



ADVANTEX

NEWS RELEASE

Advantex Announces Fiscal 2008 Year-End Results

- Company achieves positive Contribution from Operations and Profit before Amortization and Interest in fourth quarter and for the year, compared with losses in 2007 periods
- Progress in 2008 indicates continuing improvement in 2009 and future “looks increasingly bright”
- Continues to expand Advance Purchase Marketing benefit program under its established credit facility
- Conference call and webcast on Friday, September 26 at 8:30 a.m. (eastern)

Toronto, September 25, 2008 – Advantex Marketing International Inc. (TSX:ADX), a leading specialist in merchant funding and loyalty marketing programs, today announced its results for the fiscal fourth quarter and year ended June 30, 2008. All references to quarters or years are for the fiscal periods and all currency amounts are in Canadian dollars unless otherwise noted.

“Advantex is evolving into a stronger, more competitive company, with a clear focus on profitable growth as a leader in the marketing services industry.” said Kelly E. Ambrose, President and Chief Executive Officer. “We made great progress on this path in 2008 as the fourth-quarter results confirmed. In the fourth quarter, the company achieved a positive Contribution from Operations and Profit before Amortization and Interest, and the turnaround from the same period in the prior year was significant. We were able to achieve these improvements by building on the initiatives that we successfully implemented in fiscal 2007.”

Financial Performance – Highlights
(millions of \$s, except per share amounts)

	Three months Ended June 30, 2008	Three months Ended June 30, 2007	Year Ended June 30, 2008	Year Ended June 30, 2007
Revenue	3.0	3.0	11.5	11.3
Gross profit	2.0	1.5	7.2	7.1
Gross margin	65.9%	50.5%	62.5%	62.5%
Contribution from Operations	0.4	(0.5)	0.5	(0.2)
Profit/(loss) before Amortization And Interest	0.3	(0.6)	0.4	(1.5)

Amortization	0.2	0.1	0.4	0.2
Interest	0.4	0.2	1.4	0.9
Net earnings (loss)	(0.3)	(0.9)	(1.4)	(2.6)
Net earnings (loss) per common share	(\$0.00)	(\$0.01)	(\$0.01)	(\$0.03)

“Our accomplishments during 2008 will each be reflected in further improvement in Advantex’s financial performance in 2009,” Mr. Ambrose said. These accomplishments included:

- closing financings in late December 2007 and January 2008. This gave the company access to \$4.2 million of funds to grow its Advance Purchase Marketing (APM) program;
- focusing after closing the financings on activating the backlog of merchants that were waiting to enroll in the APM program. There was a lag between the access to funds and the enrolling/activation process. This meant that the full impact of funds deployed was only partially evident in the APM program revenues for fiscal 2008 and we will see more of the positive impact on fiscal 2009 revenue;
- identifying additional savings in manpower within the sales, general and administrative expense category, as well as reduction in rent through relocating the Company’s head office. We only partially realized the benefits of the measures implemented from mid-March 2008 onwards during the last quarter of fiscal 2008. These measures carry annualized cost savings of approximately \$650,000; and
- continuing with investment in information technology, keeping pace with new security and privacy standards, completing development of several platforms connected to our CIBC Advantex program, and online shopping malls.

Fourth Quarter

Revenue was flat in the 2008 quarter compared with the period in the prior year. CIBC Advantex program revenue (Advance Purchase Marketing and Marketing Only models) was unchanged at approximately \$2.2 million reflecting the closure of the two financings at mid-year and the gradual process of activating the backlog of merchants waiting to enroll in the APM program. Online transaction fee revenue was up about eight percent in U.S. dollars (the currency in which Advantex earns its revenue), but was down three percent when translated to Canadian dollars.

Direct expenses, which include cardholders awards costs, cost of marketing and advertising on behalf of merchants, and other costs were down a third in the 2008 quarter to \$1.0 from \$1.5 million a year earlier when the company had to incur additional cardholders incentives in the form of cardholder awards that were not fully recovered through higher revenue, as well as higher award costs related to expansion in the hospitality segment of the business, and the resolution of certain processing issues connected to cardholder awards. Sales, general, and administrative (SG&A) expenses were down 20 percent to \$1.6 million from \$2.0 million in the 2007 period mainly as the result of driving better operating efficiencies.

The contribution from operations improved to \$0.4 million from a loss of \$0.5 million in the 2007 period, leading to a lower net loss of \$0.3 million, compared with a net loss \$0.9 million in the prior-year period quarter.

