



ADVANTE X

ADVANTE X® MARKETING INTERNATIONAL INC. **Annual Report to Shareholders** **For the Fiscal Year ended June 30, 2010**

Dear Shareholders,

I am pleased to announce that the Company is reporting a Net Profit for Fiscal 2010, its first Net Profit after fourteen consecutive years of losses.

Fiscal 2010 has been a great year for Advantex and reflects the efforts of the past four years to develop and market programs that have gained market acceptance, improve internal processes, strengthen relationships with affinity and financial partners, and establish the Company as a financially stable entity.

The Fiscal 2010 performance is built on increase in merchant participation in the Company's CIBC Advantex programs during Fiscal 2010 vs. Fiscal 2009, with the number of merchants increasing from just under 550 at the end of Fiscal 2009 to 720 at the end of Fiscal 2010. While you can access the financial details in the accompanying MD&A, and Consolidated Financial Statements, I wish to share the highlights with you:

	Fiscal 2010	Fiscal 2009	Change
Revenue			
➤ CIBC Advantex programs	\$11,961,000	\$ 9,650,000	23.9% +
➤ Online; other	<u>\$ 2,315,000</u>	<u>\$ 2,542,000</u>	(9.0)%
➤ Total	<u>\$14,276,000</u>	<u>\$12,192,000</u>	17.1% +
Profit before non cash expenses	\$ 1,230,000	\$ 204,000	\$1,026,000 +
Net Profit / (Loss)	\$ 34,000	\$ (854,000)	\$ 888,000 +

The Company is an aggregator of retailers for loyalty programs, and brings access to a number of services at an economic price to small merchants. The Company's future success lies in increasing the number of merchants participating in its programs. The expansion is expected to come from adding merchants into existing business segments and from expansion into new segments. The Company earns revenue as customers make purchases at participating merchants.

In September, 2010, the Company signed a new agreement with Canadian Imperial Bank of Commerce ("CIBC"), and this allows the Company to continue to market, for a three year period ending in August, 2013, its programs in the existing business segment covering Canadian restaurants, golf courses, independent inns, resorts and selected hotels, spas (collectively "Dining"). The agreement with CIBC also allows the Company to continue to expand the CIBC Advantex programs in selected Retail categories, an initiative launched in early April, 2010. In March, 2010, the Company signed a three year agreement with Aeroplan Canada Inc. ("Aeroplan"). This loyalty marketing agreement provides exclusive rights to the Company to offer its programs to merchants in men's and ladies fashion, footwear, and accessories (collectively "Retail") categories for a three year period ending August 31,

2013. The Aeroplan program was launched September 1, 2010 and about 100 merchants have enrolled in the program to date. In September, 2010, the Company and Accord signed an agreement extending the term of the existing line of credit facility for an additional three year period ending in December, 2013. During the renewal term the facility is increased to \$8.5 million, a \$2.0 million increase from the \$6.5 million limit established in March, 2010. The funds from the facility will be used exclusively to expand the Company's APM program in the Dining and Retail segments. The platform for future growth in offline merchant programs is now in place.

In July, 2010 United Airlines advised that it would not be continuing its relationship with the Company beyond October, 2010. United Airlines accounts for a significant portion of online shopping mall revenues, and the decision was made to close down this business segment from January, 2011 with the Company giving notice of termination to its remaining online shopping mall clients. The online shopping mall activity accounted for about 10% of the gross profit for Fiscal 2010.

With respect to the financing available to the Company from its debentures, we expect to renew the Non-convertible debentures, on current market terms, prior to their maturity in December, 2010. While the Company met its financial covenants as at June 30, 2010 with respect to its Convertible Debentures, the Company may not meet its financial covenants subsequent to year end and consequently the Convertible debentures maturing December, 2011 have been classified as a current liability in the Consolidated Financial Statements. However, we do expect to renew or replace the Convertible debentures under current market terms prior to their maturity.

Your Company has faced many challenges over the past five years and management has an impressive track record of overcoming adversity and forging a path for success. We expect to meet the current economic, Canada Revenue Agency, and financing issues with the same vigor, and expect to achieve continued improvement in financial performance this coming year.

I want to take this opportunity to thank the staff for their dedication, and the Board of Directors for their valuable guidance.

(Signed) – “Kelly E. Ambrose”

Kelly E. Ambrose
President and Chief Executive Officer

Date: October 27, 2010

This Letter to Shareholders contains certain “forward-looking information”. All information, other than information comprised of historical fact, that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future constitutes forward-looking information. Forward-looking information reflects the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking information is subject to a number of risks, uncertainties and assumptions that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, without limitation, those listed under “General Risks and Uncertainties” and “Economic Dependence” in the Company's Management Discussion and Analysis for the fiscal year ended June 30, 2010. 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.

Management's Discussion and Analysis of Operating Results

For the Fiscal years ended June 30, 2010 and 2009

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 27, 2010 and compares its 2010 financial results with those of the previous year. This management's discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements and the related notes. The audited consolidated financial statements and the related notes have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All dollar amounts are stated in Canadian dollars, 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 of its programs, Advantex provides merchants with marketing, customer incentives and additionally secured future sales through its Advance Purchase Marketing[®] (APM) program.

Advantex principally partners with Canadian Imperial Bank of Commerce (CIBC), and Aeroplan Canada Inc (Aeroplan). On a combined basis, Advantex has contractual marketing access to more than 5 million Canadian consumers with above-average personal and household income. The Company's merchant partner base currently consists of more than 1,000 restaurants, golf courses, independent inns, resorts and selected hotels, spas, retailers of mens's and ladies fashion, footwear and accessories, and online retailers, many of which are leaders in their respective categories.

Advantex earns revenue as customers make purchases at participating merchants.

Advantex common shares are traded on the TSX Venture Exchange under the symbol ADX.

Fiscal 2010 was a milestone in the Company's history. The Company is reporting a Net Profit this Fiscal year after 14 consecutive years of losses.

Fiscal 2010 performance reflects a record level of merchants participating (720 merchants at June 30, 2010) in the Company's CIBC Advantex programs, and allowed the Company to leverage its existing processes and infrastructure to increase productivity. Highlights:

	Fiscal 2010	Fiscal 2009	Improvement
Revenues	\$14,276,000	\$12,192,000	\$2,084,000
EBITDA	\$ 2,519,000	\$ 1,323,000	\$1,196,000
Profit before non cash expenses	\$ 1,230,000	\$ 204,000	\$1,026,000
Net Profit/(Loss)	\$ 34,000	\$ (854,000)	\$ 888,000

EBITDA is a non-GAAP measure. It demonstrates the Company's ability to generate cash from its operations.

As of the date hereof, the Company has completed the following key initiatives that should continue to grow the number of merchants participating in its programs, and consequently increase its revenues, and profitability during Fiscal 2011:

1. CIBC ADVANTEX BENEFIT Program renewed September, 2010 for a three year period. This agreement allows the Company to continue to offer its programs in the business segment covering Canadian restaurants, golf courses, independent inns, resorts and selected hotels, spas (collectively "Dining"). In early April, 2010, the Company launched its CIBC Advantex programs in selected Retail categories, and the new agreement allows the Company to continue to expand in this segment. The Company's research indicates there are over 20,000 target merchants in the Dining segment. This agreement provides continuity of revenues from the core activity of the Company, and also enables expansion in the Dining segment;
2. Aeroplan agreement signed in March, 2010, with a launch date of September 1, 2010. This value-added loyalty marketing agreement provides exclusive rights to the Company to offer its programs to merchants in men's and ladies fashion, footwear, and accessories (collectively "Retail") categories. Participating merchants will be able to reach about 4 million Aeroplan members through the Company's programs. The Company's research indicates there are over 10,000 target merchants in the Retail segment. This agreement provides an opportunity for the Company to expand the number of merchants in its programs. The Company launched this program on September 1, 2010, after organizing processes to facilitate the launch and subsequent ongoing implementation of the programs. The programs include about 100 merchants to date. The launch implementation involved external capital expenditures of approximately \$250,000. Although the Company will leverage much of its existing infrastructure, there will be a modest increase in SG&A to accommodate the launch and expansion;
3. Accord Financial Inc. (Accord). In September, 2010, the Company and Accord signed an agreement extending the term of the existing line of credit facility for an additional three year period ending in December, 2013. During the renewal term the facility is increased to \$8.5 million, a \$2.0 million increase from the \$6.5 million limit established in March, 2010. The funds from the facility will be used exclusively to expand the Company's APM program in the Dining and Retail segments. Fiscal 2010 APM program revenues grew 21.7% vs. Fiscal 2009, and accounted for 51.5% of the Company's total revenues. The prevalent economic conditions provide a favourable environment for the Company to expand this program to credit-worthy merchants in the Dining and Retail segments.

However, given that the Company earns its revenues as customers make purchases at participating merchants, the weak consumer spending prevalent since the fall of calendar 2008 continued to impact the Company's revenues throughout Fiscal 2010. The increase in the number of participating merchants helped to partially offset the impact on revenues. The Company expects the existing trends in consumer spending to continue during Fiscal 2011.

Revenues from the secondary activity of the Company, its online shopping malls, which the Company operated for United Airlines, Alaska Airlines and Lufthansa in North America, Italy and the UK, for the twelve months ended June 30, 2010, were adversely impacted by a decline in consumer spending, and a weak US Dollar (the currency in which the Company earns its revenues) vs. Canadian Dollar. Since the Company's online mall revenues are earned mainly in US Dollars, it carries a currency risk. However, this is partially mitigated as the cost of awards purchased from Airlines is also payable in US Dollars.

