POINTS INTERNATIONAL LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the performance, financial condition and future prospects of Points International Ltd. (which is also referred to herein as "Points" or the "Corporation") should be read in conjunction with the Corporation's audited consolidated financial statements (including the notes thereon) for the year ended December 31, 2003. Further information, including Points' Annual Information Form ("AIF") for the year ended December 31, 2003, may be accessed at www.sedar.com. All financial data herein has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and all dollar amounts herein are in Canadian dollars unless otherwise specified. This MD&A is dated as of April 22, 2004.

Forward-looking Statements

Some of the statements contained or incorporated by reference in this MD&A, including those relating to Points' strategies and other statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" or similar expressions, are forward-looking statements within the meaning of Canadian securities laws. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of Points as set forth herein. These statements are not historical facts but instead represent only Points' expectations, estimates and projections regarding future events.

The forward-looking statements contained or incorporated by reference in this MD&A are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. The future results and shareholder value of Points may differ materially from those expressed in the forward-looking statements contained or incorporated by reference in this MD&A due to, among other factors, the risks and uncertainties discussed herein, the matters set forth under "Risks and Uncertainties" contained in Points' AIF filed with Canadian securities regulators and the factors detailed in Points' other filings with Canadian securities regulators, including the factors detailed in Points' annual and interim financial statements and the notes thereto. Points does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this MD&A or to reflect the occurrence of unanticipated events, except as required by law.

Overview of Points' Business

Core Business – Points Solutions

Points has developed a proprietary technology platform that allows it to offer a portfolio of solutions, referred to as the *Points Solutions*, to the loyalty program industry. The Points platform was designed to create value for consumers and loyalty programs alike. The *Points Solutions* are comprised of the *Points Exchange* and a suite of *Private Branded Solutions* available to loyalty program operators.

The Points Exchange

In April 2001, Points launched its cornerstone product, the proprietary *Points Exchange*. The *Points Exchange* is an online service allowing consumers who are members of participating loyalty programs to exchange their loyalty program points and/or miles between the participating loyalty programs. The *Points Exchange* also serves as a central resource to help individuals track their account balances with a number of their major loyalty programs. Management believes that the *Points Exchange* is currently the only independent loyalty points exchange of its kind.

As at December 31, 2003, the *Points Exchange* had attracted 35 loyalty program participants (39 as at the date hereof), including the loyalty programs of leading airlines, hotels, online businesses, retail businesses and gift certificate programs.

Private Branded Solutions

In addition to the *Points Exchange*, Points offers a portfolio of *Private Branded Solutions* to loyalty programs. This suite of technologies includes:

POINTS*purchase* and POINTS*gift* – facilitates the online sale and gift of miles, points and other loyalty program currencies.

POINTS*corporate* – facilitates the sale of loyalty program currencies to corporate customers.

POINTS*transfer* – facilitates the amalgamation or transfer of loyalty program currencies among multiple accounts.

POINTS*integrate* – functions as a common platform to process transactions between third-party loyalty programs, to simplify and automate a complex and resource-intensive process with a single integration.

POINTSelite – facilitates the online sale of tier status to members of loyalty programs.

POINTS*custom* – custom applications developed for select large loyalty program partners.

Significant Business Developments in 2003 and the First Quarter of 2004

Strategic Investment by InterActiveCorp

On April 11, 2003, InterActiveCorp (formerly USA Interactive) ("IAC") made a $15.1 million strategic investment (the "IAC Investment") in Points. The investment was made through a wholly-owned affiliate of IAC, created for this purpose, which purchased one Series Two Preferred Share and Common Share purchase warrants. In addition to strategic guidance, Points enjoys cost savings by being part of IAC's purchasing group. For example, Points receives cost savings on procurement of computer hardware and software as a direct result of its association with IAC.

Points believes that there are revenue opportunities available through its association with the IAC group of companies as it develops or enhances its individual loyalty strategies. Furthermore, numerous marketing opportunities exist among the IAC group of companies.

For more information on the investment by IAC, see "Liquidity" below.

Enhanced Relationship with American Airlines

On September 5, 2003 (effective August 27, 2003), Points consummated an agreement (the "Alignment Agreement") with American Airlines, Inc. ("American Airlines") which significantly enhanced the commercial relationship between the parties. Under the alignment agreement, certain contracts between the parties were extended for five years. In addition, Points acquired from American Airlines outstanding warrants and warrant acquisition rights exercisable to acquire up to 4,827,255 common shares of Points' subsidiary Points.com Inc. ("Points.com"). American Airlines, through its AAdvantage program, has been and continues to be Points' most important business partner.