Fiscal Year

The CIBC Advantex program generated 70 percent of 2008 revenue or \$8.1 million, compared with 74 percent or \$8.4 million in 2007. During Fiscal 2008 the Company moved existing merchants either to a Marketing Only program or into its APM program which provides merchants with larger advances. This realignment resulted in two very distinct programs with more of the existing merchants in the Marketing Only program. During the second half of Fiscal 2008 the Company enrolled and activated the backlog of merchants waiting to enroll in its APM program, a gradual process and consequently the full impact of the funds deployed in the APM program was not realized in the revenue of Fiscal 2008. The Company continued to drive its Marketing Only program and revenues for this model for Fiscal 2008 were up \$1.1 million (53% +) compared to Fiscal 2007. Online revenue grew 39 percent in 2008 in U.S. dollars and 25 percent when translated to Canadian dollars.

Direct expenses were up two percent in 2008 to \$4.3 million from \$4.2 million the prior year and this was in line with revenue growth. SG&A expenses were down 7.0 percent to \$6.7 million in 2008 from \$7.2 million in 2007, reflecting improving operating efficiencies and strengthening business processes and information technology infrastructure.

The contribution from operations improved to \$0.5 million in 2008, compared with a loss in 2007 of \$0.2 million. The net loss for 2008 was \$1.4 million, down from a net loss of \$2.6 million in 2007, which also included restructuring costs of \$1.1 million for severance payments to former employees.

The company has negotiated with the lenders' agent a change in its convertible debentures covenants for their remaining term for the consideration of the issuance of 9,990,000 warrants. Each warrant is exercisable for one common share at \$0.045 per share. The agreement is subject to the approval of the Toronto Stock Exchange.

Outlook Increasingly Bright

"The future for Advantex looks increasingly bright," Mr. Ambrose said. "In 2009, we will build further on the progress made during the past year. Already, we can speak of three developments that will contribute to our growth."

"First, and most significantly in terms of its impact on our financial results, we continue to experience strong demand for the Advance Purchase Marketing program in the dining, golf, small inns and spa categories. As at the 2008 year-end, we had deployed \$6.2 million of funds as initial advances to new merchants. We expect to continue expanding the APM program using funds available under our established credit facility," Mr. Ambrose said.

"We are implementing a significant complementary revenue opportunity identified in 2008," Mr. Ambrose added. In partnership with CIBC, Advantex launched an 'Infinite Hotel' program targeted towards CIBC Infinite VISA credit cardholders. The program markets the participating hotels to CIBC Infinite VISA cardholders and entitles cardholders to special privileges at participating hotels. Advantex will earn a fee for the marketing services provided to participating hotels. The response from hotels to the roll out of this program was encouraging and the program went live September 1, 2008. The revenues from this program will be incremental to the company's 2008 revenues.

"Finally, we are strengthening our online mall shopping partnerships. The company and United Airlines have signed a two-year extension to the existing contract, which represents the Company's busiest online mall. We also have signed our first agreement to provide a European Online Shopping Mall. The agreement with Lufthansa WorldShop GmbH (Lufthansa), replaces a two-year-old contract with

Lufthansa under which Advantex developed and has been operating an online shopping mall site, shopmilesandmore.com, for North American customers. Over time, this new business should partially offset the effect of losing in June, 2008 Delta Airlines as online partner.

“An initiative that we continue to work on as a growth area is retail. We are in discussions with CIBC to launch our Advance Purchase Marketing Program in this market. We have access to \$3.5 million of funds, under an established credit facility that will be available once we reach an agreement with CIBC which allows Advantex to expand the APM program to retail fashion establishments.”

Conference Call and Webcast

Advantex will hold a conference call for analysts and investors to discuss its 2008 fourth-quarter and year-end results on September 26, 2008 at 8:30 a.m. (Eastern).

Kelly Ambrose, President and Chief Executive Officer, and Mukesh Sabharwal, Vice-President and Chief Financial Officer, will be available to answer questions during the call.

To participate in the call, please dial 416-644-3414 or 1-800-733-7571 at least five minutes prior to the start of the call.

A live audio webcast of the conference call will be available at www.newswire.ca and www.advantex.com.

An archived recording of the call will be available at 416-640-1917 or 1-877-289-8525 (Passcode 21284112#) from noon on September 26 to 11:59 p.m. on October 3. An archived recording of the webcast will also be available at Advantex's website.

