# FORM 2A

# LISTING STATEMENT

ADVANTEX MARKETING INTERNATIONAL INC.

October 28, 2013

# 1. Table of Contents

## 2. Corporate Structure

2.1 Advantex Marketing International Inc. (the "**Company**"), 600 Alden Road, Suite 606, Markham, Ontario, L3R 0E7.

2.2 The Company is incorporated under the *Business Corporation Act* (Ontario). For material amendments to the articles and other constating documents see the "CORPORATE STRUCTURE – Name and Incorporation" section of the Company's Annual Information Form for the year ended June 30, 2010 and dated October 27, 2010 (the "**AIF**") which is attached as Schedule "A" to the Listing Statement dated February 7, 2011.

2.3 Corporate Structure – The inter-corporate relationships among the Company and the Company's subsidiaries are disclosed in the "CORPORATE STRUCTURE – Inter-corporate relationship" section of the AIF.

2.4 The Company is not re-qualifying following a fundamental change and is not proposing an acquisition, amalgamation, merger, reorganization or arrangement.

2.5 The Company is neither a non-corporate Issuer nor an Issuer incorporated outside of Canada.

## 3. General Development of the Business

3.1 The general development of the Company's business for the fiscal year ended June 30, 2013 compared with the corresponding period in the previous year is disclosed in the Management Discussion and Analysis for the fiscal years ended June 30, 2013 and 2012 (the "**MD&A**"), which is attached hereto as Schedule "A".

3.2 There have been no significant acquisitions completed by the Company nor is any significant probable acquisition proposed by the Company for which financial statements would be required under National Instrument 41-101 *General Prospectus Requirements*, if this Listing Statement were a prospectus; and

There have been no significant dispositions completed by the Company during the most recently completed financial year or the current financial year for which *pro forma* financial statements would be required under National Instrument 41-101 *General Prospectus Requirements*, if this Listing Statement were a prospectus.

3.3 As at June 30, 2013, the Company is committed to minimum payments with respect to existing leases for equipment and premises. Note 17 to the Consolidated Financial Statements for the year ended June 30, 2013 (the "**FS**"), which is attached hereto as Schedule "B", discloses Commitments and Contingencies of the Company.

For a fuller discussion of trends known to management please see the "Overall Performance" section in the MD&A, in particular, and the MD&A, generally.

For a discussion on uncertainty, please see the "Economic Dependence", "General Risks and Uncertainties" and "Forward Looking Information" sections of the MD&A.

## 4. Narrative Description of the Business

4.1 The Narrative Description of the Business can be found in the "NARRATIVE DESCRIPTION OF THE BUSINESS" section of the AIF, updated by the MD&A and by the monthly Form 7 filed by the Company with the CNSX (together the "**Disclosure**"). The Disclosure includes a discussion on the method of distribution of the Company's principle services (all of which are at the commercial production stage), the method of producing services, the number of employees, a description of contracts on which the Company is substantially dependent and a description of the competitive conditions (which is further described in the "General Risks and Uncertainties" section of the MD&A).

There have been no bankruptcy, receivership or similar proceedings against the Company or its subsidiaries. There are no material restructuring transactions, and the Company has no social or environmental policies that are fundamental to its operations.

The MD&A provides commentary on the Company's financial performance for the fiscal year ended June 30, 2013 compared with corresponding periods in the previous year, covering revenues, direct expenses, gross profit, selling expenses, general & administrative expenses, interest expense, and net income. The MD&A provides commentary on the Company's capital and liquidity management.

The Company's share and loan capital is described in notes 8 ("Loan payable"), 9 ("14% Non-convertible debentures payable"), 10 ("12% Non-convertible debentures payable"), and 11 ("Share Capital") in the FS.

The Company reported a net income of $36,253 for its fiscal year ended June 30, 2013 compared with a net income of $226,643 for fiscal year ended June 30, 2012.

4.2 The Company does not have any outstanding asset-backed securities.

4.3 The Company is not an Issuer with mineral projects.

4.4 The Company does not have Oil and Gas Operations.

## 5. Selected Consolidated Financial Information

5.1 The FS provides the financial position of the Company as at June 30, 2013, and June 30, 2012, and the financial performance and cash flows for the years ended June 30, 2013 and June 30, 2012, in accordance with International Financial Reporting Standards ("IFRS"). Note 3 ("Basis of preparation and adoption of IFRS"), and note 4 ("Summary of significant accounting policies") to the FS detail the basis of preparation of the FS. The Company's auditors, BDO Canada LLP, as per their independent auditor's report (attached to the FS), opined that the FS present fairly, in all material respects, the financial position of the Company and its subsidiaries as at June 30, 2013, and their financial performance and its cash flows for the years ended June 30, 2013 in accordance with IFRS. The Company's predecessor auditors PricewaterhouseCoopers LLP had expressed an unmodified opinion as at and for the year ended June 30, 2012.

5.2 The "Summary of Quarterly Results" section of the MD&A provides highlights of selected financial information for the four quarters ended June 30, 2013, compared with corresponding periods in the previous year. The MD&A provides a narrative on the fourth quarter of the fiscal year ended June 30, 2013 in the section "Fourth Quarter of Fiscal 2013 (Q4 F13) vs. Fourth Quarter of Fiscal 2012 (Q4 F12)". The interim financial statements for the three month period ended September 30, 2012, three and six month periods ended December 31, 2012,and three and nine month periods ended March 31, 2013, which are attached hereto as Schedule "C", provide narrative on the Company's performance for the first nine months of the fiscal year ended June 30, 2013.

5.3 A discussion of the Company's dividend policy can be found in the "DIVIDENDS" section of the AIF. The Company did not declare dividends for the fiscal year ended June 30, 2013.

## 6. Management's Discussion and Analysis

**Annual MD&A**

6.1 The MD&A is for the fiscal years ended June 30, 2013 and June 30, 2012 and is prepared based on information available to the Company as at October 28, 2013. The MD&A is for the most recently completed fiscal year ended June 30, 2013.

6.2 Please refer to the Company's MD&A regarding the overall performance.

**Selected Annual Financial Information**

6.3 Please see section 5.1 for selected annual financial information.

6.4 Variations – Please see the MD&A for a discussion on the factors that have caused period to period variations.

6.5 Results of Operations – Please see the MD&A for management's analysis of the Company's operations for the most recently completed fiscal year.

6.6 Summary of Quarterly Results – Refer to Section 5.2 for a summary of quarterly results. The "Summary of Quarterly Results" section of the MD&A addresses quarterly results.

6.7 Liquidity - Refer to the "Working Capital and Liquidity Management", "Contractual Obligations", "Loan Payable", "14% Non-convertible Debentures Payable", and "12% Non-Convertible Debentures Payable" sections of the MD&A for a complete discussion of the Company's liquidity requirements.

6.8 Capital Resources – The Company's capital expenditures are described in the "Capital Resources" section of the MD&A.

6.9 Off-Balance Sheet Arrangements - The Company does not participate in off-balance sheet financing arrangements.

6.10 Transactions with Related Parties – Please refer to the "Transactions with Related Parties" section in the MD&A for a discussion of transactions with related parties.

6.11 Fourth Quarter - A discussion of the fourth quarter events or items that affected the Company's financial condition can be found in the M&DA under the section "Fourth Quarter of Fiscal 2013 (Q4 F13) vs. Fourth Quarter of Fiscal 2012 (Q4 F12)".

6.12 Proposed Transactions – The Company does not expect any asset or business acquisitions or dispositions.

6.13 Changes in Accounting Policies - Please refer to section 5.1.

6.14 Financial Instruments and Other Instruments

The Company has the three sources of debt capital, which are described in the MD&A under sections "Loan Payable", "14% Non-convertible Debentures Payable" and 12% Non-Convertible Debentures Payable". The narrative in these sections and notes 8, 9, and 10 to the FS, covers the terms, the usage of the funds provided by these instruments, and the debt and equity components.

Accounting policy connected to measurement of financial instruments is described under note 4 "Summary of significant accounting policies" in FS.

The risk factors connected to the financial instruments are discussed in the "14% Non-Convertible Debentures Payable", "12% Non-Convertible Debentures Payable", "Working Capital and Liquidity Management", and "General Risks and Uncertainties" sections of the MD&A.

**Interim MD&A**

6.15 Date – The latest interim MD&A of the Company is for the three and nine month periods ended March 31, 2013 and 2012, and was prepared based on information available to the Company as at May 29, 2013.

6.16 Updated Disclosure – The updated disclosure is provided in the MD&A and FS.

6.17 Additional Disclosure for Issuers without Significant Revenue - The Company has had significant revenue from operations in each of its last two fiscal years.

6.18 Description of Securities - Note 11 ("Share capital") to the FS describes the Company's securities.

6.19 The Company has had significant revenue from operations in each of its last two fiscal years.

6.20 Negative cash-flow – Per consolidated statement of cash flow in the FS, for year ended June 30, 2013 the Company reported net cash provided by operating activities of $1.5 million, and for year ended June 30, 2012 the Company reported net cash used in operating activities of $0.4 million.

However, income before non-cash expenses* is the Company's assessment of cash generated from its operating activities prior to changes in working capital items. The income before non–cash expenses* for each of year ended June 30, 2013 and June 30, 2012 was $1.3 million.

The significant change for year ended June 30, 2013 was reduction in accounts receivable and accounts payable. In January, 2013 the Company was advised by CRA that its objection was allowed and a notice of re-assessment in the amount of $824,430 was issued. The Company received the amount in February, 2013 and this is reflected as a reduction in accounts receivable. Additional details are provided under note 17 to the FS. The significant change in working capital for year ended June 30, 2012 is due to an increase in transaction credits. The increase in transaction credits reflects mainly an increase in the number of merchants participating in the Company's APM program, and partially, changes to the amount of transaction credits deployed with existing merchants. The increase in transaction credits is primarily funded by higher utilization of the line of credit facility available to the Company under loans payable.

* 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 at 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 FS under the section consolidated statements of cash flow.

6.21 The Company has no significant equity investee.

## 7. Market for Securities

7.1 The Company's common shares are currently traded under the symbol ADX on the Canadian National Stock Exchange (the "**CNSX**").

## 8. Consolidated Capitalization

8.1 The Company's share and loan capital is described in notes 8 ("Loan payable"), 9 ("14% Non-convertible debentures payable"), 10 ("12% Non-convertible debentures payable"), and 11 ("Share Capital") in the FS.

## 9. Options to Purchase Securities

9.1 Information concerning options to purchase securities of the Company as at June 30, 2013, is tabulated in the FS under note 12 ("Share-based payments"). Since the Listing Statement dated October 23, 2012, up to June 30, 2013, the Company:

(i) In July, 2012 4,517,621 common share purchase warrants of the Company were surrendered to the Company, described in notes 9 and 10 to FS;

(ii) 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 to FS, were not exercised and expired May 10, 2013;

(iii) Issued on March 3, 2013, 2,400,000 stock options to directors, officers, and employees (see note 12 in FS "Share-based options" in section "Employee stock options"); and

(iv) Cancelled on expiry 1,836,360, and forfeited 150,000 employee stock options.

No warrants or employee stock options were exercised during the fiscal year ended June 30, 2013.

## 10. Description of the Securities

10.1 General

**Common Shares**

I. The holders of the common shares shall be entitled to receive notice of and to attend at all meetings of shareholders of the Company and shall be entitled to one vote for each common share held at all meetings of the shareholders of the Company except meetings at which only holders of another specified class or series of shares of the Company are entitled to vote separately as a class or series.

II. In the event of the liquidation, dissolution, or winding up of the Company, whether voluntary or involuntary, or any other return of capital or other distribution of assets or property of the Company, among shareholders for the purpose of winding up its affairs subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Company all the remaining assets and property of the Company shall be distributed to the holders of the common shares.

**Class A Preference Shares**

I. The holders of the Class A preference shares shall in each year, in the discretion of the directors, but always in preference and priority to any payment of dividends on the common shares and any preference shares ranking junior to the Class A preference shares, for such year, be entitled out of any or all profits or surplus available for dividends to non-cumulative dividends at the annual rate per share equal to eight per cent (8%) of the result obtained when the amount in the stated capital account for the Class A preference shares is divided by the number of issued and outstanding Class A preference shares. The holders of the Class A preference shares shall not be entitled to any dividends other than or in excess of the non-cumulative dividends at the rate of eight per cent (8%) per annum hereinbefore provided for.

II. The Class A preference shares shall rank as regards to repayment of capital in priority to all other shares of the Company but shall not confer any further right to participate in assets.

III. In the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the holders of the Class A preference shares shall be entitled to receive, before any distributions of any part of the assets of the Company among the holders of any other shares, an amount per share equal to the result obtained when the amount in the stated capital account for the Class A preference shares is divided by the number of issued and outstanding Class A preference shares together with all dividends declared thereon and unpaid and no more.

IV. The Company may, at any time and from time to time, purchase for cancellation the whole or any part of the Class A preference shares at the lowest price at which, in the opinion of the directors, such shares are obtainable but not exceeding an amount per share equal to the result obtained when the amount in the stated capital account for the Class A preference shares is divided by the number of issued and outstanding Class A preference shares, together with all dividends declared thereon and unpaid.

V. The Company may, upon giving notice as hereinafter provided, redeem the whole or from time to time any part of the outstanding Class A preference shares on payment for each share to be redeemed for an amount per share equal to the result obtained when the amount in the stated capital account for the Class A preference shares is divided by the number of issued and outstanding Class A preference shares together with all dividends declared thereon, but unpaid. Not less than thirty (30) days notice in writing of such redemption shall be given by mailing such notice to the registered holders of the shares to be redeemed, specifying the date and place or places of redemption. If notice of any such redemption be given by the Company in the manner aforesaid and an amount sufficient to redeem the shares be deposited with any trust company or chartered bank in Canada as specified in the notice on or before the date fixed for redemption, dividends on the Class A preference shares to be redeemed shall cease after the date so fixed for redemption, and the holders thereof shall thereafter have no

rights against the Company in respect thereof, except, upon the surrender of the certificates for such shares, to receive payment thereof out of the monies deposited.

VI. The holders of the Class A preference shares shall not be entitled except as hereinafter specifically provided to receive notice of or to attend any meetings of the shareholders of the Company and shall not be entitled to vote at any such meeting. The holders of the Class A preference shares shall, however, be entitled to notice of meetings of the shareholders called for the purpose of authorizing the dissolution of the Company or the sale of its undertaking or a substantial part thereof.

VII. Any amendment to the articles of the Company to delete or vary any preference, right, conditions, restriction, limitations or prohibition attaching to the Class A preference shares, to create preference shares ranking in priority to or on parity with the Class A preference shares, in addition to the authorization by special resolution, may be authorized by at least two-thirds (2/3) of the votes cast at meeting of the holders of the Class A preference shares duly called for that purpose.

**Class B Preference Shares**

I. The Class B preference shares may from time to time, be issued in one or more series and subject to the following provisions: the directors may fix from time to time, before any issue the number of shares that is to comprise each series and the designation of rights, privileges, restrictions and conditions attaching to each series of Class B preference shares including, without limiting the generality of the foregoing, the rate or amount of dividends or the method of calculating dividends, the dates of payment thereof, the redemption, purchase and/or conversion prices and terms and conditions of redemption purchase and/or conversion, and any sinking fund or other provisions. Prior to the issue of the first shares of any series, the board of directors of the Company shall send to the Director under the *Business Corporations Act* (Ontario), articles of amendment containing a description of such series including the designations, rights, privileges, restrictions and conditions determined by the board of directors of the Company.

II The Class B preference shares of each series shall, with respect to the payment of dividends and the distribution of assets or return of capital in the event of liquidation, dissolution, or winding up of the Company, whether voluntary or involuntary, or any other return of capital or distribution of the assets or property of the Company among its shareholders for the purpose of winding up its affairs, rank on parity with the Class B preference shares of every other series, shall be subject to the prior rights of the Class A preference shares and shares of any other class ranking senior to the Class B preference shares and shall be entitled to preference over the common shares and any other shares of the Company ranking junior to the Class B preference shares. The Class B preference shares of any series may also be given such other preferences not inconsistent with the Articles, over the common shares and any other shares of the

Company ranking junior to the Class B preference shares as may be fixed as provided herein.

III. If any cumulative dividend or amounts payable on the return of capital in respect of series of Class B preference shares are not paid in full, all series of Class B preference shares shall participate rateably in respect of such dividends and return of capital.

IV. The Class B preference shares of any series may be made convertible into common shares or shares of any other class or classes at such rate and upon such basis as the directors in their discretion may determine.

V. Unless the directors otherwise determine in the Articles of Amendment designating the series, the holder of each share of series of Class B preference shares shall not be entitled to vote at meetings of shareholders of the Company except where specifically entitled by law.

**Class C Preference Shares**

I. Subject to the prior rights of the Class A preference shares, but in priority to the common shares and the Class B preference shares, the holders of Class C preference shares shall be entitled to annual, non-cumulative dividend equal to 8% of the result obtained when the amount in the stated capital account for the Class C preference shares is divided by the number of issued and outstanding Class C preference shares. The holders of the Class C preference shares shall not be entitled to any dividends other than or in excess of the dividend hereinbefore provided.

II. A holder of Class C preference shares shall be entitled to require the Company to redeem at any time or times, all or part of the Class C preference shares registered in the name of such holder on the books of the Company by tendering to the Company at its registered office the share certificates representing the shares which the registered holder desires to have the Company redeem, together with a request in writing specifying the number of Class C preference shares that the registered holder desires to have redeemed. Upon receipt of share certificates representing the Class C preference shares which the registered holder desires to have the Company redeem, together with such request, the Company shall, within 30 days following the date of receipt thereof, redeem each such share by paying to such registered holder an amount equal to the result obtained when the amount in the stated capital account for the Class C preference shares is divided by the number of issued and outstanding Class C preference shares together with all dividends declared thereon and unpaid up to the date of redemption. Such payment shall be made by cheque payable at par at any branch of the Company's bank at the time being, in Canada.

III. The Company may, upon giving notice as hereinafter provided, redeem the whole or any part of the Class C preference shares on payment for each share to be redeemed of an amount equal to the result obtained when the amount in the stated capital account

for the Class C preference shares is divided by the number of issued and outstanding Class C preference shares together with all dividends declared thereon and unpaid. Not less than thirty (30) days notice in writing of such redemption shall be given by mailing such notice to the registered holders of such shares to be redeemed specifying the date and place or places of such redemption. If notice of any such redemption be given by the Company in the manner aforesaid, and an amount sufficient to redeem the shares be deposited with any trust company or chartered bank in Canada as specified in the notice on or before the date fixed for redemption, dividends on the Class C preference shares to be redeemed shall cease after the date so fixed for redemption and the holders thereof shall thereafter have no rights against the Company in respect thereof, except upon the surrender of the certificate for such shares to receive payment thereof out of the monies deposited.

IV. The Company may, at any time and from time to time, purchase for cancellation in whole or any part of the Class C preference shares at the lowest price at which, in the opinion of the directors, such shares are obtainable, but not exceeding the redemption price calculated pursuant to paragraph III, above, and except where the purchase is made on the open market or all the holders of the Class C preference shares consent to the purchase, the Company may purchase the shares only pursuant to tenders received by the Company upon request for tenders addressed to all the holders of the Class C preference shares and the Company shall accept only the lowest tenders.

V. The holders of the Class C preference shares shall not be entitled to receive notice of or to attend any meetings of the shareholders of the Company or to vote at any such meeting except where specifically entitled by law.

VI. In the event of the liquidation, dissolution, or winding up of the Company, whether voluntary or involuntary, or any other return of capital or other distribution of assets or property of the Company among shareholders for the purpose of winding up its affairs subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Company the holders of the Class C preference shares shall be entitled to receive from the assets and property of the Company a sum equivalent to the aggregate stated capital account of the Class C preference shares as a class plus all dividends declared thereon and unpaid before any amount shall be paid or any property or assets of the Company are distributed to holders of any Class B preference shares, common shares, or shares of any class ranking junior to the Class C preference shares but subject to prior rights of the Class A preference shares, but shall not be entitled to participate in any other distribution of assets or property.

## Miscellaneous

If the Company resolves to amend its Articles:

(a) to increase or decrease any maximum number of authorized shares of a class or series, or increase any maximum number of authorized shares of a class or series having rights or privileges equal or superior to the shares of class or series;

(b) to effect an exchange, reclassification or cancellation of the shares of class or series; or

(c) to create a new class of shares equal or superior to the shares of an existing class of shares,

then holders of any common shares, Class B preference shares, and/or Class C preference shares are not entitled to vote separately as a class and shall not be entitled to dissent.

10.2 Debt securities - Debt securities are not being listed.

10.3 *Intentionally left blank.*

10.4 Other securities – No other securities are being listed.

10.5 Modification of terms - The modification, amendment or variation of any rights attached to the securities being listed can be affected in accordance with the provisions attached to the securities (as set out in 10.1) or the provisions of the governing statute relating to the securities.

10.6 Other attributes:

(a) as more particularly set out in section 10.1 with respect to the securities being listed:

(i) the Class A preference shares have preference and priority in the payment of dividends;

(ii) Subject to rights of Class A preference shareholder, the Class B preference shares have preference with respect to the payment of dividends and the distribution of assets or return of capital (no Class B preference shares are outstanding); and

(iii) Subject to the prior rights of the Class A preference shares, but in priority to the common shares and the Class B preference shares, the Class C preference shares have priority in the payment of the annual dividend and in the event of liquidation, dissolution or winding up the Class C preference shares shall have priority (no Class C preference shares are outstanding).

(b) the securities being listed do not provide for partial redemption or repurchasing.

10.7 Prior Sales – During the fiscal year ended June 30, 2013 the Company issued the securities which are not issued or quoted in any market place, as described in the FS under note 12 “Employee Stock Options”.

The Company filed CNSX Form 11 respecting Employee Stock Options on March 19, 2013.

10.8 Stock Exchange Price:

The following table is an update to the company trading history provided in the Listing Statement dated October 23, 2012.

| Period | **Price Range $** | | **Volume** |
|---|---|---|---|
| | **Min** | **Max** | |
| **October, 2013** [1] | 0.010 | 0.020 | 31,100 |
| **September, 2013** | 0.005 | 0.010 | 41,300 |
| **August, 2013** | 0.005 | 0.010 | 98,000 |
| **July, 2013** | 0.005 | 0.020 | 264,000 |
| **June, 2013** | 0.005 | 0.010 | 32,798 |
| **May, 2013** | 0.005 | 0.015 | 214,908 |
| **April, 2013** | 0.005 | 0.010 | 171,000 |
| **March, 2013** | 0.010 | 0.010 | 190,598 |
| **February, 2013** | 0.005 | 0.015 | 118,207 |
| **January, 2013** | 0.005 | 0.020 | 327,720 |
| **December, 2012** | 0.005 | 0.060 | 362,155 |
| **November, 2012** | 0.005 | 0.010 | 144,000 |

[1] Last updated close of trading on October 23, 2013

## 11. Escrowed Securities

**ESCROWED SECURITIES[1]**

| Designation of class held in escrow[2] | Number of securities held in escrow | Percentage of class |
|---|---|---|
| Common Shares | 0 | 0 |
| Class A preference share | 0 | 0 |

[1]As of October 1, 2013 [or no more than 30 days prior to the date of this Listing Statement]

[2]No other classes of shares are outstanding

## 12. Principal Shareholders

12.1 The Company does not have a Principal Shareholder.

## 13. Directors and Officers

13.1 The following table sets out the directors and executive officers of the Company, including the date when they took and their position. For the principal occupation of each director listed please refer to the "ELECTION OF DIRECTORS" section of the Information Circular dated November 16, 2012 (the "**IC**") attached hereto as Schedule "D". For the principal occupation of Chief Financial Officer please refer to the "DIRECTORS AND OFFICERS" section of the AIF.

| NAME | Position | Municipality | Since |
|---|---|---|---|
| Kelly Edmond Ambrose | Chief Executive Officer, President, Secretary, and Director | Thornhill, Ontario | January 26, 2006 (Director)<br><br>October 19, 2005 (Officer) |
| Stephen Burns | Chairman | Toronto, Ontario | February 19, 2004 |
| William H. Polley | Director | Oakville, Ontario | November 21, 2002 |
| Mukesh Sabharwal | Chief Financial Officer, VP | Brampton, Ontario | February 6, 2008 |

13.2 The term of office of each director will be from the date of the annual meeting of shareholders at which he or she is elected, until the next annual meeting; or until his or her successor is elected or appointed.

13.3 As of date of this Listing Statement:

(a) Kelly E. Ambrose beneficially owns 1,581,000 common shares (1.6% of all issued common shares);

(b) William H. Polley beneficially owns 26,750 common shares (0.03% of all issued common shares);

(c) Mukesh Sabharwal beneficially owns 61,728 common shares (0.06% of all issued common shares);

(d) Stephen Burns beneficially owns 200,000 common shares (0.20% of all issued common shares).

No other executive officer or director beneficially owns, directly or indirectly, any voting security. As a group, the directors and executive officers of the corporation own 1.89% of the voting securities of the Company.

13.4 The directors' membership in the Compensation Committee, Audit Committee, or Governance and Nominating Committee is described in the "ELECTION OF DIRECTORS" of the IC.

13.5 Please refer to 13.1 for disclosure on the directors and officers principle occupation.

13.6 No director, officer or shareholder holding a sufficient number of securities to affect materially the control of the Company, is, or within 10 years before the date of this Listing Statement has been, a director or officer of any other Issuer that, while that person was acting in that capacity:

(a) was the subject of a cease trade or similar order, or an order that denied the other Issuer access to any exemptions under Ontario securities law, for a period of more than 30 consecutive days;

(b) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;

(c) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(d) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

13.7 Except as disclosed below, no director, officer, or shareholder holding sufficient securities to affect materially the control of the Company, has:

(a) been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority; or

(b) been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

Trapeze Capital Corp. and Trapeze Asset Management Inc. (together "Trapeze"), on behalf of their respective managed accounts had purchased 1,800 units consisting of the 14% Non-Convertible Debentures Payable * totalling $1,800,000 and warrants (described below), and 5,672 units consisting of 12% Non-Convertible Debentures Payable * totalling $5,672,000 and warrants (described below). The units comprising of 14% Non-Convertible Debentures Payable * and 12% Non-Convertible Debentures Payable * (together the "Debentures") purchased by Trapeze on behalf of a managed account included, in the aggregate, 83,819,472 common share purchase warrants exercisable, during the term of the Debentures, into 83,819,472 common shares of the Company at an exercise price of $0.04 per common share. In July, 2012 pursuant to two debt repayment agreements the company repaid certain Debentures. The Debentures were acquired from Trapeze, on behalf of its managed accounts. At the same time, a pro rata number of warrants were surrendered to the Company (* sections 14% Non-Convertible Debentures Payable and 12% Non-Convertible Debentures Payable in the MD&A). Despite section 13.7, no disclosure is required of a settlement agreement entered into before December 31, 2000 unless the disclosure would likely be important to a reasonable investor in making an investment decision.

13.8 No director, officer, or shareholder holding sufficient securities to affect materially the control of the Company, or a personal holding company of any such persons has, within the 10 years before the date of this Listing Statement, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or officer.

13.9 There are no material conflicts of interest between the Company (or a subsidiary of the Company) and a director or officer of the Company or a subsidiary of the Company.

13.10 The following information provided, with respect to Tim Knowles, Kelly Lee Smith and Phil McGlynn who are Named Executive Officers (as that term is defined in applicable securities legislation, "**NEOs**") is extracted from the "Employment Contracts" section of the IC, and, unless indicated otherwise, has not changed since the Listing Statement dated October 23, 2012.

*Tim Knowles*

The Company and Tim Knowles entered into an employment agreement dated October 14, 2007, pursuant to which Mr. Knowles is employed, effective October 1, 2007, as Chief Information Officer, at an annual salary of $225,000, and is entitled to earn a bonus of up to 50% of his annual salary subject to the Company achieving its objectives and on the successful completion of his individual agreed upon objectives. Mr. Knowles base salary has since been revised to $200,000. The Company is entitled to terminate Mr. Knowles's employment without cause upon providing six months' notice of termination or payment in lieu of notice for the first year of completed service, and an additional one month of notice or payment in lieu of notice for each additional year of completed services up to a maximum of 12 months. Mr. Knowles is also entitled to receive a monthly car allowance of $1000.00. On November 12, 2009 the employment agreement was amended to cover severance payment of 12 months annual salary in the event of change of control triggered by specific circumstances.

*Kelly Lee Smith*

The Company and Kelly Lee Smith entered into an employment agreement dated October 2, 2007, pursuant to which Ms. Smith is employed as Vice-President, Database/Online Marketing at an annual salary of $175,000, subject to annual review, and is entitled to an annual bonus of up to 20% of her annual salary subject to the Company achieving its objectives, and on the successful completion of her individual agreed upon objectives. Ms. Smith's base salary has since been revised to $150,000.

The Company is entitled to terminate Ms. Smith's employment without cause upon providing her with two weeks' notice of termination, or payment in lieu of notice for each completed year of service, up to a maximum of ten months. Ms. Smith is also entitled to receive re-imbursement of car mileage up to $1000.00 per month. On November 12, 2009 the employment agreement was amended to cover severance payment of twelve (12) months annual salary in the event of change of control triggered by specific circumstances.

*Phil McGlynn*

The Company and Phil McGlynn entered into an employment agreement dated June 25, 2008 pursuant to which Mr. McGlynn is employed, effective March 15, 2008, as Vice President Marketing, at an annual salary of $115,500. Mr. McGlynn's base salary has since been revised to $160,000 effective February 1, 2012. The Company is entitled to terminate Mr. McGlynn's employment without cause upon providing two weeks' notice of termination or payment in lieu of notice for each completed year of service, up to a maximum of ten months. Mr. McGlynn is also entitled to receive a monthly car allowance of $1000.00. On November 12, 2009 the employment agreement was amended to cover severance payment of 12 months annual salary in the event of change of control triggered by specific circumstances.

## 14. Capitalization

14.1 The Information provided in the table is based on the NOBO list as at the Record Date of October 31, 2012 with respect to the Annual and Special meeting of the Shareholders held on December 20, 2012. The information is with respect to common shares of the Company, and registered position as at October 2, 2013.

Furthermore, the information is prepared to the best of the Company's knowledge and belief.

In connection with the Company's Annual Meeting of the Shareholders scheduled for December 18, 2013 it will be furnished with an updated registered position and the NOBO list. The Company intends to update this section of the Listing Statement at the time it files an update to this Listing Statement.

| **Issued Capital** | **Number of Securities (non-diluted)** | **Number of Securities (fully-diluted)** | **%of Issued (non-diluted)** | **% of Issued (fully diluted)** |
|---|---|---|---|---|
| Public Float<br>Total outstanding (A) | 97,025,368 | 199,169,963 | | |
| Held by Related Persons or employees of the Issuer or Related Person of the Issuer, or by persons or companies who beneficially own or control, directly or indirectly, more than a 5% voting position in the Issuer (or who would beneficially own or control, directly or indirectly, more than a 5% voting position in the Issuer upon exercise or conversion of other securities held) (B) | 19,301,478 | 94,686,402 | 20% | 48% |
| Total Public Float (A-B) | 77,723,890 | 104,483,561 | 80% | 52% |
| Freely-Tradeable Float | | | | |
| Number of outstanding securities subject to resale restrictions, including restrictions imposed by | nil | nil | | |

| Issued Capital | Number of Securities (non-diluted) | Number of Securities (fully-diluted) | %of Issued (non-diluted) | % of Issued (fully diluted) |
|---|---|---|---|---|
| pooling or other arrangements or in a shareholder agreement and securities held by control block holders (C) | | | | |
| Total Tradeable Float (A-C) | 77,723,890 | 104,483,561 | 80% | 52% |

Note:

1. The above tabulation is compiled based on the register of shareholders as at October 2, 2013, provided at the Company's request by the Company's transfer agent, and NOBO listing as of the Record Date of October 31, 2012 with respect to the Annual and Special meeting of the shareholders dated December 20, 2012.
2. The fully diluted is per the Company and based on issued and outstanding as at October 28, 2013, and the potential dilution from the common share warrants and employee stock options issuable as at October 28, 2013.

Public Securityholders (Registered)

For the purposes of this report, "public securityholders" are persons other than persons enumerated in section (B) of the previous chart. List registered holders only.

**Class of Security**

| **Size of Holding** | Number of holders | Total number of securities |
|---|---|---|
| **1 – 99 securities** | - | - |
| **100 – 499 securities** | - | - |
| **500 – 999 securities** | - | - |

| | | |
|---|---|---|
| **1,000 – 1,999 securities** | - | - |
| **2,000 – 2,999 securities** | - | - |
| **3,000 – 3,999 securities** | - | - |
| **4,000 – 4,999 securities** | - | - |
| **5,000 or more securities** | | |
| **Unable to confirm** | 2 | 86,254,311 (note 2) |

Note:

1. The above tabulation is compiled based on register of shareholders as at October 2, 2013, provided at the Company's request by the Company's transfer agent.

2. In total there are 1,455 accounts holding the issued shares of the Company. 89.8% of the Company's issued shares are held via 2 accounts CDS & Co. and CEDE & Co., where the size of individual holdings via CDS & Co. and CEDE & Co., cannot be determined by the Company, and consequently providing information in the above tabulation for the balance 10.2% not held via CDS & Co. and CEDE & Co. would not be meaningful. The Company is providing an analysis under Public Securityholders (Beneficial) that provides insight into number of accounts holding 1,000,000 common shares or more per the NOBO list as at October 31, 2012, and these shareholders have 46.5% of the issued common shares of the Company. Some or all of the 46.5% of the shareholders may hold position via CDS & Co. / CEDE & Co.

Public Securityholders (Beneficial)

This report includes (i) beneficial holders holding securities in their own name as registered shareholders; and (ii) beneficial holders holding securities through an intermediary where the Issuer has been given written confirmation of shareholdings.

**Class of Security**

| **Size of Holding** | **Number of holders** | **Total number of securities** |
|---|---|---|
| 1 – 99 securities | | |
| 100 – 499 securities | | |
| 500 – 999 securities | | |
| 1,000 – 1,999 securities | | |
| 2,000 – 2,999 securities | | |
| 3,000 – 3,999 securities | | |
| 4,000 – 4,999 securities | | |
| 1 to 5,000 or more securities – CDS and CEDE | 1,442 | 51,897,889 |
| 5,000 or more securities – other holders | 13 | 45,127,479 |
| Unable to confirm | | |

Note:

1. The above tabulation is compiled based on NOBO list as at October 31, 2012 provided at the Company's request by the Company's transfer agent.
2. The total number of accounts is based on the register of shareholders dated October 2, 2013.