New Strategic Relationship with eBay

In 2003, Points developed a significant relationship with online leader eBay Inc. ("eBay"). Under this relationship, eBay's Anything Points ("EAP") program became an anchor *Points Exchange* partner, and Points implemented a number of *Points Solutions* to power core elements of the EAP program, including POINTS*integrate*. In addition, in August 2003, eBay selected Points to develop and operate a POINTS*custom* product, the "Offer Manager", for their EAP program. The Offer Manager allows eBay sellers to issue EAPs to buyers who purchase their goods and services on eBay**.**

In March 2004, Points and eBay agreed to continue eBay's participation on the *Points Exchange* through at least December 2005 and eBay made Points the exclusive exchange vehicle for all airline, hotel, car rental and major online loyalty programs participating with eBay's EAP program.

Toronto Stock Exchange Listing

On February 24, 2004, Points' Common Shares were listed for trading on the Toronto Stock Exchange under the symbol "PTS". The Corporation's Common Shares ceased to trade on the TSX Venture Exchange at the close of trading on February 23, 2004.

MilePoint Acquisition

On March 31, 2004, Points acquired substantially all of the assets of MilePoint, Inc. ("MilePoint"), a leading loyalty program technology and service provider (the "MilePoint Acquisition"). The MilePoint Acquisition has allowed Points to add to its partner base relationships with Northwest Airlines, Delta Air Lines and Starwood Hotels, among others, and increase the potential of both the *Points Exchange* and the Corporation's broad portfolio of *Private Branded Solutions*. In connection with the MilePoint Acquisition, Points has retained for one year, as consultants, MilePoint's founders and loyalty industry veterans, Mark Lacek and Peter Brennan.

In 2003, MilePoint had unaudited earned revenue of $2.2 million and was slightly profitable. Points expects to realize significant operating synergies by integrating MilePoint's products into Points' operations. Management expects that most of the synergies will be achieved by the end of 2004.

For further information on the MilePoint Acquisition, see "Results of Operations" below.

Revenue Recognition Policies

The revenue recognition policies for the suite of *Points Solutions* are as follows:

Points Exchange:

- Revenues from transaction processing are recognized as the services are provided under the terms of related contracts.
- Membership dues received in advance for services are recognized over the term of service. Membership dues are $19.95 annually for a *PointsPlus* membership.
- One-time trading fees ($5.95 per trade) are recognized at the time of the trade (for non–*PointsPlus* members).
- Exchange commissions are a percentage of the exchanged value.

Private Branded Solutions:

- Revenues from the sale of loyalty program points are recorded net of costs.
- Hosting and management fees are recognized in the period of service.
- Non-refundable partner sign-up fees with no fixed term, and for which the Corporation is under no further obligations, are recognized as revenue when received.
- Technology design, development and maintenance revenues are recorded on a "percentage-of-completion" basis.

Key Business Drivers

Revenue growth has historically been, and will continue to be, generated by growth of membership in and use of the suite of *Points Solutions* (i.e., the *Points Exchange* and *Private Branded Solutions*).

Growth in the number of individual members using the *Points Exchange* is driven by three factors which contribute to increased site traffic and the ease with which a consumer can join the *Points Exchange* to conduct exchange transactions. These factors are website usability and enhancements, marketing (awareness and brand) and partner activity. For additional information, see "*Points Exchange* Growth" on page 6 hereof.

Growth in *Private Branded Solutions* will occur from organic growth of existing partner relationships, supplemented with new business relationships established throughout the year. For additional information, see "*Private Branded Solutions* Growth" on page 7 hereof.

While the Corporation has no control over the growth of the loyalty program industry, management considers it an important factor in the Corporation's growth prospects. For additional information, see "Growth of Loyalty Program Industry" on page 11 hereof.

Results of Operations – Revenues

Overview

	2003	2002	2001
Points operations	$5,502,744	$2,308,846	$686,194
Revenue from other sources(1)	-	-	112,033
Interest and other revenue	355,960	59,446	207,744
Total Revenue	**$5,858,704**	**$2,368,392**	**$1,005,971**

Note:

(1) In 2001, prior to restructuring, a subsidiary of the Corporation recognized revenues of $89,035 attributed to "appreciation on dilution of investment" and $22,998 attributed to "consulting".