Advantex will file its fiscal 2008 fourth-quarter and year-end statements and management's discussion and analysis with SEDAR and they will be posted on the company's website.

About Advantex Marketing International Inc.

Advantex is a specialist in the marketing services industry, managing white-labeled rewards accelerator programs for major affinity groups through which their members earn bonus frequent flyer miles and/or other rewards on purchases at 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. Advantex partners include more than 700 restaurants, online retailers, golf courses, small inns and resorts, and major organizations, including CIBC, United Airlines, Alaska Airlines, and Lufthansa Airlines. Advantex is traded on the Toronto Stock Exchange under the symbol "ADX". For additional information on Advantex, please visit www.advantex.com.

This press release contains certain “forward-looking information”. All information, other than information comprised of historical fact, addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future. Such forward looking information includes, without limitation, information regarding the Company's belief that Transaction Credits are likely indicators of future revenue; the Company's expectation that its annualised SG&A cost saving measures will be realized during Fiscal 2009; management's expectations with respect to reaching agreement with CIBC to expanding the APM program including into retail fashion establishments in Fiscal 2009, and its ability to extend financing under its existing line of credit facility with respect to expanding APM program in the current categories (dining, golf, small inns and spa) allowed under the current CIBC agreement; the Company's anticipated increase in the number of Merchant Partners with

which it will do business; the Company's anticipated revenues from the 'Infinite Hotel' program, the Company's continued investment in information technology systems required to keep pace with partner and marketplace standards; the number of retailers the Company expects to target for its programs, including the regional markets in which the Company intends to focus on; the impact on the Company's revenues that increased merchant participation would have; the Company's intentions with respect to retaining future earnings in the foreseeable future; 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. 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 such 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, delays in finalizing the retail contract, and other factors, including without limitation, those listed under "Risks and Uncertainties". 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.

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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, the majority of whose members are non-management Directors, is appointed by the Board. The Audit Committee reviews the consolidated financial statements, adequacy and internal controls, the audit process and financial reporting with management and the external auditors. The Audit Committee reports to the Directors prior to the approval of the audited consolidated financial statements for publication.

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.



Kelly E. Ambrose
President and Chief Executive Officer



Mukesh Sabharwal
V.P. and Chief Financial Officer

ADVANTEX MARKETING INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS
AS AT JUNE 30, 2008 AND 2007

ASSETS	NOTE	<u>2008</u>	<u>2007</u>
Current:			
Cash and cash equivalents		\$144,794	\$910,995
Accounts receivable		804,673	737,485
Transaction credits	1(e)	7,300,912	5,390,412
Prepaid expenses and sundry assets		<u>114,978</u>	<u>185,955</u>
		<u>8,365,357</u>	<u>7,224,847</u>
Long-term:			
Property, plant and equipment	3	<u>745,456</u>	<u>775,733</u>
TOTAL ASSETS		<u>\$9,110,813</u>	<u>\$8,000,580</u>
 LIABILITIES			
Current:			
Loan payable	4	\$ 663,448	\$ -
Accounts payable and accrued liabilities		<u>2,664,079</u>	<u>3,707,243</u>
		<u>3,327,527</u>	<u>3,707,243</u>
Long-term:			
Other liabilities	14	205,955	450,856
Non-Convertible debentures payable	6	2,422,097	-
Convertible debentures payable	5	<u>4,443,115</u>	<u>4,042,335</u>
		<u>7,071,167</u>	<u>4,493,191</u>
		<u>10,398,694</u>	<u>8,200,434</u>
 SHAREHOLDERS' DEFICIENCY			
Capital Stock			
Class A preference shares	7	3,815	3,815
Common shares		<u>24,106,281</u>	<u>24,106,281</u>
		24,110,096	24,110,096
Contributed surplus		507,023	412,223
Equity portion of debentures	5	2,114,341	2,114,341
Warrants	6	184,744	-
Deficit		<u>(28,204,085)</u>	<u>(26,836,514)</u>
		<u>(1,287,881)</u>	<u>(199,854)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY		<u>\$9,110,813</u>	<u>\$8,000,580</u>

(see accompanying notes)

Approved by the Board:



Director: _____
William Polley



Director: _____
Kelly E. Ambrose

**ADVANTECH MARKETING INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
	NOTE	
REVENUE	\$11,536,746	\$11,346,359
Direct expenses	<u>4,335,461</u>	<u>4,259,543</u>
GROSS PROFIT	<u>7,201,285</u>	<u>7,086,816</u>
OPERATING EXPENSES		
Selling and marketing	2,933,025	3,531,333
General and administrative	<u>3,817,399</u>	<u>3,748,138</u>
	<u>6,750,424</u>	<u>7,279,471</u>
CONTRIBUTION FROM OPERATIONS	450,861	(192,655)
Restructuring costs	14	-
Stock-based compensation	<u>94,800</u>	<u>1,088,657</u>
	<u>189,600</u>	<u>1,088,657</u>
PROFIT/(LOSS) BEFORE AMORTIZATION AND INTEREST	356,061	(1,450,087)
Amortization of property, plant and equipment	<u>361,725</u>	<u>240,848</u>
(LOSS) BEFORE INTEREST	(5,664)	(1,690,935)
Interest expense		
Stated interest expense – Loan payable, non-convertible debenture, and other	283,207	-
Stated interest expense- convertible debenture	601,645	542,180
Accretion charge on debentures, and amortization of deferred financing charges	<u>477,055</u>	<u>361,186</u>
NET (LOSS) AND COMPREHENSIVE LOSS FOR THE YEAR	<u>\$(1,367,571)</u>	<u>\$(2,594,301)</u>
NET (LOSS) PER COMMON SHARE	9	<u>\$ (0.01)</u>

(see accompanying notes)

**ADVANTEX MARKETING INTERNATIONAL INC.
CONSOLIDATED STATEMENT OF DEFICIT
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
BALANCE AT THE BEGINNING OF THE YEAR	\$(26,836,514)	\$(24,242,213)
Net (loss) for the year	<u>(1,367,571)</u>	<u>(2,594,301)</u>
BALANCE AT THE END OF THE YEAR	<u>\$(28,204,085)</u>	<u>\$(26,836,514)</u>

(see accompanying notes)

**ADVANTECH MARKETING INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007**

NOTE	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES		
Net (loss)	\$(1,367,571)	\$(2,594,301)
Items not affecting cash		
Amortization of property, plant and equipment	361,725	240,848
Accretion charge on debentures	5/6 346,266	271,045
Amortization of deferred financing charges	130,789	90,141
Stock-based compensation	<u>94,800</u>	<u>168,775</u>
	(433,991)	(1,823,492)
Changes in non-cash working capital items		
Accounts receivable	(67,188)	171,673
Transaction credits	(1,910,500)	(1,474,110)
Prepaid expenses and sundry assets	70,977	(31,118)
Accounts payable and accrued liabilities	<u>(1,043,164)</u>	<u>585,237</u>
	(2,949,875)	(748,318)
Movement in long-term liabilities	<u>(244,901)</u>	<u>450,856</u>
Cash utilized in operations	<u>(3,628,767)</u>	<u>(2,120,954)</u>
FINANCING ACTIVITIES		
Proceeds from convertible debenture, net	-	1,617,657
Proceeds from non-convertible debenture, gross	2,665,000	-
Proceeds from draw of credit facility	824,281	-
Financing costs	<u>(295,267)</u>	-
	3,194,014	<u>1,617,657</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	<u>(331,448)</u>	<u>(392,750)</u>
(DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(766,201)	(896,047)
Cash and cash equivalents at the beginning of the year	<u>910,995</u>	<u>1,807,042</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$144,794</u>	<u>\$910,995</u>
ADDITIONAL INFORMATION		
Interest paid	<u>\$759,192</u>	<u>\$595,000</u>

(see accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended June 30, 2008

1. SIGNIFICANT ACCOUNTING POLICIES

a. Nature of business

Advantex Marketing International Inc. (Advantex or the Company) is a public company with common shares listed on the Toronto Stock Exchange (trading symbol ADX.TO). 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.

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 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.

1. SIGNIFICANT ACCOUNTING POLICIES *continued*

d. Cash and cash equivalents

Cash and cash equivalents include highly liquid investments redeemable at any time and are stated at cost, which approximates market value.

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. 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:

Computer equipment	-	30% using the declining balance method
Furniture and equipment	-	20% using the declining balance method
Leasehold improvements	-	Straight-line over the term of the lease
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.

g. Deferred financing charges

Deferred financing charges are amortized over the term of the convertible, non-convertible debentures, and loans payable using the effective interest rate method.

h. 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.

