

TO: All Directors, Officers and Employees of
LML Payment Systems Inc. and its Subsidiaries

DATE: October 18, 2005

RE: Code of Ethics

The Code of Ethics adopted by the Board of Directors of LML Payment Systems Inc. (the "Corporation") on June 8, 2004 sets forth procedures for reporting possible violations of the Code of Ethics as well as submitting complaints and concerns regarding accounting standards and disclosures, internal accounting controls and auditing matters. At this time, the Corporation would like to clarify those procedures as well as provide contact information for the reporting procedures.

Purpose

This memo clarifies the process through which directors, officers and employees of the Corporation and its subsidiaries (a "Company Person"), either directly or anonymously, can notify the Corporation's Corporate Compliance Officer, Chief Executive Officer ("CEO"), or Chairperson of the Corporation's Audit Committee of potential violations of the Corporation's Code of Ethics or complaints or concerns regarding the Corporation's accounting standards and disclosures, internal accounting controls, or auditing matters.

Reporting Violations or Concerns

Any complaints or concerns (other than possible violations of the Corporation's Code of Ethics, which are addressed below) regarding the Corporation's accounting standards and disclosures, internal accounting controls, or auditing matters are to be directed to the Chairperson of the Corporation's Audit Committee. Currently, the Chairperson of the Audit Committee is Greg MacRae. The contact information for Mr. MacRae is listed below.

If a Company Person reasonably believes that another Company Person (other than a Principal Person (as such term is defined in the Corporation's Code of Ethics)) has violated the Corporation's Code of Ethics, the Company Person should immediately report such potential violation to the supervisor of the other Company Person. Any supervisor who receives a report of a potential violation must immediately forward the report to the Corporation's Corporate Compliance Officer and the CEO.

If a Company Person is not comfortable approaching a supervisor, he or she may report potential violations directly to the Corporation's Corporate Compliance Officer or the CEO or the Chairperson of the Corporation's Audit Committee. The contact information for the Corporate Compliance Officer, the CEO and the Chairperson of the Corporation's Audit Committee is listed below.

If a Company Person reasonably believes that a Principal Person has violated the Corporation's Code of Ethics, the Company Person should immediately report such potential violations directly to the Chairperson of the Corporation's Audit Committee.

Finally, if a Company Person is not comfortable approaching the Corporation's Corporate Compliance Officer, CEO, or Chairperson of the Corporation's Audit Committee, he or she may report any such potential violations to any other officer or director of the Corporation that the Company Person believes is appropriate.

Reports of alleged violations or concerns pursuant to this Policy can be made in writing, by email, or telephone. Such reports may also be submitted anonymously.

Contact Information

The direct contact information for each of the Corporation's Corporate Compliance Officer, CEO and Chairperson of the Corporation's Audit Committee is as follows:

Corporate Compliance Officer

Name: Carolyn L. Gaines
Address: Suite 1680
1140 W. Pender St.
Vancouver, BC
V6E 4G1
Telephone: 800-888-2260 or 604-689-4440
Email: carolyn@lmpayment.com

Chief Executive Officer (CEO)

Name: Patrick H. Gaines
Address: Suite 1680
1140 W. Pender St.
Vancouver, BC
V6E 4G1
Telephone: 800-888-2260 or 604-689-4440
Email: patrick@lmpayment.com

Chairperson of the Corporation's Audit Committee

Name: Greg MacRae
Address: 613 – 375 Water Street
Vancouver, BC
V6B 5C6
Telephone: 604-689-8547
Email: greg_macrae@telus.net