Non-Public Securityholders (Registered)

For the purposes of this report, "non-public securityholders" are persons enumerated in section (B) of the issued capital chart.

**Class of Security**

| **Size of Holding** | **Number of holders** | **Total number of securities** |
|---|---|---|
| 1 – 99 securities | | |
| 100 – 499 securities | | |
| 500 – 999 securities | | |
| 1,000 – 1,999 securities | | |
| 2,000 – 2,999 securities | | |
| 3,000 – 3,999 securities | | |
| 4,000 – 4,999 securities | | |
| 5,000 or more securities | 8 | 19,301,478 |

14.2 The details for any securities convertible or exchangeable into any class of listed securities, as at June 30, 2013, is provided in note 12 share-based payments in the FS.

14.3 Details of movement during the period from the Listing Statement dated October 31, 2012 to year ended June 30, 2013 are provided in section 9.1 of this Listing Statement.

## 15. Executive Compensation

Except for the update under the sub-section "Stock Option Plan" in this section of the Listing Statement, the information in this section of this Listing Statement is per the IC dated November 16, 2012.

### *Compensation Discussion and Analysis*

The Company's Compensation Committee was established for the purpose of reviewing, and recommending to the Board for approval, the compensation of executive officers. The responsibilities, powers and operations of the Compensation Committee are described in its Charter, which is set out as Exhibit "C" hereto.

During the fiscal year ended June 30, 2012, the Compensation Committee was comprised of two independent directors: Stephen Burns and William H. Polley. As at the date hereof, the Compensation Committee is comprised of two independent directors: Stephen Burns and William H. Polley.

The Compensation Committee conducts an annual review to consider and adjust executive compensation and relies upon the knowledge and experience of its members and other members of the Board of Directors regarding appropriate levels of salary and other compensation. The Compensation Committee assesses the performance of the President and Chief Executive Officer on an annual basis and establishes his base salary, bonus and stock option entitlement in the same way that the compensation of other executive officers is established, as outlined below.

The compensation of the executive officers of the Company is determined on the basis of several factors, including the individual's experience, corporate responsibilities, the performance of the individual and the achievement of specified annual objectives determined by the Board of Directors and/or the President and Chief Executive Officer, as applicable. The current compensation package consists of salary, bonuses and stock options and emphasis is placed on salary, bonuses and stock options as described below. The executive officers of the Company are entitled to receive all benefits which are available to senior management generally.

### *Base Salaries*

The salaries and benefits paid to the Company's executive officers, including those paid to the President and Chief Executive Officer, were previously established at or below those generally paid to persons performing similar functions in comparable corporations within the marketing services industry. In March 2011, Pareto Corporation completed a going private transaction and no longer publicly discloses its executive compensation and, in September 2012, The Futura Loyalty Group Inc. filed for protection from its creditors under the Companies' Creditors Arrangement Act, consequently the Company currently has no adequate peer group to benchmark its executive compensation against. The compensation of the executive officers of the Company is guided by the following goals:

The compensation package should be simple, transparent and easy to understand.

The compensation package should be structured to attract and retain executive officers.

The compensation package should recognize the contribution of the Company's executive officers to the overall success and growth of the Company.

The compensation package should be commensurate with the time spent by executive officers in meeting their obligations.

### *Bonus Compensation*

Bonuses paid to the executive officers are based upon objectives relating to each executive officer's corporate responsibility and to the Company's achievement of its overall corporate objectives. The bonuses paid to the Named Executives for fiscal year ended June 30, 2012 were $150,000.

Bonuses paid to the Named Executive Officers for fiscal year ended June 30, 2011 were $45,054.

### *Stock Option Plan*

The Company has a Stock Option Plan (the "Stock Option Plan") which was approved by the shareholders at the Annual and Special Meeting of the Shareholders held on December 22, 2009. As part of the seamless transition of the listing of the Company's common shares to the CNSX on March 15, 2011, the Board approved certain amendments to the Stock Option Plan to comply with CNSX policies, and the CNSX approved the Stock Option Plan.

The aggregate number of Common Shares issuable under the Stock Option Plan shall not exceed 11,643,704. The foregoing number represents, as of the date hereof, 12% of the 97,030,868 issued and outstanding common shares of the Company. Any option granted under the Stock Option Plan, which for any reason is surrendered, cancelled or terminated prior to exercise, will be available for a subsequent grant under the Stock Option Plan.

As of the date hereof, options to purchase an aggregate of 10,027,790 common shares are outstanding pursuant to the Stock Option Plan.

The Company does not have any Long-Term Incentive Plan other than the Stock Option Plan.

The material terms of the Stock Option Plan, as amended, are as follows:

- The purpose of the Stock Option Plan is to encourage ownership of Common Shares by directors, senior officers, employees and consultants of the Company and its subsidiaries (the "Eligible Persons").

- Under the Stock Option Plan, options may be granted to Eligible Persons.

- The aggregate number of Common Shares issuable under the Stock Option Plan shall not exceed 11,643,704. The foregoing number represents, as of the date hereof, 12% of the 97,030,868 issued and outstanding common shares of the Company. Any option granted under the Stock Option Plan, which for any reason is surrendered, cancelled or terminated prior to exercise, will be available for a subsequent grant under the Stock Option Plan.

- The maximum number of Common Shares which may be reserved for issuance to any one person in any 12 month period (unless the Company has obtained disinterested Shareholder approval) under the Stock Option Plan is 5% of the Common Shares issued and outstanding at the time of the grant (calculated on a non-diluted basis) less the number of Common Shares reserved for issuance to such person under any option to purchase Common Shares granted as a compensation or incentive mechanism. The maximum number of Common Shares issuable to insiders of the Company, at any time, under all security based compensation arrangements of the Company, including the Stock Option Plan, shall not exceed 10% of the issued and outstanding Common Shares. The maximum number of Common Shares issued to insiders of the Company, within any one year period, under all security based compensation arrangements of the Company, including the Stock Option Plan, shall not exceed 10% of the issued and outstanding Common Shares.

- The option exercise price will be fixed by the Board or committee of the Board, but cannot be less than the greater of the closing price of the Common Shares on (i) the trading day immediately preceding the day upon which the option is granted, or (ii) the day the option is granted.

- Options granted under the Stock Option Plan may be exercised during a period not exceeding five years, subject to earlier termination, upon the optionee ceasing to be an employee, senior officer, director or consultant of the Company or any of its subsidiaries, as applicable, or upon the optionee retiring, becoming permanently disabled or dying. If the termination date of an option falls during or within three trading days of a blackout period, during which a policy of the Company prevents certain persons from trading in the securities of the Company, the expiry date for the option will be extended for an additional period expiring on the tenth trading day following the end of the blackout period.

- Options are non-transferable without Board approval.

- The Board may also, in its discretion, subject to the limitations of the CNSX and the Stock Option Plan, at the time of granting an option, determine that provisions relating to the vesting of such option be contained in the written agreement between the Company and the optionee.

- By its terms, the Stock Option Plan may be amended by the Board without the consent of the shareholders, to the extent that such amendments relate to: (a) complying with the requirements of any applicable regulatory authority; (b) complying with the rules, policies and notices of the CNSX or of any stock exchange on which the Company's securities are listed; (c) determining, subject to all applicable regulatory requirements, that the provisions of the Stock Option Plan concerning the effect of termination of a participant's status as an Eligible Person under the Stock Option Plan shall not apply to a participant for any reason acceptable to the Board; (d) amending the definitions contained within the Stock Option Plan; (e) amending the categories of persons who are Eligible Persons and entitled to be granted options pursuant to the Stock Option Plan; (f) allowing the grant of short-term financial assistance to participants for the purpose of exercising options granted under the Stock Option Plan, subject to compliance with all applicable regulatory requirements; (g) authorizing the addition or modification of a cashless exercise feature, payable in cash or Common Shares, which provides for a full deduction of the number of underlying securities from the Stock Option Plan reserve; (h) decreasing the maximum number of Common Shares issuable under the Stock Option Plan (with a corresponding decrease in the number of Common Shares reserved for issuance under the Stock Option Plan); and (i) amendments of a "clerical" nature, including, without limitation, amending the wording of any provisions of the Stock Option Plan for the purpose of clarifying the meaning of existing provisions or to correct or supplement any provision of the Stock Option Plan that is inconsistent with any other provision of the Stock Option Plan.

### *Pension Plan Benefits*

The Company does not have any defined benefits plans, defined contribution plans or deferred compensation plans.

### *Employment Contracts*

*Kelly E. Ambrose*

The Company and Kelly E. Ambrose entered into an employment agreement dated September 26, 2007, pursuant to which Mr. Ambrose is employed as President and Chief Executive Officer at an annual salary of $350,000, subject to annual review, and a bonus of up to 100% of his salary based on performance and profitability of the Company. Mr. Ambrose's base salary has since been revised to $330,000. Mr. Ambrose is also entitled to a monthly car allowance of $1,000.00 and an annual maximum health care spending allowance of $10,000. The Company is entitled to terminate Mr. Ambrose's employment without cause (including after the effective date of a change of control) by paying him a lump sum payment in the amount of 12 months' then current salary, plus the bonus paid to him in respect of the last fiscal year during

which ended prior to the date of termination of his employment, plus an amount equal to one-twelfth (1/12) of the average of the bonuses paid to him in respect of the last two fiscal years which ended prior to the date of termination of his employment multiplied by the number of full months that have elapsed in the fiscal year during which his employment is terminated. In addition to the above payments, upon termination of his employment without cause, Mr. Ambrose would continue to receive the car allowance, benefits, (or payment in lieu) as well as the health care spending allowance for the duration of the notice period, and 100% of his options would vest immediately, and would be exercisable for a period of two years from the date of termination.

*Mukesh Sabharwal*

The Company and Mukesh Sabharwal entered into an employment agreement dated October 27, 2006, subsequently amended March 12, 2009, pursuant to which Mr. Sabharwal is employed as Vice President and Chief Financial Officer at an annual salary of $150,000 and is entitled to an annual bonus of up to 50% of his annual salary, subject to the Company achieving its objectives, and on the successful completion of his individual agreed upon objectives. Mr. Sabharwal's base salary has since been revised to $200,000. The Company is entitled to terminate Mr. Sabharwal's employment without cause upon providing him with 12 weeks' notice of termination, or payment in lieu of notice for service provided by him up to March 12, 2009, and an additional two weeks, prorated monthly for each completed year of service, up to a maximum of ten months. On November 12, 2009 the employment agreement was amended to cover severance payment of 12 months annual salary in the event of change of control triggered by specific circumstances.

*Tim Knowles*

See 13.10 in this document

*Kelly Lee Smith*

See 13.10 in this document

*Phil McGlynn*

See 13.10 in this

All employment agreements described above also provide for:

1. Appropriate confidentiality, non-competition and non-solicitation covenants.
2. That the bonuses are subject to the approval of the Board of Directors.
3. An entitlement to participate in Health and Life insurance plans for which the Company pays the premiums.

***Compensation Summary***

COMPENSATION SUMMARY FOR YEAR ENDED June 30, 2012

The tabulation covers compensation of Chief Executive Officer, Chief Financial Officer, and other executive officers whose "total compensation" exceeds $150,000 ("Named Executive Officers"), and all of whom are members of the senior management team.

**Summary Compensation Table – 2012, 2011, & 2010[1]**

| NEO (Name and Principal Position) | Year | Salary ($) | Share based awards[4] ($) | Option based awards[4] ($) | Non-equity incentive plan compensation - Annual[3] ($) | Non-equity incentive plan compensation – Long Term ($) | Pension value ($) | All other compensation[2] ($) | Total compensation ($) |
|---|---|---|---|---|---|---|---|---|---|
| **Kelly E. Ambrose** President and Chief Executive Officer, and Secretary | 2012 | 330,000 | Nil | 9,044 | 75,000 | Nil | Nil | 23,003 | 437,047 |
| | 2011 | 335,000 | Nil | 39,424 | 21,304 | Nil | Nil | 23,003 | 418,731 |
| | 2010 | 297,557 | Nil | Nil | 21,250 | Nil | Nil | 24,774 | 343,581 |
| **Mukesh Sabharwal** Vice-President and Chief Financial Officer | 2012 | 200,000 | Nil | 5,426 | 30,000 | Nil | Nil | 4,010 | 239,436 |
| | 2011 | 179,167 | Nil | 10,614 | 7,500 | Nil | Nil | 4,010 | 201,291 |
| | 2010 | 135,897 | Nil | Nil | 7,500 | Nil | Nil | 4,010 | 147,407 |
| **Tim Knowles** Chief Information Officer | 2012 | 200,000 | Nil | 4,522 | 15,000 | Nil | Nil | 12,000 | 231,522 |
| | 2011 | 206,250 | Nil | 3,791 | 6,250 | Nil | Nil | 12,000 | 228,291 |
| | 2010 | 186,569 | Nil | Nil | 6,250 | Nil | Nil | 12,000 | 204,819 |
| **Kelly Lee Smith** Vice-President, Database/Online Marketing | 2012 | 150,000 | Nil | 4,522 | 15,000 | Nil | Nil | 18,016 | 187,538 |
| | 2011 | 156,250 | Nil | 2,654 | 5,000 | Nil | Nil | 18,016 | 181,920 |
| | 2010 | 139,724 | Nil | Nil | 5,000 | Nil | Nil | 18,016 | 162,740 |
| **Phil McGlynn** Vice-President, Marketing | 2012 | 148,333 | Nil | 4,522 | 15,000 | Nil | Nil | 8,005 | 175,860 |
| | 2011 | 142,500 | Nil | 2,654 | 5,000 | Nil | Nil | 8,005 | 158,159 |
| | 2010 | 143,000 | Nil | Nil | 5,000 | Nil | Nil | 8,005 | 156,005 |

***Notes***

*(1) Additional details are available in the narrative under "Executive Compensation – Employment Contracts".*

*(2) "All other compensation" represents car and/or 407 ETR allowance. In case of Kelly Ambrose only, amounts paid towards health care spending allowance are also included, details of which are available under "Executive Compensation - Employment Contracts".*

*(3) Bonuses paid for fiscal years ended June 30, 2012, 2011, and 2010.*

*(4) The Company did not give any share based awards. The value assigned under "Option based awards" is calculated based on the Black -Scholes pricing model. For the grant in the fiscal year ended June 30, 2012, the assumptions used in the model were: (i) expected life of stock option is 5 years; (ii) expected volatility of common share price, based on historical trends, is 101.5%;; (iii) risk-free rate of return is 1.8%; (iv) expected forfeiture rate, based on historical trends, is 4.3%; and (v) nil dividend.*

## Incentive Plan Awards

### *Outstanding Share-based Awards and Option-based Awards*

The following table sets forth the options to purchase securities of the Company granted up to June 30, 2012 to the Named Executive Officers. All awards were issued pursuant to the rules and regulations of the Company's Stock Option Plan.

| Name | Option-based Awards(1)(6) | | | | Share-based Awards | |
|---|---|---|---|---|---|---|
| | Number of securities underlying unexercised options (#) | Option exercise price ($) | Option expiration date | Value of unexercised in-the-money options(2) ($) | Number of shares or units of shares that have not vested (#) | Market or payout value of share-based awards that have not vested ($) |
| **Kelly E. Ambrose** | 336,660(3) | 0.045 | 17 March, 2013 | Nil | Nil | Nil |
| | 2,600,000(4) | 0.020 | 16 March, 2016 | Nil | | |
| | 500,000(5) | 0.025 | 3 February, 2017 | Nil | | |
| **Mukesh Sabharwal** | 112,500(3) | 0.045 | 17 March, 2013 | Nil | Nil | Nil |
| | 700,000(4) | 0.020 | 16 March, 2016 | Nil | | |
| | 300,000(5) | 0.025 | 3 February, 2017 | Nil | | |
| **Tim Knowles** | 220,410(3) | 0.045 | 17 March, 2013 | Nil | Nil | Nil |
| | 250,000(4) | 0.020 | 16 March, 2016 | Nil | | |
| | 250,000(5) | 0.025 | 3 February, 2017 | Nil | | |
| **Kelly Lee Smith** | 140,250(3) | 0.045 | 17 March, 2013 | Nil | Nil | Nil |
| | 175,000(4) | 0.020 | 16 March, 2016 | Nil | | |
| | 250,000(5) | 0.025 | 3 February, 2017 | Nil | | |
| **Phil McGlynn** | 84,500(3) | 0.010 | 23 March, 2014 | Nil | Nil | Nil |
| | 175,000(4) | 0.020 | 16 March, 2016 | Nil | | |
| | 250,000(5) | 0.025 | 3 February, 2017 | Nil | | |

***Notes:***

*(1) Includes all options awarded to Named Executive Officers under the Stock Option Plan, and outstanding as at June 30, 2012.*

(2) *The "Value of unexercised in-the-money options" figures reflect the aggregate dollar amount of in-the-money, based on price per common share at close of business on June 28, 2012, of unexercised options held at the end of the year ended June 30, 2012. The price per common share at the close of business on the CNSX on June 28, 2012, the latest date prior to June 30, 2012 on which the Company's shares were traded, was $0.005.*

*(3) These options granted pursuant to the Company's Stock Option Plan had vested by July 1, 2010.*

*(4) These options vested on the date of the grant, March 16, 2011.*

*(5) These options vested on the date of the grant, February 3, 2012.*

*(6) No options based awards were exercised during the fiscal year ended June 30, 2012.*

## *Incentive Plan Awards – Value Vested or Earned During the Year*

The following table sets forth for each Named Executive Officer the value that would have been realized if the options granted under the Stock Option Plan had been exercised on their vesting date and the value earned under non-equity incentives, all during the year ended June 30, 2012.

| Name | Options vested during the year(1) | Option-based awards - Value vested during the year(2) ($) | Share-based awards - Value vested during the year ($) | Non-equity incentive plan compensation - Value earned during the year (3) ($) |
|---|---|---|---|---|
| **Kelly E. Ambrose** | 500,000 | Nil | Nil | 75,000 |
| **Mukesh Sabharwal** | 300,000 | Nil | Nil | 30,000 |
| **Tim Knowles** | 250,000 | Nil | Nil | 15,000 |
| **Kelly Lee Smith** | 250,000 | Nil | Nil | 15,000 |
| **Phil McGlynn** | 250,000 | Nil | Nil | 15,000 |

*Notes:*

*(1) Options were granted on February 3, 2012. They vested 100% on February 3, 2012.*

*(2) The exercise price of the options granted during the year (tabulated above under "Options vested during the year") was $0.025. The Company's shares were not traded on February 3, 2012. The closing share prices on February 2 and February 6, 2012 were $0.025 and $0.015 respectively.*

*(3) Figures represent bonus paid for fiscal year ended June 30, 2012.*

### *Termination and Change of Control Payments*

Potential payments upon termination of employment as of date hereof for each named Executive Officer.

| | **Severance in event of termination without cause[1]** **($)** | **Severance in event of triggering change of control situation[1]** **($)** |
|---|---|---|
| **Mr. Kelly E. Ambrose[2]** | $421,050 | $421,050 |
| **Mr. Mukesh Sabharwal** | $74,305 | $200,000 |
| **Mr. Tim Knowles** | $166,667 | $200,000 |
| **Ms. Kelly Lee Smith** | $34,615 | $150,000 |
| **Mr. Phil McGlynn** | $24,615 | $160,000 |

*Notes:*

*(1) Additionally, Health and Life insurance benefits would continue for the duration of the notice period*

*(2) In addition, payments would include continuation of car allowance ($12,000), annual health care spending allowance of $10,000.*

## Compensation of Directors

### *Directors Compensation Table*

During the fiscal year ended June 30, 2012, each of the directors of the Company (excluding Kelly Ambrose who is also Chief Executive Officer of the Company, and does not receive additional compensation as a director of the Company) were entitled to an annual Director's fee as follows:

Each director other than the Chairman of the Board earned an annual fee of $15,000, and $800 per meeting attended or $400 per meeting attended by telephone conference;

1. The Chairman of the Board earned an annual fee of $42,000, and the same attendance fee as the other directors;

2. Chairman of the Compensation Committee earned an annual fee of $2,500, and each Committee member earned $500 per meeting attended or $250 per meeting attended by telephone conference;

3. Chairman of the Governance and Nominating Committee earned an annual fee of $2,500, and each Committee member earned $500 per meeting attended or $250 per meeting attended by telephone conference;

4. Chairman of the Audit Committee earned an annual fee of $5,000 and each Committee member earned $500 per meeting attended or $250 per meeting attended by telephone conference.

The Directors' compensation table for fiscal year ended June 30, 2012 is as follows:

| Name | Fees earned ($) | Share-based awards ($) | Option-based awards(3) ($) | Non-equity incentive plan compensation ($) | Pension value ($) | All other compensation ($) | Total ($) |
|---|---|---|---|---|---|---|---|
| **Stephen Burns**(1) | 55,700 | Nil | 13,565 | Nil | Nil | Nil | 69,265 |
| **William H. Polley** | 23,700 | Nil | 13,565 | Nil | Nil | Nil | 37,265 |
| **Carol Kerbel**(2) | 8,397 | Nil | Nil | Nil | Nil | Nil | 8,397 |

*Notes:*

*(1) Chairman of the Board of Directors.*
*(2) Carole Kerbel an ex-director, completed her tenure at the end of the Annual Meeting held on December 21, 2011.*
*(3) The Company did not give any share based awards. The value assigned under "Option based awards" is calculated based on the Black – Scholes pricing model. For the grant in the fiscal year ended June 30, 2012, the assumptions used in the model were: (i) expected life of stock option is 5 years; (ii) expected volatility of common share price, based on historical trends, is 101.5%; (iii) risk-free rate of return is 1.8%; (iv) expected forfeiture rate, based on historical trends, is 4.3%; and (v) nil dividend.*

## *Outstanding Share-based and Option-based Awards*

The following table sets forth the options to purchase securities of the Company granted up to the most recently completed fiscal year ended June 30, 2012, to the eligible Directors of the Company.

| Name | Option-based Awards(1) | | | | Share-based Awards | |
|---|---|---|---|---|---|---|
| | Number of securities underlying unexercised options (#) | Option exercise price ($) | Option expiration date | Value of unexercised in-the-money options(2) ($) | Number of shares or units of shares that have not vested (#) | Market or payout value of share-based awards that have not vested ($) |
| **Stephen Burns** | 300,000 (3) | 0.020 | March 16, 2016 | Nil | Nil | Nil |
| | 750,000 (4) | 0.025 | February 3, 2017 | Nil | Nil | Nil |

| | | | | | | |
|---|---|---|---|---|---|---|
| **William H. Polley** | 300,000 (3) | 0.020 | March 16, 2016 | Nil | Nil | Nil |
| | 750,000 (4) | 0.025 | February 3, 2017 | Nil | Nil | Nil |

*Notes*
*(1) Includes all options awarded to Directors under the Stock Option Plan outstanding as at June 30, 2012.*
*(2) The "Value of unexercised in-the-money options" figures reflect the aggregate dollar amount of in-the-money, based on price per common share at close of business on June 30, 2012, unexercised options held at the end of the fiscal year ended June 30, 2012. The price per common share at the close of business on the CNSX on June 38, 2012, the latest date prior to June 30, 2012 on which the Company's shares were traded, was* $0.005.
*(3) Vested as at day of grant, March 16, 2011.*
*(4) Vested on date of grant February 3, 2012.*
*(5) No options based awards were exercised during the fiscal year ended June 30, 2012.*
*(6) During fiscal year ended June 30, 2012, the 525,000 options previously granted to each of the directors in December 2006 at an exercise price of $0.055 expired, unexercised, on December 21, 2011.*

### *Incentive Plan Awards – Value Vested or Earned During the Year*

The following table sets forth for each eligible Director of the Company the value that would have been realized if the options granted under the Stock Option Plan had been exercised on their vesting date and the value earned under non-equity incentives, all during the fiscal year ended June 30, 2012.

| Name | Options vested during the year(1) | Option-based awards - Value vested during the year(2) ($) | Share-based awards - Value vested during the year ($) | Non-equity incentive plan compensation - Value earned during the year ($) |
|---|---|---|---|---|
| **Stephen Burns** | 750,000 | Nil | Nil | Nil |
| **William H. Polley** | 750,000 | Nil | Nil | Nil |

*Notes*

*(1) Options were granted on February 3, 2012. They vested 100% on February 3, 2012.*

*(2) The exercise price of the options granted during the year (tabulated above under "Options vested during the year") was $0.025. The Company's shares were not traded on February 3, 2012. The closing share prices on February 2 and February 6, 2012 were $0.025 and $0.015 respectively.*

## 16. Indebtedness of Directors and Executive Officers

Neither the Directors nor the Executive Officers of the Company were indebted to the Company as at June 30, 2013 or as at October 28, 2013.

## 17. Risk Factors

Refer to the "General Risks and Uncertainties", "Economic Dependence", "Contractual Obligations", "Working Capital and Liquidity Management" and "Critical Accounting Estimates" sections of the MD&A.

## 18. Promoters

Within the two years immediately preceding the date of this Listing Statement, there have been no promoters, including any person performing Investor Relations Activities (as defined in the CNSX Policies), of the Company or of a subsidiary of the Company.

## 19. Legal Proceedings

19.1 There are no legal proceedings material to the Company to which the Company or a subsidiary of the Company is a party or of which any of their respective property is the subject matter and nor are such proceedings known to the Company to be contemplated.

19.2 There are no penalties or sanctions imposed against the Company by a court relating to provincial and territorial securities legislation or by a securities regulatory authority within the three years immediately preceding the date hereof, there are no penalties or sanctions imposed by a court or regulatory body against the Company and the Company has not entered any settlement agreements before a court relating to provincial and territorial securities legislation or with a securities regulatory authority within the three years immediately preceding the date hereof.

## 20. Interest of Management and Others in Material Transactions

Except as noted in the "Transactions with Related Parties" section in the MD&A, none of the directors or executive officers of the Company, or any person or company that is a direct or indirect beneficial owner of, or who exercises control or direction over, more than 10% of the Common Shares, or any associates or affiliates of those persons or companies referred to above has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any transaction during the Company's last three fiscal years or during the Company's current fiscal year or in any proposed transaction which has materially affected or is reasonably expected to materially affect the Company or any of its subsidiaries.

## 21. Auditors, Transfer Agents and Registrars

21.1 The Company's auditors is BDO Canada LLP, Chartered Accountants, 60 Columbia Way, Suite 300, Markham, Ontario, L3R 0C9, Canada. The Company announced change of auditors from PricewaterhouseCoopers LLP, Chartered Accountants, PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada, M5J 0B2 to BDO Canada LLP on July 5, 2013.

21.2 The Company's transfer agent and registrar is CST Trust Company, 320 Bay Street, 3rd Floor, Toronto, Ontario, L5H 4A6.

## 22. Material Contracts

22.1 The Company's material contacts are in the form of agreements which are tabulated hereunder. Details are available in the FS and MD&A.

| |
|---|
| Agreement with Canadian Imperial Bank of Commerce |
| Agreement with Aeroplan (Canada) Inc. |
| Agreement with Accord Financial Inc. (providers of loan payable) |
| Agreement with holders of 14% non-convertible debentures payable |
| Agreement with holders of 12% non-convertible debentures payable |
| Shareholders rights plan |

22.2 There are no material co-tenancy, unitholders' or limited partnership agreement.

## 23. Interest of Experts

23.1 Other than as disclosed in section 20, there are no direct or indirect interests in the property of the Company or of a Related Person of the Company received or to be received by a person or company whose profession or business gives authority to a statement made by the person or company and who is named as having prepared or certified a part of this Listing Statement or prepared or certified a report or valuation described or included in this Listing Statement.

23.2 The following table summarizes the beneficial ownership, direct or indirect, by the person or company referred to in section 23.1 of any securities of the Company or any Related person of the Company.

| **Name** | **Beneficial ownership of securities of the Company's or related Person – as at June 30, 2013.** |
|---|---|
| Kelly E. Ambrose | 1,581,000 common shares in the capital of the Company.<br><br>$100,000 12% Non-convertible Debentures of the Company ("Transactions with Related Parties" section in MD&A)<br><br>2,600,000 employee stock options exercisable at $0.02 expiring March 16, 2016<br><br>500,000 employee stock options granted February 3, 2012, exercisable at $0.025, and expiring February 3, 2017<br><br>525,000 employee stock options granted March 19, 2013, exercisable at $0.05, and expiring March 19, 2018<br><br>1,415,100 common share warrants exercisable at $0.04 expiring December 31, 2013, attached to 12% Non-convertible debentures payable (note 10 in FS "12% Non-convertible debentures payable") |
| Stephen Burns | 200,000 common shares in the capital of the Company<br><br>300,000 employee stock options exercisable at $0.02 expiring March 16, 2016<br><br>750,000 employee stock options granted February 3, 2012 exercisable at $0.025, and expiring February 3, 2017<br><br>200,000 employee stock options granted March 19, 2013, exercisable at $0.05, and expiring March 19, 2018 |

| | |
|---|---|
| | |
| William H. Polley | 26,750 common shares in the capital of the Company<br><br>300,000 employee stock options exercisable at $0.02 expiring March 16, 2016<br><br>750,000 employee stock options granted February 3, 2012 exercisable at $0.025, and expiring February 3, 2017<br><br>200,000 employee stock options granted March 19, 2013, exercisable at $0.05, and expiring March 19, 2018 |
| Mukesh Sabharwal | 61,728 common shares in the capital of the Company<br><br>$30,000 12% Non-convertible Debentures of the Company ("Transactions with Related Parties" section in MD&A)<br><br>$10,000 14% Non-convertible Debentures of the Company ("Transactions with Related Parties" section in MD&A)<br><br>700,000 employee stock options exercisable at $0.02 expiring March 16, 2016<br><br>300,000 employee stock options granted February 3, 2012, exercisable at $0.025, and expiring February 3, 2017<br><br>325,000 employee stock options granted March 19, 2013, exercisable at $0.05, and expiring March 19, 2018<br><br>424,530 common share warrants exercisable at $0.04 expiring December 31, 2013, attached to 12% Non-convertible debentures payable (note 10 to FS "12% Non-convertible debentures payable")<br><br>19,750 common share warrants exercisable at $0.04 expiring December 31, 2013, attached to 14% Non-convertible debentures payable (note 9 to FS "14% Non-convertible debentures payable") |

23.3 For the purposes of the above table, only those individuals who hold more than one per cent of the Company's securities are listed.

23.4 Except for individuals who are already directors, officers or employed by the Company, none of the persons or directors, officers or employees of the persons listed in this section 23 is expected to be elected, appointed or employed as a director, officer or employee of the Company or of any associate or affiliate of the Company.

## 24. Other Material Facts

24.1 All material facts about the Company and its securities that are necessary in order for this Listing Statement to contain full, true and plain disclosure of all material facts relating to the Company and its securities are contained in this Listing Statement and the attached Schedules.

## 25. Financial Statements

25.1 The MD&A for the fiscal years ended June 30, 2013 and 2012 is attached as Schedule "A", the Consolidated Financial Statements for the years ended June 30, 2013 and June 30, 2012 is attached as Schedule "B", the interim MD&A for the three month period ended September 30, 2012 and 2011; the interim MD&A for the three and six month periods ended December 31, 2012 and 2011; the interim MD&A for the three and nine month periods ended March 31, 2013 and 2012 are attached as Schedule "C", the Information Circular dated November 16, 2012 is attached as Schedule "D".

## CERTIFICATE OF THE ISSUER

The foregoing contains full, true and plain disclosure of all material information relating to Advantex Marketing International Inc. It contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in light of the circumstances in which it was made.

Dated at Markham, Ontario

this 28 day of October, 2013.

| | |
|---|---|
| "*Kelly E. Ambrose"* | *"Mukesh Sabharwal"* |
| Kelly E. Ambrose<br>Chief Executive Officer | Mukesh Sabharwal<br>Chief Financial Officer |

On behalf of the Board of Directors

| | |
|---|---|
| *"Kelly E. Ambrose"* | *"William Polley"* |
| Kelly E. Ambrose<br>Director | William Polley<br>Director |

**Schedule A**

The MD&A for the fiscal years ended June 30, 2013 and 2012

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<br>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.

**Schedule B**

Audited Consolidated Financial Statements for the years ended June 30, 2013 and June 30, 2012

# ADVANTEX MARKETING INTERNATIONAL INC.
# CONSOLIDATED FINANCIAL STATEMENTS
## For the years ended June 30, 2013, and June 30, 2012

## 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<br>President and Chief Executive Officer | Mukesh Sabharwal<br>V.P. and Chief Financial Officer |

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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** | | |
| 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<br><br>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

Credit risk

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<br>$ | Payable within 1 year<br>$ | Payable after 1 year – 3 years<br>$ |
|---|---|---|---|
| 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<br>$ | Payable within 1 year<br>$ | Payable after 1 year – 3 years<br>$ |
|---|---|---|---|
| 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<br>$ | 2012<br>$ |
|---|---|---|
| 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.

## Schedule C

Interim MD&A for the three month period ended September 30, 2012 and 2011; Interim MD&A for the three and six month periods ended December 31, 2012 and 2011; Interim MD&A for the three and nine month periods ended March 31, 2013 and 2012.

ADVANTEX

**ADVANTEX® MARKETING INTERNATIONAL INC.**
**Management's Discussion and Analysis of Operating Results**
For the Three month periods ended September 30, 2012 and 2011

*This management's discussion and analysis has been prepared based on information available to Advantex Marketing International Inc. ("Advantex" or "the Company") as at November 26, 2012. Management's Discussion and Analysis ("MD&A") is a narrative explanation to enable the reader to assess material changes in the financial condition and results of operations of the Company during the three month period ended September 30, 2012, compared with the three month period ended September 30, 2011. 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, 2012, and the interim consolidated financial statements and the related notes for the three months ended September 30, 2012 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.*

## 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 more than five million Canadian consumers with above-average personal and household income. The Company's merchant partner base currently consists of more than 1,350 merchants operating in several business segments: restaurants; golf courses; independent inns, resorts and selected hotels; spas; men's and ladies fashion, footwear and accessories; sporting goods; florists and garden centres; book and newspaper stores; health and beauty centres; dry cleaners; gift stores; and home décor; 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 steady and continuing improvement in its financial performance.

The results for the three months ended September 30, 2012 ("Q1 Fiscal 2013") are an improvement compared with the corresponding period in the previous year ("Q1 Fiscal 2012"), and a continuation of the strong financial performance for fiscal year ended June 30, 2012.

