basis, Trapeze is considered a "control person" per securities law, and is reported as a related party in these financial statements.

Key management includes the company's directors and members of the Executive Committee. The members of the Executive Committee are the Chief Executive Officer and Chief Financial Officer.

Compensation awarded to key management included:

	Year ended June 30, 2013	**Year ended June 30, 2012**
	$	**$**
Salaries, management bonuses and directors fees	648,415	749,809
Share based compensation	7,796	41,600
	$656,211	**$791,409**

14 Financial instruments

<u>Credit risk</u>

Credit risk is the risk of financial loss to the company if a customer fails to meet its contractual obligations. The company, in the normal course of business, is exposed to credit risk on its accounts receivable and transaction credits from customers. The company generally acquires the rights to receive future cash flows associated with designated credit card purchases ("future sales") at a discount from participating establishments ("transaction credits"). These transaction credits are estimated to be fully extinguishable within 30-210 days. Accounts receivable and transaction credits are net of applicable allowance for doubtful accounts, which is established based on the specific credit risk associated with the customer and other relevant information.

The 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:

	June 30, 2013	June 30, 2012
	$	$
Transaction credits	14,440,145	15,315,259
Accounts receivable	599,339	966,437
Allowance	(807,491)	(1,219,886)
Per statement of financial position	14,231,993	15,061,810
Amounts due from CRA (note 17), included in accounts receivable	-	(800,108)
Maximum exposure to credit risk	14,231,993	14,261,702

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

	June 30, 2013	June 30, 2012
	$	$
Impaired transaction credits	2,168,024	2,276,198
Allowance	(807,491)	(1,219,886)
Impaired transaction credits not allowed for	1,360,533	1,056,312

Currency risk

The company discontinued its online shopping mall during the year ended June 30, 2011 and is reported as discontinued operations (note 16). As at June 30, 2013 the company carried liabilities from the discontinued operation that are payable in US dollars and therefore it is exposed to foreign exchange risk. Foreign exchange risk arises due to fluctuations in foreign currency rates, which could affect the company's financial results.

Included in the undernoted accounts are the following amounts (in USD):

	June 30, 2013	June 30, 2012
	$	$
Cash and cash equivalents	2,292	63
Accounts payable and accrued liabilities	138,012	342,181

The company had nominal amounts of assets (June 30, 2013 - $nil; June 30, 2012 - less than $3,000 CAD) and liabilities (June 30, 2013 - $nil; June 30, 2012 - less than $2,000 CAD) denominated in Euro.

A 5% change in the Canadian-US dollar exchange rate at June 30, 2013 would have an immaterial impact on the carrying amounts of liabilities denominated in US dollars.

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity when operational obligations, comprising payroll; accounts payable; interest payable; and capital expenditures, are due.

The company deploys available funds to merchants under its APM program, which are disclosed as transaction credits on the consolidated statements of financial position. Over 85% of the un-impaired transaction credits as at June 30, 2013 are estimated to be fully extinguishable within 30-180 days.

The contractual maturities of the company's financial liabilities at June 30, 2013 are as follows:

	Total $	Payable within 1 year $	Payable after 1 year – 3 years $
Loan payable – payable on demand	7,099,371	7,099,371	-
Accounts payable and accrued liabilities	3,420,130	3,420,130	-
14% debentures – face amount	1,744,000	1,744,000	-
12% debentures – face amount	6,151,967	6,151,967	-
Total	$18,415,468	$18,415,468	$ -

The contractual maturities of the company's financial liabilities at June 30, 2012 are as follows:

	Total $	Payable within 1 year $	Payable after 1 year – 3 years $
Loan payable – payable on demand	6,715,691	6,715,691	-
Accounts payable and accrued liabilities	4,128,264	4,128,264	-
14% debentures – face amount	1,810,000	-	1,810,000
12% debentures – face amount	6,462,000	-	6,462,000
Total	$19,115,955	$10,843,955	$8,272,000

Fair value

The carrying value of cash and cash equivalents, 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, convertible debentures 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.

