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”

Kelly E. Ambrose
President and Chief Executive Officer

(Signed) - “Mukesh Sabharwal”

Mukesh Sabharwal
V.P. and Chief Financial Officer

BDO

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Independent Auditor's Report

To the Shareholders of
Advantex Marketing International Inc.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Comparative Information

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

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario
October 28, 2013

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

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

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

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

Approved by the Board:

Director: Signed "William Polley"
William Polley

Director: Signed "Kelly Ambrose"
Kelly E. Ambrose

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

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

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

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

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

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

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

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

Additional Information

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

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

1 General information

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

2 Economic and Financial Dependence

Economic Dependence

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

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

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

Since the company's revenue from the programs it operates for CIBC is dependent on the dollar spending by holders of CIBC credit cards at participating merchants, the sale by CIBC of a portion of its aeroplan portfolio will lead to a decline in the revenue. The decline in revenue will commence from the end of the above referred service agreement between CIBC – TD. There can be no assurance regarding the duration of the service agreement.

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

Financial Dependence

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

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

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

3 Basis of preparation

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

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

Accounting standards issued but not yet applied

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

The following is a description of the new standards:

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

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

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

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

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

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

4 Summary of significant accounting policies

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

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

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

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

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

Going concern
The company tests the going concern assumption on a quarterly basis. The company determines this from its financial forecasts that are prepared on its expectation regarding continuation of its agreement with CIBC, continued access to existing sources of debt, ability to access additional sources of debt, growth of its existing business, and development of new lines of business.

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

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

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

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

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

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

Contingent liabilities
A significant amount of estimation is applied in evaluating the company's uncertain tax provision with the Canada Revenue Agency (CRA) as described in note 17, and whether a tax provision is required.

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

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

Foreign currency translation
(i) Functional and presentation currency

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

(ii) Translation of transactions and balances

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

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

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

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

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

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

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

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

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

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

Impairment of financial assets

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

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

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

Transaction credits

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

Inventory

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

Inventory includes the following assets:

a) Aeronotes. The cost of the aeronotes includes direct expenses and printing costs.
b) Digital display units. Cost is the purchase price paid by the company.

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

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

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

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

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

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

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

Identifiable intangible assets
The company's intangible assets consist of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

There are three types of agreements with participating establishments:

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

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

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

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

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

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

5 Inventory

Inventory comprises

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

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

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

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

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

6 Investment

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

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

7 Property, plant and equipment and intangible assets

(a) Property, plant and equipment

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

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

(b) Intangible assets

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

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

8 Loan payable

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

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

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

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

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

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

9 14% Non-convertible debentures payable

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

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

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

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

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

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

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

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

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

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

10 12% Non-convertible debentures payable

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

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

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

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

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

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

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

The 12% debentures are secured by a general security interest over the assets of the company and its subsidiaries.

The significant financial covenants of the 12% debentures require the company to meet a defined level of current assets and interest coverage on a quarterly basis, commencing the quarter ended June 30, 2011. The company met its financial covenants as at June 30, 2013.

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

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

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

11 Share capital

(a) Authorized

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

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

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

Common – Unlimited number of shares without par value.

(b) Issued Class A preference shares

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

(c) Issued common shares

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

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

12 Share-based payments

Employee stock options

The company has a stock option plan for directors, officers, employees and consultants. The stock options are non-assignable, the stock option price is to be fixed by the Board of Directors (but may not be less than the Canadian National Stock Exchange regulations), the term of the stock options may not exceed five years and payment for the optioned shares is required to be made in full on the exercise of the stock options. All stock options are equity settled. The stock options are subject to various vesting provisions, determined by the Board of Directors, ranging from immediately to four years.

At the Annual and Special Meeting of the Shareholders held on December 22, 2009 the company received approval from the shareholders to implement a stock option plan ("2009 stock option plan") which is a fixed maximum number of common shares issuable based on 12% of issued and outstanding common shares (calculated on a non-diluted basis), and accordingly the maximum aggregate number of common shares issuable under the Stock Option Plan are 11,643,704. The Board has approved the continuation of the 2009 stock option plan to the date of the next Annual meeting of the Shareholders in 2013.