The highlights of the financial performance of Q1 Fiscal 2013 compared with Q1 Fiscal 2012 are tabulated:

| | Q1 Fiscal 2013 | Q1 Fiscal 2012 |
|---|---|---|
| Revenues | $4,403,000 | $3,835,000 |
| Earnings from operations before amortization and interest ("EBITDA" *****) | $1,040,000 | $ 976,000 |
| Net Income | $ 274,000 | $ 261,000 |

***** EBITDA is a non-GAAP financial measure which does not have any standardized meaning prescribed by the issuer's GAAP and is unlikely to be comparable to similar measures presented by other issuers. It is provided as additional information to assist readers in understanding a component of the Company's financial performance. In case of the Company, for Q1 Fiscal 2013 and Q1 Fiscal 2012, per consolidated financial statements for three months ended September 30, 2012, earnings from operations before amortization and interest is the nearest equivalent to EBITDA.

The financial performance is a result of the increase in the number of merchants participating in the Company's programs. Effective deployment of the selling organization, continuous improvement in the value proposition of the Company's programs, and access to new business segments granted by Affinity partners are reflected in the increase in merchant participation. During Q1 Fiscal 2013 the average number of participating merchants was 1,333 compared with 977 during Q1 Fiscal 2012, an increase of 36.4%.

Retail program revenues for Q1 Fiscal 2013 were $4,391,000 compared with $3,835,000 for Q1 Fiscal 2012, an increase of $556,000 (14.5%). The growth in Retail program revenues trails growth in merchant participation and this is consequent to change in mix of merchants participating in the programs, reflecting increase in merchants with lower overall sales of designated credit cards on which the Company earns its fees.

Gross Profit for Q1 Fiscal 2013 was $3,027,000 compared with $2,791,000 for Q1 Fiscal 2012, an increase of $236,000. This is a reflection of higher revenues but lower gross margin.

Selling, and General and Administrative expenses ("SG&A") were $1,988,000 during Q1 Fiscal 2013 compared with $1,814,000 for Q1 Fiscal 2012, an increase of $174,000 which substantially eroded the increase in gross profit. The small merchant space, in which the Company markets its programs, is unique across business segments, and it requires investment in SG&A resources upfront and the investment takes time to payout.

Stated interest cost for Q1 Fiscal 2013 was $517,000 compared with $491,000 for Q1 Fiscal 2012 reflecting higher utilization of loan payable in order to expand merchant participation in the Company's APM program, partially offset by the lower interest rate the Company is charged, effective January, 2012 on its loan payable.

Net income for Q1 Fiscal 2013 was $274,000 compared with $261,000 for Q1 Fiscal 2012, an improvement of $13,000.

In July 2012, pursuant to a debt prepayment agreement, the Company prepaid $310,033 in the aggregate principal amount of 12% non-convertible debentures payable ("12% debentures") - described in section 12% Non-Convertible Debentures Payable in this document - plus accrued and unpaid interest thereon and, pursuant to a second debt prepayment agreement, prepaid $66,000 in the aggregate principal amount of 14% non-convertible debentures payable ("new 14% debentures") - described in section 14% Non-Convertible Debentures Payable in this document - plus accrued and unpaid interest thereon. Concurrently with the debt prepayment, 4,517,621 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 the 12% debentures, and the new 14% debentures prepaid. The annual saving of interest expense is $46,444.

The focus areas for the Company are:

1. Continue to expand merchant participation in existing business segments;
2. Seek access to new business segments from Affinity partners. Create segment specific merchant programs, and develop market for those products;
3. Renew the agreement with CIBC. The Company has economic dependence on this agreement. The Company has over a decade long relationship with CIBC. The most recent renewal was in September, 2010 for an additional term ending on August 31, 2013;
4. Renew the agreement with Aeroplan;
5. Either renew or replace the 12% debentures, and new 14% debentures, both of which mature September 30, 2013;
6. Renew the Loan Payable ("loan payable") agreement. The existing agreement expires in December, 2013;
7. Develop the potential of the relationship with Canadian Tire Group ("CTG");
8. Add new revenue lines; and
9. Continue to consolidate the financial performance in uncertain economic times.

The Company is confident in its ability to manage the operational and renewal challenges.

A detailed look at the results for Q1 Fiscal 2013 is set out in the following sections.

## Results of Operations

| (in millions of dollars, except for earnings per share) | Q1 Fiscal 2013 | Q1 Fiscal 2012 |
|---|---|---|
| **Revenues**: | **4.4** | **3.8** |
| Direct Expenses | (1.4) | (1.0) |
| **Gross Profit** | **3.0** | **2.8** |
| Selling, General and administrative expenses | (2.0) | (1.8) |
| **Earnings from operations before amortization and interest** | **1.0** | **1.0** |
| Depreciation | (0.1) | (0.1) |
| Interest on loan payable, and debentures | (0.7) | (0.6) |
| **Net Income for the Period** | **$0.3** | **$0.3** |
| Basic, and Diluted earnings per share | $0.00 | $0.00 |

The presentation in Results of Operations section is not set out in accordance with Canadian generally accepted accounting principles ("GAAP") but has been included to provide additional analysis for the reader. Some numbers may not add due to rounding.

## Revenue

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

Advantex Retail programs have two business models. In both models, revenue is recognized at the time that purchases are made by consumers through the Advantex programs. 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 merchants, 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/or 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 merchants. The Company's CIBC Advantex, and Aeroplan sponsored Marketing Only programs fall under this model.

The key driver of revenues for the Retail programs is merchant participation.

The revenue trends during Q1 Fiscal 2013 compared with corresponding Q1 Fiscal 2012 are tabulated:

| | Q1 Fiscal 2013 | Q1 Fiscal 2012 | Inc./(Dec) |
|---|---|---|---|
| Avg. # of merchants participating in Retail programs during the period | 1,333 | 977 | **36.4%** |
| | | | |
| Retail programs | | | |
| APM | $ 3,001,000 | $ 2,612,000 | 14.9% |
| Marketing Only | $ 1,296,000 | $ 1,178,000 | 10.0% |
| | 4,297,000 | 3,790,000 | **13.4%** |
| Sales of Aeronotes | - | 45,000 | |
| Sales of digital marketing services | 94,000 | - | |
| Total Retail programs | $ 4,391,000 | $ 3,835,000 | 14.5% |
| | | | |
| Miscellaneous income etc. | $ 12,000 | $ - | |
| | | | |
| **Total revenues** | **$ 4,403,000** | **$ 3,835,000** | **14.8%** |
| | | | |
| *Average annual revenue per merchant, based on extrapolation of the quarter's trends* | *$ 13,176* | *$ 15,701* | |

The growth in Retail program revenues trails growth in merchant participation as a result of changes in the mix of the merchants; increase in merchants with lower overall sales of designated credit cards on which the Company earns its fees.

**Direct Expenses**

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

Q1 Fiscal 2013 direct expenses were $1,376,000 (31.3% of revenues) compared with $1,044,000 (27.2% of revenues) in Q1 Fiscal 2012.

While Q1 Fiscal 2013 revenues increased 14.8% compared with Q1 Fiscal 2012, during the same period direct expenses increased 31.8%, primarily reflecting higher reserve for delinquent accounts.

**Gross Profit**

Gross Margin for Q1 Fiscal 2013 was 68.7% compared with 72.8% for Q1 Fiscal 2012, attributable to the increase in direct expenses which increase is explained under section Direct Expenses in this document.

Gross profit was $3,027,000 in Q1 Fiscal 2013 compared with $2,791,000 in Q1 Fiscal 2012 and this improvement reflects growth in revenues.

**Selling Expenses**

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

Selling expenses in Q1 Fiscal 2013 were $910,000 compared with $776,000 in Q1 Fiscal 2012, an increase of 17.3% vs. the 14.8% increase in revenues.

The Company built up its sales organization to capitalize on the revenue growth opportunities. Our business development team sells new merchants into the Company's programs, and the account management team manages the merchants' participation in the programs. The sales organization has delivered results in terms of the increase in the merchant participation (36.4%) compared to the corresponding period in the previous year but this has yet to fully pay out in terms of revenue growth which lags at 14.8%. To research small merchant requirements, tailor make suitable programs, sell and manage small merchants across Canada is a labour intensive, and time-consuming process which involves investment up front. The Company does expect the growth in revenues to eventually outpace selling costs, given the revenue expectations per participating merchant - tabulated under Revenue section in this document.

**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).

| | Q1 Fiscal 2013 | Q 1 Fiscal 2012 | Inc./(Dec) |
|---|---|---|---|
| Compensation for non-sales staff | $ 791,000 | $ 762,000 | $ 29,000 |
| Less: software development costs capitalized (details provided under section Capital Expenditures in this document) | (18,000) | (28,000) | $ 10,000 |
| | $ 773,000 | $ 734,000 | $ 39,000 |
| Stock based compensation | $ - | $ 6,000 | $ (6,000) |
| All other G&A expenses | $ 305,000 | $ 299,000 | $ 6,000 |
| Total G&A Expenses | $1,078,000 | $1,039,000 | $ 39,000 |

Increase in Q1 Fiscal 2013 compensation is partially a result of increase in headcount to support growth in merchant participation, and partially increase in compensation of certain staff.

Allowing for above noted changes, compensation costs were consistent with Q1 F 2012, except for a reduction in the amount of activity that qualified for capitalization as software development.

**Interest Expense**

The interest expense is tabulated:

| | Q1 Fiscal 2013 | Q1 Fiscal 2012 |
|---|---|---|
| Stated interest expense | | |
| ➢ Loan payable | $ 268,000 | $ 233,000 |
| ➢ New 14% debentures | $ 62,000 | $ 63,000 |
| ➢ 12% debentures | $ 187,000 | $ 195,000 |
| ➢ Total stated interest | $ 517,000 | $ 491,000 |
| | | |
| Non cash interest on new 14% debentures and 12% debentures, comprising accretion charges | $ 141,000 | $ 132,000 |
| Total interest expense | $ 658,000 | $ 623,000 |

The Company deploys the funds available to it under loan payable, and new14% debentures payable with merchants activated under its Advance Purchase Marketing ("APM") program. The funds available under the 12% debentures are used for working capital purposes as well as 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 on loan payable is consequent to higher draw of loan payable (average balance of $6,712,000 – based on month end balances – during Q1 Fiscal 2013 compared with average balance of $5,583,000 – based on month end balances – during Q1 Fiscal 2012) which is used exclusively to fund growth of the Company's APM program. The Company qualified for lower rate of interest on its loan payable from January, 2012 and this is explained in the section Loan Payable in this document.

## Net Income

The net income for Q1 Fiscal 2013 was $274,000 (Basic and Diluted Earnings per share of $0.00) compared with a net income of $261,000 (Basic and Diluted Earnings per share of $0.00) in Q1 Fiscal 2012.

Highlights of Q1 Fiscal 2013 compared with Q1 Fiscal 2012 are tabulated:

| | Q1 Fiscal 2013 | Q1 Fiscal 2012 | Change |
|---|---|---|---|
| Average # of participating merchants in Retail programs | 1,333 | 977 | 36.4% + |
| Revenues | $4,403,000 | $3,835,000 | $568,000 + |
| Gross Profit | $3,027,000 | $2,791,000 | $236,000 + |
| Earnings from operations before amortization and interest | $1,040,000 | $ 976,000 | $ 64,000 + |
| Net Income | $ 274,000 | $ 261,000 | $ 13,000 + |

## Working Capital and Liquidity Management

The utilization of liquidity during Q1 Fiscal 2013 compared with Q1 Fiscal 2012 is illustrated in the following tabulation:

| | Q1 Fiscal 2013 | Q1 Fiscal 2012 |
|---|---|---|
| **FUNDS AVAILABLE TO EXPAND APM PROGRAM (Transaction credits) AND MEET WORKING CAPITAL REQUIREMENTS** | | |
| 1. Net income | $ 274,000 | $ 261,000 |
| Add back non-cash expenses | 249,000 | 231,000 |
| Income before non-cash expenses * | $ 523,000 | $ 492,000 |
| 2. Cash balances at start of the period | $ 1,085,000 | $ (78,000) |
| 3. (Decrease) / Increase in utilization of loan payable to increase merchants participating in the APM program | $ (175,000) | $ 1,105,000 |
| **Funds Available** | **$ 1,433,000** | **$ 1,519,000** |
| | | |
| **UTILIZATION** | | |
| 1. (Decrease) / Increase in transactions credits under APM program | $ (81,000) | $ 908,000 |
| 2. Cash balances at end of period | $ 618,000 | $ 394,000 |
| 3. Change in working capital items | | |
| - Current assets | $ 145,000 | $ 19,000 |
| - Accounts payable and accrued liabilities | $ 315,000 | $ 101,000 |
| 4. Capital expenditures | $ 51,000 | $ 68,000 |
| 5. Partial early prepayment of new 14% debentures and 12% debentures (collectively "Debentures") | $ 376,000 | $ - |
| 6. Debentures early prepayment / renewal – additional transaction costs | $ 9,000 | $ 29,000 |
| **Utilization** | **$ 1,433,000** | **$ 1,519,000** |

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

The movement in transaction credits reflects partially changes in the number of merchants participating in the Company's APM program, and partially changes to amount of transaction credits deployed with existing merchants.

Included in capital expenditures is capitalization of internal costs expended on software development connected to ensuring operability of the Company's loyalty marketing programs. For Q1 Fiscal 2013 such capitalization is $18,000 compared with $28,000 for Q1 Fiscal 2012. As of date hereof, the capital expenditures during the next four quarters are expected to be in the nature of updating of the Company's infrastructure and software development, and are expected to be marginally ahead of current period activity levels.

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 new 14% debentures plus accrued and unpaid interest thereon.

The proceeds of 12% debentures and new 14% debentures are fully deployed, and are used to fund merchants participating in the Company's APM program, and its working capital requirements. At present, the need for capital to expand the APM program is satisfied by loan payable, however it is a demand facility, and in addition it has a constraint since it requires the Company to co-fund a certain portion of the transaction credits deployed with merchants using this facility.

The Company's operations are funded by debt. To continue its current operations and fund growth during Fiscal 2013 requires the Company to have continued access to its new 14% debentures, 12% debentures, and loan payable. The Debentures mature in September, 2013, and the loan payable agreement expires in December, 2013. The Company expects to successfully negotiate renewals.

Additional capital in the form of debt and/or equity will be required to fund the continued expansion of the Company's APM programs, as described under General Risks and Uncertainties.

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

## Contractual Obligations

Contractual obligations as at September 30, 2012 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 | $6.5 | $6.5 | $- | $- | $- |
| New 14% debentures | $1.7 | $- | $1.7 | $- | $- |
| 12% debentures | $6.2 | $- | $6.2 | $- | $- |
| Operating Leases | $0.6 | $0.1 | $0.3 | $0.2 | $- |

Additional commitments

The Company has an annual commitment to purchase minimum rewards as part of its three year arrangement 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 has a second year commitment, commencing January 1, 2012 and ending December 31, 2012 to purchase $1,000,000 of rewards. The third year commitment is $1,500,000. The Company expects to work with Aeroplan in developing and implementing a plan that allows the Company to expand the loyalty program while meeting its second and third year commitments.

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, commencing July 1, 2012, is $288,000. The Company and the service provider have reached an understanding that until November 30, 2012 the Company will be invoiced for the actual units of software sold by the Company to merchants, and that the annual purchase commitment will commence December 1, 2012. The Company and the service provider are negotiating an extension to the December 1, 2012 timeline.

## Loan Payable

The loan payable is a line of credit facility ("facility") with Accord Financial Inc. ("Accord") to be used exclusively to fund the Company's APM program. As security, the provider has first charge to all amounts due from merchants funded from the facility.

The facility was renewed in September, 2010 for a three year term ending in December, 2013.

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 on the entire facility effective January 1, 2012.

As at September 30, 2012, the Company had utilized $6.5 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 ("new 14% debentures").

The new 14% debentures bear interest at 14% per annum, payable quarterly, and mature on September 30, 2013. The 14% new debentures initially carried 3,574,750 common share purchase warrants convertible, during the term of the 14% new 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 new 14% debentures plus accrued and unpaid interest thereon. Post prepayment the principal amount of the new 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 new 14% debentures prepaid.

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

As at September 30, 2012 the Company met the financial covenant stipulated in the new 14% debentures agreement.

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

**12% Non-Convertible Debentures Payable**

In May 2011, the Company completed an early refinancing of 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, and mature on September 30, 2013. The 12% debentures initially 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 12% debentures plus 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. The number of Warrants surrendered was proportionate to the number of 12% debentures prepaid.

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

As at September 30, 2012 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.

## Summary of Quarterly Results

**12 month period ended**
**September 30, 2012**

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

**12 month period ended**
**September 30, 2011**

| (in millions of dollars, except per share amounts) | Q2 Dec 31 2010 | Q3 Mar 31 2011 | Q4 Jun 30 2011 | Q1 Sep 30 2011 | Total |
|---|---|---|---|---|---|
| Revenue | $ 3.6 | $ 2.8 | $ 3.7 | $ 3.8 | $ 13.9 |
| Percentage of Annual Revenue | 26 % | 20 % | 27 % | 27 % | 100 % |
| Net Income/(Loss) | $ 0.1 | $ (0.4) | $ (0.3) | $ 0.3 | $ (0.3) |
| 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 of the Company's results are reflective of seasonal consumer behavior at merchants participating in the Retail programs, as well as market penetration of the Company's Retail programs.

## Capital Resources

Expenditures for property, plant and equipment for Q1 Fiscal 2013 were $51,000 (Q1 Fiscal 2012 – $68,000). Q1 Fiscal 2013 includes capitalization of $18,000 of internal costs expended on software development connected to ensuring operability of the Company's loyalty marketing programs sponsored by CIBC and Aeroplan (Q1 Fiscal 2012 - $28,000). The costs are being amortized over the shorter of useful life of the software and term of Affinity partner agreement.

As of date hereof, the capital expenditures during year ending June 30, 2013 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 ("IFRS"), requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the 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 3 to the audited consolidated financial statements for the year ended June 30, 2012.

*Contingent liabilities*

A significant amount of estimation is applied in evaluating the company's uncertain tax provision with the Canada Revenue Agency (CRA), as described in note 14 to the consolidated financial statements for the three month period ended September 30, 2012, and in the last two paragraphs 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, and growth of its existing 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 loan payable, new 14% debentures, and 12% debentures 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 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 – 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.

The maximum exposure to credit risk is the net balance of the transaction credits, and accounts receivable (excluding amounts due from Canada Revenue Agency, which are discussed in General Risks and Uncertainties section in this document).

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

| | **September 30, 2012** | **June 30, 2012** |
|---|---|---|
| | **$** | **$** |
| Transaction credits | 15,432,027 | 15,315,258 |
| Accounts receivable | 244,459 | 166,330 |
| Allowance | (1,417,465) | (1,219,886) |
| Maximum exposure to credit risk | 14,259,021 | 14,261,702 |

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

| | September 30, 2012 | June 30, 2012 |
|---|---|---|
| | $ | $ |
| Transaction credits | 2,664,416 | 2,276,198 |
| Allowance | (1,417,465) | (1,219,886) |
| Impaired transaction credits not allowed for | 1,246,951 | 1,056,312 |

With some exceptions, the Company considers transaction credits outstanding for over 180 days as past due. The amount of transaction credits past due but not impaired as at September 30, 2012 amounted to $734,000 (as at June 30, 2012 $575,000)

## 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.

The stock option plan ("2009 stock option plan") 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 2012. The directors intend to approve continuation of the 2009 stock option plan to date of the annual meeting of shareholders in 2013.

Movement during Q1 Fiscal 2013 and Q1 Fiscal 2012 is tabulated.

| | Q1 Fiscal 2013 | Q1 Fiscal 2012 |
|---|---|---|
| | Number of Options | |
| Outstanding at start of period | 11,027,790 | 11,207,290 |
| Forfeited | - | (409,500) |
| Expired | (1,000,000) | (800,000) |
| Outstanding at end of period | 10,027,790 | 9,997,790 |

The number of stock options available for future issuance is as follows:

| | September 30, 2012 | June 30, 2012 |
|---|---|---|
| Maximum number reserved for issuance | 11,643,704 | 11,643,704 |
| Less: Outstanding at end of period | (10,027,790) | (11,027,790) |
| Number of options available for future issuance | 1,615,914 | 615,914 |

The Company recorded $nil of stock-based expense in Q1 Fiscal 2013 ($6,000 in Q1 Fiscal 2012).

**Outstanding Share Data**

Outstanding shares

As at date hereof, September 30, 2012, June 30, 2012, and September 30, 2011 the number of issued and outstanding common shares of the Company was 97,030,868.

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 new 14% debentures | 3,444,400 | 0.040 | September 30, 2013 |
| Common shares issuable on exercise of common share warrants attached to 12% debentures | 87,056,491 | 0.040 | September 30, 2013 |
| Agents warrants. Issued to agent on completion of financing of new 14% debentures, and 12% debentures in May, 2011 | 500,000 | 0.040 | May 10, 2013 |
| Employee stock options<br>Maximum number issuable under the 2009 stock option plan is 11,643,704. | 10,027,790 | Ranging between $0.01 and $0.045. | Ranging between March 2013 and February 2017 |
| | **101,028,681** | | |

## Transactions with Related Parties

As at September 30, 2012, June 30, 2012, and September 30, 2011, the related parties, tabulated below, were holders of new 14% debentures, and 12% debentures. The related parties purchased new 14% debentures and 12% debentures on terms and conditions applicable to the other subscribers.

| Title | Principal Amount – 14% non - convertible debentures ("new 14% debentures") | Principal Amount – 12% non – convertible debentures ("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 1,494 units of the new 14% debentures totaling to $1,494,000, and 4,662 units of 12% debentures totaling to $4,662,000. The new 14% debentures and 12% debentures (together "Debentures") held by Trapeze carry common share purchase warrants, convertible during the term of the Debentures, into 68,922,498 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.

## Outlook

The Company is reporting net income for Q1 Fiscal 2013, and this is in line with the Company's strong performance for fiscal year ended June 30, 2012.

The Company is focused on increasing merchant participation in its Retail programs, through a combination of acquisition of new participants, and improving retention of participating merchants.

During the next twelve to fifteen months the Company will be working with its partners on renewing agreements with CIBC, Aeroplan, holders of new 14% debentures and 12% debentures, and Accord (provider of loan payable). The Company expects to renew these key agreements.

The Company expects to increase merchant participation and revenues during fiscal year ending 2013, and steadily improve its financial performance.

**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. In September, 2010, the Company renewed its existing arrangement with CIBC, and signed a new agreement ("new agreement") expiring August 31, 2013. The new agreement grants the Company conditional exclusivity rights to market its programs within Dining (restaurants; golf courses; independent inns, resorts and selected hotels; spas) business segment, and select Retailing (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; and home decor) business segments. The new agreement can be terminated by CIBC under certain conditions prior to August 31, 2013. 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.

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 and is effective until August 31, 2013, with an option to extend for one additional period of two years by mutual consent of the parties, and can be terminated by Aeroplan under certain conditions prior to August 31, 2013. This value-added loyalty marketing agreement provides exclusive rights to the Company to market its product offerings to 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 Fashion retail, 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").

Illustration of economic dependence on CIBC

| **Revenue** | Q1 Fiscal 2013 | | Q1 Fiscal 2012 | |
|---|---|---|---|---|
| | $ | % | $ | % |
| Retail programs | | | | |
| CIBC Advantex programs, in the Dining business segment | $ 3.0m | 68% | $ 3.0m | 79% |
| CIBC Advantex programs; Combined CIBC Advantex & Aeroplan sponsored programs; and Aeroplan sponsored programs in the Retailing business segments | $ 1.3m | 30% | $ 0.8m | 21% |
| Other | $ 0.1m | 2% | $ nil | - |
| Total | $ 4.4m | 100% | $ 3.8m | 100% |

## 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 over a decade and has been through several multi-year renewal terms. The new agreement was renewed on September 1, 2010 and expires August 31, 2013. The Company expects a further multi-year renewal on expiry of the new agreement. If CIBC does not renew the new agreement with the Company, or exercises its right under certain conditions to terminate the new agreement prior to August 31, 2013, or exercises its right under certain conditions and takes away the exclusivity granted to the Company to market its programs in designated business segments, the Company could be materially and adversely affected. The Company believes that it has begun to limit its economic dependence on CIBC by developing additional partnerships with Aeroplan and CTG.

The Company's working capital needs are currently entirely provided by debt in the form of 12% debentures, new 14% debentures, and loan payable. While the Company utilizes the funds generated from its operations to expand its premier program – Advanced 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, new 14% debentures holders, and providers of loan payable facility span about 10 and 5 years respectively. The 12% debentures, and new 14% debentures carry financial covenants and since their renewal in May 2011 the Company has met the financial covenants. The loan payable is a demand facility, and the term of the loan payable expires in December 2013. 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, and uncertainty connected to the Canada Revenue Agency's ("CRA") decision to the Company's notice of objection on the GST matter explained in detail later in this section 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 generally acquires the rights to cash flow from future designated credit card transactions ("future sales") at a discount from participating merchants ("transaction credits" on consolidated statement of financial position). These transaction credits are estimated to be fully extinguishable within 30 – 210 days 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 new 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 new 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, during the three months ended September 30, 2012 the Company incurred interest expense of $268,000 on utilization of loan payable. Had the interest rate during the three months ended September 30, 2012 been 10% higher, the interest expense on loan payable would be $295,000, an increase of $27,000.

During the past five 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 Advantex, 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, those factors noted above, and the CRA re-assessment discussed later in this section, the profitability of the Company is also subject to a number of additional risk factors including: continuation of partnership with Affinity partner 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 annual commitments (described in detail under section Contractual Obligations in this document) to Aeroplan respecting purchase of minimum aeroplan miles.

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, other than as described below, 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.

After an audit in 1998, the CRA determined that the Company was providing marketing services. Since 1998, the Company has continued in the same business activities. After completion of a recent audit, the CRA reversed its 1998 position. In April 2009, the Company received a notice of reassessment from the CRA 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 is in the amount of $755,000. The Company has contested the CRA position, and has filed a notice of objection. Since this is a GST re-assessment, the amount of the re-assessment had to be paid in full, and is independent of the appeals process. By June 30, 2011 the Company made all payments under the agreed payment plan, and has recorded amounts paid under the payment plan as a recoverable asset. However, no assurance can be given with regards to the timing of a decision to the Company's notice of objection and or whether the notice of objection will be decided in whole or in part in the Company's favour. In the event the notice of objection is denied, the Company's earnings and its liquidity and working capital position could be affected negatively.

## 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 respecting the upfront investment in SG&A required for its Retail programs; expectation of the time required to pay-out the investment in SG&A; ability to assess, and define the focus areas for the Company; belief in its ability to successfully manage the operational and renewal challenges; expectation of successful renewal of agreements with its existing affinity and financial partners; expectation with respect to the timing, duration, and the terms of the renewal of its existing affinity and financial agreements; belief that increasing the amount of the transaction credits deployed will result in higher revenue and, consequently, improve the Company's results and cash flows; expectation with respect to nature and investment in capital expenditures; expected capital expenditures over the next four quarters; expectation that growth in revenues will outpace selling costs; expectation that additional capital is required to fund growth; expectation with respect to meeting its second and third year commitments to Aeroplan; expectation with respect to meeting its commitment to service provider of software; expectation of increase in merchant participation and revenues; belief in its ability to improve its financial performance; belief that it has begun to reduce its economic dependence on CIBC by developing partnerships with Aeroplan and CTG; ability to manage collection risk connected to transaction credits; belief it has a strong platform to compete effectively in the North American marketplace and respond to new competition in Canada; 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 new 14% debentures, and 12% debentures; its ability to manage risks connected to collection of transaction credits; current and future economic and market conditions and the impact of same on 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.

ADVANTEX

**ADVANTEX® MARKETING INTERNATIONAL INC.**
**Management's Discussion and Analysis of Operating Results**
For the three and six month periods ended December 31, 2012 and 2011

*This management's discussion and analysis has been prepared based on information available to Advantex Marketing International Inc. ("Advantex" or "the Company") as at February 27, 2013. Management's Discussion and Analysis ("MD&A") is a narrative explanation to enable the reader to assess material changes in the financial condition and results of operations of the Company during the three and six month periods ended December 31, 2012, compared with the three and six month periods ended December 31, 2011. 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, 2012, and the interim consolidated financial statements and the related notes for the three and six months ended December 31, 2012, 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.*

## 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 more than five million Canadian consumers with above-average personal and household income. The Company's merchant partner base currently consists of just under 1,300 merchants operating in several business segments: restaurants; golf courses; independent inns, resorts and selected hotels; spas; men's and ladies fashion, footwear and accessories; sporting goods; florists and garden centres; book and newspaper stores; health and beauty centres; dry cleaners; gift stores; and home décor; 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.

This has been an eventful, yet challenging quarter for Advantex. The highlights are set out in this section.

1. The Company was notified by the Canada Revenue Agency ("CRA") that the CRA was vacating its re-assessment of April, 2009 respecting the Company's fiscal years ended June 30, 2005 to June 30, 2007 ("fiscal years"). This removes the uncertainty connected to the Company's GST filing position for these fiscal years. The formal notification from CRA was received in January, 2013;

2. In November, 2012 the Company commenced steps to close on an acquisition. On January 31, 2013 the Company completed an acquisition that was announced in the Company's press release dated February 1, 2013. The Company acquired all of Futura Loyalty Group Inc.'s ("Futura") Aeroplan Channel Marketing assets as per Futura's restructuring under the Companies' Creditors Arrangement Act. The assets include (i) Futura's Aeroplan Channel Program Agreement; (ii) all merchant and dealer agreements covering about 700 merchant locations; and (iii) all inventory and collateral materials of Futura relating to the Aeroplan Channel Program Agreement. The Company paid $100,000 for the assets. This transaction provides operational and strategic benefits. Strategically it has positioned the Company as Aeroplan's sole re-seller of aeroplan miles in the SME segment. The Company and Aeroplan reached an understanding to restructure their existing agreement ("arrangement") to reflect the Futura transaction. The arrangement has a one year term ending December 31, 2013;

3. Respecting the Company's investment of $100,000 in an Ontario corporation in the couponing business, in December, 2012 the Company was advised by the promoters that they were ceasing operations. The investment has been written-off in the interim consolidated financial statements for three and six months ended December 31, 2012, and there will be no other effect on the financial statements; and

4. The Company is pleased to report a net income for three and six months ended December 31, 2012 in what has been a more difficult economy than we have experienced in the previous year.

The uncertain economy affects the consumer spending at two levels, and consequently it has a bearing on the Company's financial performance:

- Firstly, it affects the Company's revenue as a result of cut-back in consumer spending especially that which can be classified as discretionary. The Company earns revenue as customers complete purchases using designated credit cards at merchants participating in its Retail programs. Although the Company has been diversifying its merchant base, restaurants still make up a significant portion, and spending at restaurants is discretionary in nature. During the past six months restaurants, which made up over 50% of merchants participating in the Company's Retail programs, were negatively affected by the NHL strike, and this was a factor in the Company's financial performance; and
- Secondly, small merchants tend to scale back their marketing expenditures during financially challenging times, and this can be counter-productive for merchant growth. For the Company this is reflected in a longer selling cycle, and a shorter retention cycle.

The highlights of the results for the three and six months ended December 31, 2012 ("Q2 Fiscal 2013" and "YTD Fiscal 2013" respectively) compared with the corresponding periods in the previous year ("Q2 Fiscal 2012" and "YTD Fiscal 2012" respectively) are tabulated. The results for Q2 Fiscal 2013 and YTD Fiscal 2013 are a continuation of the strong financial performance for fiscal year ended June 30, 2012.

| | Q2 Fiscal 2013 | Q2 Fiscal 2012 | Inc./ (Dec) | YTD Fiscal 2013 | YTD Fiscal 2012 | Inc./ (Dec) |
|---|---|---|---|---|---|---|
| | $ | $ | | $ | $ | |
| Revenues | 4,428,000 | 4,234,000 | 4.6% | 8,831,000 | 8,069,000 | 9.4% |
| Earnings from operations before amortization and interest ("EBITDA" *****) | 1,026,000 | 1,000,000 | 2.6% | 2,066,000 | 1,977,000 | 4.5% |
| Net Income | 124,000 | 247,000 | (49.8)% | 398,000 | 508,000 | (21.7)% |

***** EBITDA is a non-GAAP financial measure which does not have any standardized meaning prescribed by the issuer's GAAP and is unlikely to be comparable to similar measures presented by other issuers. It is provided as additional information to assist readers in understanding a component of the Company's financial performance. In case of the Company per consolidated financial statements for three and six months ended December 31, 2012, earnings from operations before amortization and interest is the nearest equivalent to EBITDA.

Higher direct expenses, write-off of investment, increase in depreciation and non-cash interest expense representing accretion charges on the two non-convertible debentures combined to erode profitability for Q2 Fiscal 2013 and YTD Fiscal 2013 compared with Q2 Fiscal 2012 and YTD Fiscal 2012.

In order to overcome recent challenges to scale the Company's business, we are focused on implementing the following initiatives:

1. Effective deployment of the selling organization, continuous improvement in the value proposition of the Company's programs, and access to new business segments granted by Affinity partners. The Company is refreshing processes in an effort to continue to increase merchant participation;
2. The growth in Retail program revenues trails growth in merchant participation and this is primarily consequent to change in mix of merchants participating in the Retail programs, reflecting increase in merchants with lower sales of designated credit cards on which the Company earns its revenues. The Company is developing a premium loyalty marketing program to target merchants with large volume of designated credit card sales;
3. Direct expenses increased at a pace ahead of revenues. This primarily was on account of increase in reserve against delinquent accounts. The Company is monitoring the credit environment, and re-assessing its due diligence and collection processes to manage the risk; and
4. Selling, and General and Administrative ("SG&A") expenses. The payout from investment in the selling organization has paid out in terms of increase in merchant participation but not revenues. This is a time consuming process in the small merchant space since it requires substantial manpower to manage the life cycle of participating merchants. The Company is keeping a close watch on its expenses to protect its profitability. At the end of November, 2012 the Company initiated lay-off of staff from November 30, 2012 to March 31, 2013 to coincide with the lead up to the historical low season – January to March – for its revenues, and selling activity. The staff was primarily connected to sales and account management.