1. SIGNIFICANT ACCOUNTING POLICIES continued

i. Stock option plan

The Company has a stock option plan which is described in note 7(d). The Company uses the Black-Scholes option pricing model to determine the fair value of stock options.

j. 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 loss.

k. 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. CHANGES IN ACCOUNTING POLICIES

As required by the Canadian Institute of Chartered Accountants (“CICA”), on July 1, 2007 the Company adopted CICA Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. The prospective adoption of these new standards resulted in changes in the accounting and presentation for financial instruments. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

a. Section 1530, Comprehensive Income

Section 1530 requires a statement of comprehensive income, which consists of net income and other comprehensive income (“OCI”). The Company did not have OCI during the twelve months ended June 30, 2008 and its comprehensive loss comprised its net loss.

b. Section 3251, Equity

Section 3251 describes the changes in how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530, including the changes in equity for the period arising from OCI. Accumulated changes in OCI are included in accumulated other comprehensive income (“AOCI”) and are presented as a separate component of shareholders’ equity. The Company did not have a balance of AOCI at June 30, 2008.

c. Section 3855, Financial Instruments – Recognition and Measurement Section 3861, Financial Instruments – Disclosure and Presentation

Under the new standards, all financial instruments were classified into the following categories: held for trading, held to maturity investments, loans and receivables, available for sale financial assets or other liabilities. All financial instruments within the scope of the standard are included in the consolidated financial statements and are initially measured at fair value. Subsequently, all financial instruments are re-measured to fair value at each reporting period except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Held for trading financial investments are subsequently measured at fair value and all gains and losses as a result of measurement are included in earnings in the period in which they arise. Available for sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income until the instrument is derecognized or impaired.

As a result of the adoption of this standard, the Company has elected to classify each of its significant categories of financial instruments outstanding during the twelve months ended June 30, 2008 as follows:

Cash and cash equivalents are classified as held-for-trading. Changes in fair value for the period are recorded in earnings as interest income.

Accounts receivable and other receivables are classified as loans and receivables.

Borrowings under accounts payable and accrued liabilities are classified as other financial liabilities.

Convertible debentures, non-convertible debentures, and loan payable are classified as other financial liabilities and recorded at amortized cost using the effective interest method.

Debt issuance and transaction costs related to other financial liabilities are netted against the carrying value of the debt and amortized over the term of the debt using the effective interest method.

d. **Section 3865, Hedges**

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges and cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale of early termination of the hedged item. The Company did not have any hedges during the twelve months ended June 30, 2008.

3. PROPERTY, PLANT AND EQUIPMENT

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
<u>June 30, 2008</u>			
Computer equipment	\$ 2,223,012	\$ 2,022,899	\$ 200,113
Furniture and equipment	195,316	125,553	69,763
Computer software	<u>2,209,325</u>	<u>1,733,745</u>	<u>475,580</u>
	<u>\$ 4,627,653</u>	<u>\$ 3,882,197</u>	<u>\$ 745,456</u>

<u>June 30, 2007</u>			
Computer equipment	\$ 2,893,587	\$ 2,589,076	\$ 304,511
Furniture and equipment	1,112,293	972,185	140,108
Leasehold improvements	504,773	504,773	-
Computer software	1,667,455	1,584,128	83,327
Assets-in-progress	<u>247,787</u>	<u>-</u>	<u>247,787</u>
	<u>\$ 6,425,895</u>	<u>\$ 5,650,162</u>	<u>\$ 775,733</u>

In July 2006, the Company commenced development of new processing systems for its Canadian credit card loyalty programs. Total costs incurred on this project were \$ 510,239. The processing systems connected primarily to awarding of loyalty rewards were completed and implemented during the current year, and the Company commenced amortization on the systems. The costs are included in Computer software (F 2007 – such modules were not in use and were included in Assets-in-progress).

4. LOAN PAYABLE

In December, 2007 Advantex Dining Corporation, a 100% subsidiary of the Company concluded an agreement with Montcap Financial Corp (Montcap) for a \$ 5.0 million credit facility. Interest is 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 are funded from this facility are provided as security. The agreement is for three years.

Under the agreement, the facility is to be used exclusively to acquire transaction credits. Transaction credits can only be acquired from those establishments that are in industries available to the Company under its agreement with CIBC. The Company currently has immediate access to \$1.5 million of the facility. The remaining balance of \$3.5 million will be available once the Company reaches an agreement with CIBC that will allow the Company to expand its program to retail fashion establishments.

The financing fees related to this credit facility were \$191,376. The fees are being amortized over the term of the facility. The amount outstanding under this facility at June 30, 2008 was \$824,281. The loan payable amount disclosed on the Balance Sheet is net of the unamortized financing fees of \$160,833.