Total revenue increased from $2,368,392 in 2002 to $5,858,704 in 2003, an increase of 147%. The increase in revenue in 2002 relative to 2001 was 135%. The provision of *Points Solutions* accounted for approximately 94% of the revenues in 2003 ($5,502,744). Interest income accounted for the remaining 6% of the Corporation's revenues.

A substantial portion of Points' revenue is generated through the provision of *Private Branded Solutions* for loyalty programs by way of fees for technology services and transaction fees or commissions paid to Points by the operators of the loyalty programs.

Points earns revenue from the *Points Exchange* in two principal ways. First, Points charges a commission on all exchanges, based on a value of the loyalty currency tendered for exchange by the loyalty program member. Through the exchange model, the participating loyalty program sets a value on the currency tendered for "sale". Based on this valuation, a percentage is remitted to Points and the remaining balance is used to purchase the currency of another participating loyalty program. Second, loyalty program members pay Points either a fee for each exchange transaction on the *Points Exchange* or an annual fee for a membership that includes unlimited exchange transactions.

For the year ended December 31, 2003, two key customers represented approximately 61% (2002 – 77%) of the Corporation's gross revenues and two key customers represented approximately 58% (2002 – 91%) of the Corporation's deposits. Management expects the economic dependence on key customers to continue on a downward trend.

Management recognizes that the Corporation must achieve profitability through revenue growth and cost management. By 2005, management expects that Points' revenues will exceed its general and administrative expenses.

Revenue Growth

Revenue growth has historically been, and will continue to be, generated by growth of membership in and use of the suite of *Points Solutions* products. Growth in product usage will occur from the organic growth of existing relationships, supplemented with new business relationships established throughout the year. Management expects the existing contracts to continue to generate growing revenues and, based on on-going business development efforts, is optimistic about new revenue sources in 2004.

Growth in Use of the Points Solutions

The suite of *Points Solutions* experiences revenue growth based on the number of loyalty program partners and consumer members who participate in the various programs.

Partner Summary – Total Number of Partners(1)

	2003	**2002**	**2001**
Points Exchange	35	25	13
Private Branded Solutions	12	6	3
Cumulative Miles Transacted (000,000's)	3,027	977	100

Notes:

(1) Partners may be included in both the *Private Branded Solutions* and the *Points Exchange*.

Points Exchange *Growth*

Growth in the number of consumer members using the *Points Exchange* is driven by three factors that contribute to both increased site traffic and the ease with which a consumer can join the *Points Exchange* and then conduct exchange transactions: website usability and enhancements, marketing (awareness and brand) and partner activity. The Corporation has been focused on website usability and other enhancements throughout 2002 and 2003. In particular, 2003 saw numerous important product enhancements to the *Points Exchange*, including three version releases enhancing website usability and the addition and implementation of email promotions, off-line databases, and message centre tools. In 2004, Points expects to release further website enhancements and expand its marketing promotions and programs to accelerate growth of the *Points Exchange*.

Growth in activity on the *Points Exchange* is heavily affected by partner activity. The number of loyalty program participants, their industry mix and the average ratio of loyalty currency exchanged to new loyalty currency issued (the "Trade Ratio"), which has been steadily improving, are important elements in the growth of the *Points Exchange*. Points continues to focus its business development efforts on adding the optimal partners according to size and industry to the *Points Exchange*, and has been and will continue to work with existing program participants to improve the Trade Ratio. Management expects to continue to see successes in these areas in 2004. The number of trades completed on the *Points Exchange* has grown year over year and management expects this trend to continue.

***Points Exchange* Metrics**	**Dec. 31, 2003**	**Dec. 31, 2002**	**Dec. 31, 2001**
Total Loyalty Programs	35	25	13
Trade Ratio[1]	1.68 to 1	1.94 to 1	2.58 to 1
Year over Year Growth in Total Trades (%)	279	230	n/a

Notes:

(1) Average rates are based on all miles and points exchanged and exclude gift certificates. The results are based on actual trades made during the fiscal year.