The Company has key agreements that are coming up for renewal in the periods ending December, 2013. The Company expects a successful outcome with the following:

1. Renew the agreement with CIBC. The Company has economic dependence on this agreement. The Company has over a decade long relationship with CIBC. The most recent renewal was in September, 2010 for an additional term ending on August 31, 2013;
2. Extending the Aeroplan agreement;
3. Either renew or refinance the 12% Non-Convertible Debentures Payable ("12% debentures"), and 14% Non-Convertible Debentures Payable ("new 14% debentures"), both of which mature September 30, 2013; and
4. Renew the Loan Payable ("loan payable") agreement. The existing agreement expires in December, 2013;

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

## Results of Operations

| | Q2 Fiscal 2013 | Q2 Fiscal 2012 | YTD Fiscal 2013 | YTD Fiscal 2012 |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| **Revenue –** Retail programs | $4,387,000 | $4,234,000 | $8,778,000 | $8,069,000 |
| Misc., and Interest income | 41,000 | - | 53,000 | - |
| | **$4,428,000** | **$4,234,000** | **$8,831,000** | **$8,069,000** |
| Direct expenses | 1,416,000 | 1,168,000 | 2,792,000 | 2,212,000 |
| **Gross Profit** | **3,012,000** | **3,066,000** | **6,039,000** | **5,857,000** |
| Selling, and General & Administrative expenses | 1,986,000 | 2,066,000 | 3,973,000 | 3,880,000 |
| **Earnings from operations before amortization and interest** | **1,026,000** | **1,000,000** | **2,066,000** | **1,977,000** |
| Write-off of investment | 100,000 | - | 100,000 | - |
| Depreciation | 138,000 | 102,000 | 246,000 | 194,000 |
| Interest on loan payable and debentures | 664,000 | 651,000 | 1,322,000 | 1,275,000 |
| **Net income** | **$124,000** | **$247,000** | **$398,000** | **$508,000** |
| | | | | |
| **Basic and diluted earnings per share** | **$0.00** | **$0.00** | **$0.00** | **$0.00** |

The presentation in Results of Operations section is not set out in accordance with Canadian generally accepted accounting principles ("GAAP") but has been included to provide additional analysis for the reader.

## Revenue

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

Retail programs have two business models. In both models, revenue is recognized at the time that purchases are made by customers at merchants participating in the Retail programs.

(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 merchants, 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/or marketing support for participating merchants and earns its revenue, based on an agreed percentage of each designated credit card transaction in exchange for the services it provides participating merchants.

Since the Company earns revenue as customers make purchases using designated credit cards at participating merchants, the drivers of revenues from Retail programs are:

1. Number of participating merchants;
2. Mix of participating merchants in terms of their volume of designated credit card transactions;
3. Participation levels in APM and Marketing Only programs. The fees that a merchant would pay for participation in the APM program is higher compared with Marketing Only program;
4. Seasonality associated with customer purchases. Details available under section Summary of Quarterly Results; and
5. Economic environment. The uncertain economy is affecting consumer spending habits.

The revenue trends are provided in the tabulation.

| | Q2 Fiscal 2013 | Q2 Fiscal 2012 | Inc./ (Dec) | YTD Fiscal 2013 | YTD Fiscal 2012 | Inc./ (Dec) |
|---|---|---|---|---|---|---|
| Avg. # of merchants participating in Retail programs during the period | 1,358 | 1,114 | 21.9% | 1,344 | 1,059 | 26.9% |
| | | | | | | |
| | $ | $ | % | $ | $ | % |
| Retail programs | | | | | | |
| APM | 3,001,000 | 2,929,000 | | 6,003,000 | 5,542,000 | |
| Marketing Only | 1,253,000 | 1,305,000 | | 2,549,000 | 2,482,000 | |
| | **4,254,000** | **4,234,000** | **0.5%** | **8,552,000** | **8,024,000** | **6.5%** |
| Sales of Aeronotes | - | - | | - | 45,000 | |
| Sales of digital marketing services | 133,000 | - | | 226,000 | - | |
| Total Retail programs | **4,387,000** | **4,234,000** | **3.6%** | **8,778,000** | **8,069,000** | **8.8%** |
| | | | | | | |
| Miscellaneous income etc. | 17,000 | - | | 29,000 | - | |
| Interest income | 24,000 | - | | 24,000 | - | |
| **Total Revenues** | **4,428,000** | **4,234,000** | **4.6%** | **8,831,000** | **8,069,000** | **9.4%** |
| | | | | | | |
| *Average annual revenue per merchant, based on extrapolation of YTD trends* | | | | *$13,063* | *$15,239* | *(14.3)%* |

The growth in Retail program revenues trails growth in merchant participation as a result of:

a. Change in the mix of the merchants. Increase in merchants with lower volume of designated credit cards on which the Company earns its fees; and
b. Reduction in consumer spending. Reflection of uncertain economy, and NHL strike which affected restaurants.

**Direct Expenses**

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

| | Q2 Fiscal 2013 | Q2 Fiscal 2012 | Inc./ (Dec) | YTD Fiscal 2013 | YTD Fiscal 2012 | Inc./ (Dec) |
|---|---|---|---|---|---|---|
| | $ | $ | % | $ | $ | % |
| Increase in Retail program Revenues | | | **3.6%** | | | **8.8%** |
| | | | | | | |
| Direct Expenses | **1,416,000** | **1,168,000** | **21.2%** | **2,792,000** | **2,212,000** | **26.2%** |

Increase in direct expenses primarily reflects higher reserve for delinquent accounts. (Q2 Fiscal 2013 and YTD Fiscal 2013 respectively $233,000 and $394,000 compared with $87,000 and $132,000 for corresponding periods in the previous year). The Company is continuously monitoring the challenging credit environment and improving its due diligence processes, and believes it has appropriate processes to manage delinquency risk.

## Gross Profit

| | Q2 Fiscal 2013 | Q2 Fiscal 2012 | Inc./ (Dec) | YTD Fiscal 2013 | YTD Fiscal 2012 | Inc./ (Dec) |
|---|---|---|---|---|---|---|
| Gross Profit | **$3,012,000** | **$3,066,000** | **(1.8)%** | **$6,039,000** | **$5,857,000** | **3.1%** |
| Gross Margin | 68.0% | 72.4% | | 68.4% | 72.6% | |

A flat gross profit, and decline in gross margin reflect increase in direct expenses (increase explained in section Direct Expenses) which are ahead of increase in Retail program revenues.

## Selling Expenses

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

| | Q2 Fiscal 2013 | Q2 Fiscal 2012 | Inc./ (Dec) | YTD Fiscal 2013 | YTD Fiscal 2012 | Inc./ (Dec) |
|---|---|---|---|---|---|---|
| | $ | $ | | $ | $ | |
| Increase in Retail program Revenues | | | **3.6%** | | | **8.8%** |
| | | | | | | |
| Selling Expenses | **978,000** | **925,000** | **5.7%** | **1,888,000** | **1,701,000** | **11.0%** |

The Company built up its sales organization to capitalize on the revenue growth opportunities. Our business development team sells new merchants into the Company's Retail programs, and the account management team manages the merchants' participation in the Retail programs. The selling organization has delivered results in terms of the increase in the merchant participation compared to the corresponding periods in the previous year but this has yet to fully pay out in terms of revenue growth (see Revenue section). To research small merchant requirements, tailor make suitable programs, sell and manage small merchants across Canada is a labour intensive and time-consuming process which involves investment up front. Based on the existing annual revenue trends per participating merchant (tabulated in Revenue section), the Company does expect the growth in revenues to eventually outpace selling expenses.

In addition, at the end of November, 2012 the Company initiated lay-off of staff, primarily connected to sales and account management, from November 30, 2012 to March 31, 2013 to coincide with the lead up to the historical low season – January to March for its revenues, and selling activity.

## General and Administrative Expenses ("G&A")

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

| | Q2 Fiscal 2013 | Q2 Fiscal 2012 | Inc./ (Dec) | YTD Fiscal 2013 | YTD Fiscal 2012 | Inc./ (Dec) |
|---|---|---|---|---|---|---|
| | $ | $ | | $ | $ | |
| Increase in Retail program Revenues | | | **3.6%** | | | **8.8%** |
| | | | | | | |
| G&A | | | | | | |
| Compensation for non-sales staff | 770,000 | 832,000 | | 1,561,000 | 1,593,000 | |
| Less: software development costs capitalized (details provided under section Capital Expenditures in this document) | (44,000) | (39,000) | | (61,000) | (67,000) | |
| | 726,000 | $ 793,000 | | 1,500,000 | 1,526,000 | |
| All other G&A expenses | 282,000 | $ 348,000 | | 585,000 | 653,000 | |
| | **1,008,000** | **1,141,000** | **(11.7)%** | **2,085,000** | **2,179,000** | **(4.3)%** |

*Compensation*

The decrease in year over year compensation is primarily a result of:

1. Q2 Fiscal 2012 and YTD Fiscal 2012 reflect a provision for bonuses created in Q2 Fiscal 2012; and
2. Q2 Fiscal 2013 and YTD Fiscal 2013 reflect a partial write-back, in Q2 Fiscal 2013, of bonus provision created during fiscal year ended June 30, 2012 for certain staff.

Q2 Fiscal 2013 and YTD Fiscal 2013 reflect the lay-off initiated at the end of November, 2012 (see section Selling Expenses ) which included staff that are part of G&A. YTD Fiscal 2013 also reflects increase in compensation of certain staff.

*Other Expenses*

Except for the write-back of provisions no longer required, Q2 Fiscal 2013 and YTD Fiscal 2013 are comparable to corresponding periods in the previous year.

## Interest Expense

The interest expense is tabulated:

| | Q2 Fiscal 2013 | Q2 Fiscal 2012 | Inc./ (Dec) | YTD Fiscal 2013 | YTD Fiscal 2012 | Inc./ (Dec) |
|---|---|---|---|---|---|---|
| | $ | $ | | $ | $ | |
| Stated interest expense | | | | | | |
| ➢ Loan payable | 267,000 | 258,000 | | 535,000 | 491,000 | |
| ➢ New 14% debentures | 62,000 | 64,000 | | 123,000 | 127,000 | |
| ➢ 12% debentures | 185,000 | 196,000 | | 372,000 | 391,000 | |
| ➢ Total stated interest | **514,000** | **518,000** | **(0.8)%** | **1,030,000** | **1,009,000** | **2.1%** |
| | | | | | | |
| Non cash interest on new 14% debentures and 12% debentures, comprising accretion charges | 150,000 | 133,000 | | 292,000 | 266,000 | |
| Total interest expense | **664,000** | **651,000** | **2.0%** | **1,322,000** | **1,275,000** | **3.7%** |

The Company deploys the funds available to it under loan payable, and new14% debentures payable with merchants activated under its Advance Purchase Marketing ("APM") program. The funds available under the 12% debentures are used for working capital purposes as well as being deployed with merchants activated under the APM program. The funds deployed are reflected as transaction credits on the consolidated statement of financial position.

Stated interest expense on loan payable reflects the utilization of funds under this line of credit facility. In addition, the Company qualified for lower rate of interest on its loan payable from January, 2012 and this is explained in the section Loan Payable.

Stated interest expense on new 14% debentures and 12% debentures reflects amounts prepaid in July, 2012 pursuant to debt prepayment agreements:

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

**Net Income**

Highlights are tabulated:

| | Q2 Fiscal 2013 | Q2 Fiscal 2012 | Inc./(Dec) | YTD Fiscal 2013 | YTD Fiscal 2012 | Inc./(Dec) |
|---|---|---|---|---|---|---|
| Average # of participating merchants in Retail programs | 1,358 | 1,114 | 21.9% | 1,344 | 1,059 | 26.9% |
| Revenues | $4,428,000 | $4,234,000 | 4.6% | $8,831,000 | $8,069,000 | 9. 4% |
| Gross Profit | $3,012,000 | $3,066,000 | (1.8)% | $6,039,000 | $5,857,000 | 3.1% |
| Earnings from operations before amortization and interest | $1,026,000 | $1,000,000 | 2.6% | $2,066,000 | $1,977,000 | 4.5% |
| Write-off of investment (see section Overall Performance) | $ 100,000 | $ - | | $ 100,000 | $ - | |
| Net Income | $ 124,000 | $ 247,000 | (49.8)% | $ 398,000 | $ 508,000 | (21.7)% |

## Working Capital and Liquidity Management

The utilization of liquidity is illustrated in the following tabulation:

| | Q2 Fiscal 2013 | Q2 Fiscal 2012 | YTD Fiscal 2013 | YTD Fiscal 2012 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **FUNDS AVAILABLE TO EXPAND APM PROGRAM (Transaction credits) AND MEET WORKING CAPITAL REQUIREMENTS** | | | | |
| 1. Net income | 124,000 | 247,000 | 398,000 | 508,000 |
| Add back non-cash expenses | 389,000 | 232,000 | 638,000 | 463,000 |
| Income before non-cash expenses * | 513,000 | 479,000 | 1,036,000 | 971,000 |
| 2. Cash balances at start of the period | 618,000 | 394,000 | 1,085,000 | (78,000) |
| 3. (Decrease) / Increase in utilization of loan payable to increase merchants participating in the APM program | (11,000) | (110,000) | (186,000) | 995,000 |
| 4. Accounts payable and accrued liabilities | - | 574,000 | - | 473,000 |
| **Funds Available** | **1,120,000** | **1,337,000** | **1,935,000** | **2,361,000** |
| | | | | |
| **UTILIZATION** | | | | |
| 1. (Decrease) / Increase in transactions credits under APM program | 692,000 | (216,000) | 611,000 | 692,000 |
| 2. Cash balances at end of period | (222,000) | 1,312,000 | (222,000) | 1,312,000 |
| 3. Change in working capital items | | | | |
| - Current assets | 240,000 | 164,000 | 385,000 | 183,000 |
| - Accounts payable and accrued liabilities | 81,000 | - | 396,000 | - |
| 4. Capital expenditures | 329,000 | 69,000 | 380,000 | 137,000 |
| 5. Partial early prepayment of new 14% debentures and 12% debentures (collectively "Debentures") | - | - | 376,000 | - |
| 6. Debentures early prepayment / renewal – additional transaction costs | - | 8,000 | 9,000 | 37,000 |
| **Utilization** | **1,120,000** | **1,337,000** | **1,935,000** | **2,361,000** |

***** 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 intangibles; stock based compensation; and accretion charge for debentures – to net income for the period, which are disclosed in the consolidated financial statements for the three and six months ended December 31, 2012 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 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.

The movement in transaction credits reflects partially changes in the number of merchants participating in the Company's APM program, and partially changes to amount of transaction credits deployed with existing merchants.

Capital expenditures are discussed in section Capital Resources. As of date hereof, the capital expenditures during the next four quarters are expected to be in the nature of updating of the Company's infrastructure and software development, and are expected to be marginally ahead of current period activity levels.

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 new 14% debentures plus accrued and unpaid interest thereon.

The Company deploys the funds available to it under loan payable, and new14% debentures payable with merchants activated under its APM program. The funds available under the 12% debentures are used for working capital purposes as well as being deployed with merchants activated under the APM program. At present, the need for capital to expand the APM program is satisfied by loan payable, however it is a demand facility, and in addition it has a constraint since it requires the Company to co-fund a certain portion of the transaction credits deployed with merchants using this facility.

The Company's operations are funded by debt. To continue its current operations and fund growth during Fiscal 2013 and beyond requires the Company to have continued access to its existing levels of debt. The new 14% debentures and 12% debentures mature in September, 2013, and the loan payable agreement expires in December, 2013. The Company expects to successfully negotiate renewals and/or re-finance the debt.

Additional capital in the form of debt and/or equity will be required to fund the continued expansion of the Company's APM programs, as described under General Risks and Uncertainties.

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

## Contractual Obligations

Contractual obligations as at December 31, 2012 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 | $6.5 | $6.5 | $- | $- | $- |
| New 14% debentures | $1.7 | $1.7 | $- | $- | $- |
| 12% debentures | $6.2 | $6.2 | $- | $- | $- |
| Operating Leases | $0.6 | $0.1 | $0.3 | $0.2 | $- |

Additional commitments

The Company has an annual aeroplan mile purchase commitment each year of its three year agreement ("existing agreement") with 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 18 of the consolidated financial statements for three and six months ended December 31, 2012) 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.

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, commencing July 1, 2012, is $288,000. The Company and the service provider reached an understanding that until November 30, 2012 the Company would be invoiced for the actual units of software sold by the company to merchants, and that the annual purchase commitment would commence December 1, 2012. The Company and the service provider are negotiating for the annual purchase commitment commencing June 30, 2013.

**Loan Payable**

The loan payable is a line of credit facility ("facility") with Accord Financial Inc. ("Accord") to be used exclusively to fund the Company's APM program. As security, the provider has first charge to all amounts due from merchants funded from the facility.

The facility was renewed in September, 2010 for a three year term ending in December, 2013.

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 on the entire facility effective January 1, 2012.

As at December 31, 2012, the Company had utilized $6.5 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 ("new 14% debentures").

The new 14% debentures bear interest at 14% per annum, payable quarterly, and mature on September 30, 2013. The 14% new debentures initially carried 3,574,750 common share purchase warrants convertible, during the term of the 14% new 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 new 14% debentures plus accrued and unpaid interest thereon. Post prepayment the principal amount of the new 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 new 14% debentures prepaid.

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

As at December 31, 2012 the Company met the financial covenant stipulated in the new 14% debentures agreement.

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

**12% Non-Convertible Debentures Payable**

In May 2011, the Company completed an early refinancing of 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, and mature on September 30, 2013. The 12% debentures initially 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 12% debentures plus 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. The number of Warrants surrendered was proportionate to the number of 12% debentures prepaid.

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

As at December 31, 2012 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.

## Summary of Quarterly Results

**12 month period ended December 31, 2012**

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

**12 month period ended December 31, 2011**

| (in millions of dollars, except per share amounts) | Q3 Mar 31 2011 | Q4 Jun 30 2011 | Q1 Sep 30 2011 | Q2 Dec 31 2011 | Total |
|---|---|---|---|---|---|
| Revenue | $ 2.8 | $ 3.7 | $ 3.8 | $ 4.2 | $ 14.5 |
| Percentage of Annual Revenue | 19% | 26% | 26% | 29% | 100% |
| Net Income/(Loss) | $ (0.4) | $ (0.3) | $ 0.3 | $ 0.2 | $ (0.2) |
| Basic and Diluted Earnings Per Common Share: | $ (0.00) | $ (0.00) | $ 0.00 | $ 0.00 | $ (0.00) |

The fluctuations of the Company's results are reflective of seasonal consumer behavior at merchants participating in the Retail programs, as well as market penetration of the Company's Retail programs.

## Capital Resources

Expenditures for property, plant and equipment for Q2 Fiscal 2013 and YTD Fiscal 2013 respectively were $329,000 and $380,000 compared with $69,000 and $137,000 respectively for corresponding periods in the previous year. Q2 Fiscal 2013 and YTD Fiscal 2013 respectively include capitalization of $44,000 and $61,000 of internal costs expended on software development connected to ensuring operability of the Company's loyalty marketing programs sponsored by CIBC and Aeroplan compared with $39,000 and $67,000 respectively for corresponding periods in the previous year. The costs are being amortized over the shorter of useful life of the software and term of Affinity partner agreement.

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

## Critical Accounting Estimates

The preparation of the Company's consolidated financial statements, in accordance with International Financial Reporting Standards ("IFRS"), requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the

disclosure of contingent assets and liabilities at the date of the 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 3 to the audited consolidated financial statements for the year ended June 30, 2012.

*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, and growth of its existing 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 loan payable, new 14% debentures, and 12% debentures 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 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 – 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.

The maximum exposure to credit risk is the net balance of the transaction credits, and accounts receivable (excluding amount due from the CRA which is disclosed as part of accounts receivable in the consolidated statements of financial position, and is discussed in section Overall Performance).

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

| | December 31, 2012 | September 30, 2012 | June 30, 2012 |
|---|---|---|---|
| | $ | $ | $ |
| Transaction credits | 16,340,902 | 15,432,027 | 15,315,258 |
| Accounts receivable | 339,824 | 244,459 | 166,330 |
| Allowance | (1,634,353) | (1,417,465) | (1,219,886) |
| Maximum exposure to credit risk | 15,046,373 | 14,259,021 | 14,261,702 |

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

| | December 31, 2012 | September 30, 2012 | June 30, 2012 |
|---|---|---|---|
| | $ | $ | $ |
| Transaction credits | 3,214,336 | 2,664,416 | 2,276,198 |
| Allowance | (1,634,353) | (1,417,465) | (1,219,886) |
| Impaired transaction credits not allowed for | 1,579,983 | 1,246,951 | 1,056,312 |

With some exceptions, the Company considers transaction credits outstanding for over 180 days as past due. The amount of transaction credits past due but not impaired as at December 31, 2012 amounted to $958,000 (as at June 30, 2012 $575,000).

**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.

The stock option plan ("2009 stock option plan") 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.

Movement during YTD Fiscal 2013 and YTD Fiscal 2012 is tabulated.

| | YTD Fiscal 2013 | YTD Fiscal 2012 |
|---|---|---|
| | Number of Options | |
| Outstanding at start of period | 11,027,790 | 11,207,290 |
| Forfeited | - | (409,500) |
| Expired | (1,000,000) | (800,000) |
| Outstanding at September 30 | 10,027,790 | 9,997,790 |
| Expired | - | 2,100,000 |
| Outstanding at December 31 | 10,027,790 | 7,897,790 |

The number of stock options available for future issuance is as follows:

| | December 31, 2012 | June 30, 2012 |
|---|---|---|
| Maximum number reserved for issuance | 11,643,704 | 11,643,704 |
| Less: Outstanding at end of period | (10,027,790) | (11,027,790) |
| Number of options available for future issuance | 1,615,914 | 615,914 |

The Company recorded $nil of stock-based expense for YTD Fiscal 2013 ($2,555 for YTD Fiscal 2012).

## Outstanding Share Data

Outstanding shares

As at date hereof, December 31, 2012, June 30, 2012, and December 31, 2011 the number of issued and outstanding common shares of the Company was 97,030,868.

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 new 14% debentures | 3,444,400 | 0.040 | September 30, 2013 |
| Common shares issuable on exercise of common share warrants attached to 12% debentures | 87,056,491 | 0.040 | September 30, 2013 |
| Agents warrants. Issued to agent on completion of financing of new 14% debentures, and 12% debentures in May, 2011 | 500,000 | 0.040 | May 10, 2013 |
| Employee stock options<br>Maximum number issuable under the 2009 stock option plan is 11,643,704. | 10,027,790 | Ranging between $0.01 and $0.045. | Ranging between March 2013 and February 2017 |
| | **101,028,681** | | |

## Transactions with Related Parties

As at December 31, 2012, June 30, 2012, and December 31, 2011, the related parties, tabulated below, were holders of new 14% debentures, and 12% debentures. The related parties purchased new 14% debentures and 12% debentures on terms and conditions applicable to the other subscribers.

| Title | Principal Amount – 14% non - convertible debentures payable (“new 14% debentures”) | Principal Amount – 12% non – convertible debentures payable (“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 1,490 units of the new 14% debentures totaling to $1,490,000 and 4,662 units of 12% debentures totaling to $4,662,000. The new 14% debentures and 12% debentures (together "Debentures") held by Trapeze carry common share purchase warrants, convertible during the term of the Debentures, into 68,914,598 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.

**Outlook**

The Company is focused on increasing merchant participation in its Retail programs, through a combination of acquisition of new participants, and improving retention of participating merchants.

During the next six to nine months the Company will be working with its partners on renewing agreements with CIBC, Aeroplan, holders of new 14% debentures and 12% debentures, and Accord (provider of loan payable). The Company expects to renew these key agreements.

Given the uncertain economy, the Company is cautiously optimistic of its efforts to increase merchant participation and revenues during fiscal year ending 2013, and close the year with a profitable financial performance.

**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. In September, 2010, the Company renewed its existing arrangement with CIBC, and signed a new agreement ("new agreement") expiring August 31, 2013. The new agreement grants the Company conditional exclusivity rights to market its programs within Dining (restaurants; golf courses; independent inns, resorts and selected hotels; spas) business segment, and select Retailing (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; and home decor) business segments. The new agreement can be terminated by CIBC under certain conditions prior to August 31, 2013.

The new agreement may, at the option of CIBC, be renewed for one additional year ending August 31, 2014 provided CIBC exercises such option on or before February 28, 2013. The existing agreement may be renewed for a multi-year term upon mutual agreement. The Company believes that its program offers an attractive method for CIBC credit cardholders to accelerate accumulation of loyalty rewards, and expects to secure a renewal with CIBC. 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.

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 ("existing agreement) with Aeroplan. The existing agreement was signed in March, 2010 and was effective until 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. This value-added loyalty marketing agreement provided exclusive rights to the Company to market its product offerings to men's and ladies fashion, footwear and accessories business segment ("Fashion retail"). The Company launched this program on September 1, 2010.

As discussed in the section Contractual Obligations the Company and Aeroplan reached an understanding to restructure the existing agreement. The restructured arrangement ("arrangement") has a one year term ending December 31, 2013.

The Company signed an agreement in February 2012 with the Canadian Tire Group ("CTG"). The program is currently in pilot phase. The Company believes this relationship has the potential to further reduce its dependence on the relationship with CIBC.

Illustration of economic dependence on CIBC

| **Revenue** | YTD Fiscal 2013 | | YTD Fiscal 2012 | |
|---|---|---|---|---|
| | $ | % | $ | % |
| Retail programs | | | | |
| CIBC Advantex programs, in the Dining business segment | $ 5.8m | 66% | $ 6.1m | 75% |
| CIBC Advantex programs; Combined CIBC Advantex & Aeroplan sponsored programs; and Aeroplan sponsored programs in the Retailing business segments | $ 2.7m | 31% | $ 2.0m | 25% |
| Other | $ 0.3m | 3% | $ nil | - |
| Total | $ 8.8m | 100% | $ 8.1m | 100% |

## 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 over a decade and has been through several multi-year renewal terms. The new agreement was renewed on September 1, 2010 and expires August 31, 2013. The Company expects a further multi-year renewal on expiry of the new agreement. If CIBC does not renew the new agreement with the Company, or exercises its right under certain conditions to terminate the new agreement prior to August 31, 2013, or exercises its right under certain conditions and takes away the exclusivity granted to the Company to market its programs in designated business segments, the Company could be materially and adversely affected. The Company believes that it has begun to limit its economic dependence on CIBC by developing additional partnerships with Aeroplan and CTG.

The Company's working capital needs are currently entirely provided by debt in the form of 12% debentures, new 14% debentures, and loan payable. While the Company utilizes the funds generated from its operations to expand its premier program – Advanced 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, new 14% debentures holders, and providers of loan payable facility span about 10 and 5 years respectively. The 12% debentures, and new 14% debentures mature September 30, 2013. The 12% debentures, and new 14% debentures carry financial covenants and since their renewal in May 2011 the Company has met the financial covenants. The loan payable is

a demand facility, and the term of the loan payable expires in December 2013. 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 generally acquires the rights to cash flow from future designated credit card transactions ("future sales") at a discount from participating merchants ("transaction credits" on consolidated statement of financial position). These transaction credits are estimated to be fully extinguishable within 30 – 210 days 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 new 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 new 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, during the six months ended December 31, 2012 the Company incurred interest expense of $535,000 on utilization of loan payable. Had the interest rate during the six months ended December 31, 2012 been 10% higher, the interest expense on loan payable would be $589,000, an increase of $54,000.

During the past five 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 Advantex, 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 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, other than as described below, 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 acquisition of Futura's Aeroplan marketing assets provides operational and strategic benefits; expectations with respect to successful : a) renewal of its agreement with CIBC, b) extension of its agreement with Aeroplan, c) renewal or refinancing of 12% debentures and new 14% debentures, and d) renewal of loan renewal agreement during the next 6-9 months; expectation with respect to the timing, duration, and the terms of the renewal of its existing affinity and financial agreements; belief that it has appropriate processes to manage delinquency risk; expectation that growth in revenues will eventually outpace selling expenses; belief that increasing the amount of transaction credits will result in higher revenues, and improve its results and cash flows; expectation with respect to the nature and amount of capital expenditures during the next four quarters; belief that at present the need for capital to expand the APM program is satisfied by loan payable; ability to meet its contractual commitments as they fall due; expectation of increase in merchant participation and revenues during fiscal year ending June 30, 2013; belief in its ability to close fiscal year ending June 30, 2013 with a profitable financial performance; belief that it has begun to reduce its economic dependence on CIBC by developing partnerships with Aeroplan and CTG; ability to manage collection risk connected to transaction credits; belief it has a strong platform to compete effectively in the North American marketplace and respond to new competition in Canada; 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 new 14% debentures, and 12% debentures; its ability to manage risks connected to collection of transaction credits; current and future economic and market conditions and the impact of same on 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.

ADVANTEX

**ADVANTEX® MARKETING INTERNATIONAL INC.**
**Management's Discussion and Analysis of Operating Results**
For the three and nine month periods ended March 31, 2013 and 2012

*This management's discussion and analysis has been prepared based on information available to Advantex Marketing International Inc. ("Advantex" or "the Company") as at May 29, 2013. Management's Discussion and Analysis ("MD&A") is a narrative explanation to enable the reader to assess material changes in the financial condition and results of operations of the Company during the three and nine month periods ended March 31, 2013, compared with the three and nine month periods ended March 31, 2012. This management's discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements and the related notes for the twelve months ended June 30, 2012, and the interim consolidated financial statements and the related notes for the three and nine months ended March 31, 2013, which are available on www.sedar.com. All dollar amounts are stated in Canadian Dollar, which is the Company's presentation and functional currency, unless otherwise noted.*

## 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 more than five million Canadian consumers with above-average personal and household income. The Company's merchant partner base currently consists of about 2,000 merchants operating in several business segments: restaurants; golf courses; independent inns, resorts and selected hotels; spas; men's and ladies fashion, footwear and accessories; 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 common shares are traded on the Canadian National Stock Exchange ("CNSX") under the symbol ADX.

The highlight of the three and nine months ended March 31, 2013 is the uncertain economy, and the resulting impact on the financial performance of the Company.

The Company earns its revenues as consumers complete purchases using designated credit cards at merchants participating in the Company's programs. The Company believes that the uncertain economy is behind a reduction in consumer spending on designated credit cards ("consumer spending") at participating merchants, and this reduction directly effects our revenues. Same store analysis of consumer spending shows a 7.9% and 4.5% decline in consumer spending for three and nine month periods ended March 31, 2013 respectively ("Q3 Fiscal 2013" and "YTD Fiscal 2013" respectively) compared with corresponding periods in the previous year ("Q3 Fiscal 2012" and "YTD Fiscal 2012" respectively). The decline in consumer spending is even sharper at restaurants (Q3 Fiscal 2013 and YTD Fiscal 2013 are down 9.3% and 6.4% respectively compared with corresponding periods in the previous year), primarily reflecting the discretionary nature of consumer spending. Restaurants make up for a significant number of merchants participating in the Company's programs. We see the impact of decline in consumer spending in our results for the three and nine months ended March 31, 2013. The Company has partially mitigated the adverse effect of declining consumer spending by increasing the number of merchants participating in its programs. Merchant participation was up 9.4% and 21.7% for Q3 Fiscal 2013 and YTD Fiscal 2013 respectively compared with corresponding periods in the previous year (see section Revenue).

The secondary effect of the uncertain economy is through the financial strain on small independent merchant space. This is the Company's market for its programs. Firstly, merchants tend to scale back their expenditures on marketing efforts during financially challenging times. All our programs, including APM, provide marketing support to the merchants. The result is longer selling, and shorter retention cycles, thereby slowing down the pace of increasing merchant participation in programs. Secondly, is the incidence of merchant delinquencies. Under its APM program the Company provides merchants access to unsecured working capital (see section Revenue). We are seeing an increase in the incidence of merchants either closing down or defaulting on their obligations, requiring an increase in the reserve for delinquencies (see section Direct Expenses). The Company is continuously monitoring the credit environment and improving its due diligence processes, and believes it has appropriate processes to manage delinquency risk connected to its APM program.

Additionally, the third quarter, January to March, is historically the weakest quarter in terms of annual consumer spending which is reflected in the Company's performance in Q3 Fiscal 2013. (see section Summary of Quarterly Results).

The results for YTD Fiscal 2013 have also been effected by write-off of the $100,000 investment, in December 31, 2012, in an Ontario corporation in the couponing business which ceased business. There is no effect on the results other than from the write-off.

Highlights of financial performance are tabulated.

| | Q3 Fiscal 2013 | Q3 Fiscal 2012 | Inc./ (Dec) | YTD Fiscal 2013 | YTD Fiscal 2012 | Inc./ (Dec) |
|---|---|---|---|---|---|---|
| | $ | $ | | $ | $ | |
| Revenues | 3,593,000 | 3,494,000 | 2.8% | 12,424,000 | 11,563,000 | 7.4% |
| Earnings from operations before amortization and interest ("EBITDA" *) | 231,000 | 387,000 | (40.3)% | 2,297,000 | 2,364,000 | (2.8)% |
| Net Income / (Loss) | (567,000) | (354,000) | (60.2)% | (169,000) | 154,000 | (209.7)% |

* EBITDA is a non-GAAP financial measure which does not have any standardized meaning prescribed by the issuer's GAAP and is unlikely to be comparable to similar measures presented by other issuers. It is provided as additional information to assist readers in understanding a component of the Company's financial performance. In case of the

Company per consolidated financial statements for three and nine months ended March 31, 2013, earnings from operations before amortization and interest is the nearest equivalent to EBITDA.

The Company is continuing to work on several fronts to overcome the challenges of the prevalent business environment by diversifying its revenue sources, and securing extensions to its existing Affinity and financial partnerships.

The Company believes that increase in merchant participation is the answer to the adverse effect of economic conditions on consumer spending, and consequently its revenues. We expect to continue to build on our achievements to date in this area by improvements in the coverage and deployment of our sales and account management team. Furthermore, we are working with our Affinity partners to add new business segments in which the Company can sell its products.

The integration of the Aeroplan channel marketing assets acquired, in February 2013, from Futura Loyalty Group Inc. is proceeding successfully. A significant number of merchants are up and running, issuing Aeroplan Miles ("aeroplan miles") to their Aeoplan member customers. The results for Q3 Fiscal 2013 include revenues from this activity (see section Revenue). The Company is interacting with the balance of the acquired merchant portfolio with a view to activating their participation. This acquisition has added a new business model, a re-seller of third party loyalty points, and is an example of diversification of revenue sources.

Agreements with Affinity partners CIBC, Aeroplan, its financial partners - Accord Financial Inc. ("Accord"), and holders of Non-convertible Debentures Payable - are coming up for renewal throughout this calendar year. The Company is in active negotiations respecting these renewals. The Company believes it offers value to the partners and their stakeholders and expects a successful outcome to the negotiations.

