

ADVANTEX MARKETING INTERNATIONAL INC.
CONSOLIDATED FINANCIAL STATEMENTS
For the three month period ended September 30, 2010

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 report.

An auditor has not performed a review of these financial statements.

ADVANTECH MARKETING INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS
(unaudited – note 1a)

	Note	<u>September 30, 2010</u>	<u>June 30, 2010</u>
		\$	\$
ASSETS			
Current:			
Cash and cash equivalents		\$971,515	\$505,941
Accounts receivable		801,420	700,927
Transaction credits		10,232,613	9,538,364
Aeronotes		351,251	381,309
Prepaid expenses and sundry assets		<u>271,749</u>	<u>249,510</u>
		<u>12,628,548</u>	<u>11,376,051</u>
Long-term:			
Property, plant and equipment	3	737,352	807,315
TOTAL ASSETS		<u>\$13,365,900</u>	<u>\$12,183,366</u>
LIABILITIES			
Current:			
Loan payable	4	3,811,652	3,030,549
Accounts payable and accrued liabilities		3,181,749	3,093,652
Non-convertible debentures payable	5	2,646,218	2,620,705
Convertible debentures payable	6	<u>5,349,066</u>	<u>5,217,578</u>
		<u>14,988,685</u>	<u>13,962,484</u>
SHAREHOLDERS' DEFICIENCY			
Capital Stock			
Class A preference shares		3,815	3,815
Common shares		<u>24,106,281</u>	<u>24,106,281</u>
		24,110,096	24,110,096
Contributed surplus	7	651,879	645,879
Equity portion of debentures	6	2,114,341	2,114,341
Warrants	5/6	374,554	374,554
Deficit		<u>(28,873,655)</u>	<u>(29,023,988)</u>
		<u>(1,622,785)</u>	<u>(1,779,118)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY		<u>\$13,365,900</u>	<u>\$12,183,366</u>

Going Concern (note 1b)
Taxation (note 10)

(see accompanying notes)

ADVANTECH MARKETING INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF PROFIT AND COMPREHENSIVE PROFIT
(unaudited – note 1a)

	Three Months Ended <u>September 30, 2010</u>	Three Months Ended <u>September 30, 2009</u>
	\$	\$
REVENUE	3,957,698	3,481,000
Direct expenses	<u>1,252,409</u>	<u>1,117,132</u>
GROSS PROFIT	<u>2,705,289</u>	<u>2,363,868</u>
OPERATING EXPENSES		
Selling and marketing	884,543	826,154
General and administrative	<u>940,209</u>	<u>822,977</u>
	1,824,752	1,649,131
CONTRIBUTION FROM OPERATIONS	880,537	714,737
Stock-based compensation	<u>6,000</u>	<u>22,000</u>
PROFIT BEFORE AMORTIZATION AND INTEREST	874,537	692,737
Amortization of property, plant and equipment	153,152	89,482
Interest expense		
Stated interest expense – loan payable, non-convertible debentures, and other	246,735	157,066
Stated interest expense - convertible debentures	151,233	151,233
Accretion charge on debentures, and amortization of deferred financing charges	<u>173,084</u>	<u>164,057</u>
	724,204	561,838
NET PROFIT AND COMPREHENSIVE PROFIT FOR THE PERIOD	<u>\$150,333</u>	<u>\$130,899</u>
BASIC EARNINGS PER SHARE	<u>\$0.00</u>	<u>\$0.00</u>
DILUTED EARNINGS PER SHARE	<u>\$0.00</u>	<u>\$0.00</u>

(see accompanying notes)

ADVANTECH MARKETING INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF DEFICIT
(unaudited – note 1a)

	Three Months Ended <u>September 30, 2010</u>	Three Months Ended <u>September 30, 2009</u>
	\$	\$
BALANCE AT THE START OF PERIOD	(29,023,988)	(29,058,015)
Net profit for the period	<u>150,333</u>	<u>130,899</u>
BALANCE AT THE END OF PERIOD	<u>(28,873,655)</u>	<u>(28,927,116)</u>

(see accompanying notes)