In July, 2010 United Airlines advised that it would not be continuing its relationship with the Company beyond October, 2010. United Airlines accounted for a significant portion of online

shopping mall revenues. In October, 2010 the Company gave notice of termination to its remaining online shopping mall clients and will shut down its online business in January, 2011. This secondary activity accounted for about 10% of the gross profit for Fiscal 2010. The Company has implemented appropriate steps to mitigate the impact on its Fiscal 2011 profitability from the shutdown of its online business. The first quarter of Fiscal 2011 will be affected by severance payments to staff laid off as a part of such steps.

The Company also expects to renew its Non-convertible debentures prior to their maturity in December, 2010.

While the Company met its financial covenants with respect to its Convertible Debentures, and in the past has been successful in negotiating waivers, the Company may not meet its financial covenants subsequent to year end and consequently the Convertible debentures maturing December, 2011 have been classified as a current liability in the Consolidated Financial Statements. The reader is referred to note 1a – Nature of Business and Going Concern – to the Consolidated Financial Statements for year ended June 30, 2010 for additional details.

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 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 has to be paid in full, and is independent of the appeals process. The Company has agreed to a 24 month payment plan with the CRA. The Company made twelve payments totaling \$366,000, during the period ended June 30, 2010. The amounts paid are included as a recoverable asset and are included with accounts receivable on the balance sheet. The amounts payable, within 12 months from June 30, 2010, under the payment plan, including an estimate for interest, are \$416,000.

As more fully explained in the Management Discussion and Analysis for Fiscal 2009, Advantex's common shares were delisted from the TSX effective at the end of trading on October 14, 2009, and commenced trading on the TSX Venture Exchange at the opening of trading on October 15, 2009 under the existing trading symbol ADX.

During Fiscal 2010, the Company rolled back the salary cuts that were implemented in March, 2008 and March, 2009. The process was gradual, starting with non-executive staff in November, 2009 and was completed with the roll back of the CEO's salary in June, 2010. Despite increasing salaries, G&A for Fiscal 2010 is flat compared with Fiscal 2009.

Results of Operations

(in millions of dollars)

	<u>F 2010</u>	<u>F 2009</u>
Revenue:		
CIBC Advantex programs		
: Advance Purchase Model	\$ 7.4	\$ 6.1
: Marketing Only Model	4.6	3.6
Online Shopping Malls	<u>2.3</u>	<u>2.5</u>
	14.3	12.2
Direct Expenses	<u>(5.1)</u>	<u>(4.2)</u>
Gross Profit	9.2	8.0
Selling, General and administrative expenses	<u>(6.7)</u>	<u>(6.7)</u>
Contribution from Operations	2.5	1.3
Stock based compensation	<u>(0.1)</u>	<u>(0.1)</u>
Profit before Amortization and Interest	2.5	1.2
Amortization	(0.5)	(0.3)
Interest on loan payable, debentures, and other	<u>(2.0)</u>	<u>(1.8)</u>
Net Profit/(Loss) for the Year	<u>\$0.0</u>	<u>\$(0.9)</u>

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

The Advantex programs have two business models. In both models, revenue is recognized at the time that purchases are made by consumers at merchants participating in 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 the Consolidated Balance Sheet) 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 Marketing Only and Infinite Hotel programs, and the Online Shopping Malls fall under this model.

The revenue trends for the twelve months ended June 30, 2010 vs. corresponding period previous year are tabulated:

	Fiscal 2010	Fiscal 2009	Change	% of Total Fiscal 2010 revenues
<u>CIBC Advantex Programs</u>				
APM (1)	\$ 7,354,180	\$6,042,849	21.7% +	51.5%
Marketing Only (1) / (2)	\$ 4,606,766	\$3,607,447	27.7% +	32.3%
	\$11,960,946	\$9,650,296	23.9% +	83.8%
<u>Online Shopping Malls</u>	\$ 2,314,950	\$2,526,120	(8.3)%	16.2%
<u>Other revenues</u> (3)	\$ 113	\$ 15,905		
<u>TOTAL</u>	\$14,276,009	\$12,192,321	17.1% +	

1. Increase in CIBC Advantex Programs revenues reflect increase in merchants participating in the program.

2. Marketing Only program. In addition to revenues from the CIBC Advantex Marketing Only program, revenues from following activities are also included in this category:

	Fiscal 2010	Fiscal 2009
Infinite Hotel program (commenced Sep 08)	\$ 911,626	\$ 833,584
Sale of Aeronotes	\$ 261,100	\$ -

3. Fiscal 2010 Online Shopping Mall revenues are lower vs. Fiscal 2009 reflecting decline in consumer spending, lower commission rates earned by Advantex, and strengthening of Canadian Dollar vs. US Dollar. In US Dollar terms (base currency in which the Company earns its online revenues) the decrease is 5.9% but due to unfavorable movement in exchange rates the decrease in Canadian Dollar terms is more severe.

Direct Expenses

Direct expenses include cardholder award costs, the cost of marketing and advertising on behalf of merchants, and provision against receivables under all programs.

Direct expenses in Fiscal 2010 were \$5.1 million compared to \$4.2 million in Fiscal 2009, an increase of 20.8%. During the same period revenues increased 17.1%. The increase in direct costs is mainly attributable to higher cost of marketing and advertizing, an integral part of the value proposition for participating merchants. The previous year also reflects a higher marketing support from affinity partner, CIBC.

Gross Profit

Gross profit was \$9.2 million in Fiscal 2010 compared with \$8.0 million in Fiscal 2009 and this improvement reflects growth in revenue.

Gross Margin for Fiscal 2010 was 64.6% compared with 65.7% for Fiscal 2009, attributable to the marginal increase in direct expenses as compared to higher revenues for Fiscal 2010.

Selling Expenses

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

Selling expenses in Fiscal 2010 were \$3.4 million compared with \$3.0 million in Fiscal 2009, a 10.5% increase in expenses which compares favorably with revenue growth of 17.1% and is a reflection of operational efficiencies.

General and Administrative Expenses

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

G&A expenses for Fiscal 2010 were \$3.3 million compared with \$3.6 million in Fiscal 2009, a reduction of \$0.3 million. The reduction (\$0.2 million) is primarily internal costs expended on software development connected to ensuring operability of the Company's loyalty marketing programs sponsored by CIBC and Aeroplan.

Interest Expense

The Company currently has three sources of debt capital – convertible debentures, non-convertible debentures, and a credit facility. In addition to the stated interest, the interest cost also comprises amortization of deferred financing charges, and accretion charges.

	<u>Fiscal 2010</u>	<u>Fiscal 2009</u>
Stated interest –loan payable, debentures, other	\$ 1,288,894	\$ 1,119,162
Accretion charge on debentures and amortization of deferred financing charges	\$ 669,546	\$ 637,457
Total	\$ 1,958,440	\$ 1,756,619

The Company deploys the funds raised in the financings with merchants currently activated under its APM program. The funds deployed are reflected as transaction credits on the consolidated balance sheet. The increase in stated interest cost reflects partially higher utilization of the Loan Payable (as at June 30, 2010 \$3.1 million vs. \$1.1 million as at June 30, 2009) and partially the increase in interest rate with respect to the Loan Payable. The higher Loan Payable utilization has been used exclusively to increase merchant participation in Company's APM program as reflected in higher transaction credit balances carried by the Company, and the consequent increase in APM revenues during Fiscal 2010 vs. Fiscal 2009.

With access to the Retail category, a new business segment, the Company has capacity to take on additional debt which will be deployed with merchants participating in its APM program.

Net Profit/(Loss) for the Year

The Net Profit for Fiscal 2010 was \$34,000 [Basic Earnings per Share of \$0.00] compared with a Net (Loss) of \$854,000 [Basic Earnings per Share, a loss, of \$(0.01) per Share] in Fiscal 2009, an

improvement of \$888,000, primarily due to the outcome of record levels of participating merchants in the Company's CIBC Advantex programs which provided higher revenues.

Working Capital and Liquidity Management

As at June 30, 2010, the Company had cash and cash equivalents of \$0.5 million compared to \$0.3 million as at June 30, 2009.

The Company attempts to maximize Transaction credits by deploying cash surplus to its operating requirements with establishments participating in its APM program. Transaction credits are a likely indicator of future revenues from the APM program.

A summary of Fiscal 2010 movements in cash flows, and working capital * is set out below:

(in millions of dollars)

	Cash	Working Capital *
As at July 1, 2009	<u>\$0.3</u>	<u>\$4.7</u>
Generated from operations	1.2	-
Changes from non cash working capital items	(2.4)	2.4
Financing activities	2.0	(2.0)
Purchase of PPE	(0.6)	-
Changes in cash balances	-	<u>0.2</u>
Movement during the twelve months	<u>0.2</u>	<u>0.6</u>
As at June 30, 2010	<u>\$0.5</u>	<u>\$5.3</u>

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

* Represented by current assets less loan payable, and accounts payable and accrued liabilities

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

While the Company expects that it will have sufficient cash to fund operations at its current scale, additional capital in the form of debt and/or equity will be required to fund the continued expansion of its Advance Purchase Marketing programs, as described under *General Risks and Uncertainties*.