A detailed look at the results for Q3 Fiscal 2013 and YTD Fiscal 2013 is set out in the following sections.

## Results of Operations

| | Q3 Fiscal 2013 | Q3 Fiscal 2012 | YTD Fiscal 2013 | YTD Fiscal 2012 |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| **Revenue –** Retail programs | $3,593,000 | $3,494,000 | $12,371,000 | $11,563,000 |
| Misc., and Interest income | - | - | 53,000 | - |
| **Total Revenue** | **$3,593,000** | **$3,494,000** | **$12,424,000** | **$11,563,000** |
| Direct expenses | 1,310,000 | 946,000 | 4,102,000 | 3,158,000 |
| **Gross Profit** | **2,283,000** | **2,548,000** | **8,322,000** | **8,405,000** |
| Selling, and General & Administrative expenses | 2,052,000 | 2,161,000 | 6,025,000 | 6,041,000 |
| **Earnings from operations before amortization and interest** | **231,000** | **387,000** | **2,297,000** | **2,364,000** |
| Cash interest on loan payable and debentures | 504,000 | 486,000 | 1,534,000 | 1,495,000 |
| **Earnings from operations before amortization and non-cash interest** | **$(273,000)** | **$(99,000)** | **$763,000** | **$869,000** |
| Non-cash expenses | | | | |
| Write-off of investment | - | - | 100,000 | - |
| Depreciation | 142,000 | 119,000 | 388,000 | 313,000 |
| Non-cash interest on debentures | 152,000 | 136,000 | 444,000 | 402,000 |
| **Net income / (loss)** | **$(567,000)** | **$(354,000)** | **$(169,000)** | **$154,000** |
| **Basic and diluted earnings per share** | **$(0.01)** | **$(0.00)** | **$(0.00)** | **$0.00** |

The presentation in Results of Operations section is not set out in accordance with Canadian generally accepted accounting principles ("GAAP") but has been included to provide additional analysis for the reader.

## Revenue

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

Retail programs have three business models.

(1) **Advance Purchase Marketing ("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 merchants, net of the Company's costs to acquire the transaction credits. Proceeds from the cardholder 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**: 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 credit card transaction in exchange for the services it provides participating merchants.

(3) **Re-seller of Loyalty Rewards**. As a result of the acquisition announced February 1, 2013 and its agreement with Aeroplan, Advantex has a new business model. 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. Certain agreements with merchants carry a commitment for merchants to issue a minimum number of aeroplan miles during the term of this agreement.

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. Mix of participating merchants in terms of their volume of designated credit card transactions;
3. Participation levels in APM and Marketing Only programs. The fees that a merchant would pay for participation in the APM program is higher compared with Marketing Only program;
4. Seasonality associated with consumer purchases. Details available under section Summary of Quarterly Results; and
5. Economic environment. The uncertain economy is affecting consumer spending habits.

The revenue trends are provided in the tabulation.

| | Q3 Fiscal 2013 | Q3 Fiscal 2012 | Inc./ (Dec) | YTD Fiscal 2013 | YTD Fiscal 2012 | Inc./ (Dec) |
|---|---|---|---|---|---|---|
| Avg. # of merchants participating in Legacy programs during the period | 1,295 | 1,184 | 9.4% | 1,327 | 1,090 | 21.7% |
| | | | | | | |
| | $ | $ | % | $ | $ | % |
| APM | 2,404,000 | 2,464,000 | | 8,407,000 | 8,006,000 | |
| Marketing Only | 936,000 | 1,030,000 | | 3,485,000 | 3,512,000 | |
| **Legacy programs** | **3,340,000** | **3,494,000** | **(4.4)%** | **11,892,000** | **11,518,000** | **3.2%** |
| Re-seller | 151,000 | - | | 151,000 | - | |
| Sales of Aeronotes | - | - | | - | 45,000 | |
| Sales of digital marketing services | 102,000 | - | | 328,000 | - | |
| **Total Retail programs** | **3,593,000** | **3,494,000** | **2.8%** | **12,371,000** | **11,563,000** | **7.0%** |
| | | | | | | |
| Miscellaneous income etc. | - | - | | 29,000 | - | |
| Interest income | - | - | | 24,000 | - | |
| **Total Revenues** | **3,593,000** | **3,494,000** | **2.8%** | **12,424,000** | **11,563,000** | **7.4%** |
| | | | | | | |
| *Average annual revenue per merchant participating in Legacy programs, based on extrapolation of YTD trends* | | | | *$11,949* | *$14,089* | *(15.2)%* |

The growth in revenues from Legacy programs trails growth in merchant participation as a result of:

a. Change in the mix of the merchants. Increase in merchants with lower volume of designated credit cards on which the Company earns its fees; and
b. Reduction in consumer spending which the Company believes is primarily a reflection of an uncertain economy.

## Direct Expenses

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

| | Q3 Fiscal 2013 | Q3 Fiscal 2012 | Inc./ (Dec) | YTD Fiscal 2013 | YTD Fiscal 2012 | Inc./ (Dec) |
|---|---|---|---|---|---|---|
| | $ | $ | % | $ | $ | % |
| Increase in Retail program Revenues | | | **2.8%** | | | **7.0%** |
| | | | | | | |
| Direct Expenses | **1,310,000** | **946,000** | **38.5%** | **4,102,000** | **3,158,000** | **29.9%** |

Increase in direct expenses primarily reflects higher reserve for delinquent accounts. (Q3 Fiscal 2013 and YTD Fiscal 2013 respectively $258,000 and $652,000 compared with $152,000 and $284,000 for corresponding periods in the previous year). The difficult economic conditions of the past five years have created a financial challenge for small independent merchants, the Company's market. The Company is continuously monitoring the credit environment and improving its due diligence processes, and believes it has appropriate processes to manage delinquency risk. The uncertain economy also creates an opportunity for the Company to expand its APM program to credit-worthy merchants.

The cost of cardholder awards in the Legacy programs depends on the business segment. Q3 Fiscal 2013 and YTD Fiscal 2013 reflect increase in merchant participation in business segments with higher cost of cardholder awards.

Q3 Fiscal 2012 also benefited from a subsidy from CIBC in support of the Company's marketing and advertising on behalf of its merchants.

**Gross Profit**

| | Q3 Fiscal 2013 | Q3 Fiscal 2012 | Inc./ (Dec) | YTD Fiscal 2013 | YTD Fiscal 2012 | Inc./ (Dec) |
|---|---|---|---|---|---|---|
| Gross Profit | **$2,283,000** | **$2,548,000** | **(10.4)%** | **$8,322,000** | **$8,405,000** | **(1.0)%** |
| Gross Margin | 63.5% | 72.9% | | 67.0% | 72.7% | |

Decline in gross margin reflects increase in direct expenses (increase explained in section Direct Expenses) which are ahead of increase in Retail program revenues.

Gross profits are lower compared with corresponding periods in the previous year reflecting lower margins partially offset by increase in Retail program revenues.

**Selling Expenses**

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

| | Q3 Fiscal 2013 | Q3 Fiscal 2012 | Inc./ (Dec) | YTD Fiscal 2013 | YTD Fiscal 2012 | Inc./ (Dec) |
|---|---|---|---|---|---|---|
| | $ | $ | | $ | $ | |
| Increase in Retail program Revenues | | | **2.8%** | | | **7.0%** |
| | | | | | | |
| Selling Expenses | **895,000** | **1,016,000** | **(11.9)%** | **2,783,000** | **2,717,000** | **2.4%** |

The Company, during Fiscal 2012, built up its sales organization to capitalize on the revenue growth opportunities. Our business development team sells new merchants into the Company's Retail programs, and the account management team manages the merchants participation in the Retail programs. The selling organization has delivered results in terms of the increase in the merchant participation compared to the corresponding periods in the previous year and this has gradually lead to revenue growth (see Revenue section).

In addition, at the end of November, 2012, the Company initiated lay-off of staff primarily connected to sales and account management, from November 30, 2012 to March 31, 2013 to coincide with its historical low season.

**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, foreign exchange gains/(losses), and stock based compensation.

| | Q3 Fiscal 2013 | Q3 Fiscal 2012 | Inc./ (Dec) | YTD Fiscal 2013 | YTD Fiscal 2012 | Inc./ (Dec) |
|---|---|---|---|---|---|---|
| | $ | $ | | $ | $ | |
| Increase in Retail program Revenues | | | **2.8%** | | | **7.0%** |
| | | | | | | |
| G&A | | | | | | |
| Compensation for non-sales staff | 880,000 | 779,000 | | 2,467,000 | 2,297,000 | |
| Bonus non-sales staff | 45,000 | - | | 20,000 | 75,000 | |
| Less: software development costs capitalized (details provided under section Capital Expenditures in this document) | (79,000) | (28,000) | | (140,000) | (95,000) | |
| | 846,000 | 751,000 | | 2,347,000 | 2,277,000 | |
| All other G&A expenses | 311,000 | 394,000 | | 895,000 | 1,047,000 | |
| | **1,157,000** | **1,145,000** | **1.0%** | **3,242,000** | **3,324,000** | **(2.5)%** |

*Compensation*
The increase in compensation for non-sales staff primarily reflects increase in headcount.

*Other Expenses*
Except for the write-back of provisions no longer required, and stock based compensation expense (explained in section Stock Options) Q3 Fiscal 2013 and YTD Fiscal 2013 are comparable to corresponding periods in the previous year.

**Interest Expense**

The interest expense is tabulated:

| | Q3 Fiscal 2013 | Q3 Fiscal 2012 | Inc./ (Dec) | YTD Fiscal 2013 | YTD Fiscal 2012 | Inc./ (Dec) |
|---|---|---|---|---|---|---|
| | $ | $ | | $ | $ | |
| Stated interest expense | | | | | | |
| ➢ Loan payable | 262,000 | 230,000 | | 797,000 | 721,000 | |
| ➢ New 14% debentures | 60,000 | 63,000 | | 183,000 | 190,000 | |
| ➢ 12% debentures | 182,000 | 193,000 | | 554,000 | 584,000 | |
| ➢ Total stated interest | **504,000** | **486,000** | **3.7%** | **1,534,000** | **1,495,000** | **2.6%** |
| | | | | | | |
| Non cash interest on new 14% debentures and 12% debentures, comprising accretion charges | 152,000 | 136,000 | | 444,000 | 402,000 | |
| Total interest expense | **656,000** | **622,000** | **5.5%** | **1,978,000** | **1,897,000** | **4.3%** |

The Company deploys the funds available to it under loan payable, and new14% debentures payable 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.

Stated interest expense on loan payable reflects the utilization of funds under this line of credit facility. In addition, the Company qualified for lower rate of interest on its loan payable from January, 2012 and this is explained in the section Loan Payable.

Stated interest expense on new 14% debentures and 12% debentures reflects amounts prepaid in July, 2012 pursuant to debt prepayment agreements:

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

**Net Income**

Highlights are tabulated:

| | Q3 Fiscal 2013 | Q3 Fiscal 2012 | Inc./(Dec) | YTD Fiscal 2013 | YTD Fiscal 2012 | Inc./(Dec) |
|---|---|---|---|---|---|---|
| Revenues | $3,593,000 | $3,494,000 | 2.8% | $12,424,000 | $11,563,000 | 7.4% |
| Gross Profit | $2,283,000 | $2,548,000 | (10.4)% | $ 8,322,000 | $ 8,405,000 | (1.0)% |
| Earnings from operations before amortization and interest | $ 231,000 | $ 387,000 | (40.3)% | $ 2,297,000 | $ 2,364,000 | (2.8)% |
| Write-off of investment | $ - | $ - | | $ 100,000 | $ - | |
| Net Income / (Loss) | $(567,000) | $(354,000) | (60.2)% | $ (169,000) | $ 154,000 | (209.7)% |

*Write-off of investment*

The Company had a small minority interest in Class B common shares of GaggleUp, an Ontario corporation in the couponing business.

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 three and six month periods ended December 31, 2012.

**Working Capital and Liquidity Management**

The utilization of liquidity is illustrated in the following tabulation:

| | Q3 Fiscal 2013 | Q3 Fiscal 2012 | YTD Fiscal 2013 | YTD Fiscal 2012 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **FUNDS AVAILABLE TO EXPAND APM PROGRAM (Transaction credits) AND MEET WORKING CAPITAL REQUIREMENTS** | | | | |
| 1. Net income / (loss) | (567,000) | (354,000) | (169,000) | 154,000 |
| Add back non-cash expenses | 308,000 | 318,000 | 946,000 | 781,000 |
| Income / (loss) before non-cash expenses * | (259,000) | (36,000) | 777,000 | 935,000 |
| 2. Cash balances at start of the period | (222,000) | 1,312,000 | 1,085,000 | (78,000) |
| 3. (Decrease) / Increase in utilization of loan payable to increase merchants participating in the APM program | 617,000 | 543,000 | 431,000 | 1,538,000 |
| 4. Accounts payable and accrued liabilities | - | - | - | 22,000 |
| 5. Accounts receivable, inventory, prepaid expenses | 935,000 | 43,000 | 550,000 | - |
| **Funds Available** | **1,071,000** | **1,862,000** | **2,843,000** | **2,417,000** |
| | | | | |
| **UTILIZATION** | | | | |
| 1. (Decrease) / Increase in transactions credits under APM program | (871,000) | 839,000 | (260,000) | 1,531,000 |
| 2. Cash balances at end of period | 1,453,000 | 539,000 | 1,453,000 | 539,000 |
| 3. Change in working capital items | | | | |
| - Accounts receivable, inventory, prepaid expenses | - | - | - | 140,000 |
| - Accounts payable and accrued liabilities | 358,000 | 451,000 | 754,000 | - |
| 4. Capital expenditures | 131,000 | 33,000 | 511,000 | 170,000 |
| 5. Partial early prepayment of new 14% debentures and 12% debentures (collectively "Debentures") | - | - | 376,000 | - |
| 6. Debentures early prepayment / renewal – additional transaction costs | - | - | 9,000 | 37,000 |
| **Utilization** | **1,071,000** | **1,862,000** | **2,843,000** | **2,417,000** |

***** 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 intangibles; stock based compensation; and accretion charge for debentures – to net income / (loss) for the period, which are disclosed in the consolidated financial statements for the three and nine months ended March 31, 2013 under the section consolidated statements of cash flow.

The Company believes that increasing the amount of the transaction credits deployed with merchants under its APM program will result in higher revenues 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 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.

The movement in transaction credits reflects partially changes in the number of merchants participating in the Company's APM program, and partially changes to amount of transaction credits deployed with existing merchants.

Capital expenditures are discussed in section Capital Resources. As of date hereof, the capital expenditures during the next four quarters are expected to be in the nature of updating of the Company's infrastructure and software development, and are expected to be marginally ahead of current period activity levels.

The Company deploys the funds available to it under loan payable, and new14% debentures payable 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. At present, the need for capital to expand the APM program is satisfied by loan payable, however it is a demand facility, and in addition it has a constraint since it requires the Company to co-fund a certain portion of the transaction credits deployed with merchants using this facility.

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 new 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 2013 and beyond requires the Company to have continued access to its existing levels of debt. The new 14% debentures and 12% debentures mature in September, 2013, and the loan payable agreement expires in December, 2013. The Company expects to successfully negotiate renewals and/or re-finance the debt.

Additional capital in the form of debt and/or equity will be required to fund the continued expansion of the Company's APM programs, as described under General Risks and Uncertainties.

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

## Contractual Obligations

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

| | | **Payments Due by Period** | | | |
|---|---|---|---|---|---|
| Contractual obligation | Total | Less than 1 Year | 1 to 3 Years | 4 to 5 Years | After 5 Years |
| Loan Payable | $7.2 | $7.2 | $- | $- | $- |
| New 14% debentures | $1.7 | $1.7 | $- | $- | $- |
| 12% debentures | $6.2 | $6.2 | $- | $- | $- |
| Operating Leases | $0.5 | $0.1 | $0.2 | $0.2 | $- |

Additional commitments

The Company has an annual aeroplan mile purchase commitment each year of its three year agreement ("existing agreement") with 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 18 of the consolidated financial statements for three and nine months ended March 31, 2013) 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.

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 ("commitment"), commencing July 1, 2012, is $288,000. The Company and the service provider reached an understanding that until November 30, 2012 the Company would be invoiced for the actual units of software sold by the company to merchants, and that the commitment would commence December 1, 2012. While the service provider pushed the date of the commitment to June 30, 2013, the Company and service provider are discussing the future status of the commitment.

**Loan Payable**

The loan payable is a line of credit facility ("facility") with Accord to be used exclusively to fund the Company's APM program. As security, the provider has first charge to all amounts due from merchants funded from the facility.

The facility was renewed in September, 2010 for a three year term ending in December, 2013.

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 on the entire facility effective January 1, 2012.

As at December 31, 2012, the Company had utilized $7.2 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 ("new 14% debentures").

The new 14% debentures bear interest at 14% per annum, payable quarterly, and mature on September 30, 2013. The 14% new debentures initially carried 3,574,750 common share purchase warrants convertible, during the term of the 14% new 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 new 14% debentures plus accrued and unpaid interest thereon. Post prepayment the principal amount of the new 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 new 14% debentures prepaid.

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

As at March 31, 2013 the Company met the financial covenant stipulated in the new 14% debentures agreement.

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

**12% Non-Convertible Debentures Payable**

In May 2011, the Company completed an early refinancing of 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, and mature on September 30, 2013. The 12% debentures initially 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 12% debentures plus 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. The number of Warrants surrendered was proportionate to the number of 12% debentures prepaid.

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

As at March 31, 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.

## Summary of Quarterly Results

**12 month period ended March 31, 2013**

| (in millions of dollars, except per share amounts) | Q4 Jun 30 2012 | Q1 Sep 30 2012 | Q2 Dec 31 2012 | Q3 Mar 31 2013 | Total |
|---|---|---|---|---|---|
| Revenue | $ 4.3 | $ 4.4 | $ 4.4 | $ 3.6 | $ 16.7 |
| Percentage of Annual Revenue | 25.7% | 26.3% | 26.3% | 21.7% | 100% |
| Net Income/(Loss) * | $ 0.1 | $ 0.3 | $ 0.1 | $ (0.6) | $ (0.1) |
| Basic and Diluted Earnings Per Common Share | $ 0.00 | $ 0.00 | $ 0.00 | $(0.01) | $ (0.00) |

* Q2 December 31, 2012 Net (Loss) reflects $100,000 write-off of investment

**12 month period ended March 31, 2012**

| (in millions of dollars, except per share amounts) | Q4 Jun 30 2011 | Q1 Sep 30 2011 | Q2 Dec 31 2011 | Q3 Mar 31 2012 | Total |
|---|---|---|---|---|---|
| Revenue | $ 3.7 | $ 3.8 | $ 4.2 | $ 3.5 | $ 15.2 |
| Percentage of Annual Revenue | 24.3% | 25.0% | 27.6% | 23.1% | 100% |
| Net Income/(Loss) | $ (0.3) | $ 0.3 | $ 0.2 | $ (0.4) | $ (0.2) |
| Basic and Diluted Earnings Per Common Share: | $ (0.00) | $ 0.00 | $ 0.00 | $ (0.00) | $ (0.00) |

The fluctuations of the Company's results are reflective of seasonal consumer behavior at merchants participating in the Retail programs, as well as market penetration of the Company's Retail programs.

## Capital Resources

Expenditures for property, plant and equipment for Q3 Fiscal 2013 and YTD Fiscal 2013 respectively were $131,000 and $511,000 compared with $33,000 and $170,000 respectively for corresponding periods in the previous year. Q3 Fiscal 2013 and YTD Fiscal 2013 respectively include capitalization of $79,000 and $140,000 of internal costs expended on software development connected to ensuring operability of the Company's loyalty marketing programs sponsored by CIBC and Aeroplan compared with $28,000 and $95,000 respectively for corresponding periods in the previous year. The costs are being amortized over the shorter of useful life of the software and term of Affinity partner agreement.

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

## Critical Accounting Estimates

The preparation of the Company's consolidated financial statements, in accordance with International Financial Reporting Standards ("IFRS"), requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the 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 3 to the audited consolidated financial statements for the year ended June 30, 2012.

*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, and growth of its existing 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 loan payable, new 14% debentures, and 12% debentures 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 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.

The maximum exposure to credit risk is the net balance of the transaction credits, and accounts receivable (excluding amount due from the CRA, which was received in February 2013, and is disclosed as part of accounts receivable in the consolidated statements of financial position at June 30, 2012; September 30, 2012; and December 31, 2012).

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

| | March 31, 2013 | December 31, 2012 | September 30, 2012 | June 30, 2012 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Transaction credits | 15,755,900 | 16,340,902 | 15,432,027 | 15,315,258 |
| Accounts receivable | 364,192 | 339,824 | 244,459 | 166,330 |
| Allowance | (1,920,611) | (1,634,353) | (1,417,465) | (1,219,886) |
| Maximum exposure to credit risk | 14,199,481 | 15,046,373 | 14,259,021 | 14,261,702 |

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

| | March 31, 2013 | December 31, 2012 | September 30, 2012 | June 30, 2012 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Transaction credits | 3,616,589 | 3,214,336 | 2,664,416 | 2,276,198 |
| Allowance | (1,920,611) | (1,634,353) | (1,417,465) | (1,219,886) |
| Impaired transaction credits not allowed for | 1,695,978 | 1,579,983 | 1,246,951 | 1,056,312 |

With some exceptions, the Company considers transaction credits outstanding for over 180 days as past due. The amount of transaction credits past due but not impaired as at March 31, 2013 amounted to $891,000 (as at June 30, 2012 $575,000).

**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.

The stock option plan ("2009 stock option plan") 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.

During three month period ended March 31, 2013 the Company granted stock options to directors, officers, and employees. Movement during YTD Fiscal 2013 and YTD Fiscal 2012 is tabulated.

| | YTD Fiscal 2013 | YTD Fiscal 2012 |
|---|---|---|
| | Number of Options | |
| Outstanding at start of period | 11,027,790 | 11,207,290 |
| Forfeited | - | (409,500) |
| Expired | (1,000,000) | (800,000) |
| Outstanding at September 30 | 10,027,790 | 9,997,790 |
| Expired | - | (2,100,000) |
| Outstanding at December 31 | 10,027,790 | 7,897,790 |
| Forfeited | (100,000) | (200,000) |
| Expired | (1,836,360) | (200,000) |
| Grant | 2,400,000 | 3,530,000 |
| Outstanding at March 31 | 10,491,430 | 11,027,790 |

The number of stock options available for future issuance is as follows:

| | March 31, 2013 | June 30, 2012 |
|---|---|---|
| Maximum number reserved for issuance | 11,643,704 | 11,643,704 |
| Less: Outstanding at end of period | (10,491,430) | (11,027,790) |
| Number of options available for future issuance | 1,152,274 | 615,914 |

The Company recorded $15,000 of stock-based expense for YTD Fiscal 2013 ($66,000 for YTD Fiscal 2012).

## Outstanding Share Data

Outstanding shares

As at date hereof, March 31, 2013, June 30, 2012, and December 31, 2011 the number of issued and outstanding common shares of the Company was 97,030,868.

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 new 14% debentures | 3,444,400 | 0.040 | September 30, 2013 |
| Common shares issuable on exercise of common share warrants attached to 12% debentures | 87,056,491 | 0.040 | September 30, 2013 |
| Employee stock options<br>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 |
| | **100,942,321** | | |

500,000 common share purchase warrants issued to an agent on completion of financing of the non-convertible debentures in May 2011, at an exercise price of $0.04, and expiring May 10, 2013, were not exercised and have expired.

**Transactions with Related Parties**

As at March 31, 2013; June 30, 2012; and March 31, 2012, the related parties, tabulated below, were holders of new 14% debentures, and 12% debentures. The related parties purchased new 14% debentures and 12% debentures on terms and conditions applicable to the other subscribers.

| Title | Principal Amount – 14% non - convertible debentures payable ("new 14% debentures") | Principal Amount – 12% non – convertible debentures payable ("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 1,445 units of the new 14% debentures totaling to $1,445,000 and 4,599 units of 12% debentures totaling to $4,599,000. The new 14% debentures and 12% debentures (together "Debentures") held by Trapeze carry common share purchase warrants, convertible during the term of the Debentures, into 67,934,324 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.

**Outlook**

The Company is focused on increasing merchant participation in its Retail programs, through a combination of acquisition of new participants, and improving retention of participating merchants.

The Company had noted in its earlier filings that an uncertain economy is a significant factor in its financial performance. While the Company is cautiously optimistic of its efforts to increase merchant participation and revenues during fourth quarter of fiscal year ending 2013 such that it can close the year with a net profit, it is difficult to know if the pace and quantum of increase in revenues will be adequate.

During the next six to nine months the Company will be working with its partners on renewing agreements with CIBC, Aeroplan, holders of new 14% debentures and 12% debentures, and Accord. The Company expects to renew these key agreements.

**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. In September, 2010, the Company renewed its existing arrangement with CIBC, and signed a new agreement ("new agreement") expiring August 31, 2013. The new agreement grants the Company

conditional exclusivity rights to market its programs within Dining (restaurants; golf courses; independent inns, resorts and selected hotels; spas) business segment, and select Retailing (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; and home decor) business segments. The new agreement can be terminated by CIBC under certain conditions prior to August 31, 2013.

The existing agreement may be renewed for a multi-year term upon mutual agreement. The Company and CIBC are negotiating the terms and conditions of a renewal. The Company believes that its program offers an attractive method for CIBC credit cardholders to accelerate accumulation of loyalty rewards, and expects to secure a renewal with CIBC. 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.

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 ("existing agreement) with Aeroplan. The existing agreement was signed in March, 2010 and was effective until 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. This value-added loyalty marketing agreement provided exclusive rights to the Company to market its product offerings to men's and ladies fashion, footwear and accessories business segment ("Fashion retail"). The Company launched this program on September 1, 2010.

As discussed in the section Contractual Obligations, concurrent with the Company's acquisition of Futura's Aeroplan channel marketing assets, the Company and Aeroplan reached an understanding to restructure their existing agreement. The restructured arrangement ("arrangement") has a one year term ending December 31, 2013. The Company now also acquired the right to market its product offerings to automotive dealers, service centers, and tire dealerships.

The Company signed an agreement in February 2012 with the Canadian Tire Group ("CTG"). The program has moved beyond pilot phase and is expected to expand in Ontario in July 2013. The Company believes this relationship has the potential to further reduce its dependence on the relationship with CIBC.

Illustration of economic dependence on CIBC

| **Revenue** | YTD Fiscal 2013 | | YTD Fiscal 2012 | |
|---|---|---|---|---|
| | $ | % | $ | % |
| Retail programs | | | | |
| CIBC Advantex programs, in the Dining business segment | $ 8.1m | 65.3% | $ 8.6m | 74.1% |
| CIBC Advantex programs; Combined CIBC Advantex & Aeroplan sponsored programs; and Aeroplan sponsored programs in the Retailing business segments | $ 3.9m | 31.5% | $ 3.0m | 25.9% |
| Other | $ 0.4m | 3.2% | $ - | - |
| Total | $12.4m | 100% | $11.6m | 100% |

## 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 over a decade and has been through several multi-year renewal terms. The new agreement was renewed on September 1, 2010 and expires August 31, 2013. The Company expects a further multi-year renewal on expiry of the new agreement. If CIBC does not renew the agreement with the Company, or exercises its right under certain conditions to terminate the agreement prior to August 31, 2013, or exercises its right under certain conditions and takes away the exclusivity granted to the Company to market its programs in designated business segments, the Company could be materially and adversely affected. The Company believes that it has begun to limit its economic dependence on CIBC by developing additional partnerships with Aeroplan and CTG.

The Company's working capital needs are currently entirely provided by debt in the form of 12% debentures, new 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, new 14% debentures holders, and providers of loan payable facility span about 10 and 5 years respectively. The 12% debentures, and new 14% debentures mature September 30, 2013. The 12% debentures, and new 14% debentures carry financial covenants and since their renewal in May 2011 the Company has met the financial covenants. The loan payable is a demand facility, and the term of the loan payable expires in December 2013. 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 new 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 new 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, during the nine months ended March 31, 2013 the Company incurred interest expense of $797,000 on utilization of loan payable. Had the interest rate during the nine months ended March 31, 2013 been 10% higher, the interest expense on loan payable would be $877,000, an increase of $80,000.

During the past five 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 Advantex, 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 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 uncertain economy is behind a reduction in consumer spending on designated credit cards at participating merchants, and consequently its revenues; belief that it has appropriate processes to manage delinquency risk connected to its APM program; belief that increase in merchant participation is the answer to the adverse effect of economic conditions on its revenues; expectation with respect to successful outcome of the negotiations connected to renewal of its agreements with its affinity partners; belief that increasing the amount of transaction credits deployed with merchants under its APM program will result in higher revenues, and, consequently, improve its results and cash flows; ability to meet its contractual commitments as they fall due; expectation with respect to the nature and amount of capital expenditures during the next four quarters; expectation that it can either negotiate renewals of agreements with its financial partners or re-finance the debt; expectation with respect to closing its fiscal year ending June 30, 2013 with a net profit and the amount thereon; expectation with respect to the timing and the terms of renewal of its agreements with affinity and financial partners; belief that its partnerships with

Aeroplan and CTG reduce its economic dependence on CIBC, and the extent of such reduction; belief in its ability to compete effectively in the North American marketplace and respond to new competition in Canada; belief that its tax filing positions are appropriate and supportable ; 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 new 14% debentures, and 12% debentures; its ability to manage risks connected to collection of transaction credits; current and future economic and market conditions and the impact of same on 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.

**Schedule D**

Information Circular dated November 16, 2012

**ADVANTEX MARKETING INTERNATIONAL INC.**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

NOTICE IS HEREBY GIVEN that an annual meeting of shareholders (the "**Meeting**") of ADVANTEX MARKETING INTERNATIONAL INC. (the "**Company**") will be held on December 20, 2012, at 10:00 am (Toronto time) at the Company's Head Office, 600 Alden Road, Suite 606, Markham, Ontario, L3R 0E7.

The purposes of the Meeting are:

1. to present the annual report and audited financial statements of the Company for the fiscal year ended June 30, 2012;
2. to elect directors;
3. to appoint auditors; and
4. to transact such other business as may properly be brought before the Meeting.

A shareholder may attend the Meeting in person or may be represented by proxy. Shareholders who are unable to attend the Meeting, or any adjournment thereof, in person are requested to date, sign and return the accompanying form of proxy for use at the Meeting or any adjournment thereof. To be effective, the enclosed form of proxy must be mailed, handed in, or sent by fax so as to reach or be deposited with the Company's registrar and transfer agent, CIBC Mellon Trust Company, c/o Canadian Stock Transfer Company Inc. by mail to P.O. Box 721, Agincourt, Ontario, Canada, M1S 0A1, or by hand to 320 Bay Street, BI Level, Toronto, Ontario, Canada, or by fax to 416-368-2502 / toll-free 1-866-781-3111, no later than 10:00 am (Toronto time) on Tuesday, December 18, 2012 where there is no adjournment of the Meeting.

**DATED** at Markham, Ontario

November 16, 2012

**BY ORDER OF THE BOARD OF DIRECTORS**

*"Kelly Ambrose"*

Kelly E. Ambrose

President and Chief Executive Officer

**ADVANTEX MARKETING INTERNATIONAL INC.**
600 Alden Road, Suite 606
Markham, Ontario, L3R 0E7

# INFORMATION CIRCULAR
# AS AT NOVEMBER 16, 2012

## SOLICITATION OF PROXIES

**THIS INFORMATION CIRCULAR IS FURNISHED IN CONNECTION WITH THE SOLICITATION BY THE MANAGEMENT OF ADVANTEX MARKETING INTERNATIONAL INC.** (the "**Company**") of proxies to be used at the Annual Meeting of Shareholders of the Company (the "**Meeting**") to be held at the Company's Head Office, 600 Alden Road, Suite 606, Markham, Ontario, L3R 0E7 on Thursday, December 20, 2012, at 10:00 am (Toronto time) and at any adjournment thereof for the purposes set forth in the enclosed Notice of Meeting. Proxies will be solicited primarily by mail and may also be solicited personally or by telephone by the directors and/or officers of the Company at nominal cost. The cost of solicitation by management will be borne by the Company.

The Company may pay the reasonable costs incurred by persons who are the registered but not beneficial owners of voting shares of the Company (such as brokers, dealers, other registrants under applicable securities laws, nominees and/or custodians) in sending or delivering copies of the Notice of Meeting, this Information Circular and the form of proxy (collectively, the "**Meeting Materials**") to the beneficial owners of such shares. The Company will provide, without cost to such persons, upon request to the Secretary of the Company, additional copies of the foregoing documents required for this purpose.

## MATTERS TO BE ACTED UPON

### 1. ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

The 2012 annual report of the Company, including the consolidated financial statements for the fiscal year ended June 30, 2012 and the report of the auditors thereon, will be submitted to the Meeting.

The consolidated financial statements and the report of the auditors is available under the Company's profile on www.sedar.com.

### 2. ELECTION OF DIRECTORS

The board of directors of the Company (the "**Board of Directors**" or "**Board**") currently can consist of a minimum of three (3) and a maximum of fifteen (15) directors. The number of directors to be elected at the Meeting has been fixed by the Board at three (3) and accordingly, three (3) directors are to be elected at the Meeting.