**ADVANTECH MARKETING INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited – note 1a)**

	Three Months Ended <u>September 30, 2010</u>	Three Months Ended <u>September 30, 2009</u>
	\$	\$
OPERATING ACTIVITIES		
Net profit for the period	\$150,333	\$130,899
Items not affecting cash		
Amortization of property, plant and equipment	153,152	89,482
Accretion charge on debentures	126,536	117,509
Amortization of deferred financing charges	46,548	46,548
Stock-based compensation	<u>6,000</u>	<u>22,000</u>
	482,569	406,438
Changes in non-cash working capital items		
Accounts receivable	(100,493)	68,300
Transaction credits	(694,249)	(300,505)
Prepaid expenses and sundry assets	(22,239)	(58,227)
Aeronotes	30,058	-
Accounts payable and accrued liabilities	<u>88,097</u>	<u>(89,180)</u>
	(698,826)	(379,612)
Cash provided by/(utilized in) operating activities	(216,257)	26,826
FINANCING ACTIVITIES		
Loan payable	<u>765,020</u>	<u>410,538</u>
	765,020	410,538
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(83,189)	(52,491)
MOVEMENT IN CASH AND CASH EQUIVALENTS DURING THE PERIOD		
Cash and cash equivalents at the start of period	<u>505,941</u>	<u>344,180</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$971,515</u>	<u>\$729,053</u>
ADDITIONAL INFORMATION		
Interest paid	\$246,734	\$157,066

(see accompanying notes)

ADVANTEK MARKETING INTERNATIONAL INC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Three month period ended September 30, 2010
(Unaudited – note 1a)

1a. SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim consolidated financial statements of Advantex Marketing International Inc. and its subsidiaries (“Advantex” or the “Company”) have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by Canadian GAAP for annual consolidated financial statements.

The accompanying financial information reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for interim periods. Operating results for the three month period ended September 30, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2011. The accounting policies used in the preparation of these interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended June 30, 2010.

These interim consolidated financial statements follow the same accounting policies and methods of application as the consolidated financial statements for the fiscal year ended June 30, 2010. Certain prior period amounts have been reclassified to conform to the current period’s presentation.

1b. Going Concern

These interim 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 6, there is uncertainty surrounding the convertible debentures as the Company may not meet its financial debt covenants subsequent to September 30, 2010 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 September 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 4). 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 interim 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.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Change in accounting policies

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 that adoption of IFRS will have on its consolidated financial statements.

3. PROPERTY, PLANT AND EQUIPMENT

Expenditures for property, plant and equipment for the three month period ended September 30, 2010 were \$83,000 (three month period ended September 30, 2009 \$52,000). Current period year to date includes capitalization of \$61,000 (corresponding period previous year \$nil) of internal costs expended on software development connected to ensuring operability of the Company's loyalty marketing programs sponsored by CIBC and Aeroplan. The costs are being amortized over the shorter of useful life and term of affinity partner agreements.

4. LOAN PAYABLE

The Company has a credit facility with Accord Financial Inc. (Accord) to be used exclusively to acquire transaction credits under its Advance Purchase Marketing (APM) program.

The principal amount outstanding under this facility at September 30, 2010 was \$3,827,738 vs. \$3,062,718 at June 30, 2010 (\$1,488,027 at September 30, 2009). The carrying amount disclosed at September 30, 2010 is lower than the principal amount by \$16,086 (June 30, 2010 - \$32,169) due to unamortized financing charges.

The interest cost during the three month period ended September 30, 2010 was \$152,693 vs. \$58,376 for the corresponding period in the previous year.

For additional details on Loan Payable refer to note 5 to the consolidated financial statements for year ended June 30, 2010.

5. NON-CONVERTIBLE DEBENTURES PAYABLE

The balance of non-convertible debentures payable as at September 30, 2010 is disclosed under current liabilities (as at September 30, 2009 under long-term liabilities). The carrying amount on the consolidated balance sheet is net of unamortized financing charges.