Interest rate risk

The company's activities are funded by two sources of debt. The non-convertibles debentures (notes 9 and 10) have fixed interest rates, and loan payable (note 8) which carries a floating interest rate. While company is not exposed to interest rate risk on account of non-convertible 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 in note 8, during year ended June 30, 2013, the company paid annual interest of $1,065,218 on an average (based on month end balance) loan payable balance of $6,871,496. At year ended June 30, 2013 loan payable utilization level, a 10% increase in interest rate would lead to additional annual interest cost of $106,522.

15 Capital management

The company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The company manages Loan Payable, Debentures, and Capital Stock which is explained in detail in these financial statements. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year over year sustainable growth in revenues and net income.

The company is subject to financial covenants which are measured on a quarterly basis. The company is in compliance with all financial covenants.

16 Discontinued operations

The company closed down its online shopping mall business during the year ended June 30, 2011. Online shopping malls were loyalty programs aimed at members of airline affinity programs whereby the members could earn additional rewards through the purchase of goods through online malls.

The following provides additional details with respect to the amounts included in the statement of cash flows as discontinued operations.

	Year ended June 30, 2013 $	**Year ended June 30, 2012 $**
Changes in non-cash working capital items		
Accounts receivable	-	-
Accounts payable	(188,615)	(101,172)
Movement in cash and cash equivalents	**$(188,615)**	**$(101,172)**

Balances payable at end of	$142,654	$331,269

17 Commitments and contingencies

Commitments

As at June 30, 2013, the company is committed to minimum payments with respect to existing leases for equipment and premises:

	Equipment	Premises	Total
Not later than one year	$25,720	$105,533	$131,253
Later than one year and not later than five years	$68,520	$308,808	$377,328
Later than five years	$-	$-	$-
Total	**$94,240**	**$414,341**	**$508,581**

The expense related to above leases is expensed in selling and marketing, and general and administrative expenses in the consolidated statements of income.

A significant portion of the commitments for premises is for the company's head office (note 1). The lease expires in September, 2017.

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 (note 7 b) 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. As at June 30, 2013 the company purchased $629,046 of aeroplan miles for the period January, 2013 to June 30, 2013. As at the September 30, 2013 the company purchased $1,171,833 aeroplan miles for period January, 2013 to September 30, 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.

Taxation

After an audit in 1998, the Canada Revenue Agency ("CRA") determined that the company was providing marketing services. Since 1998, the company has continued in the same business activities.

After completion of an audit in early 2009, the CRA reversed its 1998 position. In April 2009, the company received a notice of reassessment for Goods and Services Tax owed related to the company's CIBC Advantex program and the ability to claim certain input tax credits during fiscal years 2005-2007. The re-assessment was in the amount of $755,000. The company paid the re-assessment in 24 instalments totalling $800,108.

The company contested the CRA position, and filed a notice of objection.

The company did not record a provision based on the company's assessment that it was probable that the company would recover the amount of the reassessment in full.

In January 2013 the company was advised by CRA that the objection was allowed and the reassessment was reversed, and a notice of re-assessment in the amount of $824,430 was issued. The company received the amount in February, 2013.

The notice of re-assessment issued in January 2013 did not formally acknowledge the CRA's concurrence with the company's treatment of GST for periods subsequent to fiscal 2007. As a result, the company has filed a notice with CRA to confirm the appropriateness of the company's treatment of GST for the periods subsequent to fiscal 2007.

18 **Income taxes**

	2013 **$**	**2012** **$**
Current income taxes	26,000	28,000
Deferred income taxes	-	-
	$26,000	$28,000

In assessing the ability to realize deferred income tax assets, management considers whether it is more likely or not that some portion or all of the deferred income tax assets will be utilized in the foreseeable future. The ultimate realization of deferred income tax assets is dependent on the generation of future taxable income during the years in which those temporary differences become deductible. As at June 30, 2013, there is no certainty that such deferred income tax assets will be utilized and, therefore, such assets have not been recognized on the statements of financial position. The majority of unrecognized deferred income tax assets of $2,523,000 (2012 – 3,016,000) relate to non-capital losses of $2,466,000, property and equipment of $11,000, other reserves of $20,000, and deferred financing charge of $26,000.