Contractual Obligations

Contractual obligations as at June 30, 2010 are due as follows:

(in millions of dollars)

<u>Contractual obligation</u>	<u>Total</u>	<u>Payments Due by Period</u>			
		<u>Less than 1 Year</u>	<u>1 to 3 Years</u>	<u>4 to 5 Years</u>	<u>After 5 Years</u>
Loan Payable	\$ 3.1	\$3.1	\$ -	\$ -	\$ -
Non convertible Debenture	\$ 2.7	\$ 2.7	\$ -	\$ -	\$ -
Convertible Debenture	\$ 6.0	\$ 6.0	\$ -	\$ -	\$ -
Operating Leases	\$ 0.3	\$0.2	\$ 0.1	\$ -	\$ -

In addition, the Company has a commitment to purchase minimum rewards of \$600,000 by August 31, 2011 as part of its arrangement to develop and manage a loyalty program for a new affinity partner. The loyalty program was launched on September 1, 2010. In the opinion of management there is demand for this loyalty program, and consequently the commitment is achievable.

Loan Payable

In December, 2007, the Company concluded an agreement with Accord Financial Inc. (formerly Montcap Financial Corp) for a \$ 5.0 million credit facility. Under the agreement, the facility was to be used exclusively to acquire transaction credits. Transaction credits could be acquired only from those establishments that were in industries available to the Company under its agreement with CIBC. The Company had immediate access to \$1.5 million of the facility. The remaining balance of \$3.5 million would be available once the Company reached an agreement with CIBC that would allow the Company to expand its program to Retail fashion establishments.

Interest would be calculated daily on the amount outstanding and charged monthly at the per annum rate of 10 per cent above a certain major Canadian bank's prime rate. First charge on all amounts due from participating establishments which were funded from this facility was provided as security. The initial term of the agreement was for three years, expiring December, 2010.

In February 2009, the agreement was amended to allow access up to \$3.0 million.

In March and April 2010, the Company and Accord signed amendments to the existing agreement, giving the Company access to an additional \$3.5 million facility to be used to expand its Advance Purchase Marketing program in segments permitted under the Company's agreements with CIBC and Aeroplan, thereby raising the facility limit to \$6.5 million. At the same time the interest rate was amended to reflect greater of prime rate of a certain Canadian bank plus 12.75% per annum and 15% per annum. The interest expense during the year was \$306,081 (2009 - \$122,783).

In September, 2010, the Company and Accord signed an amending agreement, extending the term of the existing agreement for an additional three year period ending in December, 2013. The significant changes during the renewal term are (i) increase in the facility limit to \$8.5 million, and (ii) a reduction in interest rate on the entire facility to prime rate of a certain Canadian bank plus 11.5% per annum provided the Company reaches a certain amount of draw against the facility.

The financing charges related to this credit facility were \$191,376. The fees are being amortized on a straight-line basis over the term of the facility. The principal amount outstanding under this facility at June 30, 2010 was \$3,062,718 (2009 - \$1,077,489). The carrying amount disclosed is lower than the principal amount by \$32,169 (2009 - \$96,501) [related to unamortized financing charges].

Non-Convertible Debentures Payable

In December 2007, the Company issued 2,000 units of non-convertible debentures for gross proceeds of \$2,000,000. The Company issued an additional 665 units in January 2008, for gross proceeds of \$665,000. Certain directors and officers of the Company participated in the second tranche, purchasing 110 units. Financing charges of \$103,891 related to these debentures will be amortized on a straight-line basis over the term of the debentures.

Each unit consists of a \$1,000 secured non –convertible debenture and 1,975 share purchase warrants. The debentures bear interest at 14% per annum, payable quarterly, and mature on December 31, 2010. The interest expense during the year was \$373,100 (2009 - \$373,100). Each share purchase warrant allows the holder to acquire one share of the Company at \$0.06 per share during the three year term of the debenture.

Under the agreement, the proceeds of the non-convertible debentures are to be used to acquire transaction credits. In addition, the proceeds of the non-convertible 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 accounts as well as all amounts due from establishments funded by the proceeds of the non-convertible debentures. The balance in the separate bank account at June 30, 2010 was \$60,000 (2009 \$60,000).

The non-convertible debentures include a financial covenant that requires the Company to meet a defined level of assets at each quarter end commencing the quarter ending on March 31, 2008. The Company met its financial covenant during the year ended June 30, 2010.

In accordance with CICA Handbook Section 3855, the fair value of the non-convertible debentures was bifurcated into debt and equity portions based on the estimated relative fair value of the debt and equity components. Accordingly, \$184,744 was allocated to equity as share purchase warrants.

The Black-Scholes option pricing model was used to determine the fair value of the share purchase warrants. The following assumptions were used in the Black-Scholes option pricing model:

Common share price	\$0.06
Exercise price of share purchase warrant	\$0.06
Expected life of the share warrant	3 years
Expected volatility	89%
Risk-free interest rate	3.9%

The amount of non-convertible debentures is disclosed under current liabilities:

Gross proceeds of debentures	\$2,665,000
Allocated to share purchase warrants	(184,744)
Unamortized financing fees	(18,213)
Accretion charges to date	<u>158,662</u>
Non – convertible debenture payable	<u>\$2,620,705</u>

The Company plans to negotiate a renewal of non-convertible debentures.

Convertible Debenture Payable

In prior periods, the Company issued \$6,000,000 of senior convertible debentures (the convertible debentures). The convertible debentures bear interest at 10%, mature on December 9, 2011, are convertible into common shares at \$0.10 per common share and are secured by a general security interest over the assets of the Company and its subsidiaries. The interest expense during the year was \$600,000 (2009 - \$597,389).

In September 2008, the Company agreed to issue 9,990,000 warrants to the holders of the convertible debentures on a pro rata basis based on the outstanding principal amounts of the convertible debentures. Each warrant entitled the holder to purchase one common share of the Company at an exercise price of \$0.045 at any time prior to December, 2011. The issuance of 9.86 million warrants was completed in two tranches, January, 2009 and February, 2009.

In accordance with CICA Handbook section 3862, the debt and equity portions of the convertible debentures were re-computed based on estimated relative fair value of the debt and equity components. The fair value of the warrants was determined as \$189,810.

The Black-Scholes pricing model was used to determine the fair value of the warrants. The following assumptions were used in the Black-Scholes option pricing model.

Common share price	\$0.035
Exercise price of warrants	\$0.045
Expected life of the warrant	3 years
Expected volatility	87%
Risk-free interest rate	3%

The significant financial covenants of the convertible debentures require the Company to meet a defined level of current assets and interest coverage on a quarterly basis. During the year, the Company and the holders of the convertible debentures amended a certain financial covenant. During Fiscal 2010, the Company met its financial covenants. The Company may not meet its financial covenants subsequent to year end and all of the long-term debt has been classified as current liabilities in accordance with Canadian generally accepted accounting principles.

The convertible debenture is secured by a general security agreement over all the assets of the Company and its subsidiaries. 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 convertible debenture agreement and, as a result, the convertible debenture holders would have the right to waive the event of default, demand immediate payment of the convertible debenture in full or modify the terms and conditions of the debenture including key terms such as repayment terms, interest rates and security. If the Company is unable to secure alternative financing to repay the convertible debenture, the convertible debenture holders would have the right to realize upon a part or all of the security held by them.

A summary of the debt and equity portions of the convertible debentures and the related balance of unamortized financing charges is as follows. The debt portion is shown on the balance sheet net of financing costs.

	Debt portion	Equity Portion	Warrants	Deferred financing charges
Balance June 30, 2007	\$4,426,929	\$2,114,341	\$ -	\$384,594
Accretion charge	315,316	-	-	-
Amortization of financing charges	-	-	-	(85,464)
Balance June 30, 2008	\$4,742,245	\$2,114,341	\$ -	\$ 299,130
Accretion charge	374,639	-	-	-
Amortization of financing charges	-	-	-	(85,464)
Issuance of warrants	(189,810)	-	189,810	-
Balance June 30, 2009	\$4,927,074	\$2,114,341	\$189,810	\$213,666
Accretion charge	418,706	-	-	-
Amortization of financing charges	-	-	-	(85,464)
Balance June 30, 2010	\$5,345,780	\$2,114,341	\$189,810	\$128,202

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, 2010. Management's discussion and analysis may be found in the Company's Annual Report for each year, available on the Company's website at www.advantex.com and at www.sedar.com.

(in millions of dollars, except per share amounts)	<u>F 2010</u>	<u>F 2009</u>	<u>F2008</u>
Revenue	\$ 14.30	\$ 12.20	\$ 11.50
Net Profit (Loss) for the year	\$ 0.0	\$ (0.9)	\$ (1.40)
Basic Earnings Per Common Share	\$ 0.00	\$ (0.01)	\$ (0.01)
Total Assets	\$ 12.18	\$ 9.88	\$ 9.11
Current Liabilities	\$13.96	\$4.53	\$ 3.33
Long-term Liabilities	\$ -	\$ 7.23	\$ 7.07
No Cash Dividends declared per common share			

For Fiscal 2008 and Fiscal 2009 the effect of potential exercise of the convertible debenture, stock options and warrants would be anti-dilutive.

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

(in millions of dollars)	<u>F 2010</u>	<u>F 2009</u>	<u>F 2008</u>
	\$5.3	\$ 4.7	\$ 4.9

Please refer to the section on *Results of Operations* in this document for an analysis of Fiscal 2010 and Fiscal 2009.