The following table and the notes thereto state the names of all the persons proposed to be nominated by management for election as directors, all other positions and offices with the Company now held by them, their principal occupations or employments, the period or periods of service as directors of the Company and the approximate number of voting securities of the Company beneficially owned, directly or indirectly, or over which control or direction is exercised by each of them as of the date hereof.

| Name, Office and Jurisdiction of Residence[1] | Director Since | No. of Voting Securities Owned, Controlled or Directed as at November 16, 2012[2] |
|---|---|---|
| **Kelly E. Ambrose**[4][5][6]<br>President, Chief Executive Officer, Secretary and Director<br>Ontario, Canada | January 26, 2006 | 1,581,000 common shares |
| **Stephen Burns**[3][4][5]<br>Director, Chairman of the Board of Directors<br>Ontario, Canada | February 19, 2004 | 200,000 common shares |
| **William H. Polley**[3][4][5]<br>Director<br>Ontario, Canada | November 21, 2002 | 26,750 common shares |

*Notes:*

*(1) The principal occupations of each of the nominees during the last five (5) years are as set forth below:*

*Kelly Ambrose has been the President of the Company since October 19, 2005, Chief Operating Officer of the Company between October 19, 2005 and December 4, 2006, Chief Executive Officer of the Company since December 5, 2006, and Secretary since September 24, 2009. Mr. Ambrose holds a Bachelor of Commerce from the University of Saskatchewan.*

*Stephen Burns is the Chairman of the Board of Directors. Mr. Burns was appointed Chairman and CEO of Stefi Media Group Inc. in November, 2007. His principal activity since November, 2011 is the role of Chairman of the Board of Directors of Egan Visual Inc. He holds a B.A, C.A and MBA.*

*William H. Polley is the Chief Financial Officer of the Martini Group of Companies since 1998. Mr. Polley is a Chartered Accountant.*

*(2) The information as to voting securities beneficially owned, controlled or directed, not being within the knowledge of the Company, has been furnished by the respective nominees individually.*

*(3) Member of the Compensation Committee. Stephen Burns is the current chairman of this Committee.*

*(4) Member of the Audit Committee. William H. Polley is the current chairman of this Committee.*

*(5) Member of the Governance and Nominating Committee. Stephen Burns is the current chairman of this Committee.*

*(6) At November 16, 2012, the following nominee held, controlled or directed control over 12% non-convertible debenture issued by the Company in May, 2011. For additional details refer to note 10 "12% Non-convertible debentures payable and convertible debentures payable" to the consolidated financial statements of the Company for the fiscal year ended June 30, 2012, available under the Company's profile on www.sedar.com.*

| ***Name*** | ***Principal Amount 12% Non-Convertible Debenture*** |
|---|---|
| *Kelly E. Ambrose* | *$ 100,000* |

The term of office of each director will be from the date of the Meeting at which he or she is elected until the next annual meeting; or until his or her successor is elected or appointed.

### *Corporate Cease Trade Orders or Bankruptcies*

No proposed director of the Company or personal holding company of such person is, as at the date of this Information Circular, or has been, within 10 years before the date of this Information Circular, a director, chief executive officer or chief financial officer of any company (including the Company) that,

(a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the

proposed director was acting in the capacity as a director, chief executive officer or chief financial officer; or

(b) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

No proposed director of the Company is, as at the date of this Information Circular, or has been within 10 years before the date of this Information Circular, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

***Personal Bankruptcies***

No proposed director of the Company or any personal holding company of such person has, within the 10 years before the date of this Information Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

***Penalties or Sanctions***

No proposed director of the Company or any personal holding company of such person has been subject to (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable security holder in deciding whether to vote for a proposed director.

**PROXIES RECEIVED IN FAVOUR OF MANAGEMENT WILL BE VOTED FOR THE ELECTION OF THE ABOVE-NAMED NOMINEES, UNLESS THE SHAREHOLDER HAS SPECIFIED IN THE PROXY THAT HIS OR HER SHARES ARE TO BE WITHHELD FROM VOTING IN RESPECT THEREOF. MANAGEMENT HAS NO REASON TO BELIEVE THAT ANY OF THE NOMINEES WILL BE UNABLE TO SERVE AS A DIRECTOR BUT, IF A NOMINEE IS FOR ANY REASON UNAVAILABLE TO SERVE AS A DIRECTOR, PROXIES IN FAVOUR OF MANAGEMENT WILL BE VOTED IN FAVOUR OF THE REMAINING NOMINEES AND MAY BE VOTED FOR A SUBSTITUTE NOMINEE UNLESS THE SHAREHOLDER HAS SPECIFIED IN THE PROXY THAT HIS OR HER SHARES ARE TO BE WITHHELD FROM VOTING IN RESPECT OF THE ELECTION OF DIRECTORS.**

## 3. APPOINTMENT OF AUDITORS

At the Meeting, shareholders will be asked to appoint PricewaterhouseCoopers LLP to hold office as the Company's auditors until the close of the next annual meeting of shareholders and to authorize the directors of the Company to fix the auditors remuneration. PricewaterhouseCoopers LLP are the current auditors of the Company.

**PROXIES RECEIVED IN FAVOUR OF MANAGEMENT WILL BE VOTED IN FAVOUR OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP, CHARTERED ACCOUNTANTS, AS AUDITORS OF THE COMPANY TO HOLD OFFICE UNTIL THE NEXT ANNUAL MEETING OF SHAREHOLDERS AND THE AUTHORIZATION OF THE DIRECTORS TO FIX THEIR REMUNERATION, UNLESS THE SHAREHOLDER HAS SPECIFIED IN THE PROXY THAT HIS OR HER SHARES ARE TO BE WITHHELD FROM VOTING IN RESPECT THEREOF.**

## REMUNERATION OF DIRECTORS AND OFFICERS

### Executive Compensation

#### *Compensation Discussion and Analysis*

The Company's Compensation Committee was established for the purpose of reviewing, and recommending to the Board for approval, the compensation of executive officers. The responsibilities, powers and operations of the Compensation Committee are described in its Charter, which is set out as Exhibit "C" hereto.

During the fiscal year ended June 30, 2012, the Compensation Committee was comprised of two independent directors: Stephen Burns and William H. Polley. As at the date hereof, the Compensation Committee is comprised of two independent directors: Stephen Burns and William H. Polley.

The Compensation Committee conducts an annual review to consider and adjust executive compensation and relies upon the knowledge and experience of its members and other members of the Board of Directors regarding appropriate levels of salary and other compensation. The Compensation Committee assesses the performance of the President and Chief Executive Officer on an annual basis and establishes his base salary, bonus and stock option entitlement in the same way that the compensation of other executive officers is established, as outlined below.

The compensation of the executive officers of the Company is determined on the basis of several factors, including the individual's experience, corporate responsibilities, the performance of the individual and the achievement of specified annual objectives determined by the Board of Directors and/or the President and Chief Executive Officer, as applicable. The current compensation package consists of salary, bonuses and stock options and emphasis is placed on salary, bonuses and stock options as described below. The executive officers of the Company are entitled to receive all benefits which are available to senior management generally.

#### *Base Salaries*

The salaries and benefits paid to the Company's executive officers, including those paid to the President and Chief Executive Officer, were previously established at or below those generally paid to persons performing similar functions in comparable corporations within the marketing services industry. In March 2011, Pareto Corporation completed a going private transaction and no longer publicly discloses its executive compensation and, in September 2012, The Futura Loyalty Group Inc. filed for protection from its creditors under the Companies' Creditors Arrangement Act, consequently the Company currently has no adequate peer group to benchmark its executive compensation against. The compensation of the executive officers of the Company is guided by the following goals:

- The compensation package should be simple, transparent and easy to understand.

- The compensation package should be structured to attract and retain executive officers.

- The compensation package should recognize the contribution of the Company's executive officers to the overall success and growth of the Company.

- The compensation package should be commensurate with the time spent by executive officers in meeting their obligations.

***Bonus Compensation***

Bonuses paid to the executive officers are based upon objectives relating to each executive officer's corporate responsibility and to the Company's achievement of its overall corporate objectives. The bonuses paid to the Named Executives for fiscal year ended June 30, 2012 were $150,000.

Bonuses paid to the Named Executive Officers for fiscal year ended June 30, 2011 were $45,054.

***Stock Option Plan***

The Company has a Stock Option Plan (the "Stock Option Plan") which was approved by the shareholders at the Annual and Special Meeting of the Shareholders held on December 22, 2009. As part of the seamless transition of the listing of the Company's common shares to the CNSX on March 15, 2011, the Board approved certain amendments to the Stock Option Plan to comply with CNSX policies, and the CNSX approved the Stock Option Plan.

The aggregate number of Common Shares issuable under the Stock Option Plan shall not exceed 11,643,704. The foregoing number represents, as of the date hereof, 12% of the 97,030,868 issued and outstanding common shares of the Company. Any option granted under the Stock Option Plan, which for any reason is surrendered, cancelled or terminated prior to exercise, will be available for a subsequent grant under the Stock Option Plan.

As of the date hereof, options to purchase an aggregate of 10,027,790 common shares are outstanding pursuant to the Stock Option Plan.

The Company does not have any Long-Term Incentive Plan other than the Stock Option Plan.

The material terms of the Stock Option Plan, as amended, are as follows:

- The purpose of the Stock Option Plan is to encourage ownership of Common Shares by directors, senior officers, employees and consultants of the Company and its subsidiaries (the "**Eligible Persons**").

- Under the Stock Option Plan, options may be granted to Eligible Persons.

- The aggregate number of Common Shares issuable under the Stock Option Plan shall not exceed 11,643,704. The foregoing number represents, as of the date hereof, 12% of the 97,030,868 issued and outstanding common shares of the Company. Any option granted under the Stock Option Plan, which for any reason is surrendered, cancelled or terminated prior to exercise, will be available for a subsequent grant under the Stock Option Plan.

- The maximum number of Common Shares which may be reserved for issuance to any one person in any 12 month period (unless the Company has obtained disinterested Shareholder approval)

under the Stock Option Plan is 5% of the Common Shares issued and outstanding at the time of the grant (calculated on a non-diluted basis) less the number of Common Shares reserved for issuance to such person under any option to purchase Common Shares granted as a compensation or incentive mechanism. The maximum number of Common Shares issuable to insiders of the Company, at any time, under all security based compensation arrangements of the Company, including the Stock Option Plan, shall not exceed 10% of the issued and outstanding Common Shares. The maximum number of Common Shares issued to insiders of the Company, within any one year period, under all security based compensation arrangements of the Company, including the Stock Option Plan, shall not exceed 10% of the issued and outstanding Common Shares.

- The option exercise price will be fixed by the Board or committee of the Board, but cannot be less than the greater of the closing price of the Common Shares on (i) the trading day immediately preceding the day upon which the option is granted, or (ii) the day the option is granted.

- Options granted under the Stock Option Plan may be exercised during a period not exceeding five years, subject to earlier termination, upon the optionee ceasing to be an employee, senior officer, director or consultant of the Company or any of its subsidiaries, as applicable, or upon the optionee retiring, becoming permanently disabled or dying. If the termination date of an option falls during or within three trading days of a blackout period, during which a policy of the Company prevents certain persons from trading in the securities of the Company, the expiry date for the option will be extended for an additional period expiring on the tenth trading day following the end of the blackout period.

- Options are non-transferable without Board approval.

- The Board may also, in its discretion, subject to the limitations of the CNSX and the Stock Option Plan, at the time of granting an option, determine that provisions relating to the vesting of such option be contained in the written agreement between the Company and the optionee.

- By its terms, the Stock Option Plan may be amended by the Board without the consent of the shareholders, to the extent that such amendments relate to: (a) complying with the requirements of any applicable regulatory authority; (b) complying with the rules, policies and notices of the CNSX or of any stock exchange on which the Company's securities are listed; (c) determining, subject to all applicable regulatory requirements, that the provisions of the Stock Option Plan concerning the effect of termination of a participant's status as an Eligible Person under the Stock Option Plan shall not apply to a participant for any reason acceptable to the Board; (d) amending the definitions contained within the Stock Option Plan; (e) amending the categories of persons who are Eligible Persons and entitled to be granted options pursuant to the Stock Option Plan; (f) allowing the grant of short-term financial assistance to participants for the purpose of exercising options granted under the Stock Option Plan, subject to compliance with all applicable regulatory requirements; (g) authorizing the addition or modification of a cashless exercise feature, payable in cash or Common Shares, which provides for a full deduction of the number of underlying securities from the Stock Option Plan reserve; (h) decreasing the maximum number of Common Shares issuable under the Stock Option Plan (with a corresponding decrease in the number of Common Shares reserved for issuance under the Stock Option Plan); and (i) amendments of a "clerical" nature, including, without limitation, amending the wording of any provisions of the Stock Option Plan for the purpose of clarifying the meaning of existing provisions or to correct or supplement any provision of the Stock Option Plan that is inconsistent with any other provision of the Stock Option Plan.

***Pension Plan Benefits***

The Company does not have any defined benefits plans, defined contribution plans or deferred compensation plans.

***Employment Contracts***

*Kelly E. Ambrose*

The Company and Kelly E. Ambrose entered into an employment agreement dated September 26, 2007, pursuant to which Mr. Ambrose is employed as President and Chief Executive Officer at an annual salary of $350,000, subject to annual review, and a bonus of up to 100% of his salary based on performance and profitability of the Company. Mr. Ambrose's base salary has since been revised to $330,000. Mr. Ambrose is also entitled to a monthly car allowance of $1,000.00 and an annual maximum health care spending allowance of $10,000. The Company is entitled to terminate Mr. Ambrose's employment without cause (including after the effective date of a change of control) by paying him a lump sum payment in the amount of 12 months' then current salary, plus the bonus paid to him in respect of the last fiscal year during which ended prior to the date of termination of his employment, plus an amount equal to one-twelfth (1/12) of the average of the bonuses paid to him in respect of the last two fiscal years which ended prior to the date of termination of his employment multiplied by the number of full months that have elapsed in the fiscal year during which his employment is terminated. In addition to the above payments, upon termination of his employment without cause, Mr. Ambrose would continue to receive the car allowance, benefits, (or payment in lieu) as well as the health care spending allowance for the duration of the notice period, and 100% of his options would vest immediately, and would be exercisable for a period of two years from the date of termination.

*Mukesh Sabharwal*

The Company and Mukesh Sabharwal entered into an employment agreement dated October 27, 2006, subsequently amended March 12, 2009, pursuant to which Mr. Sabharwal is employed as Vice President and Chief Financial Officer at an annual salary of $150,000 and is entitled to an annual bonus of up to 50% of his annual salary, subject to the Company achieving its objectives, and on the successful completion of his individual agreed upon objectives. Mr. Sabharwal's base salary has since been revised to $200,000. The Company is entitled to terminate Mr. Sabharwal's employment without cause upon providing him with 12 weeks' notice of termination, or payment in lieu of notice for service provided by him up to March 12, 2009, and an additional two weeks, prorated monthly for each completed year of service, up to a maximum of ten months. On November 12, 2009 the employment agreement was amended to cover severance payment of 12 months annual salary in the event of change of control triggered by specific circumstances.

*Tim Knowles*

The Company and Tim Knowles entered into an employment agreement dated October 14, 2007, pursuant to which Mr. Knowles is employed, effective October 1, 2007, as Chief Information Officer, at an annual salary of $225,000, and is entitled to earn a bonus of up to 50% of his annual salary subject to the Company achieving its objectives and on the successful completion of his individual agreed upon objectives. Mr. Knowles base salary has since been revised to $200,000. The Company is entitled to terminate Mr. Knowles's employment without cause upon providing six months' notice of termination or payment in lieu of notice for the first year of completed service, and an additional one month of notice or payment in lieu of notice for each additional year of completed services up to a maximum of 12 months. Mr. Knowles is also entitled to receive a monthly car allowance of $1000.00. On November 12, 2009 the

employment agreement was amended to cover severance payment of 12 months annual salary in the event of change of control triggered by specific circumstances.

*Kelly Lee Smith*

The Company and Kelly Lee Smith entered into an employment agreement dated October 2, 2007, pursuant to which Ms. Smith is employed as Vice-President, Database/Online Marketing at an annual salary of $175,000, subject to annual review, and is entitled to an annual bonus of up to 20% of her annual salary subject to the Company achieving its objectives, and on the successful completion of her individual agreed upon objectives. Ms. Smith's base salary has since been revised to $150,000. The Company is entitled to terminate Ms. Smith's employment without cause upon providing her with two weeks' notice of termination, or payment in lieu of notice for each completed year of service, up to a maximum of ten months. Ms. Smith is also entitled to receive re-imbursement of car mileage up to $1000.00 per month. On November 12, 2009 the employment agreement was amended to cover severance payment of twelve (12) months annual salary in the event of change of control triggered by specific circumstances.

*Phil McGlynn*

The Company and Phil McGlynn entered into an employment agreement dated June 25, 2008 pursuant to which Mr. McGlynn is employed, effective March 15, 2008, as Vice President Marketing, at an annual salary of $115,500. Mr. McGlynn's base salary has since been revised to $160,000 effective February 1, 2012. The Company is entitled to terminate Mr. McGlynn's employment without cause upon providing two weeks' notice of termination or payment in lieu of notice for each completed year of service, up to a maximum of ten months. Mr. McGlynn is also entitled to receive a monthly car allowance of $1000.00. On November 12, 2009 the employment agreement was amended to cover severance payment of 12 months annual salary in the event of change of control triggered by specific circumstances.

All employment agreements described above also provide for:

1. Appropriate confidentiality, non-competition and non-solicitation covenants.
2. That the bonuses are subject to the approval of the Board of Directors.
3. An entitlement to participate in Health and Life insurance plans for which the Company pays the premiums.

***Compensation Summary***

COMPENSATION SUMMARY FOR YEAR ENDED June 30, 2012

The tabulation covers compensation of Chief Executive Officer, Chief Financial Officer, and other executive officers whose "total compensation" exceeds $150,000 ("Named Executive Officers"), and all of whom are members of the senior management team.

## Summary Compensation Table – 2012, 2011, & 2010[1]

| NEO (Name and Principal Position) | Year | Salary ($) | Share based awards[4] ($) | Option based awards[4] ($) | Non-equity incentive plan compensation - Annual[3] ($) | Non-equity incentive plan compensation – Long Term ($) | Pension value ($) | All other compensation[2] ($) | Total compensation ($) |
|---|---|---|---|---|---|---|---|---|---|
| **Kelly E. Ambrose** President and Chief Executive Officer, and Secretary | 2012 | 330,000 | Nil | 9,044 | 75,000 | Nil | Nil | 23,003 | 437,047 |
| | 2011 | 335,000 | Nil | 39,424 | 21,304 | Nil | Nil | 23,003 | 418,731 |
| | 2010 | 297,557 | Nil | Nil | 21,250 | Nil | Nil | 24,774 | 343,581 |
| **Mukesh Sabharwal** Vice-President and Chief Financial Officer | 2012 | 200,000 | Nil | 5,426 | 30,000 | Nil | Nil | 4,010 | 239,436 |
| | 2011 | 179,167 | Nil | 10,614 | 7,500 | Nil | Nil | 4,010 | 201,291 |
| | 2010 | 135,897 | Nil | Nil | 7,500 | Nil | Nil | 4,010 | 147,407 |
| **Tim Knowles** Chief Information Officer | 2012 | 200,000 | Nil | 4,522 | 15,000 | Nil | Nil | 12,000 | 231,522 |
| | 2011 | 206,250 | Nil | 3,791 | 6,250 | Nil | Nil | 12,000 | 228,291 |
| | 2010 | 186,569 | Nil | Nil | 6,250 | Nil | Nil | 12,000 | 204,819 |
| **Kelly Lee Smith** Vice-President, Database/Online Marketing | 2012 | 150,000 | Nil | 4,522 | 15,000 | Nil | Nil | 18,016 | 187,538 |
| | 2011 | 156,250 | Nil | 2,654 | 5,000 | Nil | Nil | 18,016 | 181,920 |
| | 2010 | 139,724 | Nil | Nil | 5,000 | Nil | Nil | 18,016 | 162,740 |
| **Phil McGlynn** Vice-President, Marketing | 2012 | 148,333 | Nil | 4,522 | 15,000 | Nil | Nil | 8,005 | 175,860 |
| | 2011 | 142,500 | Nil | 2,654 | 5,000 | Nil | Nil | 8,005 | 158,159 |
| | 2010 | 143,000 | Nil | Nil | 5,000 | Nil | Nil | 8,005 | 156,005 |

***Notes***

*(1) Additional details are available in the narrative under "Executive Compensation – Employment Contracts".*

*(2) "All other compensation" represents car and/or 407 ETR allowance. In case of Kelly Ambrose only, amounts paid towards health care spending allowance are also included, details of which are available under "Executive Compensation - Employment Contracts".*

*(3) Bonuses paid for fiscal years ended June 30, 2012, 2011, and 2010.*

*(4) The Company did not give any share based awards. The value assigned under "Option based awards" is calculated based on the Black -Scholes pricing model. For the grant in the fiscal year ended June 30, 2012, the assumptions used in the model were: (i) expected life of stock option is 5 years; (ii) expected volatility of common share price, based on historical trends, is 101.5%;; (iii) risk-free rate of return is 1.8%; (iv) expected forfeiture rate, based on historical trends, is 4.3%; and (v) nil dividend.*

## Incentive Plan Awards

### *Outstanding Share-based Awards and Option-based Awards*

The following table sets forth the options to purchase securities of the Company granted up to June 30, 2012 to the Named Executive Officers. All awards were issued pursuant to the rules and regulations of the Company's Stock Option Plan.

| Name | Option-based Awards[1][6] | | | | Share-based Awards | |
|---|---|---|---|---|---|---|
| | Number of securities underlying unexercised options (#) | Option exercise price ($) | Option expiration date | Value of unexercised in-the-money options[2] ($) | Number of shares or units of shares that have not vested (#) | Market or payout value of share-based awards that have not vested ($) |
| **Kelly E. Ambrose** | 336,660[3] | 0.045 | 17 March, 2013 | Nil | Nil | Nil |
| | 2,600,000[4] | 0.020 | 16 March, 2016 | Nil | | |
| | 500,000[5] | 0.025 | 3 February, 2017 | Nil | | |
| **Mukesh Sabharwal** | 112,500[3] | 0.045 | 17 March, 2013 | Nil | Nil | Nil |
| | 700,000[4] | 0.020 | 16 March, 2016 | Nil | | |
| | 300,000[5] | 0.025 | 3 February, 2017 | Nil | | |
| **Tim Knowles** | 220,410[3] | 0.045 | 17 March, 2013 | Nil | Nil | Nil |
| | 250,000[4] | 0.020 | 16 March, 2016 | Nil | | |
| | 250,000[5] | 0.025 | 3 February, 2017 | Nil | | |
| **Kelly Lee Smith** | 140,250[3] | 0.045 | 17 March, 2013 | Nil | Nil | Nil |
| | 175,000[4] | 0.020 | 16 March, 2016 | Nil | | |
| | 250,000[5] | 0.025 | 3 February, 2017 | Nil | | |
| **Phil McGlynn** | 84,500[3] | 0.010 | 23 March, 2014 | Nil | Nil | Nil |
| | 175,000[4] | 0.020 | 16 March, 2016 | Nil | | |
| | 250,000[5] | 0.025 | 3 February, 2017 | Nil | | |

***Notes:***

*(1) Includes all options awarded to Named Executive Officers under the Stock Option Plan, and outstanding as at June 30, 2012.*

(2) *The "Value of unexercised in-the-money options" figures reflect the aggregate dollar amount of in-the-money, based on price per common share at close of business on June 28, 2012, of unexercised options held at the end of the year ended June 30, 2012. The price per common share at the close of business on the CNSX on June 28, 2012, the latest date prior to June 30, 2012 on which the Company's shares were traded, was $0.005.*

*(3) These options granted pursuant to the Company's Stock Option Plan had vested by July 1, 2010.*

*(4) These options vested on the date of the grant, March 16, 2011.*

*(5) These options vested on the date of the grant, February 3, 2012.*

*(6) No options based awards were exercised during the fiscal year ended June 30, 2012.*

### *Incentive Plan Awards – Value Vested or Earned During the Year*

The following table sets forth for each Named Executive Officer the value that would have been realized if the options granted under the Stock Option Plan had been exercised on their vesting date and the value earned under non-equity incentives, all during the year ended June 30, 2012.

| Name | Options vested during the year[1] | Option-based awards - Value vested during the year[2] ($) | Share-based awards - Value vested during the year ($) | Non-equity incentive plan compensation - Value earned during the year [3] ($) |
|---|---|---|---|---|
| **Kelly E. Ambrose** | 500,000 | Nil | Nil | 75,000 |
| **Mukesh Sabharwal** | 300,000 | Nil | Nil | 30,000 |
| **Tim Knowles** | 250,000 | Nil | Nil | 15,000 |
| **Kelly Lee Smith** | 250,000 | Nil | Nil | 15,000 |
| **Phil McGlynn** | 250,000 | Nil | Nil | 15,000 |

*Notes:*

*(1) Options were granted on February 3, 2012. They vested 100% on February 3, 2012.*
*(2) The exercise price of the options granted during the year (tabulated above under "Options vested during the year") was $0.025. The Company's shares were not traded on February 3, 2012. The closing share prices on February 2 and February 6, 2012 were $0.025 and $0.015 respectively.*
*(3) Figures represent bonus paid for fiscal year ended June 30, 2012.*

### *Termination and Change of Control Payments*

Potential payments upon termination of employment as of date hereof for each named Executive Officer.

| | Severance in event of termination without cause[1] ($) | Severance in event of triggering change of control situation[1] ($) |
|---|---|---|
| **Mr. Kelly E. Ambrose[2]** | $421,050 | $421,050 |
| **Mr. Mukesh Sabharwal** | $74,305 | $200,000 |
| **Mr. Tim Knowles** | $166,667 | $200,000 |
| **Ms. Kelly Lee Smith** | $34,615 | $150,000 |
| **Mr. Phil McGlynn** | $24,615 | $160,000 |

*Notes:*

*(1) Additionally, Health and Life insurance benefits would continue for the duration of the notice period*
*(2) In addition, payments would include continuation of car allowance ($12,000), annual health care spending allowance of $10,000.*

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## Compensation of Directors

### *Directors Compensation Table*

During the fiscal year ended June 30, 2012, each of the directors of the Company (excluding Kelly Ambrose who is also Chief Executive Officer of the Company, and does not receive additional compensation as a director of the Company) were entitled to an annual Director's fee as follows:

Each director other than the Chairman of the Board earned an annual fee of $15,000, and $800 per meeting attended or $400 per meeting attended by telephone conference;

1. The Chairman of the Board earned an annual fee of $42,000, and the same attendance fee as the other directors;

2. Chairman of the Compensation Committee earned an annual fee of $2,500, and each Committee member earned $500 per meeting attended or $250 per meeting attended by telephone conference;

3. Chairman of the Governance and Nominating Committee earned an annual fee of $2,500, and each Committee member earned $500 per meeting attended or $250 per meeting attended by telephone conference;

4. Chairman of the Audit Committee earned an annual fee of $5,000 and each Committee member earned $500 per meeting attended or $250 per meeting attended by telephone conference.

The Directors' compensation table for fiscal year ended June 30, 2012 is as follows:

| Name | Fees earned ($) | Share-based awards ($) | Option-based awards(3) ($) | Non-equity incentive plan compensation ($) | Pension value ($) | All other compensation ($) | Total ($) |
|---|---|---|---|---|---|---|---|
| **Stephen Burns**(1) | 55,700 | Nil | 13,565 | Nil | Nil | Nil | 69,265 |
| **William H. Polley** | 23,700 | Nil | 13,565 | Nil | Nil | Nil | 37,265 |
| **Carol Kerbel**(2) | 8,397 | Nil | Nil | Nil | Nil | Nil | 8,397 |

*Notes:*

*(1) Chairman of the Board of Directors.*

*(2) Carole Kerbel an ex-director, completed her tenure at the end of the Annual Meeting held on December 21, 2011.*

*(3) The Company did not give any share based awards. The value assigned under "Option based awards" is calculated based on the Black – Scholes pricing model. For the grant in the fiscal year ended June 30, 2012, the assumptions used in the model were: (i) expected life of stock option is 5 years; (ii) expected volatility of common share price, based on historical trends, is 101.5%; (iii) risk-free rate of return is 1.8%; (iv) expected forfeiture rate, based on historical trends, is 4.3%; and (v) nil dividend.*

### *Outstanding Share-based and Option-based Awards*

The following table sets forth the options to purchase securities of the Company granted up to the most recently completed fiscal year ended June 30, 2012, to the eligible Directors of the Company.

| Name | Option-based Awards[1] | | | | Share-based Awards | |
|---|---|---|---|---|---|---|
| | Number of securities underlying unexercised options (#) | Option exercise price ($) | Option expiration date | Value of unexercised in-the-money options[2] ($) | Number of shares or units of shares that have not vested (#) | Market or payout value of share-based awards that have not vested ($) |
| **Stephen Burns** | 300,000 [3] | 0.020 | March 16, 2016 | Nil | Nil | Nil |
| | 750,000 [4] | 0.025 | February 3, 2017 | Nil | Nil | Nil |
| **William H. Polley** | 300,000 [3] | 0.020 | March 16, 2016 | Nil | Nil | Nil |
| | 750,000 [4] | 0.025 | February 3, 2017 | Nil | Nil | Nil |

*Notes*
*(1) Includes all options awarded to Directors under the Stock Option Plan outstanding as at June 30, 2012.*
*(2) The "Value of unexercised in-the-money options" figures reflect the aggregate dollar amount of in-the-money, based on price per common share at close of business on June 30, 2012, unexercised options held at the end of the fiscal year ended June 30, 2012. The price per common share at the close of business on the CNSX on June 38, 2012, the latest date prior to June 30, 2012 on which the Company's shares were traded, was* $0.005.
*(3) Vested as at day of grant, March 16, 2011.*
*(4) Vested on date of grant February 3, 2012.*
*(5) No options based awards were exercised during the fiscal year ended June 30, 2012.*
*(6) During fiscal year ended June 30, 2012, the 525,000 options previously granted to each of the directors in December 2006 at an exercise price of $0.055 expired, unexercised, on December 21, 2011.*

### *Incentive Plan Awards – Value Vested or Earned During the Year*

The following table sets forth for each eligible Director of the Company the value that would have been realized if the options granted under the Stock Option Plan had been exercised on their vesting date and the value earned under non-equity incentives, all during the fiscal year ended June 30, 2012.

| Name | Options vested during the year[1] | Option-based awards - Value vested during the year[2] ($) | Share-based awards - Value vested during the year ($) | Non-equity incentive plan compensation - Value earned during the year ($) |
|---|---|---|---|---|
| **Stephen Burns** | 750,000 | Nil | Nil | Nil |
| **William H. Polley** | 750,000 | Nil | Nil | Nil |

*Notes*

*(1) Options were granted on February 3, 2012. They vested 100% on February 3, 2012.*
*(2) The exercise price of the options granted during the year (tabulated above under "Options vested during the year") was $0.025. The Company's shares were not traded on February 3, 2012. The closing share prices on February 2 and February 6, 2012 were $0.025 and $0.015 respectively.*

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLAN

The following table sets out as of November 16, 2012, a summary of compensation plans of the Company under which securities of the Company are authorized for issuance, being the Stock Option Plan and the Warrant Plan (as defined below).

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (#) | Weighted-average exercise price of outstanding options, warrants and rights ($) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column) (#) |
|---|---|---|---|
| **Equity compensation plans approved by securityholders** | 10,027,790 | 0.03 | 1,615,914 |
| **Equity compensation plans not approved by securityholders** | Nil | Nil | Nil |
| **Total** | 10,027,790 | 0.03 | 1,615,914 |

## RETAILER/SPONSOR WARRANT PLAN

On April 8, 2001, the Board created a warrant plan (the "**Warrant Plan**") allowing for the issuance of warrants (the "**Retailer/Sponsor Warrants**") to purchase Common Shares to certain sponsors and retailers of the loyalty and promotion programs of the Company and its affiliates (the "**Programs**"). The purpose of the Warrant Plan is to allow certain retailers who participate in the Programs (the "**Retailers**") and certain sponsors who sponsor the Programs (the "**Sponsors**") to receive Retailer/Sponsor Warrants. The Board of Directors believes that the Warrant Plan enables the Company to:

(a) encourage sponsors and retailers to participate in and promote the success and effectiveness of the Programs;

(b) better align the interests of such sponsors and retailers with the long-term interests of the Company;

(c) encourage the establishment and maintenance of long-term relationships with sponsors and retailers; and

(d) differentiate itself from its competition in attracting and retaining sponsor and retailer participation in the Programs.

Every Retailer or Sponsor participating in the Warrant Plan is required to enter into an agreement with the Company (the "**Warrant Agreement**") governing, among other things, the vesting and exercise of the Retailer/Sponsor Warrants granted thereunder. The number of Retailer/Sponsor Warrants to be granted to a Sponsor or Retailer will be based upon the relative contribution of such Sponsor or Retailer to the annual growth in the Company's revenues generated by the Programs. The granting of the Retailer/Sponsor Warrants are also governed by the policies of the CNSX as applicable.

Under the Warrant Plan, no Retailer/Sponsor Warrants may be granted to insiders (as such term is defined in the *Securities Act* (Ontario)) of the Company. The number of Common Shares which may be reserved for issuance under the Warrant Plan is limited to 1,500,000 Common Shares, provided that the Board has the right, from time to time, to increase such number subject to the approval of the shareholders of the Company. The number of Common Shares subject to issuance under the Warrant Plan represent, in the aggregate, approximately 1.5% of the issued and outstanding Common Shares as at the date hereof. The maximum number of Common Shares which may be reserved for issuance to any one person under the Warrant Plan is 5% of the Common Shares outstanding at the time of the grant (calculated on a non-diluted basis). Any shares reserved for issuance pursuant to a Retailer/Sponsor Warrant granted under the Warrant Plan which for any reason are cancelled or terminated prior to exercise will be available for a subsequent grant under the Warrant Plan. Retailer/Sponsor Warrants granted under the Warrant Plan may be exercised during a period not exceeding five years, subject to earlier termination upon the termination of the warrantholders' retailer or sponsor agreement with the Company, or upon the warrantholder ceasing to be a Retailer or Sponsor of the Company or its affiliates or as otherwise specified in the applicable Warrant Agreement. All Retailer/Sponsor Warrants are non-transferable. The Warrant Plan contains provisions for adjustment in the number of shares issuable thereunder in the event of a subdivision, consolidation, reclassification or change of the Common Shares, a merger or other relevant changes in the Company's capitalization. The Board of Directors may from time to time amend or revise the terms of the Warrant Plan or may terminate the Warrant Plan at any time. The Warrant Plan does not contain any provision for financial assistance by the Company in respect of Retailer/Sponsor Warrants granted under the Warrant Plan.

As of the date hereof, there were no Retailer/Sponsor Warrants granted or outstanding pursuant to the Warrant Plan.

## CORPORATE GOVERNANCE

Corporate governance relates to the activities of the Board of Directors, the members of which are elected by and are accountable to the Company's shareholders, and takes into account the role of the individual members of management who are appointed by the Board and who are charged with the day to day management of the Company. The Board is committed to sound corporate governance practices which are both in the interests of its shareholders and contribute to effective and efficient decision making. The Company believes that its corporate governance practices ensure that the business and affairs of the Company are effectively managed so as to enhance shareholder value.

### Audit Committee

Pursuant to National Instrument 52-110 – Audit Committees (the "National Instrument") the Company is disclosing herewith information concerning the Audit Committee of the Board (the" Audit Committee") and its relationship with its independent auditor.