5. CONVERTIBLE DEBENTURES PAYABLE

In 2003, the Company issued \$4,000,000 of senior convertible debentures (the convertible debentures) for net proceeds of \$3,542,498, after issuance costs of \$457,502. The conversion price of the debentures was \$0.17 per common share. In accordance with The Canadian Institute of Chartered Accountants Handbook Section 3855 "Financial Instruments" (CICA 3855), the convertible debentures were bifurcated into debt and equity portions. The amount allocated to the equity portion of the convertible debentures, net of allocated financing costs of \$70,457, was \$546,315. The debt portion of the convertible debentures is being accreted to its face value at maturity over the term of the debt by way of a charge to interest expense.

In December 2003, in exchange for an amendment to the convertible debenture agreement, the conversion price of the convertible debentures was reduced to \$0.15 per common share. As a result of

this amendment, an additional \$333,993, net of \$35,100 of financing costs, was allocated to the equity portion of the convertible debentures.

In July 2004, the Company issued an additional \$125,000 of convertible debentures with the same terms as the previously issued convertible debentures, except that the conversion price was \$0.13 per common share.

In March 2006, \$150,000 of the convertible debentures was converted at the exercise option price of \$0.15 per share for 1,000,000 common shares of the Company. A proportionate amount, \$32,011, was transferred from the equity portion of convertible debentures to capital stock related to this conversion.

In November 2006, the Company issued an additional \$2,025,000 of convertible debentures and revised the terms of the convertible debentures. The term of the convertible debentures was extended to December 2011 and the conversion price was reduced to \$0.10 per common share. In addition, the Company is now allowed, under certain conditions, to obtain additional secured debt financing.

Costs related to the revision of the convertible debentures terms and issuance of additional convertible debentures totalled \$407,343 and included \$10,000 for 500,000 compensation warrants issued to the financing agent of the transaction.

In accordance with CICA 3855, the fair value of the new convertible debentures was bifurcated into debt and equity portions and a fair value adjustment was applied to the conversion option of the existing convertible debentures. Accordingly, \$1,387,822 was allocated to the equity portion of the convertible options. In addition, financing costs of \$121,778 were allocated to the equity portion of the convertible debentures.

The Black-Scholes option pricing model was used to determine the fair value of the conversion feature in the convertible debentures. The following assumptions were used in the Black-Scholes option pricing model:

Common share price:	\$0.05
Exercise price of conversion option	\$0.10
Expected life of conversion option	5 years
Expected volatility	89%
Risk-free interest rate	3.75%

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.

	<u>Debt portion</u>	<u>Equity portion</u>	<u>Deferred financing costs</u>
Balance June 30, 2006	3,518,706	848,297	189,170
Issuance of additional debt	637,178	1,387,822	-
Issuance costs	-	(121,778)	285,565
Accretion charge	271,045	-	-
Amortization of issuance costs	<u>-</u>	<u>-</u>	<u>(90,141)</u>
Balance June 30, 2007	4,426,929	2,114,341	384,594
Accretion charge	315,316	-	-
Amortization of issuance costs	<u>-</u>	<u>-</u>	<u>(85,464)</u>
Balance June 30, 2008	<u>4,742,245</u>	<u>2,114,341</u>	<u>299,130</u>

The convertible debentures bear interest at 10% per annum payable semi-annually in arrears in June and December each year, mature on December 9, 2011 and are secured by a general security interest over assets of the Company and its subsidiaries.

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. As at June 30, 2008, the Company was in breach of its financial covenant related to current assets, and interest charge. In September 2008, the convertible debenture agreement was amended and the covenants from June 30, 2008 through maturity were revised. The Company met the revised covenants at June 30, 2008 and expects to meet the covenants throughout the remaining term of the debt. If the Company were to breach any of the covenants over the remaining term of the convertible debt, management intends to work with the lenders to obtain a waiver or renegotiate the terms of the covenants.

In consideration for the amendments to the convertible debenture agreement, the Company agreed to issue 9,990,000 warrants to the holders of the convertible debenture holders on a pro rata basis based on the outstanding principal amounts of the convertible debentures. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.045 at any time prior to December 9, 2011.

\$6,000,000 will be repayable on maturity of the convertible debenture on December 9, 2011.

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 fees of \$103,891 related to these debentures will be amortized 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. 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 and subsequent receipts related to transaction credits are to be maintained in a separate bank account. As security, the debenture holders have first charge to the balance in this separate bank account 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, 2008 was \$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 period ended June 30, 2008.