Movements in the balance during the three month period ended September 30, 2010 are as follows:

	Debt Portion	Warrants	Deferred Financing charges
Balance at June 30, 2010	\$2,638,918	\$184,744	\$18,213
Amortization of issuance costs	-	-	(9,099)
Accretion charge	<u>16,414</u>	<u>-</u>	<u>-</u>
Balance at September 30, 2010	<u>\$2,655,332</u>	<u>\$184,744</u>	<u>\$ 9,114</u>

The stated interest cost during the three month periods ended September 30, 2010 and September 30, 2009 was \$94,042.

The debentures in the principal amount of \$2,665,000 mature December 31, 2010. The Company expects to either renew or replace these debentures.

For additional details on these debentures refer to note 6 to the consolidated financial statements for year ended June 30, 2010.

6. CONVERTIBLE DEBENTURES PAYABLE

The balance of convertible debentures payable at September 30, 2010 is disclosed under current liabilities (as at September 30, 2009 under long-term liabilities). The carrying amount on the consolidated balance sheet is net of unamortized financing charges.

Movements in the balance during the three month period ended September 30, 2010 are as follows:

	Debt Portion	Equity portion	Warrants	Deferred Financing charges
Balance at June 30, 2010	\$5,345,780	\$2,114,341	\$189,810	\$128,202
Amortization of issuance costs	-	-	-	(21,366)
Accretion charge	<u>110,122</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at September 30, 2010	<u>\$5,455,902</u>	<u>\$2,114,341</u>	<u>\$189,810</u>	<u>\$106,836</u>

The stated interest cost during the three month periods ended September 30, 2010 and September 30, 2009 was \$151,233.

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 period, the Company and the holders of the convertible debentures amended a certain financial covenant, and consequently at September 30, 2010 the Company met its financial covenants. The Company may not meet its financial covenants subsequent to September 30, 2010 and all of the long-term debt has been classified as a current liability in accordance with Canadian generally accepted accounting principles.

For additional details on these debentures refer to note 7 to the consolidated financial statements for year ended June 30, 2010.

7. STOCK OPTIONS

As at September 30, 2010 there were 10,832,782 employee stock options outstanding at exercise prices between \$0.01 to \$0.135, expiring between October, 2010 and February, 2015.

During the period, 110,693 stock options were forfeited or expired.

The Company has recorded \$6,000 of stock-based compensation expense during the three month period ended September 30, 2010 vs. \$22,000 during the corresponding period in the previous year. There was a corresponding increase in contributed surplus.

8. 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 the consolidated financial statements for year ended June 30, 2010. 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 as at September 30, 2010.

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>September 30, 2010</u>	<u>June 30, 2010</u>
Current	\$10,531,593	\$ 9,648,667
Over 120 days	<u>\$ 502,440</u>	<u>\$ 590,624</u>
	<u>\$11,034,033</u>	<u>\$10,239,291</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>September 30, 2010</u>	<u>June 30, 2010</u>
Cash and cash equivalents	\$150,612	\$ 1,540
Accounts receivable	\$384,054	\$357,293
Accounts payable and accrued liabilities	\$442,571	\$258,135

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

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 due.

The Company deploys available funds to merchants under its Advanced 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 cash and cash equivalents, accounts receivable, transaction credits, aeronotes, accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these instruments.

The stated value of the loan payable, 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. TAXATION

As explained in note 12 (commitments and contingencies) to the consolidated financial statements for year ended June 30, 2010, the balance owed under the GST re-assessment is required to be paid during the objection process.. From July 1, 2009 to September 30, 2010 the Company has made payments totaling \$474,000 under the 24 month payment plan worked out with the CRA. The amounts paid are included as a recoverable asset and are included with accounts receivable on the balance sheet. The balance amounts payable, by June 30, 2011, under the payment plan, including an estimate for interest are \$308,000.

11. SUBSEQUENT EVENT

Subject to regulatory approval, the Company and the existing debentureholders have reached an understanding on the terms connected to renewal of Non-convertible, and early renewal of Convertible debentures. Since the proposed terms of the renewals would create a Control Person in the event the conversion feature is exercised by the debentureholders, the TSX Venture Exchange policies mandate, among others, that the shareholders of the Company approve the terms and conditions of the proposed renewal. The terms and conditions of the proposed renewal are set out in the Company's Management Circular prepared in connection with its 2010 annual meeting of shareholders and which can be consulted SEDAR at www.sedar.com.