Private Branded Solutions *Growth*

The *Private Branded Solutions* have been designed with each partner's look and branding. As a result, Points has little impact on driving traffic and transactions through its partners' sites. However, Points has seen continuous growth in the products since each launch. Management expects this trend to continue for new and existing *Private Branded Solutions*.

***Private Branded Solution* Metrics**	**Dec. 31, 2003**	**Dec. 31, 2002**	**Dec. 31, 2001**
Total Unique Partners	12	6	3
Total *Private Branded Solutions*	30	17	6

Product Summary – Total Number of *Private Branded Solutions*

***Private Branded Solutions*[1]**	**2003**	**2002**	**2001**
POINTS*purchase*	9	6	3
POINTS*gift*	8	6	3
POINTS*transfer*	2	1	0
POINTS*corporate*	4	2	0
POINTS*elite*	2	1	0
POINTS*custom*	2	0	0
POINTS*integrate* partners[2]	3	1	0
Total *Private Branded Solutions*	**30**	**17**	**6**

Notes:

(1) Includes products sold to new and existing customers.

(2) Each POINTS*integrate* partner will have third parties integrated into its technology platform. There are 14 existing partner integration add-ons among the three POINTS*integrate* partners.

Sources of Revenue Growth

Approximately 94% of the Corporation's revenue is generated through its *Points Solutions*, which have two primary sources for growth: organic growth through increased use of existing contracted *Points Solutions*; and the development of new contracted *Points Solutions*.

Percentage of Revenues from:	**2004 (projected)**	**2003 (actual)**	**2002 (actual)**
Organic growth of existing *Points Solutions*[(1)]	73%	66%	63%
New contracted *Points Solutions* with new and existing partners	27%	34%	37%
	100%	**100%**	**100%**

Note:

(1) Includes MilePoint solutions placed with partners acquired from MilePoint.

Organic Growth of Existing *Points Solutions*

The large majority of existing products that Points operates, including those on behalf of partner loyalty programs, continue to grow through increased consumer awareness, consumer adoption and loyalty program growth. As Points earns transaction fees or commissions on the majority of these products and as the products continue to grow, Points expects to continue to derive a large portion of its revenues in this manner.

Organic growth of existing *Points Solutions* accounted for 66% of revenues in 2003. Revenue from organic growth grew by 150%, from $1.45 million in 2002 to $3.6 million in 2003. Management expects this trend to continue as the base of existing products continues to grow.

New Contracted *Points Solutions*

Selling new *Points Solutions* is an important source of new revenue. New *Points Solutions* sold to loyalty program partners grow the base of products being managed and therefore the organic revenue base and, in the case of sales to new loyalty program partners, provide an opportunity to place additional *Points Solutions* with the same partner.

Revenue from the sale of new *Points Solutions* grew by 119%, from $845,000 in 2002 to $1.9 million in 2003. Revenue growth was attributed to growth in both the number of partners participating on the *Points Exchange* and the number of *Private Branded Solutions* placed with existing and new partners. Points sold new *Private Branded Solutions* products to six new loyalty program partners in 2003, doubling its unique partnership base for the sale of these products (in particular, Points deployed three new POINTS*purchase* products, two new POINTS*gift* products, one POINTS*transfer* product, two new POINTS*corporate* products, one POINTS*elite* product, two POINTS*custom* products and two new POINTS*integrate* products with 14 add-on integrations). In addition, 10 new loyalty program partners were added to the *Points Exchange* during 2003.

Points believes that its suite of *Points Solutions* is applicable to all of its large loyalty program partners and will continue to focus business development resources on both the sale of new products to current partners and to sales to new partners. Management is focused on expanding the *Points Exchange* partnership base in 2004 across various loyalty verticals. In particular, Points will continue to focus on new partnerships in the hotel, retail, car rental, online, and financial services categories throughout 2004.

Projected revenues for 2004 attributed to the deployment of *Points Solutions* to new loyalty program partners are considerably riskier than organic growth of existing *Points Solutions*. Revenue growth is still substantially dependent on generating new contracts for the purchase of *Points Solutions* products. While management expects continued business development success, there is no certainty that Points will continue with its past success of acquiring new contracts with new or existing partners.

Other Factors Contributing to Revenue Growth

In addition to the sources of revenue and growth described above, three other factors contribute to the Corporation's financial performance: interest income, fluctuations in foreign exchange rates and the growth of the loyalty program industry.