The Net (Loss) for the year in Fiscal 2009 and 2008 was:

	(in millions of dollars)	
	<u>F 2009</u>	<u>F 2008</u>
Net (Loss)	\$ (0.9)	\$ (1.40)

Highlights of Fiscal 2009 compared to Fiscal 2008:

1. Increase in revenues – F 2009 \$12.2 million versus \$11.5 million.
2. **Operational Highlights.** (Some numbers in the presentation may not add due to rounding)

	Revenue	Gross Profit	SG&A	Contribution from Operations	Profit /(Loss) before Amortization and Interest	Net (Loss)
F 2009	\$12.2 m	\$8.0 m	\$6.7 m	\$ 1.3 m	\$ 1.2 m	\$(0.9) m
F 2008	\$11.5 m	\$7.2 m	\$6.8 m	\$ 0.5 m	\$ 0.4 m	\$(1.4) m
Better	5.7%	11.2%	1.0%	\$0.9 m	\$0.9 m	\$0.5 m

3. Working capital was \$4.7 million as at June 30, 2009 versus \$4.9 million as at June 30, 2008. The major changes in working capital during Fiscal 2009 were:
 - a. Increase in Transaction credits of \$0.9 million;
 - b. Increase in Loan payable of \$0.3 million and;
 - c. Increase in Accounts payable and accrued liabilities of \$0.9 million

Refer to the 2009 Annual Report for a detailed comparison of Fiscal 2009 versus Fiscal 2008.

Summary of Quarterly Results

(Some numbers in the presentation may not add because of rounding)

Fiscal Year June 30, 2010

(in millions of dollars, except per share amounts)	Q1 Sept 30 <u>2009</u>	Q2 Dec 31 <u>2009</u>	Q3 Mar 31 <u>2010</u>	Q4 June 30 <u>2010</u>	<u>Total</u>
Revenue	\$ 3.5	\$ 3.9	\$ 3.2	\$ 3.7	\$ 14.3
Percentage of Annual Revenue	25 %	27 %	22 %	26 %	100 %
Net Profit / (Loss) for the period	\$ 0.1	\$ 0.2	\$ (0.3)	\$ 0.0	\$ (0.0)
Basic Earnings Per Common Share:	\$ 0.00	\$ 0.00	\$ (0.00)	\$ 0.00	\$ 0.00

Fiscal Year June 30, 2009

(in millions of dollars, except per share amounts)	Q1 Sept 30 <u>2008</u>	Q2 Dec 31 <u>2008</u>	Q3 Mar 31 <u>2009</u>	Q4 June 30 <u>2009</u>	<u>Total</u>
Revenue	\$ 3.1	\$ 3.3	\$ 2.6	\$ 3.2	\$ 12.2
Percentage of Annual Revenue	25 %	27 %	22 %	26 %	100 %
Net Profit / (Loss) for the period	\$ 0.1	\$ 0.0	\$ (0.8)	\$ (0.2)	\$ (0.9)
Basic Earnings Per Common Share:	\$ 0.00	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ (0.01)

The fluctuations of the Company's results are reflective of seasonal consumer behavior in the Dining category, and in the Online business, weak economic conditions prevalent since the fall of calendar 2008 as well as success in Online program and penetration of its CIBC Advantex program.

Fourth Quarter 2010

Overview

Based on the increasing merchant participation in its CIBC Advantex programs, the Company recorded better revenues and with flat gross margin and SG&A vs. the previous year the result was a Net Profit for the quarter of \$13,000 compared with a Net Loss of \$135,000 for the corresponding period previous year, an improvement of \$148,000.

Revenue

Revenue for Q4 of Fiscal 2010 was \$3.7 million compared with \$3.1 million in Fiscal 2009.

CIBC Advantex program revenues in Q4 of Fiscal 2010 were \$3.2 million compared with \$2.6 million for Fiscal 2009. This was primarily a reflection of the increasing merchant participation in the CIBC Advantex programs. Online transaction fee revenue in US Dollar terms (currency in which Company earns its revenue) for Q4 of Fiscal 2010 was \$0.5 million compared with \$0.4 million, reflecting slight recovery in consumer spend in last quarter; in Canadian Dollar terms the same transaction fee revenue was flat at \$0.5 million consequent to a weak US Dollar vs. Canadian Dollar.

Direct Expenses / Gross Profit

Direct expenses include cardholder award costs, the cost of marketing and advertising on behalf of merchants, and provision against receivables under all programs. Direct expenses for Q4 of Fiscal 2010 were \$1.3 million compared to \$1.1 million in Fiscal 2009; a 20.1% increase in direct expenses compared with 18.7% increase in Q4 revenues.

The Gross Margin for Q4 of Fiscal 2010 was 65.5% compared to 65.9% in Fiscal 2009.

SG&A

Selling expenses include expenses arising from remuneration of sales staff, transaction processing and other selling activities. G&A expenses include compensation for all non-sales staff, professional fees, head office premises costs, shareholder and public relations costs, office overhead and foreign exchange (losses)/gains.

SG&A expenses for Q4 of Fiscal 2010 were \$1.7 million compared to \$1.6 million with corresponding period in Fiscal 2009.

Contribution from Operations, and Profit/(Loss) before Amortization and Interest

Q4 of Fiscal 2010 had positive Contribution from Operations of \$693,000 compared with \$457,000 in Fiscal 2009, an improvement of \$236,000.

Q4 of Fiscal 2010 had a Profit before Amortization and Interest of \$673,000 compared with \$439,000 in Fiscal 2009, an improvement of \$234,000.

Net Profit/(Loss)

The Net Profit for Q4 of Fiscal 2009 was \$ 13,000 compared with a Net Loss of \$135,000 in Fiscal 2009, an improvement of \$148,000.

Capital Resources

Expenditures for property, plant and equipment for year ended June 30, 2010 were \$613,000 (2009 – \$256,000). The current year includes capitalization of \$278,400 of internal costs expended on software development connected to ensuring operability of the Company's loyalty marketing programs sponsored by CIBC and Aeroplan (2009 - \$89,800). The costs are being amortized over the shorter of useful life of the software and term of affinity partner agreement. The costs are included in Computer Software.

Critical Accounting Estimates

The preparation of the Company's consolidated financial statements, in accordance with Canadian GAAP, 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 calculates the fair value of certain financial instruments, as discussed below, 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 Company has certain business risks linked to the collection of its transaction credits (net of provision- at June 30, 2010 \$9.5 million vs. \$8.2 million at June 30, 2009). The Company generally acquires transaction credits that are estimated to be fully extinguishable within 30 – 120 days. Until these credits have been extinguished through CIBC cardholder spend there is a credit risk, and an increase in credit risk associated with the longer time frame approaching and/or exceeding 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 transaction credits. In the event of default, the Company has set up escalating collection measures, and based on the specific credit risk associated with the customer, and other relevant information including an assessment of the likelihood of collection, a provision is established.

Stock Options

The Company normally issues stock options with exercise prices at or above the market price of the underlying common shares of the Company, and effective October 15, 2009 issuance is in compliance with TSX Venture Exchange regulations. The fair value of stock options issued during Fiscal 2010 using the Black-Scholes option pricing model was \$4,520, and in Fiscal 2009 was \$2,000.

Outstanding Share Data and Dilutive Securities

As at June 30, 2010 and 2009, the number of common shares of the Company outstanding was 97,030,868.

As at June 30, 2010, the Company was committed to issuing additional common shares under certain circumstances, as described below.

Convertible Debenture Payable

The Company is committed to issuing a total of 60 million common shares in the event of a full conversion of the Convertible Debenture Payable in the principal amount of \$6.0 million.

In addition, the Company agreed, on September 24, 2008, to issue 9.99 million warrants at an exercise price of \$0.045. Each warrant entitles the holder to purchase one common share of the Company at any time prior to December 9, 2011. The issuance of 9.86 million warrants was completed in two tranches, January, 2009 and February, 2009. Please see note 7 of the audited financial statements for the year ended June 30, 2010 for additional details.

Non – Convertible Debenture Payable

The Company is committed to issuing a total of 5.3 million common shares in the event the holders of warrants, attached to the units of Non-Convertible Debenture Payable, exercise the right to convert.

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 closing price on the day immediately preceding the date of the grant of the stock option and TSX Venture 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. 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 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 Stock Option Plan are 11,643,704.

During the year, the Company granted 200,000 stock options. The entire grant was to a director. The options granted on February 5, 2010 have a life of five years; 67,000 vested immediately, 67,000 and 66,000 vest on the first and second anniversary respectively of the grant; and at an exercise price of \$0.10.

The Company calculated the fair value of the stock options issued during Fiscal 2010 using the Black-Scholes option pricing model and determined their fair value was \$4,520 (303,672 stock options granted in 2009, fair value was \$2,000). The assumptions used in the model were:

	<u>2010</u>	<u>2009</u>
Expected life of stock option	5 years	5 years
Expected volatility of common share price	109%	83%
Risk-free rate of return	0.7%	1.40%

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

	<u>Fiscal 2010</u>	<u>Fiscal 2009</u>
Maximum number reserved for issuance	11,643,704	12,128,858
Less: Outstanding at end of year	<u>(10,943,475)</u>	<u>(11,409,202)</u>
Number of options available for future issuance	<u>700,229</u>	<u>719,656</u>

\$67,789 of stock option expense for the year ended June 30, 2010 was recorded in these consolidated financial statements (2009 - \$71,067), and was recorded as an increase in contributed surplus

Transactions with Related Parties

As at June 30, 2010 and 2009, the following individuals and directors of the Company have a beneficial ownership of the debentures payable in the principal amounts shown below.

Title	<u>Principal Amount (Convertible debenture)</u>	<u>Principal Amount (Non- convertible debenture)</u>
Chief Executive Officer	\$ 50,000	\$ 30,000
Director	\$ nil	\$ 25,000
Chief Financial Officer	\$ nil	\$ 15,000

Outlook

The Company is at an exciting stage of its development. The restructuring efforts of the past four years have enabled the Company to develop and market programs that have gained market acceptance, improve internal processes, strengthen relationships with affinity and financial partners, and establish itself as a financially stable entity.