As at June 30, 2013, the company has gross non-capital income tax losses of approximately $9,300,000 (2012 - $9,216,000), which may be carried forward to reduce future income for income tax purposes. The benefit of these losses has not been recognized in these financial statements. These losses expire between 2017 and 2032.

	$
2017	572,000
2018	446,000
2020	100,000
2021	228,000
2022	431,000
2023	153,000
2024	1,382,000
2025	274,000
2026	1,818,000
2027	1,138,000
2028	1,182,000
2029	1,081,000
2031	4,000
2032	491,000
Total	**$9,300,000**

19 Earnings per share, and Expenses by nature

Earnings per share

Basic EPS is calculated by dividing the net income for the period attributable to equity owners of Advantex by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. Advantex's potentially dilutive common shares comprise stock options granted to employees, and warrants (position as at June 30, 2013 tabulated under note 12).

Basic and Diluted EPS for year ended June 30, 2013 and June 30, 2012 are tabulated.

	Basic EPS	Diluted EPS
Year ended June 30, 2013		
Net Income	**$36,253**	**$36,253**
Average number of issued common shares during the year	**97,025,368**	97,025,368
In- the- money dilutive securities at June 30, 2013		nil
Average number of common shares including all dilutive securities during the year		**97,025,368**
EPS	**$0.00**	**$0.00**
Year ended June 30, 2012		
Net Income	**$226,643**	**$226,643**
Average number of issued common shares during the year	**97,025,368**	97,025,368
In-the-money dilutive securities at June 30, 2012		nil
Average number of common shares including all dilutive securities during the year		**97,025,368**
EPS	**$0.00**	**$0.00**

Nature of expenses

	Year ended June 30, 2013	Year ended June 30, 2012
	$	**$**
Direct Expenses		
➢ Covering costs of a) cardholders awards, and marketing and advertsizing in connection with the company's merchant based loyalty programs; b) cost of sales related to sale of aeronotes; c) cost of sales of digital marketing services; and d) provision against accounts receivable and transaction credits	**$5,549,977**	**$4,427,082**
Selling and Marketing, and General & Administrative		
➢ Salaries and wages including travel	6,409,103	6,457,113
➢ Professional fees	615,453	515,845
➢ Facilities, processing, and office expenses	985,305	1,121,822
➢ Other	26,828	160,034
	$8,036,689	**$8,254,814**

20 Subsequent events

The subsequent events are related to the company's material contracts as described in note 2, Economic and Financial dependence.

On October 25, 2013 the company signed a term sheet with Trapeze (see Related party transactions, note 13) respecting the refinancing of the 14% debentures and 12% debentures. The term sheet is subject to regulatory approval, and shareholder approval, if required. The terms of the refinancing are: private placement for a minimum of $5.0 million and maximum of $5.5 million; issuable in units of $1,000 each, consisting of a Debenture and 8,150 common shares of the company; a coupon of 12% payable on each unit on a semi-annual basis; and mature on September 30, 2016.

Furthermore, the company extended the term of its $8.5M limit credit facility with its financial partner, Accord, to December 31, 2014 with no other changes made. This was announced by the company on October 16, 2013.

On October 15, 2013 the company announced the renewal of its agreement with CIBC for three years through September 30, 2016. The new agreement continues the partner program between CIBC and the Company. CIBC may, at its option, renew, on the same terms and conditions for up to two additional one year periods.

Head Office:

606-600 Alden Road
Markham, Ontario, Canada, L3R 0E7
Telephone: (905) 470-9558
Fax: (905) 946-2984
www.advantex.com

Board of Directors:

Kelly E. Ambrose
Stephen Burns
Willam H. Polley

Senior Management:

Kelly E. Ambrose
President and Chief Executive Officer

Mukesh Sabharwal
VP and Chief Financial Officer

Listing:

Canadian National Stock Exchange
Trading symbol ADX

Auditors:

BDO Canada LLP

Transfer Agent:

CST Trust Company
320 Bay Street, 3rd Floor,
Toronto, Ontario, L5H 4A6
Telephone: 1-800-387-0825