- ***The Charter of the Audit Committee*** *is attached as Exhibit "D" hereto*.

- ***Composition of the Audit Committee.***

The current members, as of date hereof, are William H. Polley (Chair of the Audit Committee), Stephen Burns (Chair of the Board), and Kelly E. Ambrose.

Each member of the Audit Committee is considered to be "financially literate" within the meaning of the National Instrument.

Messrs. Polley and Burns are considered to be "independent" within the meaning of the National Instrument. Although relationships exist between the Company and Messrs. Burns and Polley, the Board is of the view that these relationships are not "material relationships" as defined under the National Instrument as they are not reasonably expected to interfere with the exercise of independent judgment by each of Messrs. Polley and Burns. Further, Messrs. Polley and Burns, do not accept, directly or indirectly, any consulting, advisory or other compensatory fees from the Company or any subsidiary of the Company, other than as remuneration for acting as a member of the Board or any committee of the Board.

Mr. Ambrose is not considered to be an independent director as Mr. Ambrose is the President and Chief Executive Officer of the Company. The Company has relied upon exemption under the National Instrument. Under Part 6 of the National Instrument, the Company is exempt from Part 3 of the National Instrument composition of the Audit Committee.

- ***Relevant Education and Experience***

Mr. Polley is a Chartered Accountant and has no direct or indirect relationship with the Company aside from acting as a member of the Board since November 21, 2002.

Mr. Burns is a Chartered Accountant and was a senior partner in Shimmerman Penn Burns Becker LLP, Chartered Accountants ("Shimmerman Penn") from 1995 to April 1, 2002. PricewaterhouseCoopers LLP are the current auditors of the Company. Shimmerman Penn was the auditor of the Company from 1995 thru fiscal 2005. During the last three years that Mr. Burns was a senior partner in Shimmerman Penn, he had given up all responsibilities as engagement partner for his clients, including the Company, and only acted in a consulting role. Mr. Burns has no other direct or indirect relationship with the Company aside from acting as a member of the Board since February 19, 2004.

Mr. Ambrose holds a Bachelor of Commerce from the University of Saskatchewan. He has substantial business experience having been the President of the Company since October 19, 2005, Chief Operating Officer of the Company between October 19, 2005 and December 4, 2006, Chief Executive Officer of the Company since December 5, 2006, and Secretary since September 24, 2009.

- ***Pre-Approval Policies and Procedures***

In the event that the Company wishes to retain the services of the Company's external auditors for tax compliance, tax advice, tax planning or other non-audit services, such services must be pre-approved by the Audit Committee.

- ***Auditors Service Fees***

The following chart summarizes the aggregate fees billed by the external auditors of the Company for professional services rendered to the Company during the fiscal years ended June 30, 2012 and June 30, 2011, for audit and non-audit related services:

| Type of Work | Year Ended June 30, 2012 | Year Ended June 30, 2011 |
|---|---|---|
| Audit fees [1] | $ 77,000 | $ 87,000 |
| Audit-related fees [2] | $ 12,000 | $ 5,000 |
| Tax advisory fees [3] | $ 20,000 | $ 20,000 |
| All other fees [4] | $ - | $ 50,000 |
| Total | $109,000 | $162,000 |

Note:

*(1)* Aggregate fees billed for the Company's annual financial statements and services normally provided by the auditor in connection with the Company's statutory and regulatory filings. In the management circular dated November 29, 2011 the fees for year ended June 30, 2011 were reported as $75,000; the final billings exceeded accrual by $12,000.

*(2)* Aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported as "Audit Fees", including: assistance with aspects of tax accounting, attest services not required by state or regulation and consultation regarding financial accounting and reporting standards.

*(3)* Aggregate fees billed for tax compliance, tax advice and tax planning.

*(4)* In the management circular dated November 29, 2011 the fees for year ended June 30, 2011 were reported as $40,000; the final billings exceeded accruals by $10,000.

**Disclosure of Corporate Governance Practices**

The Company has reviewed its own corporate governance practices in light of the guidelines contained in National Policy 58-201 - *Corporate Governance Guidelines* ("**NP 58-201**"). The Company's practices comply generally with the guidelines; however, the Board considers that some of the guidelines are not suitable for the Company at its current stage of development and therefore such guidelines have not been adopted. Set out below is a description of the Company's corporate governance practices as required by National Instrument 58-101 - *Disclosure of Corporate Governance Practices* ("**NI 58-101**").

*Board of Directors*

Pursuant to NI 58-101, a director is independent if the director has no direct or indirect relationship with the issuer which could, in the view of the issuer's board of directors, be reasonably expected to interfere with the exercise of a member's independent judgment. Certain directors are deemed to have a material relationship with the issuer by virtue of their position or relationship with the Company. The Board is currently comprised of three (3) members, two (2) of whom the Board has determined are independent. In assessing whether a director is independent for these purposes, the circumstances of each director have been examined in relation to a number of factors.

Stephen Burns, and William H. Polley are considered independent directors.

Kelly E. Ambrose is not considered to be an independent director as Mr. Ambrose is the President and Chief Executive Officer of the Company.

The majority of the directors of the Company are independent.

The Board believes that it functions independently of management. To enhance its ability to act independently of management, the Board meets in the absence of members of management and the relevant directors or may excuse such persons from all or a portion of any meeting where a potential

conflict of interest arises or where otherwise appropriate. In light of the suggestions contained in NP 58-201, the Board has convened meetings of independent directors, at which non-independent directors and members of management are not in attendance, at least once annually and additionally, as may be deemed necessary.

Stephen Burns is Chairman of the Board of Directors. Mr. Burns is considered to be an independent director. Currently, the Board is satisfied that it exercises its responsibilities for independent oversight of management. The ability to establish *ad hoc* committees comprised solely of independent directors provides the Board with the ability to meet independently of management whenever deemed necessary or appropriate and the chair of each such *ad hoc* committee provides the leadership for such committee.

*Directors' Meetings*

The Board met 7 times from July 1, 2011 to November 16, 2012. The following is the record of attendance for each director at Board meetings for this period:

| Director | Board Meeting[1] |
|---|---|
| Kelly Ambrose | 7 |
| Stephen Burns | 7 |
| William Polley | 7 |

*Note:*

*(1) During the same period, the Audit Committee met 7 times. The Compensation Committee, and Governance and Nominating Committee met twice. Each of the Compensation Committee, and Governance and Nominating Committee are scheduled to meet on December 20, 2012.*

*Board Mandate*

The text of the Charter of the Board of Directors is set out in Exhibit "A" hereto.

*Position Descriptions*

The Board has developed a position description for the non-executive chair of the Board position.

The Board has developed and adopted a charter for each of its three existing committees, including a position description of each committee chair position, delineating roles and responsibilities.

The Board has not yet developed a position description for the Chief Executive Officer of the Company (the "**CEO**"). The CEO reports to the Board, and the Board responds to and, if it considers appropriate, approves, with such revisions as it may require, corporate objectives and recommended courses of action, as well as Company goals and objectives, which have been brought forward by the CEO and management. The Board and the CEO review, on a regular basis, the scope and limits of management's responsibilities and powers.

The Board has delegated to management responsibility for meeting the Company's objectives, implementing approved strategic and operating plans, generally managing the Company's day to day business and cash flows, evaluating new business opportunities and complying with regulatory requirements, as they apply to the Company. In addition, management is tasked with preparing and recommending long-term strategic objectives, annual operating plans and budgets.

*Other Directorship*

The following table sets out details of directorships held by each current director or nominee in other public issuers:

| **Name of Director** | **Name of Issuer** |
|---|---|
| **William H. Polley** | Dynamic Venture Opportunity Fund |

*Orientation and Education*

The Company does not currently have a formal orientation and education program for new Board members. New Board members receive an information package, tour the facilities and are provided with opportunities to interact with and request briefings from management in order to ensure that new directors are familiarized with the Company's business and the procedures of the Board.

Given the size of the Company and the in-depth experience of the current directors, there has been no formal continuing education program. Board members are entitled, at the Company's expense, to attend seminars that they determine necessary to keep themselves up-to-date with current issues relevant to their services as directors of the Company.

*Ethical Business Conduct*

The Company has implemented a corporate disclosure, confidentiality and insider trading policy to formalize the Company's policy regarding, among other things:

(a) disclosure of information in a timely, consistent and appropriate manner;

(b) the protection against, and prevention of, the improper use or disclosure of material and/or confidential information;

(c) the dissemination of material information in accordance with applicable legal requirements;

(d) the responsibilities of the Company's directors, officers and employees respecting the appropriate use and disclosure of material and/or confidential information;

(e) the process to be undertaken to determine whether or not information is material and when and how such information should be disclosed; and

(f) the establishment of procedures, guidelines and processes to be utilized to assist directors, officers and employees in complying with insider trading restrictions.

In circumstances where a director or executive officer has a material interest in a transaction or agreement which the Company is considering entering into, the individual is required to fully disclose his or her interest therein, an *ad hoc* committee of disinterested directors is appointed to review the same to confirm, among other things, that such transaction or agreement, as applicable, is being entered into on arm's length commercially reasonable terms. Such committee has the right to obtain advice from the Company's counsel and other professional advisors and/or appoint independent counsel and/or advisors.

The Company has implemented a Code of Business Conduct and Ethics (the "**Code**"). A copy of the Code is available under the Company's profile on SEDAR at www.sedar.com.

The Code provides that the Company's employees, officers and directors are required to act with honesty and integrity and to avoid any relationships or activities that might create, or appear to create, a conflict between personal interests and the interests of the Company. The Company is committed to providing a healthy and safe workplace in compliance with applicable laws, rules and regulations. The Code affirms the Company's commitment to foster a work environment in which all individuals are treated with respect and dignity.

The Code provides a process by which actual or potential violations of its provisions are to be reported and confirms that there will not be any reprisals against an individual who does so in good faith.

The Code also includes provisions to deal with conflicts of interest. All of the Company's employees, officers and directors are expected to comply with the Code.

The Company also operates a Workplace Ethics Hotline with an independent third party.

A shareholder or other interested party may obtain a copy of the abovementioned policies by contacting the Secretary of the Company at Suite 606, 600 Alden Road, Markham, Ontario, L3R 0E7.

*Nomination of Directors*

The Board has established a Governance and Nominating Committee with a mandate to conduct appropriate review and selection processes for new nominees as directors. The Committee is comprised of two independent directors and one non-independent director. The responsibilities, powers and operations of the Governance and Nominating Committee are described it its Charter, which is set out as Exhibit "B" hereto.

*Compensation*

The Board of Directors reviews and approves annually the compensation of the executive officers of the Company, taking into consideration the recommendations of the Compensation Committee, comprised entirely of independent directors, and the remuneration practices of similar companies.

The responsibilities, powers and operations of the Compensation Committee are described in its Charter, which is set out as Exhibit "C" hereto.

The Board of Directors reviews on an annual basis the adequacy and form of compensation of directors to ensure that the compensation of the Board reflects the responsibilities and risks involved in being an effective director. Compensation currently consists of directors' fees and stock option grants. See "*Executive Compensation – Compensation of Directors*".

*Board Committees*

The Board currently has three (3) standing committees: the Audit Committee, the Compensation Committee, and the Governance and Nominating Committee.

The Audit Committee, whose Chairman, as of date hereof, is William Polley, was composed of three directors during the year to the end of most recently completed fiscal year, two of whom were independent directors as at the end of the most recently completed year. The Board has approved, consistent with other venture issuers of similar stage and development, amendments to the charter of the Audit Committee that will allow the Audit Committee to consist of at least three members, the majority of whom shall be neither officers nor employees of the Company or any of its subsidiaries.

The Compensation Committee, whose Chairman, as of date hereof, is Stephen Burns was composed of two independent directors during the most recently completed fiscal year. The Committee was established for the purpose of reviewing, and recommending to the Board for approval, the compensation of executive officers.

The Governance and Nominating Committee, whose Chairman, as of date hereof, is Stephen Burns, was composed of three members, two of whom are independent directors. The Committee was formed to review the Company's corporate governance practices in light of the guidelines contained in NP 58-201, to review the Company's disclosure and securities compliance policies, including, without limiting the foregoing, its communications policies, and to conduct an appropriate review and selection process for new nominees as directors.

*Assessments*

The Board may eventually institute a formal annual assessment process of the effectiveness and contribution of the Board as a whole, its committees and individual directors.

Until this time, based upon the Company's size, its current state of development and the number of individuals on the Board, the Board has not considered a formal process for assessing regularly the effectiveness and contribution of the Board, as a whole, its committees or individual directors to be necessary. In light of the fact that the Board and its committees meet on numerous occasions during each year, each director has significant opportunity to assess other directors. The Board plans to continue evaluating its own effectiveness and the effectiveness and contribution of its committees and individual directors on an ad hoc basis until the formal assessment process is implemented.

## INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

No director, executive officer or employee of the Company or its subsidiaries, or former director, executive officer or employee of the Company or its subsidiaries, or proposed nominee for election as a director of the Company, nor any associate of any such director, executive officer, employee or proposed nominee is, as at the date of this Information Circular, or has been, at any time since the beginning of the most recently completed fiscal year, indebted to: (i) the Company or any subsidiary of the Company; or (ii) another entity, for which such indebtedness is, or at any time since the beginning of the most recently completed fiscal year has been, the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or any of its subsidiaries.

## DIRECTORS' AND OFFICERS' LIABILITY INSURANCE.

The Company purchases directors' and officers' liability insurance coverage in the amount of $ 5.0 million, with an extra $1.0 million cover for non-indemnifiable losses in respect of the Company and any of its subsidiaries, subject to a maximum $25,000 deductible in certain circumstances. The annual total premium paid, by the Company, in respect of such insurance is $30,225.

## INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Except as disclosed below, none of the informed persons of the Company, the proposed directors or any associate or affiliate of the foregoing persons has any material interest, direct or indirect, in any transaction since the commencement of the Company's most recently completed fiscal year or in any proposed transaction which has materially affected or would materially affect the Company or any of its subsidiaries.

During fiscal year ended June 30, 2011, informed persons of the Company purchased debentures, on terms and conditions applicable to the other subscribers, which are more fully described in notes 9 and 10 to the audited consolidated financial statements for fiscal year ended June 30, 2012. The holdings of the informed persons are disclosed below.

| Title | As at June 30, 2012 | |
|---|---|---|
| | Principal Amount – 14% non - convertible debentures payable | Principal Amount – 12% non – convertible debentures payable |
| Chief Executive Officer – Kelly E. Ambrose | $nil | $100,000 |
| Chief Financial Officer – Mukesh Sabharwal | $10,000 | $ 30,000 |

## INTERESTS OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON

No person who has been a director or executive officer of the Company at any time since the beginning of its last completed fiscal year, no proposed director and no associate or affiliate of any of the foregoing persons has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the Meeting, except as disclosed in this Information Circular.

## MANAGEMENT CONTRACTS

Other than as disclosed herein, there are no management functions of the Company or its subsidiaries which are to any substantial degree performed other than by the directors or executive officers of the Company or its subsidiaries.

## OTHER MATTERS WHICH MAY COME BEFORE THE MEETING

Management knows of no matters to come before the Meeting other than as set forth in the Notice of Meeting. **HOWEVER, IF OTHER MATTERS WHICH ARE NOT KNOWN TO THE MANAGEMENT SHOULD PROPERLY COME BEFORE THE MEETING, THE ACCOMPANYING PROXY WILL BE VOTED ON SUCH MATTERS IN ACCORDANCE WITH THE BEST JUDGMENT OF THE PERSONS VOTING THE PROXY**.

## APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy represent management and directors of the Company. **A SHAREHOLDER HAS THE RIGHT TO APPOINT A PERSON OR COMPANY, WHO NEED NOT BE A SHAREHOLDER, TO ATTEND AND ACT ON HIS BEHALF AT THE MEETING, OTHER THAN THE PERSONS OR COMPANY DESIGNATED IN THIS FORM OF PROXY. SUCH RIGHT MAY BE EXERCISED BY INSERTING THE NAME OF SUCH PERSON IN THE BLANK SPACE PROVIDED ABOVE OR BY COMPLETING ANOTHER PROPER FORM OF PROXY.** A shareholder wishing to be represented by proxy at the Meeting or any adjournment thereof must deposit his or her duly executed form of proxy with the Company's transfer agent and registrar, **CIBC Mellon Trust Company,** c/o Canadian Stock Transfer Company Inc. using the provided envelope by mail to P.O. Box 721, Agincourt, ON, Canada, M1S 0A1, or by hand to 320 Bay Street, B 1 Level, Toronto, ON, Canada, or by fax to 416-368-2502 / toll-free 1-866-781-3111, no later

than 10:00 am (Toronto time) on Tuesday, December 18, 2012, where there is no adjournment of the Meeting.

In addition to any other manner permitted by law, a proxy may be revoked before it is exercised by instrument in writing executed in the same manner as a proxy and deposited at the registered office of the Company at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used or with the chairman of the Meeting on the day of such Meeting or any adjournment thereof and thereupon the proxy is revoked.

A shareholder attending the Meeting has the right to vote in person and, if a shareholder does so, his or her proxy is nullified with respect to the matters such person votes upon and any subsequent matters thereafter to be voted upon at the Meeting or any adjournment thereof.

## EXERCISE OF DISCRETION BY PROXIES

The shares represented by proxies in favour of management nominees will be voted or withheld from voting in accordance with the instructions of the shareholder on any ballot that may be called for and, if a shareholder specifies a choice with respect to any matter to be acted upon at the Meeting, the shares represented by the proxy shall be voted accordingly. **WHERE NO CHOICE IS SPECIFIED, THE PROXY WILL CONFER DISCRETIONARY AUTHORITY AND WILL BE VOTED FOR THE ELECTION OF DIRECTORS, THE APPOINTMENT OF AUDITORS, AS STATED ELSEWHERE IN THIS INFORMATION CIRCULAR. THE ENCLOSED FORM OF PROXY ALSO CONFERS DISCRETIONARY AUTHORITY UPON THE PERSONS NAMED THEREIN TO VOTE WITH RESPECT TO ANY AMENDMENTS OR VARIATIONS TO THE MATTERS IDENTIFIED IN THE NOTICE OF MEETING AND WITH RESPECT TO OTHER MATTERS WHICH MAY PROPERLY COME BEFORE THE MEETING IN SUCH MANNER AS SUCH NOMINEE IN HIS JUDGMENT MAY DETERMINE**. At the time of printing this Information Circular, the management of the Company knows of no such amendments, variations or other matters to come before the Meeting.

## VOTING SECURITIES

The authorized capital of the Company consists of an unlimited number of Common Shares, 500,000 class A preference shares, an unlimited number of class B preference shares issuable in series, and 125,000 class C preference shares. At the date hereof, the Company has outstanding 97,030,868 Common Shares, 459,781 class A preference shares, and no class B preference and class C preference shares are outstanding. Each Common Share carries one vote.

Persons registered on the books of the Company at the close of business on October 31, 2012 (the "**Record Date**") are entitled to vote at the Meeting.

## ADVICE TO NON-REGISTERED SHAREHOLDERS

Only registered holders of Common Shares or the persons they appoint as their proxies are permitted to vote at the Meeting. However, in many cases, Common Shares beneficially owned by a person (a "**Non-Registered Holder**") are registered either: (i) in the name of an intermediary (an "**Intermediary**") with whom the Non-Registered Holder deals in respect of the Common Shares (Intermediaries include, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), Registered Education Savings Plans (RESPs) and similar plans); or (ii) in the name of a clearing agency (such as The Canadian Depository for Securities Limited) of which

the Intermediary is a participant. In accordance with National Instrument 54-101, the Company will have distributed copies of the Meeting Materials to the clearing agencies and Intermediaries for onward distribution to Non-Registered Holders.

Applicable regulatory law and policy requires Intermediaries and clearing agencies to seek voting instructions from Non-Registered Holders. Without specific instructions from Non-Registered Holders, Intermediaries and clearing agencies are prohibited from voting the shares of the Non-Registered Holders. Accordingly, Intermediaries and clearing agencies are required to forward the Meeting Materials to Non-Registered Holders. Non-Registered Holders will be given, in substitution for the proxy otherwise contained in proxy-related materials, a request for voting instructions (the "**voting instructions form**") which, when properly completed and signed by the Non-Registered Holder and returned to the Intermediary, will constitute voting instructions which the Intermediary must follow.

The purpose of this procedure is to permit Non-Registered Holders to direct the voting of the Common Shares they beneficially own. Should a Non-Registered Holder who receives the voting instructions form wish to vote at the Meeting in person (or have another person attend and vote on behalf of the Non-Registered Holder), the Non-Registered Holder should so indicate in the place provided for that purpose in the voting instructions form and a form of legal proxy will be sent to the Non-Registered Holder. In any event, Non-Registered Holders should carefully follow the instructions of their Intermediary set out in the voting instructions form.

## PRINCIPAL SHAREHOLDERS

To the knowledge of the directors and executive officers of the Company, as at the date hereof, there were no persons or other legal entities who beneficially own, or control or direct, directly or indirectly, voting securities of the Company carrying 10% or more of the voting rights attached to any class of issued and outstanding voting securities of the Company.

## ADDITIONAL INFORMATION

Additional information relating to the Company is available electronically at www.sedar.com. Financial information is provided in the Company's comparative audited financial statements and management's discussion and analysis for its most recently completed fiscal year. To obtain, free of charge, copies of the Company's financial statements, related management's discussion and analysis, and any other document incorporated by reference to these Meeting Materials please contact:

Mukesh Sabharwal
Vice President and Chief Financial Officer
Advantex Marketing International Inc.
600 Alden Road, Suite 606
Markham, Ontario, L3R 0E7.

## GENERAL

Except where otherwise indicated, information contained herein is given as of November 16, 2012. All references to "$" are to Canadian dollars.

## CERTIFICATE

The undersigned hereby certifies that the contents and the sending of this Information Circular have been approved by the directors of the Company.

DATED this 16th day of November, 2012.

**/s/ Kelly Ambrose**

Kelly E. Ambrose
President & Chief Executive Officer

ADVANTEX

**EXHIBIT "A"**

# CHARTER OF THE BOARD OF DIRECTORS

## I. PURPOSE

The board of directors (the "**Board of Directors**") of Advantex Marketing International Inc. (the "**Corporation**") is responsible for the general supervision of the activities and management of the affairs of the Corporation and for acting in the best interests of the shareholders of the Corporation (the "**Shareholders**"). The Board of Directors will discharge its responsibilities directly and through its committees, currently consisting of the Audit Committee, the Corporate Governance and Nominating Committee and the Compensation Committee.

The Board of Directors will seek to comply with *National Policy 58-201 - Corporate Governance Guidelines*, and will adopt governance 'best practices' as appropriate in the interests of ensuring the effective execution of the Board of Directors' overall stewardship role and the contribution the directors make, individually and collectively, to the long-term success of the Corporation. The Board of Directors will primarily fulfill its responsibilities by carrying out the activities enumerated in Section III of this Charter.

## II. COMPOSITION

The Board of Directors shall consist of a minimum of three and a maximum of fifteen directors, a majority of whom shall be Independent Directors (as defined below) and a majority of whom shall be residents of Canada. Pursuant to *National Instrument 58-101 – Disclosure of Corporate Governance Practices*, a director is considered to be an "**Independent Director**" if he or she has no direct or indirect "material relationship" with the Corporation which could, in the view of the Board of Directors, be reasonably expected to interfere with the exercise of a director's independent judgment. Notwithstanding the foregoing, a director shall be considered to have a "material relationship" with the Corporation (and therefore shall be considered a "**Non-Independent Director**") if he or she falls in one of the categories listed in Charter Schedule "A" attached hereto.

The Board of Directors shall meet at least quarterly and as frequently as circumstances require.

Meetings of the Board of Directors (including any adjournments thereof) shall be called and held in accordance with the Corporation's By-laws and applicable law.

A schedule of regular meetings of the Board of Directors and its committees shall be circulated to each director and agreed upon by the Board of Directors prior to the commencement of a calendar year. Confirmation of the date, time and location of regular meetings will be sent to directors approximately one week in advance of regularly scheduled meetings. All meetings must be called on at least two days notice (exclusive of the day on which the notice is delivered or sent but inclusive of the day for which notice is given) before the meeting is to take place. Special meetings may be called with 24 hours notice. A quorum at any meeting of the Board of Directors or its committees shall be two-fifths of the directors or members, as the case may be.

Independent Directors may serve on the Board of Directors for a period determined by the Corporate Governance and Nominating Committee from time to time. However, each director will be elected for a term of one year and may stand for re-election at the end of each term. The Corporate Governance and Nominating Committee shall be responsible for reviewing the candidacy of each nominee on an annual basis and confirming that each of the nominees meets the Corporation's expectations outlined in the Position Description for Directors and in this Charter.

## III. RESPONSIBILITIES AND DUTIES

The mandate of the Board of Directors is the stewardship of the Corporation. To fulfill its responsibilities and duties, the Board of Directors shall:

1. Review, assess and update this Charter at least annually, as conditions dictate.

2. Adopt corporate governance policies and practices as recommended, from time to time, by the Corporate Governance and Nominating Committee, as appropriate.

3. Assign to the various committees of the Board of Directors the general responsibility for developing the Corporation's approach to: (i) the nomination of the directors; (ii) the enhancement of governance; (iii) matters relating to compensation of the members of the Board of Directors; (iv) matters relating to compensation of the officers and executive officers of the Corporation; and (v) matters relating to financial reporting and internal controls.

4. Satisfy itself, to the extent feasible:

    a. as to the integrity of the officers of the Corporation and of the Chief Executive Officer of the Corporation; and

    b. that the officers of the Corporation and the Chief Executive Officer of the Corporation create a culture of integrity throughout the organization.

5. With the assistance of the Corporate Governance and Nominating Committee:

    a. review the composition of the Board of Directors and ensure it reflects the independence criteria;

    b. assess, at least annually, the effectiveness of the Board of Directors, the committees of the Board of Directors and the contribution of individual directors, including, consideration of the appropriate number of the directors;

    c. ensure that an appropriate review and selection process for new nominees as directors is in place;

    d. ensure that an appropriate orientation and education program for new directors is in place; and

    e. adopt disclosure and securities compliance policies, including, without limiting the foregoing, communications policies of the Corporation.

6. With the assistance of the Compensation Committee:

review the adequacy and form of each Director's compensation to ensure it is adequate and competitive and that it realistically reflects the responsibilities and risks involved in being a director of the Corporation.

7. With the assistance of the Audit Committee:

    a. ensure the integrity of the Corporation's internal controls and management information systems;

    b. ensure the Corporation's ethical behaviour and compliance with laws and regulations, audit and accounting principles and the Corporation's own governing documents;

    c. identify the principal risks of the Corporation's business and ensure that appropriate systems are in place to manage these risks;

    d. review and approve significant operational and financial matters and provide direction to management on these matters; and

    e. approve the quarterly and annual financial statements and related management's discussion and analysis.

8. Adopt a strategic planning process and approve, on at least an annual basis, a strategic plan which takes into account, among other things, the business opportunities and business risks and monitor the performance of the Corporation against the strategic plan.

9. Monitor and review feedback provided by the Corporation's various stakeholders.

10. Review major decisions which require the approval of the Board of Directors, including (without limitation), with respect to raising additional capital and issuing additional securities of the Corporation, and approve such decisions as they arise.

11. Perform such other functions as prescribed by law or assigned to the Board of Directors in the By-laws of the Corporation.

12. Approve, on at least an annual basis, the strategic plan of the Corporation that takes into account, among other things, business opportunities and business risks identified by the management of the Corporation, the directors and/or the Audit Committee and monitoring performance against such plan.

13. Approve the annual budget, including a marketing plan and a business plan, of the Corporation.

14. Review with the management of the Corporation, and approve, all material transactions and agreements to be entered into by the Corporation outside of the ordinary course of the business of the Corporation and all fundamental changes to the business of the Corporation.

15. Remove and replace members of, and fill vacancies on, the management of the Corporation and add members to the management (including training and monitoring senior management).

16. Develop written position descriptions for the Chair of the Board of Directors (the "**Chair**") and the chair of each committee of the Board of Directors.

17. Develop, together with the Chief Executive Officer, a written position description for the Chief Executive Officer.

18. Develop and approve the goals and objectives that the Chief Executive Officer is responsible for meeting.

The foregoing list is not exhaustive. The Board of Directors may, in addition, perform such other functions as may be necessary or appropriate for the performance of its responsibilities and duties.

Each director shall forward all questions, comments and/or concerns regarding the business and affairs of the Corporation to the Board of Directors through the Chair. However, the chair of the Audit Committee shall be entitled and encouraged to speak directly with the Chief Financial Officer regarding all financial matters.

The Corporate Governance and Nominating Committee shall review the attendance of directors each year as part of the nomination process for the election of directors. Commencing July 1, 2008 directors are expected to attend and participate in at least 75% of the regularly scheduled meetings of the Board of Directors and each of its committees to which he or she is assigned, and at least 25% of such regularly scheduled meetings shall be attended in person, subject to the discretion of the Board of Directors. Any director who fails to meet such expectations shall tender a written resignation as a director to the Chair for acceptance or rejection by the Board of Directors.

## IV. DIRECTORS' REMUNERATION

The remuneration of directors shall be reviewed on an annual basis by the Compensation Committee to ensure that directors are adequately and competitively compensated.

## V. ORIENTATION OF NEW DIRECTORS

The Corporation shall provide an orientation program for new members of the Board of Directors. Each new director will be provided with a range of written materials, including those that outline the organization of the Board of Directors and its committees, position descriptions and this Charter, as well as be introduced to the members of management of the Corporation.

## VI. CONTINUING EDUCATION FOR DIRECTORS

The Corporation shall provide ongoing business and director education sessions for members of the Board of Directors. Individual directors shall also be encouraged to participate in outside professional development programs approved by the Chair.

**Schedule "A"**
**Meaning of "material relationship"**

The following individuals are considered to have a "material relationship" with the Corporation:

a) an individual who is, or has been within the last three years, an employee or executive officer of the Corporation;

b) an individual whose immediate family member is, or has been within the last three years, an executive officer of the Corporation;

c) an individual who:

   A. is a partner of a firm that is the Corporation's internal or external auditor,

   B. is an employee of that firm, or

   C. was within the last three years a partner or employee of that firm and personally worked on the Corporation's audit within that time;

d) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual:

   A. is a partner of a firm that is the Corporation's internal or external auditor,

   B. is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or

   C. was within the last three years a partner or employee of that firm and personally worked on the Corporation's audit within that time;

e) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the Corporation's current executive officers serves or served at that same time on the entity's compensation committee; and

f) an individual who received, or whose immediate family member who is employed as an executive officer of the Corporation received, more than $75,000 in direct compensation from the Corporation during any 12 month period within the last three years.

For the purposes of determining whether a "material relationship" exists according to the above criteria, the term "Corporation" shall include each subsidiary entity and the parent, if any, of Advantex Marketing International Inc.

Notwithstanding any of the foregoing criteria being met, an individual will not be considered to have a material relationship with the Corporation solely because he or she had a relationship identified in paragraphs (a) to (f) above by virtue of the fact that the reference to the "Corporation" therein includes any subsidiary entity or the parent, if any, of Advantex Marketing International Inc.

For purpose of paragraphs (c) and (d) above, a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.

For the purpose of paragraph (f) above, direct compensation does not include:

(i) remuneration for acting as a member of the Board of Directors or of any committee of the Board of Directors, and

(ii) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Corporation if the compensation is not contingent in any way on continued service.

Despite paragraphs (a) to (f) above, an individual will not be considered to have a material relationship with the Corporation solely because the individual or his or her immediate family member

(i) has previously acted as an interim chief executive officer of the Corporation, or

(ii) acts, or has previously acted, as a chair or vice-chair of the Board of Directors or of any committee of the Board of Directors on a part-time basis.

**Related Definitions**

"**executive officer**" of an entity – means an individual who is (a) a chair of the entity; (b) a vice-chair of the entity; (c) the president of the entity; (d) a vice-president of the entity in charge of a principal business unit, division or function including sales, finance or production; (e) an officer of the entity or any of its subsidiary entities who performs a policy-making function in respect of the entity; or (f) any other individual who performs a policy-making function in respect of the entity.

"**officer**" **-** (a) a chair or vice-chair of the board of directors, a chief executive officer, a chief operating officer, a chief financial officer, a president, a vice-president, a secretary, an assistant secretary, a treasurer, an assistant treasurer and a general manager, (b) every individual who is designated as an officer under a by-law or similar authority of the registrant or issuer, and (c) every individual who performs functions similar to those normally performed by an individual referred to in clause (a) or (b).

"**person**" - an individual partnership, unincorporated association, unincorporated syndicate, unincorporated organization, trust, trustee, executor, administrator, or other legal representative.

"**subsidiary entity**" - a person or company is considered to be a subsidiary entity of another person or company if (a) it is controlled by (i) that other, or (ii) that other and one or more persons or companies each of which is controlled by that other, or (iii) two or more persons or companies, each of which is controlled by that other; or (b) it is a subsidiary entity of a person or company that is the other's subsidiary entity.

ADVANTEX

**EXHIBIT "B"**

# CHARTER OF THE GOVERNANCE AND NOMINATING COMMITTEE

## I. PURPOSE

The corporate governance and nominating committee (the "**Corporate Governance and Nominating Committee**") is a committee of the board of directors (the "**Board of Directors**") of Advantex Marketing International Inc. (the "**Corporation**"). The primary function of the Corporate Governance and Nominating Committee is to assist the Board of Directors in fulfilling its responsibilities relating to the enhancement of the Corporation's corporate governance practices and the nomination of directors by:

- developing and maintaining a review and selection process for new nominees as directors and proposing to the Board of Directors nominees for the election of directors at each annual meeting of shareholders of the Corporation (the "**Shareholders**");
- developing and maintaining an orientation and education program for new directors and assisting in the orientation and education of new directors;
- assessing the composition and effectiveness of the Board of Directors as a whole as well as discussing the contribution of individual members; and
- developing the Corporation's corporate governance policies and practices and assessing and ensuring compliance with the Corporation's approach to corporate governance issues.

The Corporate Governance and Nominating Committee will primarily fulfill its responsibilities by carrying out the activities enumerated in Section IV of this Charter. The primary function of the Corporate Governance and Nominating Committee is to assist the Board of Directors in fulfilling its legal and fiduciary obligations and responsibilities.