In accordance with CICA 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 the equity portion of the 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 long-term liabilities:

Gross proceeds of debentures	\$2,665,000
Allocated to share purchase warrants	(184,744)
Unamortized financing fees	(89,109)
Accretion charges to date	<u>30,950</u>
Non – convertible debenture payable	<u>\$2,422,097</u>

7. 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>2008</u>	<u>2007</u>
459,781 shares	<u>\$ 3,815</u>	<u>\$ 3,815</u>

(c) Issued common shares

	<u>2008</u>	<u>2007</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); 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. On January 26, 2006, the Company received approval from the shareholders to amend its stock option plan from a fixed maximum number of common shares issuable to a rolling maximum number of common shares issued and outstanding (calculated on a non-diluted basis). At the Annual

and Special Meetings of the Shareholders held on December 6, 2007, the Company's stock option plan was amended to increase the maximum number of common shares issuable under the plan from 10% of the number of common shares outstanding at any particular time, to 12.5% of the number of common shares outstanding at any particular time.

A summary of the status of the Company's stock option plan as at June 30, 2008 and 2007, and changes during the years then ended is presented below:

	2008		2007	
	Share options	Weighted Average Exercise Price	Share options	Weighted Average Exercise Price
Outstanding at the beginning of the year	7,980,000	\$0.08	5,267,500	\$0.10
Granted	4,721,606	0.05	3,000,000	0.06
Forfeited and expired	<u>(805,000)</u>	0.14	<u>(287,500)</u>	0.11
Outstanding at the end of the year	<u>11,896,606</u>	\$0.06	<u>7,980,000</u>	\$0.08
Options exercisable at the end of the year	7,239,333		6,510,833	

During the year, 1,336,660 options were granted to directors at an exercise price of \$0.045, with vesting periods ranging between immediate and one year. The Company also granted 3,384,946 options to employees at exercise price ranging between \$0.045 and \$0.05, with vesting periods ranging between one and three years.

The following table summarizes information about stock options outstanding as at June 30, 2008:

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
0.045 -.095	11,146,606	3.1	\$0.06	6,758,333	\$0.06
0.10 - 0.15	750,000	2.3	\$0.13	481,000	\$0.14
	<u>11,896,606</u>	<u>3.1</u>	<u>\$0.06</u>	<u>7,239,333</u>	<u>\$0.06</u>

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

	<u>2008</u>	<u>2007</u>
Maximum number reserved for issuance	12,128,858	9,703,087
Less: Outstanding at end of year	<u>(11,896,606)</u>	<u>(7,980,000)</u>
Number of options available for future issuance	<u>232,252</u>	<u>1,723,087</u>

The Company calculated the fair value of the stock options issued during 2008 using the Black-Scholes option pricing model and determined their fair value to be \$110,000 (2007 - \$113,045); \$94,800 of stock option expense for the year ended June 30, 2008 was recorded in these consolidated financial statements (2007 - \$168,775), and was recorded as an increase in contributed surplus. The assumptions used in the model were:

	<u>2008</u>	<u>2007</u>
Expected life of stock option	4 to 5 years	1 to 5 years
Expected volatility of common share price	85%	74 to 100%
Risk-free rate of return	2.45%	5.0-5.5%

(e) Shareholders' rights plan

At the Annual and Special Meetings 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.

8. FINANCIAL INSTRUMENTS

(a) Credit risk

Credit risk arises from the possibility that counterparties will be unable to discharge their obligations. The Company routinely assesses the financial strength of its merchants and, as a consequence, believes that risk exposure is limited in its accounts receivable and transaction credits.

(b) 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>2008</u>	<u>2007</u>
Cash and cash equivalents	\$112,253	\$365,113
Accounts receivable	656,849	522,665
Accounts payable and accrued liabilities	153,300	455,476

(c) Fair value

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

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

(d) 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.

9. LOSS PER COMMON SHARE

Loss per share is calculated on the basis of net loss divided by the weighted average number of common shares outstanding for the year. Diluted loss per share is calculated using the treasury stock method, giving effect to the exercise of all dilutive instruments. Diluted loss per share information has not been presented, as the effect of potential exercise of the convertible debenture, stock options and warrants would be anti-dilutive.