Interest Revenue

The Corporation earned interest income of $355,960 in 2003, compared with $59,446 in 2002. The major factor resulting in higher interest income is the growth in the Corporation's cash reserves. Interest revenue is a function of the Corporation's cash balances and the prevailing interest rates. Canadian cash reserves are invested in a combination of short-term liquid assets and short-term bonds. The bond portfolio has a duration of less than three years and yield over 3%. Foreign currency continues to be invested in short-term and money market instruments. Points' cash and short-term investments are valued quarterly at the lower of cost and market value. As Points' business continues to grow, cash reserves and related interest income are also expected to increase, although this growth is not expected to be a material portion of the Corporation's revenue going forward. Interest rates will continue to influence interest earnings. The Corporation's bond portfolio is exposed to financial risk that arises from the credit quality of the underlying bond issuers. The Corporation seeks to mitigate the credit risk by diversifying its bond holdings and only investing in securities with a credit rating of "A" or higher.

A summary of the Corporation's investments are as follows:

	Yield (%)	**Credit Rating**	**C$ Total**	**US$ Denominated**	**Other Denominated**
Cash held at bank(1)	0.78	n/a	$10,651,461	$6,938,320	€534,303
Money market securities	2.44(2)	R1 – High	41,620	n/a	n/a
Bonds(3)	4.46	A – AAA	9,581,755	n/a	n/a
Total			**$20,274,836**	**$6,938,320**	**€534,303**

Notes: (1) C$ Total represents total cash held at bank inclusive of all denominations; US$ and Other Denominated currencies are a subset of the C$ Total and are represented in their local currency amount.
(2) Yield as at December 31, 2003.
(3) Bond yield is calculated as the simple average of the portfolio's semi-annual yield to maturity.

Foreign Exchange Rates

The translation of the Corporation's revenues and expenses from U.S. to Canadian dollars is, and will continue to be, sensitive to changes in the U.S./Canadian foreign exchange rates ("FX Rates"). Changes to FX Rates will have greater impact on the Corporation's revenues than on its expenses as approximately 92% of the Corporation's revenues are in U.S. dollars and the remaining 8% are split between Canadian dollars and Euros. Management expects that the percentage of US dollar-based revenue will not decrease significantly in 2004.

Approximately 61% of the Corporation's expenses are in Canadian dollars, 37% are U.S. dollar-based and 2% are based in other foreign currencies. The Corporation does not have material foreign exchange risk with its cash expenses as it has sufficient foreign currency reserves to meet its foreign obligations.

As the following table highlights, the Canadian dollar strengthened in 2003, which had a material, negative impact on the translation of the Corporation's U.S. dollar revenues. Relative to 2002, the Canadian-based revenue growth was reduced by 11.2% relative to U.S. dollar revenue growth in 2003. In dollar terms, Points revenue would have been approximately $6,512,000 (actual revenues for 2003 were $5,858,704, a difference of approximately $655,000) had FX Rates in 2003 been the same as the rates in 2002. U.S. dollar expenses and commitments were also reduced by 4.7% due to the strengthening Canadian dollar. In dollar terms, Points' general and administrative expenses would have been approximately $8,409,000 (actual expenses for 2003 were $8,029,471, a difference of approximately $380,000) had FX Rates in 2003 been the same as the rates in 2002. In summary, the strengthening Canadian dollar increased Points' net loss in 2003 by approximately $275,000 or 4%.

The Corporation's revenue growth will slow (in Canadian dollar terms) if the Canadian dollar continues its trend of strengthening relative to the U.S. dollar. Similarly, it is expected that Points' expenses should also decrease, dampening the negative impact to net income.

U.S. – Canadian FX Rates	**2003**	**2002**	**2001**
Year Start	1.573	1.592	1.499
Year End	1.295	1.577	1.591
Year Average	1.401	1.570	1.549

Growth of Loyalty Program Industry

The Economist reported on the growing importance of loyalty programs in an article from its May 2, 2002 issue, entitled "Fly me to the moon", noting that on an annual basis, airlines sold "roughly US$10 billion worth of miles to partners, such as credit card firms". In another article (entitled "*Frequent-flyer economics,*" from the same issue), *The Economist* reported that "frequent flyer miles started as a marketing gimmick, but they have become a lucrative business," that "roughly half of all miles are now earned on the ground, not in the air," and that with "the world-wide stock of unredeemed miles . . . close to 8.5 trillion . . . the total global stock of frequent flyer miles may now be worth almost US$500 billion".