In September, 2010, the Company renewed its existing arrangement with CIBC, and signed a new multi-year agreement which enables the Company to continue to grow its base of participating merchants in the existing Dining segment. With the signing in March, 2010 of a multi-year agreement with Aeroplan, the Company is able to market its programs outside of its existing merchant base (Dining – mainly Canadian restaurant space) and expand into Retail segment (men’s and ladies fashion, footwear and accessories). Within its program offerings, the Company expects its Advance Purchase Marketing (“APM”) program to continue to be the driver for increasing merchant participation. In September, 2010, the Company renewed its agreement with Accord, and can access additional amounts under its line of credit (Loan Payable) which will enable APM to be offered to increasing number of merchants. The Company plans to negotiate a renewal of Non-convertible debentures which mature December 31, 2010. The Company has implemented appropriate steps to mitigate the impact on its profitability from the shutdown of its online business; United Airlines online shopping mall in October, 2010, and the remaining shopping malls from January, 2011. The Company expects the historical seasonality trends to continue during Fiscal 2011. During Fiscal 2011, the Company expects continued improvement over its Fiscal 2010 financial performance.

The Company’s research indicates that there are over 20,000 merchants in the Dining categories, and over 10,000 merchants in the Retail categories, which the Company can target and market its programs. The Company currently has over 700 merchants participating in its CIBC Advantex programs, a substantial increase compared with the over 500 participating merchants in the corresponding period previous year.

Economic Dependence

A significant portion of the Company’s current revenue is dependent upon its offline 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 expiring August 31, 2013. This agreement grants the Company conditional exclusivity rights to market its programs within Dining business segment. The 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 gross profit with that of other programs, as shown below.

Gross Profit	<u>2010</u>		<u>2009</u>	
	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>
CIBC Advantex programs	\$ 8.3	90	\$ 7.0	88
Other programs	<u>0.9</u>	<u>10</u>	<u>1.0</u>	<u>12</u>
Total	<u>\$ 9.2</u>	<u>100</u>	<u>\$ 8.0</u>	<u>100</u>

Recognizing the risks of overdependence on a 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 within the Retail segment. 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 Retail categories, with Aeroplan holding the right of first refusal.

General Risks and Uncertainties

The Company's current loyalty programs 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 retaining and acquiring participating 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 could be additional loyalty program operators in Canada, targeting the same merchant base as Advantex. For instance, a US-based loyalty marketing company is operating a Dining program in Canada in association with a major bank, in addition to expanding its US programs to include participating Canadian restaurants. 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.

Advantex's operations are dependent on the abilities, experience and efforts of its management and highly skilled workforce. While Advantex 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 Advantex.

The Company has certain business risks linked to the collection of its transaction credits under its APM program. However, based upon historical results and the fact that the Company generally acquires transaction credits that are estimated to be fully extinguishable within 30 – 120 days,

management believes that these risks are manageable. Until these credits have been extinguished through cardholder spend there is a credit risk, and an increase in credit risk associated with the longer time frame approaching and/or exceeding 120 days or more. 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 transaction credits.

The Company believes that increasing the amount of the transaction credits purchased from merchants 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 convertible debenture holders.

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 CRA's decision to the Company's notice of objection on the GST matter explained in detail later in this section may limit access to additional financing and continued access to existing sources of debt. These conditions might adversely affect the availability or cost of financing, the specific factors affecting the Company's attractiveness as a borrower or as an investment vehicle, or the market's perception of the Company's performance and future prospects.

In addition to economic factors, the profitability of the Company is subject to a number of risk factors including continued Affinity Partner (principally CIBC, and Aeroplan) and merchant participation, renewal or replacement of Non-convertible debentures maturing December, 2010, continued access to facility under Loan Payable, continued support of Convertible debenture-holders in the event the Company is in breach of any of its covenants, merchant credit risk, competition, and changes in regulations -including taxation- affecting the Company's activities, and consumer behaviour.

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 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 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 has to be paid in full, and is independent of the appeals process. The Company has worked out a 24 month payment plan with the CRA, and is recording 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 and or there is an adverse change to the currently agreed payment plan with the CRA, 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. Such forward-looking information relates to, without limitation, information regarding: the Company's belief that the completion of key initiatives - renewal of agreements with CIBC, Accord, and agreement with Aeroplan - should enable the Company to grow the number of merchants participating in Advantex's programs, and consequently increase its revenues, and profitability during Fiscal 2011; the Company's ability to leverage its existing infrastructure and with modest increase in SG&A accommodate launch of new programs and expansion; the size of the market for the Company's products in the Dining and Retail segments; demand for the Company's products in the Dining and Retail segments; the Company's anticipated increase in the number of merchants with which it will do business; the Company's expectation with respect to consumer spending and seasonality trends in Fiscal 2011; the Company's expectation with respect to renewing the Non-convertible debenture maturing in December, 2010; the Company's ability to take on additional debt and deploy with merchants participating in its APM program; the Company's expectation that it will have sufficient cash to fund operations at its current levels; the Company's belief that Transaction credits are a likely indicator of future revenues from the APM program; the Company's belief that there is demand for loyalty program and consequently the commitment to purchase a minimum amount of rewards by August 31, 2011 is achievable; the Company's ability to access additional debt with respect to expanding the APM program within the Dining and Retail segments; the Company's expectation that APM program will be the driver for increasing merchant participation; the Company's expectation with respect to continued improvement over its Fiscal 2010 financial performance in Fiscal 2011; increases in business levels; estimates relating to extinguishment of transaction credits, and the Company's belief that risks connected to collection of transaction credits are manageable; the Company's ability to continue to review the collection risks connected to its APM program; the Company's belief that growth in merchant participation results in higher revenues; Company's belief that increasing the amount of transaction credits purchased from merchants will result in higher revenues and, consequently the Company's results and cash flows; ; the Company's intentions with respect to retaining future earnings in the foreseeable future; the Company's belief that its tax filing positions are appropriate and supportable; the ability of the Company to satisfy payments under the 24 month payment plan agreed with CRA; the Company's ability to obtain waivers or renegotiate the covenants of the Company's convertible debentures if a default in respect of the same arises; 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. With respect to the forward-looking information contained in this Management Discussion and Analysis, the Company has made assumptions regarding, among other things, its ability to access future financing; continued affinity partner participation with the Company; its ability to renew Non-convertible debentures on substantially existing terms and conditions; continued support from its providers of Loan Payable and Convertible debentures; current and future economic and market conditions and the impact of same on the Company's business; ongoing and future revenue sources; future business levels; interest and currency rates; the impact of the agreements with CIBC and Aeroplan on future business; the

appropriateness of the Company's tax filing position; ongoing consumer interest in accumulating frequent flyer miles; and the Company's ability to manage risks connected to collection of transaction credits; sufficiency of the mitigation efforts consequent to shutdown of the Online business.

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, changes in general economic and market conditions; changes to regulations affecting the Company's activities; uncertainties relating to the availability and costs of financing needed in the future including those connected to renewal of Non-convertible debentures agreement and the continued support of Convertible debenture holders in the event the Company is in breach of a financial covenant; the termination of the CIBC agreement; termination of the Aeroplan agreement; any adverse change to the currently agreed payment plan with the CRA; currency risks, the inability of the Company to collect under its APM program; the Company's financial status, and other factors, including without limitation, 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.

International Financial Reporting Standards

On February 13, 2008, Canada's Accounting Standards Board ("AcSB") confirmed the date of changeover from GAAP to International Financial Reporting Standards ("IFRS"). Canadian publicly accountable enterprises must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The implementation of IFRS will be applicable for the Company for the July 1, 2011 to September 30, 2011 quarter, for which the current and comparative financial information will be presented under IFRS. As first stage of its IFRS conversion plan, the Company has completed an internal preliminary evaluation, and as a result will be carrying out further investigations, with assistance of its external advisors, to ascertain the impact, if any, that adoption of IFRS will have on its consolidated financial statements. The Company is currently in the preliminary stages of its IFRS conversion plan.

Additional Information

Additional information relating to the Company, including the Company's Annual Information Form, is available at www.sedar.com, and may also be obtained by request by telephone or facsimile or at the Company's website at www.advantex.com.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To our Shareholders:

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

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 accounting principles generally accepted in Canada. The significant accounting policies which management believes are appropriate for the Company are described in notes 1 and 2 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, 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.

PricewaterhouseCoopers LLP, the Company's external auditors, audited the consolidated financial statements in accordance with generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is set out on the following page.