## II. COMPOSITION AND MEETINGS

The Corporate Governance and Nominating Committee shall be comprised of such number of directors (but at least two) as determined by the Board of Directors, the majority of whom shall be Independent Directors (as defined below), but where there are only two (2) members, all shall be Independent Directors. Pursuant to *National Instrument 58-101 – Disclosure of Corporate Governance Practices* ("**NI 58-101**"), a director is considered to be an "**Independent Director**" if he or she has no direct or indirect "material relationship" with the Corporation, which could, in the view of the Board of Directors, reasonably interfere with the exercise of a Director's independent judgment. Notwithstanding the foregoing, a director shall be considered to have a "material relationship" with the Corporation (and therefore shall be considered a "**Non-Independent Director**") if he or she falls in one of the categories listed in Schedule "A" attached hereto. Each member will have, to the satisfaction of the Board of

Directors, sufficient skills and/or experience which are relevant and will be of contribution to the carrying out of the mandate of the Nominating, Corporate Governance and Compensation Committee.

The members of the Corporate Governance and Nominating Committee shall be appointed by the Board of Directors at the annual organizational meeting of the Board of Directors or until their successors are duly appointed and qualified. The Board of Directors may remove a member of the Corporate Governance and Nominating Committee at any time in its sole discretion by resolution of the Board of Directors. Unless a Chair is elected by the Board of Directors, the members of the Corporate Governance and Nominating Committee may designate a Chair by majority vote of the full membership of the Nominating, Corporate Governance and Compensation Committee.

The Corporate Governance and Nominating Committee shall meet at least twice per annum and more frequently as circumstances require. The Corporate Governance and Nominating Committee may ask members of management or others to attend meetings or to provide information as necessary. In addition, the Corporate Governance and Nominating Committee or, at a minimum, the Chair of the Committee may meet with the Corporation's external counsel to discuss the Corporation's governance policies and practices. The Corporate Governance and Nominating Committee may retain the services of outside specialists to the extent required.

Quorum for the transaction of business at any meeting of the Corporate Governance and Nominating Committee shall be the presence in person or by telephone or other communication equipment of a majority of the number of members of the Corporate Governance and Nominating Committee or such greater number as the Corporate Governance and Nominating Committee shall by resolution determine.

If within one hour of the time appointed for a meeting of the Nominating, Corporate Governance and Compensation Committee, a quorum is not present, the meeting shall stand adjourned to the same hour on the second business day following the date of such meeting at the same place. If at the adjourned meeting a quorum as hereinbefore specified is not present within one hour of the time appointed for such adjourned meeting, the quorum for the adjourned meeting shall consist of the members then present.

If and whenever a vacancy shall exist, the remaining members of the Corporate Governance and Nominating Committee may exercise all of its powers and responsibilities so long as a quorum remains in office.

Meetings of the Corporate Governance and Nominating Committee shall be held from time to time and at such place as the Corporate Governance and Nominating Committee or the Chairman of the Corporate Governance and Nominating Committee shall determine, within or outside of Ontario, upon not less than two days (exclusive of the day on which the notice is delivered or sent but inclusive of the day for which notice is given) prior notice to each of the members. Meetings of the Corporate Governance and Nominating Committee may be held without such prior notice if all of the members entitled to vote at such meeting who do not attend, waive notice of the meeting and, for the purpose of such meeting, the presence of a member at such meeting shall constitute waiver on his or her part. The Chair of the Corporate Governance and Nominating Committee, any member of the Corporate Governance and Nominating Committee or the Chair of the Board of Directors shall be entitled to request that the Chair of the Corporate Governance and Nominating Committee call a meeting. A notice of a meeting of the Corporate Governance and Nominating Committee must be given in accordance with the By-laws of the Corporation and applicable law.

The Corporate Governance and Nominating Committee shall keep minutes of its meetings which shall be submitted to the Board of Directors. The Corporate Governance and Nominating Committee may, from time to time, appoint any person who need not be a member, to act as secretary at any meeting.

All decisions of the Corporate Governance and Nominating Committee will require the vote of a majority of its members present at a meeting at which a quorum is present. Actions of the Corporate Governance and Nominating Committee may be taken by an instrument or instruments in writing signed by all of the members of the Corporate Governance and Nominating Committee, and such actions shall be effective as though they had been decided by a majority of votes cast at a meeting of the Corporate Governance and Nominating Committee called for such purpose. Such instruments in writing may be signed in counterparts each of which shall be deemed to be an original and all originals together shall be deemed to be one and the same instrument.

## III. AUTHORITY OF THE CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

The Corporate Governance and Nominating Committee has the authority to engage and compensate any outside advisors that it determines to be necessary to permit it to carry out its duties.

The Corporate Governance and Nominating Committee also has the authority to conduct or authorize investigations into any matters within the scope of its responsibilities.

The Corporate Governance and Nominating Committee may request any director or member of management of the Corporation, outside counsel of the Corporation or others, to attend a meeting of the Corporate Governance and Nominating Committee or to meet with members of, or advisors to, the Corporate Governance and Nominating Committee and to provide pertinent information as necessary.

## IV. RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties, the Corporate Governance and Nominating Committee shall:

*General Responsibilities*

1. Review and assess this Charter at least annually, as conditions dictate, and submit any proposed revisions to the Board of Directors for approval.

2. Create an agenda for the ensuing fiscal year.

3. Report periodically to the Board of Directors.

***Nominating Responsibilities***

4. Establish competencies and skills that the Board of Directors should possess, recognizing that the particular competencies and skills required for the Corporation may not be the same as those required for other issuers in similar industries.

5. Assess competencies and skills of each of the existing directors as well as of the Board of Directors recognizing the personality and other qualities of each director.

6. Consider the appropriate size of the Board of Directors with a view to facilitating effective decision-making.

7. Establish procedures for identifying possible nominees who meet these criteria (and who are likely to bring the competencies and skills the Corporation needs as a whole).

8. Establish an appropriate review selection process for new nominees for election as directors.

9. Establish, approve and maintain appropriate orientation and education programs and procedures for new directors, as well as encourage and support directors participating in external professional development programs approved by the Chair of the Committee.

10. Analyze the needs of the Corporation when vacancies arise and identify and recommend nominees who meet the needs of the Corporation for election as directors at annual meetings of Shareholders.

11. Establish procedures for filling in vacancies among the directors.

***Corporate Governance Responsibilities***

12. Ensure that there is an appropriate number of Independent Directors.

13. Facilitate the independent functioning and maintain an effective relationship between the Board of Directors and management of the Corporation.

14. Assess the effectiveness of the Chair's agenda.

15. Annually review performance and qualification of existing directors in connection with their re-election.

16. Assess, at least annually, the composition and effectiveness of the Board of Directors as a whole, committees of the Board of Directors and the contribution of individual directors, including making recommendations where appropriate that sitting directors be removed or not re-appointed.

17. Keep up to date with regulatory requirements and other new developments in governance and develop and review the quality of the Corporation's governance policies and practices and suggest changes to the Corporation's governance policies and practices as determined appropriate by the Board of Directors.

18. Consider annually the appropriateness of the number of directors.

19. Ensure that disclosure and securities compliance policies, including communications policies, are in place and that such policies are reviewed annually.

20. Describe in each management information circular of the Corporation in which management solicits proxies for the purposes of electing directors to the Board of Directors, the disclosure required under Part 2 of NI 58-101.

The foregoing list is not exhaustive. The Corporate Governance and Nominating Committee may, in addition, perform such other functions as may be necessary or appropriate for the performance of its responsibilities and duties.

**Schedule "A"**
**Meaning of "material relationship"**

The following individuals are considered to have a "material relationship" with the Corporation:

1. an individual who is, or has been within the last three years, an employee or executive officer of the Corporation;

2. an individual whose immediate family member is, or has been within the last three years, an executive officer of the Corporation;

3. an individual who:

    a. is a partner of a firm that is the Corporation's internal or external auditor,

    b. is an employee of that firm, or

    c. was within the last three years a partner or employee of that firm and personally worked on the Corporation's audit within that time;

4. an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual:

    a. is a partner of a firm that is the Corporation's internal or external auditor,

    b. is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or

    c. was within the last three years a partner or employee of that firm and personally worked on the Corporation's audit within that time;

5. an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the Corporation's current executive officers serves or served at that same time on the entity's compensation committee; and

6. an individual who received, or whose immediate family member who is employed as an executive officer of the Corporation received, more than $75,000 in direct compensation from the Corporation during any 12 month period within the last three years.

For the purposes of determining whether a "material relationship" exists according to the above criteria, the term "Corporation" shall include each subsidiary entity and the parent, if any, of Advantex Marketing International Inc.

Notwithstanding any of the foregoing criteria being met, an individual will not be considered to have a material relationship with the Corporation solely because he or she had a relationship identified in paragraphs (a) to (f) above by virtue of the fact that the reference to the "Corporation" therein includes any subsidiary entity or the parent, if any, of the Corporation.

For purpose of paragraphs (3) and (4) above, a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.

For the purpose of paragraph (6) above, direct compensation does not include:

(i) remuneration for acting as a member of the Board of Directors or of any committee of the Board of Directors, and

(ii) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Corporation if the compensation is not contingent in any way on continued service.

Despite paragraphs (1) to (6) above, an individual will not be considered to have a material relationship with the Corporation solely because the individual or his or her immediate family member

(i) has previously acted as an interim chief executive officer of the Corporation, or

(ii) acts, or has previously acted, as a chair or vice-chair of the Board of Directors or of any committee of the Board of Directors on a part-time basis.

**Related Definitions**

"**executive officer**" of an entity – means an individual who is (a) a chair of the entity; (b) a vice-chair of the entity; (c) the president of the entity; (d) a vice-president of the entity in charge of a principal business unit, division or function including sales, finance or production; (e) an officer of the entity or any of its subsidiary entities who performs a policy-making function in respect of the entity; or (f) any other individual who performs a policy-making function in respect of the entity.

"**officer**" **-** (a) a chair or vice-chair of the board of directors, a chief executive officer, a chief operating officer, a chief financial officer, a president, a vice-president, a secretary, an assistant secretary, a treasurer, an assistant treasurer and a general manager, (b) every individual who is designated as an officer under a by-law or similar authority of the registrant or issuer, and (c) every individual who performs functions similar to those normally performed by an individual referred to in clause (a) or (b).

"**person**" - an individual partnership, unincorporated association, unincorporated syndicate, unincorporated organization, trust, trustee, executor, administrator, or other legal representative.

"**subsidiary entity**" - a person or company is considered to be a subsidiary entity of another person or company if (a) it is controlled by (i) that other, or (ii) that other and one or more persons or companies each of which is controlled by that other, or (iii) two or more persons or companies, each of which is controlled by that other; or (b) it is a subsidiary entity of a person or company that is the other's subsidiary entity.

ADVANTEX

**EXHIBIT "C"**

**CHARTER OF THE COMPENSATION COMMITTEE**

## I. PURPOSE

The compensation committee (the "**Compensation Committee**") is a committee of the board of directors (the "**Board of Directors**") of Advantex Marketing International Inc. (the "**Corporation**"). The primary function of the Compensation Committee is to assist the Board of Directors in fulfilling its responsibilities relating to the compensation of the members of the Board of Directors and its committees by:

- reviewing and recommending to the Board of Directors the compensation of the members of the Board of Directors including annual retainer, meeting fees, option grants and other benefits conferred upon the members of the Board of Directors;

- dealing with the administration of the Corporation's compensation plans, including stock option plans, long term incentive plans, and such other compensation plans or structures as are adopted by the Corporation from time-to-time; and

- establishing and periodically reviewing the Corporation's policies in the area of management benefits and perquisites.

The Compensation Committee will primarily fulfill its responsibilities by carrying out the activities enumerated in Section IV of this Charter. The primary function of the Compensation Committee is to assist the Board of Directors in fulfilling its legal and fiduciary obligations and responsibilities.

## II. COMPOSITION AND MEETINGS

The Compensation Committee shall be comprised of such number of directors (but at least two) as determined by the Board of Directors, all of whom shall be Independent Directors (as defined below). Pursuant to *National Instrument 58-101 – Disclosure of Corporate Governance Practices* ("**NI 58-101**"), a director is considered to be an "**Independent Director**" if he or she has no direct or indirect "material relationship" with the Corporation, which could, in the view of the Board of Directors, reasonably interfere with the exercise of a Director's independent judgment. Notwithstanding the foregoing, a director shall be considered to have a "material relationship" with the Corporation (and therefore shall be considered a "**Non-Independent Director**") if he or she falls in one of the categories listed in Schedule "A" attached hereto. Each member will have, to the satisfaction of the Board of Directors, sufficient skills and/or experience which are relevant and will be of contribution to the carrying out of the mandate of the Compensation Committee.

The members of the Compensation Committee shall be appointed by the Board of Directors at the annual organizational meeting of the Board of Directors or until their successors are duly appointed and qualified. The Board of Directors may remove a member of the Compensation Committee at any time in

its sole discretion by resolution of the Board of Directors. The Chair of the Compensation Committee shall be elected by the Board of Directors.

The Compensation Committee shall meet at least twice per annum and more frequently as circumstances require. The Compensation Committee may ask members of management or others to attend meetings or to provide information as necessary and appropriate. In addition, the Compensation Committee or, at a minimum, the Chair of the Compensation Committee may meet with the Corporation's external counsel to discuss the Corporation's compensation policies and practices. The Compensation Committee may retain the services of outside specialists to the extent required.

Quorum for the transaction of business at any meeting of the Compensation Committee shall be the presence in person or by telephone or other communication equipment of a majority of the number of members of the Compensation Committee or such greater number as the Compensation Committee shall by resolution determine.

If within one hour of the time appointed for a meeting of the Compensation Committee, a quorum is not present, the meeting shall stand adjourned to the same hour on the second business day following the date of such meeting at the same place. If at the adjourned meeting a quorum as hereinbefore specified is not present within one hour of the time appointed for such adjourned meeting, the quorum for the adjourned meeting shall consist of the members then present.

If and whenever a vacancy shall exist, the remaining members of the Compensation Committee may exercise all of its powers and responsibilities so long as a quorum remains in office.

Meetings of the Compensation Committee shall be held from time to time and at such place as the Compensation Committee or the Chair of the Compensation Committee shall determine, within or outside of Ontario, upon not less than two days (exclusive of the day on which the notice is delivered or sent but inclusive of the day for which notice is given) prior notice to each of the members. Meetings of the Compensation Committee may be held without such prior notice if all of the members entitled to vote at such meeting who do not attend, waive notice of the meeting and, for the purpose of such meeting, the presence of a member at such meeting shall constitute waiver on his or her part. The Chair of the Compensation Committee, any member of the Compensation Committee or the Chair of the Board of Directors shall be entitled to request that the Chair of the Compensation Committee call a meeting. A notice of a meeting of the Compensation Committee must be given in accordance with the By-laws of the Corporation and applicable law.

The Compensation Committee shall keep minutes of its meetings which shall be submitted to the Board of Directors. The Compensation Committee may, from time to time, appoint any person who need not be a member, to act as secretary at any meeting.

All decisions of the Compensation Committee will require the vote of a majority of its members present at a meeting at which a quorum is present. Actions of the Compensation Committee may be taken by an instrument or instruments in writing signed by all of the members of the Compensation Committee, and such actions shall be effective as though they had been decided by a majority of votes cast at a meeting of the Compensation Committee called for such purpose. Such instruments in writing may be signed in counterparts each of which shall be deemed to be an original and all originals together shall be deemed to be one and the same instrument.

## III. AUTHORITY OF THE COMPENSATION COMMITTEE

The Compensation Committee has the authority to engage and compensate any outside advisors that it determines to be necessary to permit it to carry out its duties.

The Compensation Committee also has the authority to conduct or authorize investigations into any matters within the scope of its responsibilities.

The Compensation Committee may request any director or member of management of the Corporation, outside counsel of the Corporation or others, to attend a meeting of the Compensation Committee or to meet with members of, or advisors to, the Compensation Committee and to provide pertinent information as necessary and appropriate.

## IV. RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties, the Compensation Committee shall:

*General Responsibilities*

1. Review and assess this Charter at least annually, as conditions dictate, and submit any proposed revisions to the Board of Directors for approval.

2. Create an agenda for the ensuing fiscal year.

3. Report periodically to the Board of Directors.

***Compensation Responsibilities***

4. Review and recommend to the Board of Directors the compensation of the members of the Board of Directors including annual retainer, meeting fees, option grants and other benefits conferred upon the members of the Board of Directors.

5. Review and recommend to the Board of Directors the compensation of the officers and executive officers of the Corporation, including option grants and other benefits conferred upon such officers of the Corporation.

6. Review compensation disclosure relating to the Board of Directors and the executive compensation relating to the management of the Corporation before the Corporation publicly discloses this information.

7. Describe in each management information circular of the Corporation in which management solicits proxies for the purposes of electing directors to the Board of Directors, the disclosure required in Form 51-102 F6.

The foregoing list is not exhaustive. The Compensation Committee may, in addition, perform such other functions as may be necessary or appropriate for the performance of its responsibilities and duties.

**Schedule "A"**
**Meaning of "material relationship"**

The following individuals are considered to have a "material relationship" with the Corporation:

a) an individual who is, or has been within the last three years, an employee or executive officer of the Corporation;

b) an individual whose immediate family member is, or has been within the last three years, an executive officer of the Corporation;

c) an individual who:

   A. is a partner of a firm that is the Corporation's internal or external auditor,

   B. is an employee of that firm, or

   C. was within the last three years a partner or employee of that firm and personally worked on the Corporation's audit within that time;

d) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual:

   A. is a partner of a firm that is the Corporation's internal or external auditor,

   B. is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or

   C. was within the last three years a partner or employee of that firm and personally worked on the Corporation's audit within that time;

e) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the Corporation's current executive officers serves or served at that same time on the entity's compensation committee; and

f) an individual who received, or whose immediate family member who is employed as an executive officer of the Corporation received, more than $75,000 in direct compensation from the Corporation during any 12 month period within the last three years.

For the purposes of determining whether a "material relationship" exists according to the above criteria, the term "Corporation" shall include each subsidiary entity and the parent, if any, of Advantex Marketing International Inc.

Notwithstanding any of the foregoing criteria being met, an individual will not be considered to have a material relationship with the Corporation solely because he or she had a relationship identified in paragraphs (a) to (f) above by virtue of the fact that the reference to the "Corporation" therein includes any subsidiary entity or the parent, if any, of the Corporation.

For purpose of paragraphs (c) and (d) above, a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.

For the purpose of paragraph (f) above, direct compensation does not include:

(i) remuneration for acting as a member of the Board of Directors or of any committee of the Board of Directors, and

(ii) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Corporation if the compensation is not contingent in any way on continued service.

Despite paragraphs (a) to (f) above, an individual will not be considered to have a material relationship with the Corporation solely because the individual or his or her immediate family member

(i) has previously acted as an interim chief executive officer of the Corporation, or

(ii) acts, or has previously acted, as a chair or vice-chair of the Board of Directors or of any committee of the Board of Directors on a part-time basis.

**Related Definitions**

"**executive officer**" of an entity – means an individual who is (a) a chair of the entity; (b) a vice-chair of the entity; (c) the president of the entity; (d) a vice-president of the entity in charge of a principal business unit, division or function including sales, finance or production; (e) an officer of the entity or any of its subsidiary entities who performs a policy-making function in respect of the entity; or (f) any other individual who performs a policy-making function in respect of the entity.

"**officer**" **-** (a) a chair or vice-chair of the board of directors, a chief executive officer, a chief operating officer, a chief financial officer, a president, a vice-president, a secretary, an assistant secretary, a treasurer, an assistant treasurer and a general manager, (b) every individual who is designated as an officer under a by-law or similar authority of the registrant or issuer, and (c) every individual who performs functions similar to those normally performed by an individual referred to in clause (a) or (b).

"**person**" - an individual partnership, unincorporated association, unincorporated syndicate, unincorporated organization, trust, trustee, executor, administrator, or other legal representative.

"**subsidiary entity**" - a person or company is considered to be a subsidiary entity of another person or company if (a) it is controlled by (i) that other, or (ii) that other and one or more persons or companies each of which is controlled by that other, or (iii) two or more persons or companies, each of which is controlled by that other; or (b) it is a subsidiary entity of a person or company that is the other's subsidiary entity.

ADVANTEX

**EXHIBIT "D"**

**CHARTER OF THE AUDIT COMMITTEE**

## 1. PURPOSE

1.1 The primary function of the Audit Committee of the Board of Directors is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing:

(a) the financial information that will be provided to the shareholders of the Company and others;

(b) the systems of internal controls, established by management of the Company and the Board; and

(c) all audit processes of the Company.

1.2 Primary responsibility for the financial reporting, information systems, risk management and internal controls of the Company is vested in management of the Company and is overseen by the Board.

## II. COMPOSITION AND OPERATIONS

***Composition***

2.1 The Audit Committee will consist of at least three members, the majority of whom are neither officers nor employees of the Company or any of its affiliates, and the majority of whom, as determined by the Board guided by applicable statutory or regulatory definitions, are "independent" and "financially literate". In the absence of such determination, as those terms are defined, as follows, based on the provisions of National Instrument 52-110 – Audit Committees as adopted by the Canadian Securities Administrators, as such Instrument is revised or replaced from time to time:

"financially literate" means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

"independent" means having no direct or indirect material relationship (as defined in Schedule "A") with the Company.

2.2 Each member of the Audit Committee shall serve during the pleasure of the Board and, in any event, only so long as he or she shall meet the qualifications set out in Section 2.1.

2.3 One of the members of the Audit Committee shall be elected as its chairman by the Audit Committee or the Board of Directors of the Company.

***Operation – General***

2.4 The Company's auditors shall be advised of the names of the Audit Committee members from time to time.

2.5 The Audit Committee shall meet with the Company's external auditors as it deems appropriate to consider any matter that the Audit Committee or the external auditors determine should be brought to the attention of the Board or the shareholders of the Company.

2.6 The Audit Committee shall have access to the Company's senior management and any documentation as required to fulfill its duties and responsibilities and shall be provided with the resources necessary to carry out its duties and responsibilities.

2.7 The Audit Committee shall provide open avenues of communication among management, employees, and external and to the extent applicable, internal auditors of the Board of the Company.

2.8 The secretary to the Audit Committee shall be either the Secretary or his or her delegate.

2.9 The Board may fill vacancies in the Audit Committee by election from among the directors of the Company. If and whenever a vacancy shall exist in the Audit Committee, the remaining members may exercise all of its powers so long as a quorum remains in office.

2.10 The Company's external auditor will report directly to the Audit Committee and the Audit Committee shall be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the issuer, including the resolution of disagreements between management and the external auditor regarding financial reporting.

2.11 The Audit Committee may delegate to one or more independent members the authority to pre-approve non-audit services referred to in Section 3.3 (g) provided that the pre-approval of non-audit services is presented to the Audit Committee at its first scheduled meeting following such pre-approval.

2.12 For the purposes of performing their duties, the members of the Audit Committee shall have the right, at all reasonable times, to inspect the books and financial records of the Company and its affiliates and to discuss with management such accounts, records and matters relating to the financial statements of the Company.

2.13 The Audit Committee may invite such officers, directors and employees of the Company as it may see fit, from time to time, to attend at meetings of the Audit Committee.

2.14 The Audit Committee has the authority to engage and compensate any outside advisors, including independent counsel, that it determines to be necessary to permit it to carry out its duties.

***Operation – Meeting***

2.15 The Company's auditors shall receive notice of and be invited to attend at the expense of the Company every meeting of the Audit Committee and to be heard at those meetings, or, if requested by a member of the Audit Committee, the auditor shall attend every meeting of the Audit Committee during the term of the officer of the auditors.

2.16 The Audit Committee shall meet at least four times each year in advance of approving the Company's interim or annual financial statements, as applicable.

2.17 A quorum for the transaction of business of the Audit Committee shall consist of two members of the Audit Committee.

2.18 The time and place for meetings of the Audit Committee shall be held, and procedures at such meetings shall be determined, from time to time, by the Audit Committee. The Secretary of the Company shall, upon the request of the Audit Committee Chairman, any member of the Audit Committee, the external auditors of the Company, the President and Chief Executive Officer of the Company or the Chief Financial Officer of the Company, call a meeting of the Audit Committee by letter, telephone, facsimile, telegram or other communication equipment, by giving at least 48 hours notice, provided that no notice of a meeting shall be necessary if all of the members are present either in person or by means of conference telephone or if those absent have waived notice or otherwise signified their consent to the holding of such meeting.

2.19 Any matters to be determined by the Audit Committee shall be decided by a majority of votes cast at a meeting of the Audit Committee called for such purpose or by an instrument or instruments in writing signed by all of the members of the Audit Committee.

2.20 Any member of the Audit Committee may participate in the meeting of the Audit Committee by means of conference telephone or other communication equipment, and the member participating in a meeting pursuant to this paragraph shall be deemed, for purposes hereof, to be present in person at the meeting.

2.21 The Audit Committee shall keep minutes of its meetings which shall be submitted to the Board.

2.22 The Audit Committee may, from time to time, appoint any person who need not be a member, to act as a secretary at any meeting.

## III. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Audit Committee will perform the following duties.

### *3.1 Financial Statements and Other Financial Information*

The Audit Committee will review and recommend for approval to the board financial information that will be made publicly available. Without limiting the generality of the foregoing, the Audit Committee will:

(a) review and recommend to the Board for approval the Company's annual financial statements and the corresponding Management Discussion and Analysis ("MD&A") and report to the Board before such financial statements and corresponding MD&A are approved by the Board;

(b) review and approve for release the Company's interim financial statements and the corresponding interim MD&A;

(c) review and approve for release all annual and interim profit or loss press releases;

(d) review and recommend to the Board for approval, the financial content of the annual report and any reports required by applicable governmental or regulatory authorities;

(e) review, to the extent applicable, the Company's annual information form and any prospectus, information circulars or offering memorandum and any other similar public disclosure documents of the Company;

(f) review any management report that accompanies published financial statements (to the extent such a report discusses the financial position or operating results of the Company) for consistency of disclosure with the financial statements themselves;

(g) review and discuss the appropriateness of accounting policies and financial reporting practices used by the Company and the financial impact thereof;

(h) review any major areas of management judgment and estimates that have a significant effect upon the financial statements;

(i) review and discuss any significant proposed changes in financial reporting and accounting policies and practices to be adopted by the Company;

(j) review and discus any new or pending developments in accounting and reporting standards that may affect the Company;

(k) review and discuss management's key estimates and judgments that may be material to financial reporting of the Company; and

(l) review and discuss with management all significant variances between comparative reporting periods and any financial statements of the Company, including variances in forecasted financial information from actual results which may have been included been in any public documents of the Company.

As well, the Audit Committee shall satisfy itself that adequate procedures are in place for the review of the Company's disclosure of financial information extracted or derived from its financial statements, other than the disclosure referred to above, and to periodically assess the adequacy of such procedures

### *3.2 Risk Management, Internal Control and Information Systems*

The Audit Committee will review and obtain reasonable assurance that the risk management, internal controls, information systems and financial reporting procedures of the Company are operating effectively to produce accurate, appropriate and timely management and financial information. This includes:

(a) review of the Company's risk management controls and policies;

(b) obtaining reasonable assurance that the information systems are reliable and the systems of internal controls are properly designated and effectively implemented through discussions with and reports from management, to the extent applicable, the internal auditor and the external auditor of the Company;

(c) review of management steps to implement and maintain appropriate internal control procedures including a review of policies;

(d) review of the adequacy of security of information, information systems and recovery plans;

(e) monitoring compliance with applicable statutory and regulatory obligations;

(f) review of the appointment of the Chief Financial Officer;

(g) review of the adequacy of accounting and finance resources;

(h) establish procedures to receive, retain and respond to complaints regarding accounting, internal controls and auditing and financial matters; and

(i) establish procedures for the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

### *3.3 External Audit*

The Audit Committee will oversee the work of the Company's external auditor and review the planning and results of external audit activities and the ongoing relationship with the external auditor of the Company. This includes:

(a) review and recommend to the board, for shareholder approval, engagement and compensation of the external auditor. If a change in external auditor is proposed, the Audit Committee shall enquire as to the reasons for the change, including the response of the incumbent auditor, and enquire as to the qualifications of the newly proposed auditor before making its recommendation to the Board;

(b) review the annual external audit plan, including but not limited to the following:

(i) engagement letter;

(ii) objectives and scope of the external audit work;

(iii) procedures for quarterly review of financial statements;

(iv) materiality limitations;

(v) areas of audit risk;

(vi) staffing;

(vii) timetable; and

(viii) proposed fees,

and enquire as to the extent the planned audit scope can be relied upon to detect weaknesses in internal controls;

(c) meet with the external auditor to discuss the Company's quarterly and annual financial statements and the auditor's report, including the appropriateness of accounting policies, the quality of accounting principles and underlying estimates;

(d) review and advise the Board with respect to the planning, conduct and reporting of the annual audit, including but not limited to:

(i) any difficulties encountered, or restrictions imposed, by management, during the annual audit;

(ii) any significant accounting or financial reporting issue;

(iii) the auditor's evaluation of the Company's system of internal controls, procedures and documentation;

(iv) the post audit or management letter containing any findings or recommendation of the external auditor, including management's response thereto and the subsequent follow-up to any identified internal control weaknesses;

(v) any other matters the external auditor brings to the Audit Committee's attention; and

(vi) assess the performance and consider the annual appointment of external auditors for recommendation to the Board.

(e) review the auditor's report on all material subsidiaries;

(f) review and receive assurances on the independence of the external auditors;

(g) except to the extent delegated under Section 2.11, review and approve the non-audit services to be provided by the external auditor or its affiliates (including estimated fees), and consider the impact on the independence of the external audit;

(h) meet periodically, and at least annually, with the external auditor without management present and ensure that the external auditor is accountable to the Board and the Audit Committee as representatives of the shareholders of the Company; and

(i) oversee the resolution of any disagreement between management and the external auditor regarding financial reporting.

***3.4 Other***

The Audit Committee will also:

(a) review insurance coverage of significant business risks and uncertainties;

(b) review with management, the external auditors and if necessary, with legal counsel, any litigation, claim or other contingency, including tax assessments, that could have a material adverse effect upon the financial position or operating results of the Company, and the manner in which these matters have been disclosed in the financial statements;

(c) review policies and procedures for the review and approval of officers' expenses and perquisites;

(d) review the terms of the Audit Committee's Charter annually and make recommendations to the Board as required;

(e) approve the basis and amount of the external auditor's fees in light of the number and nature of reports issued by the auditor, the quality of the internal controls, the size, complexity and financial condition of the Company and the extent of support provided by the Company to the external auditor and approve all other non-audit fees of the auditor and other accounting firms;

(f) review and approve a corporate code of ethics for senior financial personnel and evaluate the effectiveness of such code on a periodic basis;

(g) approve the Company's hiring policies regarding partners employees and former partners and employees of the present and former external auditor of the Company; and

(h) conducting regular reviews, assessments and discussions with management and the Company's external auditor relating to, among other things, financial matters, internal controls, risk management matters, and the procedures in place for the review of the Company's disclosure of financial information extracted or derived from the Company's financial statements.

### *3.5 Accountability*

The Audit Committee shall report its discussions to the Board by distributing the minutes of its meetings and, where appropriate, by oral report at the next Board meeting.

### *3.6 Amendments*

The Board of Directors may at any time amend or rescind any of the provisions hereof, or cancel them entirely, with or without substitution.

**Schedule "A" meaning of "material relationship"**
**Meaning of "material relationship"**

The following individuals are considered to have a "material relationship" with the Corporation:

1) an individual who is, or has been within the last three years, an employee or executive officer of the Corporation;

2) an individual whose immediate family member is, or has been within the last three years, an executive officer of the Corporation;

3) an individual who:

a. is a partner of a firm that is the Corporation's internal or external auditor,

b. is an employee of that firm, or

c. was within the last three years a partner or employee of that firm and personally worked on the Corporation's audit within that time;

4) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual:

a. is a partner of a firm that is the Corporation's internal or external auditor,

b. is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or

c. was within the last three years a partner or employee of that firm and personally worked on the Corporation's audit within that time;

5) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the Corporation's current executive officers serves or served at that same time on the entity's compensation committee; and

6) an individual who received, or whose immediate family member who is employed as an executive officer of the Corporation received, more than $75,000 in direct compensation from the Corporation during any 12 month period within the last three years.

For the purposes of determining whether a "material relationship" exists according to the above criteria, the term "Corporation" shall include each subsidiary entity and the parent, if any, of Advantex Marketing International Inc.

Notwithstanding any of the foregoing criteria being met, an individual will not be considered to have a material relationship with the Corporation solely because he or she had a relationship identified in paragraphs (a) to (f) above by virtue of the fact that the reference to the "Corporation" therein includes any subsidiary entity or the parent, if any, of the Corporation.

For purpose of paragraphs (3) and (4) above, a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.

For the purpose of paragraph (6) above, direct compensation does not include:

(i) remuneration for acting as a member of the Board of Directors or of any committee of the Board of Directors, and

(ii) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Corporation if the compensation is not contingent in any way on continued service.

Despite paragraphs (1) to (6) above, an individual will not be considered to have a material relationship with the Corporation solely because the individual or his or her immediate family member

(i) has previously acted as an interim chief executive officer of the Corporation, or

(ii) acts, or has previously acted, as a chair or vice-chair of the Board of Directors or of any committee of the Board of Directors on a part-time basis.

Related Definitions

"**executive officer**" of an entity – means an individual who is (a) a chair of the entity; (b) a vice-chair of the entity; (c) the president of the entity; (d) a vice-president of the entity in charge of a principal business unit, division or function including sales, finance or production; (e) an officer of the entity or any of its subsidiary entities who performs a policy-making function in respect of the entity; or (f) any other individual who performs a policy-making function in respect of the entity.

"**officer**" - (a) a chair or vice-chair of the board of directors, a chief executive officer, a chief operating officer, a chief financial officer, a president, a vice-president, a secretary, an assistant secretary, a treasurer, an assistant treasurer and a general manager, (b) every individual who is designated as an officer under a by-law or similar authority of the registrant or issuer, and (c) every individual who performs functions similar to those normally performed by an individual referred to in clause (a) or (b).

"**person**" - an individual partnership, unincorporated association, unincorporated syndicate, unincorporated organization, trust, trustee, executor, administrator, or other legal representative.

"**subsidiary entity**" - a person or company is considered to be a subsidiary entity of another person or company if (a) it is controlled by (i) that other, or (ii) that other and one or more persons or companies each of which is controlled by that other, or (iii) two or more persons or companies, each of which is controlled by that other; or (b) it is a subsidiary entity of a person or company that is the other's subsidiary entity.