Management understands that members of loyalty programs are much more likely to utilize the *Points Exchange* and the other products from the suite of *Points Solutions* when they are close to a level at which they can redeem an award. The redemption level for an award varies by type of award (for example, a business-class flight takes more miles that an economy-class flight) and by program type (the "cost" of a flight typically starts between 15,000 and 25,000 miles whereas a night in a hotel starts at 10,000 points). Therefore, growth in consumer loyalty program account balances will create demand for *Points Solutions*. Growth in program balances is a function of the growth in the number of programs, the number of participating consumers, time and the number of consumers moving through a loyalty redemption (for example, receiving an award of some type).

Several respected periodicals estimate strong growth in the popularity and participation in loyalty programs. For example, in addition to *The Economist*, cited above, according to the "*frequent flyer facts*" section of the website of *InsideFlyer* magazine (www.webflyer.com), a leading publication for members of frequent traveler programs.

> loyalty programs grow at a rate of 11% per annum, with over 120 million members worldwide. While there are about 92 frequent flyer/guest programs in the world, *American AAdvantage*, the largest frequent flyer program in the world, began with 283,000 members in 1981 and has grown to more than 45 million members.

Results of Operations – General and Administrative Expenses

General and Administrative Expenses

General and administrative expenses grew by 16% in 2003. This increase reflects the cost of expanding operations, including the launch of a number of *Private Branded Solutions* to new and existing customers. The Corporation continues to make significant expenditures for its technology, its technological expertise and its industry expertise, in order to have the appropriate infrastructure and personnel required to deal with large, established companies. The Corporation's investment in the above areas was critical in completing its commercial agreements with its strategic partners (for example, American Airlines, eBay and IAC). In the past two years, there has been little inflationary pressure on costs. Management expects that, while unlikely in 2004, inflation may be a factor in 2005 and beyond. The Corporation will manage its expenses accordingly, should inflation in technology-related costs (employment expenses, technology services, etc.) occur again, as it did in 1998 to 2000.

As the Corporation is still in the process of enhancing and maintaining its technology and increasing loyalty program participation in and sales of the *Points Solutions*, significant resources continue to be required. While management has made controlling costs a priority, costs are expected to rise in 2004 by more than the increase in 2003 over 2002, as the Corporation continues to scale its infrastructure, add new partners to its suite of products, move from trial/test marketing to a more comprehensive marketing and branding program and begin the transition associated with assimilating the business of MilePoint.

A significant percentage of the planned expense increases in 2004 are either discretionary or variable. Points expects that a series of significant marketing and branding programs will begin in the latter half of 2004. The actual expense incurred will be a function of the types of marketing media employed and incentives offered, as well as the timing of the programs' launch dates. If actual revenue growth projected from the marketing plan does not meet expectations, the expenditures can either be reduced or reallocated to more successful programs.

A summary of the Corporation's general and administrative expenses are as follows:

General and Administrative Expenses	**2003**	**2002**	**2001**
Employment Costs(1)	$5,186,899	$4,004,093	$3,132,263
Technology Services(2)	803,222	1,042,427	1,279,624
Marketing and Communications	386,512	120,861	872,057
Other(3)	1,652,838	1,773,688	884,539
Total	**$8,029,471**	**$6,941,069**	**$6,168,483**

Notes:

(1) Wages and employment costs include salaries, contract labour charges, recruiting, benefits and government charges (CPP and EI).

(2) Technology expenses include online hosting and managed services, equipment rental, software licenses and capital lease interest expenses.

(3) Other expenses include foreign exchange losses (or gains), sales commissions and related expenses, travel expenses, professional fees, insurance, office rent and expenses and regulatory expenses.

Employment Costs

As at December 31, 2003, Points had 64 employees. As at March 31, 2004, Points had 68 full-time employees.