(Signed) – “Kelly E. Ambrose”

Kelly E. Ambrose
President and Chief Executive Officer

(Signed): “Mukesh Sabharwal”

Mukesh Sabharwal
V.P. and Chief Financial Officer

October 27, 2010

Auditors' Report

**To the Shareholders of
Advantex Marketing International Inc.**

We have audited the consolidated balance sheets of Advantex Marketing International Inc. as at June 30, 2010 and 2009 and the consolidated statements of profit/(loss) and comprehensive profit/(loss) and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

ADVANTECH MARKETING INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS
AS AT JUNE 30, 2010 AND 2009

	NOTE	<u>June 30, 2010</u>	<u>June 30, 2009</u>
ASSETS			
Current:			
Cash and cash equivalents		\$505,941	\$344,180
Accounts receivable		700,927	506,380
Transaction credits	1(e)	9,538,364	8,151,185
Aeronotes	3	381,309	-
Prepaid expenses and sundry assets		<u>249,510</u>	<u>223,066</u>
		<u>11,376,051</u>	<u>9,224,811</u>
Long-term:			
Property, plant and equipment	4	807,315	652,639
TOTAL ASSETS		<u>\$12,183,366</u>	<u>\$9,877,450</u>
LIABILITIES			
Current:			
Loan payable	5	\$3,030,549	\$980,988
Accounts payable and accrued liabilities		3,093,652	3,544,327
Non-convertible debentures payable	6	2,620,705	-
Convertible debentures payable	7	<u>5,217,578</u>	<u>-</u>
		<u>13,962,484</u>	<u>4,525,315</u>
Long-term:			
Non-convertible debentures payable	6	-	2,519,661
Convertible debentures payable	7	<u>-</u>	<u>4,713,408</u>
		<u>-</u>	<u>7,233,069</u>
		<u>13,962,484</u>	<u>11,758,384</u>
SHAREHOLDERS' DEFICIENCY			
Capital Stock			
Class A preference shares	8	3,815	3,815
Common shares		<u>24,106,281</u>	<u>24,106,281</u>
		24,110,096	24,110,096
Contributed surplus		645,879	578,090
Equity portion of debentures	7	2,114,341	2,114,341
Warrants	6/7	374,554	374,554
Deficit		<u>(29,023,988)</u>	<u>(29,058,015)</u>
		<u>(1,779,118)</u>	<u>(1,880,934)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY		<u>\$12,183,366</u>	<u>\$9,877,450</u>

Nature of Business and Going Concern (note 1a)
Commitments and contingencies (note 12)

Approved by the Board:

(Signed): "William Polley"
 Director: _____
 William Polley

(Signed): "Kelly E. Ambrose"
 Director: _____
 Kelly E. Ambrose

ADVANTECH MARKETING INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF PROFIT/(LOSS) AND COMPREHENSIVE PROFIT/(LOSS)
YEARS ENDED JUNE 30, 2010 AND 2009

	NOTE	<u>2010</u>	<u>2009</u>
REVENUE		\$14,276,009	\$12,192,321
Direct expenses		<u>5,060,672</u>	<u>4,188,024</u>
GROSS PROFIT		<u>9,215,337</u>	<u>8,004,297</u>
OPERATING EXPENSES			
Selling and marketing		3,361,037	3,042,593
General and administrative		<u>3,335,522</u>	<u>3,638,816</u>
		6,696,559	6,681,409
CONTRIBUTION FROM OPERATIONS		2,518,778	1,322,888
Stock-based compensation		<u>67,789</u>	<u>71,067</u>
PROFIT BEFORE AMORTIZATION AND INTEREST		2,450,989	1,251,821
Amortization of property, plant and equipment		458,522	349,132
Interest expense			
Stated interest expense – loan payable, non-convertible debentures, and other		688,894	521,773
Stated interest expense - convertible debentures		600,000	597,389
Accretion charge on debentures and amortization of deferred financing charges	6/7	<u>669,546</u>	<u>637,457</u>
		2,416,962	2,105,751
NET PROFIT/(LOSS) AND COMPREHENSIVE PROFIT/(LOSS) FOR THE YEAR		<u>\$34,027</u>	<u>\$(853,930)</u>
BASIC EARNINGS PER SHARE	10	<u>\$0.00</u>	<u>\$(0.01)</u>
DILUTED REANINGS PER SHARE	10	<u>\$0.00</u>	<u>\$0.00</u>

**ADVANTEX MARKETING INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF DEFICIT
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
BALANCE AT THE START OF THE YEAR	\$(29,058,015)	\$(28,204,085)
Net profit/(loss) for the year	<u>34,027</u>	<u>(853,930)</u>
BALANCE AT THE END OF THE YEAR	\$(<u>29,023,988</u>)	\$(<u>29,058,015</u>)

**ADVANTECH MARKETING INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 and 2009**

	NOTE	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES			
Net profit/(loss) for the year		\$34,027	\$(853,930)
Items not affecting cash			
Amortization of property, plant and equipment		458,522	349,132
Accretion charge on debentures	6/7	483,354	437,703
Amortization of deferred financing charges		186,192	199,754
Stock-based compensation		<u>67,789</u>	<u>71,067</u>
		1,229,884	203,726
Changes in non-cash working capital items			
Accounts receivable		(194,547)	298,293
Transaction credits		(1,387,179)	(850,273)
Aeronotes		(381,309)	-
Prepaid expenses and sundry assets		(26,444)	(108,088)
Accounts payable and accrued liabilities		<u>(450,675)</u>	<u>880,248</u>
		(2,440,154)	220,180
Decrease in Long-term other liabilities		<u>-</u>	<u>(205,955)</u>
Cash provided by/(utilized in) operating activities		(1,210,270)	217,951
FINANCING ACTIVITIES			
Proceeds from draw of credit facility		1,985,229	253,208
Credit facility costs		<u>-</u>	<u>(15,458)</u>
		1,985,229	237,750
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		<u>(613,198)</u>	<u>(256,315)</u>
MOVEMENT IN CASH AND CASH EQUIVALENTS DURING THE YEAR		161,761	199,386
Cash and cash equivalents at the beginning of the year		<u>344,180</u>	<u>144,794</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		<u>\$505,941</u>	<u>\$344,180</u>
ADDITIONAL INFORMATION			
Interest paid		\$1,288,894	\$1,221,371

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2010

1. SIGNIFICANT ACCOUNTING POLICIES

a. Nature of business and Going Concern

Advantex Marketing International Inc. (Advantex or the Company) is a public company with common shares listed on the TSX Venture Exchange (trading symbol ADX). Advantex operates in the marketing services industry. The Company develops and manages loyalty programs for financial institutions, airlines and other major organizations through which their customers earn frequent flyer miles or points on purchases at a wide selection of participating merchants. Under the umbrella of each program, Advantex provides merchants with marketing, customer incentives and secured future sales through its Advance Purchase Marketing model.

These audited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which contemplates that the Company will be able to realize its assets and settle its liabilities in the normal course as they come due during the normal course of operations for the foreseeable future. As described in Note 7, there is uncertainty surrounding the convertible debentures as the Company may not meet its financial debt covenants subsequent to year end and the Company has not generated significant positive cash flows from operations to date. As a result, this may cast significant doubt on the validity of this assumption and the Company's ability to continue as a going concern after June 30, 2010 and hence the ultimate use of accounting principles applicable to a going concern.

The Company's future success is dependent on new financing, ensuring profitability and generating positive cash flows from operations. The Company's business plan includes refinancing of its current loans, the re-setting of its covenants and the receipt of waivers or agreement amendments where breaches occur. In September 2010, the Company renewed its agreement with Accord Financial Inc (Note 5). The credit facility was increased to \$8.5 million from \$6.5 million. While the Company has been successful in obtaining additional financing, waivers and debt agreement amendments to date, there can be no assurance these initiatives will continue to be successful.

These consolidated financial statements do not include any adjustments or disclosures that may result from the Company's ability to continue as a going concern. If the going concern assumption were not appropriate for these consolidated financial statements, adjustments may be necessary in the carrying values of assets and liabilities and the reported expenses and balance sheet classifications; and such adjustments could be material.

b. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Advantex Dining Corporation, Advantex Marketing Corporation, Advantex

1. SIGNIFICANT ACCOUNTING POLICIES continued

Marketing International Inc. (US), Advantex Marketing (Maryland) Inc., 1600011 Ontario Limited, Advantex Systems Limited Partnership and Advantex GP Inc.

c. Revenue recognition

Advantex provides marketing services to participating establishments and provides awards to customers who make purchases at participating establishments. There are two types of agreements with participating establishments:

- (i) The Company acquires the rights to future designated credit card transactions at a discount from the face value from participating establishments. The Company records as revenue the spread between the future credit card transactions and its costs to acquire the rights (cost of transaction credits).
- (ii) 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 customer purchases made at participating establishments.

Under each agreement, the revenue is recognized at the time that a consumer makes a designated credit card purchase from participating establishments enrolled in these programs.

d. Cash and cash equivalents

Cash and cash equivalents include highly liquid investments redeemable at any time.

e. 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.

f. Aeronotes

The Aeronotes, described in note 3, are inventory and are carried at the lower of cost, including printing costs, and net realizable value.

g. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated amortization. Amortization is provided for at the following annual rates and methods:

1. SIGNIFICANT ACCOUNTING POLICIES *continued*

Computer equipment	-	30% using the declining balance method
Furniture and equipment	-	20% using the declining balance method
Computer software	-	3 to 5 years straight-line

Property, plant and equipment are tested for impairment when evidence of a decline in value exists. If it is determined that the carrying value of the property, plant and equipment is not recoverable, a write-down to fair value is charged to earnings in the year that such a determination is made.

h. Deferred financing charges

Deferred financing charges are netted against the related debt and amortized over the terms of the convertible debentures, non-convertible debentures, and loans payable using the straight line method.

i. Income taxes

The Company provides for income taxes using the liability method of income tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and the corresponding income tax values of assets and liabilities using substantively enacted income tax rates to be in effect for the year in which the differences are expected to reverse. The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

Tax reserves are established for uncertain income tax positions based on management's best estimates.

j. Stock option plan

The Company has a stock option plan which is described in note 8(d). 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 using the straight-line method. 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.

k. Financial instruments

All financial instruments are measured at fair value on initial recognition. After initial recognition, financial instruments are measured at their fair values, except for loans and receivables and other financial liabilities, which are measured at amortized cost. The Company has designated cash and cash equivalents as held-for-trading. Accounts receivable and transaction credits are classified as loans and receivables. Loan payable, accounts payable and

1. SIGNIFICANT ACCOUNTING POLICIES *continued*

accrued liabilities, non-convertible debentures payable and convertible debentures payable are classified as other financial liabilities.

l. Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet dates. Non-monetary assets and liabilities are translated at rates of exchange at each transaction date. Revenue and expenses are translated at the average rate of exchange for the year. Gains or losses on foreign currency translation are included in earnings for the year.

m. Use of estimates

The preparation of these consolidated financial statements, in accordance with Canadian generally accepted accounting principles, requires 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.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Change in accounting policies

Financial Statement Concepts

In February 2008, the CICA amended Handbook Section 1000 “Financial Statement Concepts” to clarify the criteria for recognition of assets and liabilities, the relationship between incurring expenditures and creating assets, the future economic benefit criterion necessary for recognition of an asset, and the timing of expense recognition. This amendment is effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company adopted the amendment to this standard on July 1, 2009. The adoption of this standard did not have an impact on the Company’s consolidated financial results, position, or disclosure.

Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064 “Goodwill and Intangible Assets”. Handbook Section 3064 replaces Handbook Section 3062 “Goodwill and Other Intangible Assets” and Handbook Section 3450 “Research and Development Costs”. This new section provides additional guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets, and research and development costs. These standards are effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008. Accordingly, the Company adopted the amendment to this standard on July 1, 2009. The adoption of these standards did not have an impact on the Company’s consolidated financial results, position, or disclosure.

Emerging Issues Committee ("EIC") 173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The EIC provides guidance on how to take into account credit risk of an entity and

counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This EIC applies to interim and annual financial statements relating to periods beginning on or after January 1, 2009. Adoption of this EIC did not have any effect on the Company's consolidated financial statements.

International Financial Reporting Standards (“IFRS”)

On February 13, 2008, the CICA’s Accounting Standards Board (AcSB) confirmed that the use of IFRS will be required for interim and annual financial statements for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises in Canada. Companies will be required to provide comparative information under IFRS for the previous fiscal year. The implementation of IFRS will be applicable for the Company for the July 1, 2011 to September 30, 2011 quarter, for which the current and comparative financial information will be presented under IFRS. As first stage of its IFRS conversion plan, the Company has completed an internal preliminary evaluation, and as a result will be carrying out further investigations, with the assistance of its external advisors, to ascertain the impact, if any, that adoption of IFRS will have on its consolidated financial statements.

3. AERONOTES

In November and December, 2009, the Company purchased \$500,000 of Aeronotes from Aeroplan Canada Inc. The Company has the right to sell and to distribute the Aeronotes to merchants participating in its Canadian based merchant loyalty programs in the dining category. A member of the Aeroplan Program receiving an Aeronote is able to add the points denominated on such Aeronote to their account until December 31, 2010.

4. PROPERTY, PLANT AND EQUIPMENT

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
<u>June 30, 2010</u>			
Computer equipment	\$ 361,788	\$ 198,771	\$ 163,017
Furniture and equipment	101,192	72,314	28,878
Computer software	<u>1,277,559</u>	<u>662,139</u>	<u>615,420</u>
	<u>\$ 1,740,539</u>	<u>\$ 933,224</u>	<u>\$ 807,315</u>
<u>June 30, 2009</u>			
Computer equipment	\$ 2,325,887	\$ 2,114,154	\$ 211,733
Furniture and equipment	195,277	142,556	52,721
Computer software	<u>2,340,086</u>	<u>1,951,901</u>	<u>388,185</u>
	<u>\$ 4,861,250</u>	<u>\$ 4,208,611</u>	<u>\$ 652,639</u>

Expenditures for property, plant and equipment for year ended June 30, 2010 were \$613,198 (2009 – \$256,315). Current year includes capitalization of \$278,389 of internal costs expended on software development connected to ensuring operability of the Company’s loyalty marketing programs sponsored by CIBC and Aeroplan (2009 - \$89,800). The costs are being amortized over the shorter of useful life of the software and term of affinity partner agreement.

The cost and accumulated amortization amount for year ended June 30, 2010 exclude fully amortized assets which are not in use.

5. LOAN PAYABLE

In December, 2007, the Company concluded an agreement with Accord Financial Inc. (formerly Montcap Financial Corp) for a \$ 5.0 million credit facility. Under the agreement, the facility was to be used exclusively to acquire transaction credits. Transaction credits could be acquired only from those establishments that were in industries available to the Company under its agreement with CIBC. The Company had immediate access to \$1.5 million of the facility. The remaining balance of \$3.5 million would be available once the Company reached an agreement with CIBC that would allow the Company to expand its program to retail fashion establishments.

Interest would be calculated daily on the amount outstanding and charged monthly at the per annum rate of 10 per cent above a certain major Canadian bank's prime rate. First charge on all amounts due from participating establishments which were funded from this facility was provided as security. The initial term of the agreement was for three years, expiring December, 2010.

In February 2009, the agreement was amended to allow access up to \$3.0 million.

In March and April 2010, the Company and Accord signed amendments to the existing agreement, giving the Company access to an additional \$3.5 million facility to be used to expand its Advance Purchase Marketing program, thereby raising the facility limit to \$6.5 million. At the same time the interest rate was amended to reflect greater of prime rate of a certain Canadian bank plus 12.75% per annum and 15% per annum. The interest expense during the year was \$306,081 (2009 - \$122,783).

In September, 2010, the Company and Accord signed an amending agreement, extending the term of the existing agreement for an additional three year period ending in December, 2013. The significant changes during the renewal term are (i) increase in the facility limit to \$8.5 million, and (ii) a reduction in interest rate on the entire facility to prime rate of a certain Canadian bank plus 11.5% per annum provided the Company reaches a certain amount of draw against the facility.

The financing charges related to this credit facility were \$191,376. The fees are being amortized on a straight-line basis over the term of the facility. The principal amount outstanding under this facility at June 30, 2010 was \$3,062,718 (2009 - \$1,077,489). The carrying amount disclosed is lower than the principal amount by \$32,169 (2009 - \$96,501) [related to unamortized financing charges].

6. NON-CONVERTIBLE DEBENTURES PAYABLE

In December 2007, the Company issued 2,000 units of non-convertible debentures for gross proceeds of \$2,000,000. The Company issued an additional 665 units in January 2008, for gross proceeds of \$665,000. Certain directors and officers of the Company participated in the second tranche, purchasing 110 units. Financing charges of \$103,891 related to these debentures will be amortized on a straight-line basis over the term of the debentures.

Each unit consists of a \$1,000 secured non –convertible debenture and 1,975 share purchase warrants. The debentures bear interest at 14% per annum, payable quarterly, and mature on December 31, 2010. The interest expense during the year was \$373,100 (2009 - \$373,100). Each share purchase warrant

allows the holder to acquire one share of the Company at \$0.06 per share during the three year term of the debenture.

Under the agreement, the proceeds of the non-convertible debentures are to be used to acquire transaction credits. In addition, the proceeds of the non-convertible 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 accounts as well as all amounts due from establishments funded by the proceeds of the non-convertible debentures. The balance in the separate bank account at June 30, 2010 was \$60,000 (2009 \$60,000).

The non-convertible debentures include a financial covenant that requires the Company to meet a defined level of assets at each quarter end commencing the quarter ending on March 31, 2008. The Company met its financial covenant during the year ended June 30, 2010.

In accordance with CICA Handbook Section 3855, the fair value of the non-convertible debentures was bifurcated into debt and equity portions based on the estimated relative fair value of the debt and equity components. Accordingly, \$184,744 was allocated to equity as share purchase warrants.

The Black-Scholes option pricing model was used to determine the fair value of the share purchase warrants. The following assumptions were used in the Black-Scholes option pricing model:

Common share price	\$0.06
Exercise price of share purchase warrant	\$0.06
Expected life of the share warrant	3 years
Expected volatility	89%
Risk-free interest rate	3.9%

The amount of non-convertible debentures is disclosed under current liabilities:

Gross proceeds of debentures	\$2,665,000
Allocated to share purchase warrants	(184,744)
Unamortized financing fees	(18,213)
Accretion charges to date	<u>158,662</u>
Non – convertible debenture payable	<u>\$2,620,705</u>

The Company plans to negotiate a renewal of non-convertible debentures.

7. CONVERTIBLE DEBENTURES PAYABLE

In prior periods, the Company issued \$6,000,000 of senior convertible debentures (the convertible debentures). The convertible debentures bear interest at 10%, mature on December 9, 2011, are convertible into common shares at \$0.10 per common share and are secured by a general security interest over the assets of the Company and its subsidiaries. The interest expense during the year was \$600,000 (2009 - \$597,389).

In September 2008, the Company agreed to issue 9,990,000 warrants to the holders of the convertible debentures on a pro rata basis based on the outstanding principal amounts of the convertible debentures. Each warrant entitled the holder to purchase one common share of the Company at an exercise price of \$0.045 at any time prior to December, 2011. The issuance of 9.86 million warrants was completed in two tranches, January, 2009 and February, 2009.

In accordance with CICA Handbook section 3862, the debt and equity portions of the convertible debentures were re-computed based on estimated relative fair value of the debt and equity components. The fair value of the warrants was determined as \$189,810.

The Black-Scholes pricing model was used to determine the fair value of the warrants. The following assumptions were used in the Black-Scholes option pricing model.