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

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

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

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

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

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

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

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

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

Shareholders’ rights plan

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

Potentially Dilutive Securities

As at June 30, 2013, the company was committed to issuing additional common shares as follows:

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

Warrants

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

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

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

13 Related party transactions

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

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

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

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

Compensation awarded to key management included:

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

14 Financial instruments

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

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

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

Fair value

The carrying value of cash and cash equivalents, accounts receivable, transaction credits, accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these instruments.

The stated value of the loans payable, convertible debentures payable and non-convertible debentures payable approximate their fair values, as the interest rates are representative of current market rates for loans with similar terms, conditions and maturities.

Interest rate risk

The company's activities are funded by two sources of debt. The non-convertibles debentures (notes 9 and 10) have fixed interest rates, and loan payable (note 8) which carries a floating interest rate. While company is not exposed to interest rate risk on account of non-convertible debentures, its future cash flows are exposed to interest risk from the floating interest rate payable, calculated as prime rate of a certain Canadian bank plus 11.5%, on loan payable. While the Company does not use derivative instruments to reduce its exposure to interest rate risk, it believes it can pass on, to merchants participating in its programs, a portion of a significant adverse interest rate movement on its loan payable.

As disclosed in note 8, during year ended June 30, 2013, the company paid annual interest of $1,065,218 on an average (based on month end balance) loan payable balance of $6,871,496. At year ended June 30, 2013 loan payable utilization level, a 10% increase in interest rate would lead to additional annual interest cost of $106,522.

15 Capital management

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

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

16 Discontinued operations

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

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

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

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

17 Commitments and contingencies

Commitments

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

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

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

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

Additional commitments

The company has an annual commitment to purchase minimum aeroplan miles as part of its three year arrangement ("existing agreement") to develop and manage a loyalty program for its affinity partner, Aeroplan. The company met its first year commitment of $700,000 by the due date of December 31, 2011. The company had a second year commitment, commencing January 1, 2012 and ending December 31, 2012 to purchase $1,000,000 of aeroplan miles. The company was able to purchase just over $700,000 of aeroplan miles. Concurrent with the company's acquisition of Futura Loyalty Group Inc.'s ("Futura") Aeroplan channel marketing assets (note 7 b) the company and Aeroplan reached an understanding to restructure the existing agreement. The restructured arrangement ("arrangement") combines the existing agreement and the Futura Aeroplan re-seller agreement acquired by the company. The arrangement has a one year term ending December 31, 2013, and carries a commitment by the company to purchase $1,960,135 of aeroplan miles from Aeroplan. The arrangement also calls for the company to fulfill any of Futura's commitments in respect of aeroplan miles paid for in advance by merchants to a maximum of $150,000. Under the arrangement the company does not have a liability, to Aeroplan, in respect of the shortfall in meeting its second year commitment per the existing agreement. The arrangement was formalized by an agreement in June, 2013. As at June 30, 2013 the company purchased $629,046 of aeroplan miles for the period January, 2013 to June 30, 2013. As at the September 30, 2013 the company purchased $1,171,833 aeroplan miles for period January, 2013 to September 30, 2013. The company is negotiating for a multi-year renewal of its agreement with Aeroplan and these discussions also cover re-establishing the company's commitment for calendar 2013.The company expects to meet the re-established commitment for calendar 2013.

In February, 2012 the company signed an agreement with a service provider to purchase software over a three year term. The software provides an integrated platform enabling users to simultaneously manage and schedule their digital marketing campaigns. The company sells this software to merchants participating in its programs. The annual purchase commitment, per agreement, commencing July 1, 2012, was $288,000. As part of negotiations to restructure the relationship, the company and the service provider reached an understanding to amend, amongst other provisions, the annual purchase commitment to $192,000 commencing August 1, 2013. The company has sales of software to meet the revised annual purchase commitment.

Taxation

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

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

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

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

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

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

18 Income taxes

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

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

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

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

19 Earnings per share, and Expenses by nature

Earnings per share

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

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

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

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

Nature of expenses

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

20 Subsequent events

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

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

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

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