10. INCOME TAXES

The Company has \$16,224,000 (2007 - \$19,324,000) of non-capital losses available to be applied against future taxable income. The losses expire as follows:

Year ending June 30, 2009	-	\$ 1,959,000
2010	-	2,344,000
2011	-	1,154,000
2014 and thereafter	-	<u>10,767,000</u>
		<u>\$ 16,224,000</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>2008</u>	<u>2007</u>
Income tax effect of:		
Non-capital losses carried forward	\$ 5,860,000	\$ 6,980,000
Property, plant and equipment	(14,000)	(103,000)
Deferred financing charges	(36,000)	(9,000)
Research and development	65,000	65,000
Other	<u>27,000</u>	<u>27,000</u>
	5,902,000	6,960,000
Valuation allowance	<u>(5,902,000)</u>	<u>(6,960,000)</u>
Future income taxes	<u>\$ -</u>	<u>\$ -</u>

11. LEASE COMMITMENTS

The Company is committed to minimum rental payments under existing leases for equipment and premises for the next five years as follows.

Year ending June 30,	2009	\$215,450
	2010	211,007
	2011	155,231
	2012	34,146
	2013 & beyond	37,651

12. RELATED PARTY TRANSACTIONS

The following transactions are in the normal course of business and are measured at the exchange amount of consideration established and agreed to by the related parties:

- (i) On January 17, 2006, the Company entered into an agreement appointing Notre-Dame Capital Inc. (Notre-Dame) to act as its exclusive agent in connection with a series of financing transactions. In addition, Notre-Dame was appointed as the Company's exclusive financial advisor for a period of two years from January 17, 2006. The agreement was terminated by the Company effective February 5, 2007. The agreement allowed the agent to earn a commission on issuance of common shares and debentures plus, in case of common shares, stock options corresponding to 10% of the common shares sold. On March 14, 2006, the Company issued 37,037,037 common shares by way of a private placement and in its capacity as agent for the private placement, Notre-Dame earned and was paid commission of \$287,770 and received 3,552,716 stock options exercisable at the offering price of 8.1 cents per share for a period of 24 months from the closing date of the private placement; the stock options were not exercised and expired March 15, 2008. In its capacity of financial adviser, Notre-Dame was paid a monthly fee of \$3,000. The president and managing partner of Notre-Dame has been a director of the Company since January 26, 2006.
- (ii) As at June 30, 2008, the following related parties are holders of the debentures described in notes 5 and 6:

Title	Principal Amount (Convertible debenture)	Principal Amount (Non- convertible debenture)
Chief Executive Officer	\$ 50,000	\$ 30,000
Directors	\$ 200,000	\$ 25,000
CFO	\$ nil	\$ 15,000
Officers of the Company	\$ 40,000	\$ 20,000

In addition, a director of the Company who resigned effective June 30, 2008 held \$179,683 and \$15,000 of the Convertible and Non-convertible debentures, respectively.

13. 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 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 LP, a subsidiary of ACE Aviation Holdings Inc.

The agreement with CIBC was renewed in July 2005, for an additional term ending on December 31, 2009. The agreement may be renewed for a further three years upon mutual agreement. If CIBC terminates its offline value-added loyalty program agreement with the Company, this could materially and adversely affect the Company. However, during the current term of the agreement CIBC can only terminate such agreement with the Company if the Company is in material breach thereof. In the event that the agreement expires or is terminated by the Company as a result of a breach by CIBC, CIBC is not entitled to offer a similar offline program to its *Visa* cardholders for a period of six months and the Company will be entitled to offer such cardholders a similar replacement program on the Company's behalf.

As part of Air Canada's restructuring under the Companies' Creditor Arrangement Act in 2004, Air Canada and CIBC entered into a new contract under which CIBC is entitled to purchase Aeroplan Miles, which will be available to support the CIBC Aerogold ADVANTEX BENEFIT program respecting restaurants, golf courses, and small inns and resorts. If Aeroplan Miles cease to be available for award in respect of purchases by holders of CIBC *Visa* credit cards, the Company has agreed to offer to such cardholders the same rewards as CIBC offers to them as a replacement for Aeroplan Miles, so long as the per unit cost of such rewards to the Company is the same or less than the Company's per unit cost of Aeroplan Miles.

14. RESTRUCTURING COSTS

Fiscal 2007 restructuring costs of \$1,088,657 are primarily severance payments due to former employees, of which \$205,955 (2007 - \$450,856) is payable one year after June 30, 2008 and is disclosed as long-term other liabilities on the balance sheets. The amount included in Fiscal 2008 current liabilities is \$260,000 (Fiscal 2007 \$244,396).

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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