Common share price	\$0.035
Exercise price of warrants	\$0.045
Expected life of the warrant	3 years
Expected volatility	87%
Risk-free interest rate	3%

The significant financial covenants of the convertible debentures require the Company to meet a defined level of current assets and interest coverage on a quarterly basis. During the year, the Company and the holders of the convertible debentures amended a certain financial covenant. During Fiscal 2010, the Company met its financial covenants. The Company may not meet its financial covenants subsequent to year end and all of the long-term debt has been classified as current liabilities in accordance with Canadian generally accepted accounting principles.

A summary of the debt and equity portions of the convertible debentures and the related balance of unamortized financing charges is as follows. The debt portion is shown on the balance sheet net of financing costs.

	Debt portion	Equity Portion	Warrants	Deferred financing charges
Balance June 30, 2007	\$4,426,929	\$2,114,341	\$ -	\$384,594
Accretion charge	315,316	-	-	-
Amortization of financing charges	-	-	-	(85,464)
Balance June 30, 2008	\$4,742,245	\$2,114,341	\$ -	\$ 299,130
Accretion charge	374,639	-	-	-
Amortization of financing charges	-	-	-	(85,464)
Issuance of warrants	(189,810)	-	189,810	-
Balance June 30, 2009	\$4,927,074	\$2,114,341	\$189,810	\$213,666
Accretion charge	418,706	-	-	-
Amortization of financing charges	-	-	-	(85,464)
Balance June 30, 2010	\$5,345,780	\$2,114,341	\$189,810	\$128,202

8. CAPITAL STOCK

(a) Authorized

Class A preference – 500,000 shares non-voting, non-participating, redeemable (at stated capital amount), 8% (of stated capital amount) non-cumulative dividend rate.

Class B preference – Unlimited number of shares, issuable in series with rights, privileges, restrictions and conditions determined by the Board of Directors at time of issue.

Common – Unlimited number of shares

(b) Issued Class A preference shares

	<u>2010</u>	<u>2009</u>
459,781 shares	<u>\$ 3,815</u>	<u>\$ 3,815</u>

(c) Issued common shares

	<u>2010</u>	<u>2009</u>
97,030,868 shares	<u>\$ 24,106,281</u>	<u>\$ 24,106,281</u>

(d) 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 closing price on the day immediately preceding the date of the grant of the stock option and TSX Venture 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. 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 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 Stock Option Plan are 11,643,704.

During the year, the Company granted 200,000 stock options. The entire grant was to a director. The options granted on February 5, 2010 have a life of five years; 67,000 vested immediately, 67,000 and 66,000 vest on the first and second anniversary respectively of the grant; and at an exercise price of \$0.10.

The Company calculated the fair value of the stock options issued during Fiscal 2010 using the Black-Scholes option pricing model and determined their fair value was \$4,520 (303,672 stock options granted in 2009, fair value was \$2,000). The assumptions used in the model were:

	<u>2010</u>	<u>2009</u>
Expected life of stock option	5 years	5 years
Expected volatility of common share price	109%	83%
Risk-free rate of return	0.7%	1.40%

A summary of the status of the Company's stock option plan as at June 30, 2010 and 2009, and changes during the years then ended is presented below:

	2010		2009	
	Share options	Weighted Average Exercise Price	Share options	Weighted Average Exercise Price
Outstanding at the beginning of the year	11,409,202	\$0.06	11,896,606	\$0.06
Granted	200,000	0.10	303,672	0.01
Forfeited and expired	(665,727)	0.07	(791,076)	0.06
Outstanding at the end of the year	<u>10,943,475</u>	\$0.06	<u>11,409,202</u>	\$0.06
Options exercisable at the end of the year	10,235,231		10,048,198	

The following table summarizes information about stock options outstanding as at June 30, 2010:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
0.01 – 0.045	4,008,475	2.4	\$0.043	3,468,064	\$0.045
0.05 – 0.095	6,200,000	0.8	\$0.065	6,200,000	\$0.065
0.10 - 0.15	735,000	1.4	\$0.123	567,167	\$0.128
	<u>10,943,475</u>			<u>10,235,231</u>	

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

	2010	2009
Maximum number reserved for issuance	11,643,704	12,128,858
Less: Outstanding at end of year	<u>(10,943,475)</u>	<u>(11,409,202)</u>
Number of options available for future issuance	<u>700,229</u>	<u>719,656</u>

\$67,789 of stock option expense for the year ended June 30, 2010 was recorded in these consolidated financial statements (2009 - \$71,067), and was recorded as an increase in contributed surplus.

(e) Shareholders' rights plan

At the Annual and Special Meeting of the Shareholders held on December 6, 2007 the Company received approval to renew the Shareholders' rights 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 in the year 2010. Under the shareholders' rights 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 shareholders' rights plan. At the Annual Meeting of Shareholders, the Company will be seeking shareholder approval for a three year renewal of the Shareholders' rights plan.

9. 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 transaction credits that are estimated to be fully extinguishable within 30-120 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 ageing of accounts receivable and transaction credits at the reporting date was:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Current	\$9,648,667	\$7,934,945
Over 120 days	<u>590,624</u>	<u>722,620</u>
	<u>\$10,239,291</u>	<u>\$8,657,565</u>

Currency risk

The Company is exposed to foreign exchange risk as a portion of its revenue is earned in US dollars and it has assets and liabilities that will be settled in US dollars. 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):

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Cash and cash equivalents	\$ 1,540	\$ 82,929
Accounts receivable	\$ 357,293	\$360,815
Accounts payable and accrued liabilities	\$ 258,135	\$728,770

As at June 30, 2010, the Company had nominal amounts (equivalent to under CAD 4,000) of assets and liabilities in Euro and Pound Sterling (2009 CAD 3,000).

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 obligations are due.

The Company deploys available funds to merchants under its Advance Purchase Marketing (APM) program, which are disclosed as transaction credits on the balance sheet. The Company generally acquires transaction credits that are estimated to be fully extinguishable within 30-120 days. The Company maintains adequate cash balances to meet liabilities when due.

Fair value

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, 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 is exposed to price risk on both the convertible and non-convertible debentures payable, as these amounts are subject to fixed interest rates. Respecting Loan payable, since the interest rate is greater of prime plus 12.75% and 15%, the Company is exposed to price risk regardless of market rate movements.

10. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated on the basis of net profit divided by the weighted average number of common shares outstanding for the year. Diluted earnings per share is calculated using the treasury stock method, giving effect to the exercise of all dilutive instruments. For Fiscal 2009, the effect of potential exercise of the convertible debenture, stock options and warrants would be anti-dilutive.

11. INCOME TAXES

The Company has \$12,824,000 (2009 - \$13,864,000) of non-capital losses available to be applied against future taxable income. The losses expire as follows:

Year ending June 30, 2014	\$ 1,048,000
, 2015	1,448,000
, 2016 and thereafter	<u>10,328,000</u>
	\$ <u>12,824,000</u>

The income tax effect of these losses and other temporary differences give rise to future income tax assets against which a valuation allowance has been applied as follows:

	<u>2010</u>	<u>2009</u>
Income tax effect of:		
Non-capital losses carried forward	\$3,375,000	\$ 4,966,000
Property, plant and equipment amortization	55,000	18,000
Deferred financing charges	1,000	6,000
Research and development	65,000	65,000
Other	<u>20,000</u>	<u>110,000</u>
	3,516,000	5,165,000
Valuation allowance	<u>(3,516,000)</u>	<u>(5,165,000)</u>
Future income taxes	<u>\$ -</u>	<u>\$ -</u>

12. COMMITMENTS AND CONTINGENCIES

Commitments

The Company is committed to minimum payments with respect to existing leases for equipment and premises:

Year ending June 30, 2011	\$174,059
, 2012	\$ 46,398
, 2013	\$ 27,839
, 2014	\$ 9,713

In addition, the Company has a commitment to purchase minimum rewards of \$600,000 by August 31, 2011 as part of its arrangement to develop and manage a loyalty program for a new affinity partner. The loyalty program was launched on September 1, 2010. In the opinion of management there is demand for this loyalty program, and consequently the commitment is achievable.

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 a recent audit, 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 is in the amount of \$755,000.

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

The balance owed under the re-assessment is required to be paid during the objection process. The Company has agreed to a 24 month payment plan with the CRA. The Company made twelve payments totaling \$366,000, during the period ended June 30, 2010. The amounts paid are included as a recoverable asset and are included with accounts receivable on the balance sheet. The amounts payable under the payment plan, including an estimate for interest, are:

Due within 12 months from June 20, 2010 - \$416,000

13. RELATED PARTY TRANSACTIONS AND ECONOMIC DEPENDANCE

A significant portion of the Company's current revenue is dependent upon its offline value-added loyalty program agreement with CIBC under which Aeroplan Miles are awarded to holders of certain CIBC Visa credit cards. The Company purchases Aeroplan Miles from CIBC, which in turn purchases Aeroplan Miles from Aeroplan Canada Inc.

The agreement with CIBC was renewed in September 2010, for an additional term ending on August 31, 2013. The agreement may be renewed upon mutual agreement.

As at June 30, 2010 and 2009, the following related parties are holders of the debentures described in notes 6 and 7:

Title	<u>Principal Amount (Convertible debenture)</u>	<u>Principal Amount (Non- convertible debenture)</u>
Chief Executive Officer	\$ 50,000	\$ 30,000
Director	\$ nil	\$ 25,000
Chief Financial Officer	\$ nil	\$ 15,000

14. 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, Non-Convertible debentures, Convertible 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.

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

15. COMPARATIVES

Certain of the comparative figures have been reclassified to conform to consolidated financial statement presentation adopted in the current year.

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Mukesh Sabharwal
VP and Chief Financial Officer

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