	2003		**2002**	
	Headcount	**% of Total**	**Headcount**	**% to Total**
Technology Group	41	64	26	70
Finance	10	16	2	5
Business Development	8	13	7	19
Marketing	5	8	2	5
Total	**64**	**100%**	**37**	**100%**

The Corporation saw an increase in employment costs in 2003 due predominantly to growth in its technology group to meet the demand for its *Private Branded Solutions* and continued version enhancements of the *Points Exchange* platform. Management expects that in 2004 the Corporation will hire additional personnel in business development, marketing and the technology group. Overall, 2004 employment costs are likely to increase moderately relative to 2003. This increase is expected to result from new hiring, annualizing the employment costs of employees hired part way through 2003 and annual salary increases. The Corporation expects to hire fewer personnel in 2004 than in previous years.

Technology Services

Technology Services expenses increase in increments based on business growth and product performance. In general, as loyalty program partners and products are added to the infrastructure, and transactional volume increases, additional servers, processors, bandwidth, memory, etc. are required to provide a secure and robust production environment. The increase in 2004 will be driven by products launched, loyalty program partners acquired and the speed with which Points completes the transition of the MilePoint business. As technology services costs are a function of the number of partners and *Points Solutions* products, these costs grow proportionately to revenue growth.

Marketing and Communications

In 2003, external marketing expenditures primarily involved partner media sources (for example, in-flight magazines, e-mail and newsletter campaigns, etc.) and/or bonus miles (from the Corporation's prepaid miles – see "Long-term Liabilities and Commitments" for additional information on prepaid miles) awarded for purchasing a *PointsPlus* membership, conducting an exchange or entering a promotional sweepstakes. Marketing expenses associated with the sale of *PointsPlus* memberships are amortized over the term of the membership, while the other marketing expenditures are recognized in the period of use.

The Corporation expects to significantly increase its marketing expenditures in the latter half of 2004, primarily focusing on customer acquisition and retention. The marketing and branding foundation built in 2003 has made it possible to expand audience reach and effectively execute large-scale, multi-channel promotions. Advertising expenditures will continue to be focused on partner media as this approach dovetails with business development strategies and is the most cost-effective means to reach Points' target audience. A smaller portion of the budget will be used for targeted non-partner advertising. It is anticipated that marketing and communication expenses could increase substantially if the programs are successful at customer acquisition and retention. If the programs do not meet management's expectations in driving revenue growth, marketing expenses can be eliminated or reallocated in the short term. Management expects that the results of the carefully planned marketing strategy will accelerate *Points Exchange* activity.

Results of Operations – Operating Efficiency

In 2003, the Corporation experienced 147% revenue growth, improved efficiencies in employment costs and initiated a very targeted approach to its marketing expenditures. The Corporation's operating ratio (defined as the ratio of general and administrative expenses to revenues) has improved by 52% over 2002 and is expected to continue to improve in 2004. The Corporation expects the improvement in operating efficiencies to continue through to 2005 as revenues grow and costs stabilize, thereby achieving a ratio less than one.

Efficiency Measure	**2003**	**2002**	**2001**
Operating Ratio	1.4	2.9	6.1

Results of Operations – Non-Cash Expenses

Forward-looking statements contained in this section, "Results of Operations – Non-Cash Expenses", with respect to future expenses of the Corporation, are not guarantees of such future expenses and involve certain risks and uncertainties that are difficult to predict. Any changes in the Corporation's amortizing assets will subsequently change the Corporation's amortizing expenses.

Amortization Expenses

The Corporation recorded amortization expenses of $2,877,321 in 2003, compared to $2,408,800 in 2002. The increase was attributed to the charges outlined in the following table:

Amortization Expense	2004	2003	2002
Deferred costs	$658,064	$531,914	$328,763
Intangible assets[(1)]	1,287,655	756,201	567,150
Property, Plant and Equipment	358,585	1,589,206	1,512,887
Total Amortization	**$2,304,304**	**$2,877,321**	**$2,408,800**

Note:

(1) 2004 includes amortization of intangible assets ($3,725,000) acquired in the MilePoint Acquisition.

Amortization of Deferred Costs

	2004	2003	2002	2001
Annual amortization	$658,064	$531,914	$328,763	$246,572
Closing balance	$2,234,646	$2,790,816	$410,954	$739,717

Charges incurred in respect of certain financings are deferred and charged to income on a straight-line basis over an applicable time period. Deferred finance charges represent legal, accounting and other related fees incurred to obtain the financings. Points has incurred deferred costs in connection with the following financial transactions:

a. Points reports deferred financing charges in connection with the 11%, $6,000,000 senior secured convertible debenture (the "Debenture") issued to CIBC Capital Partners as this financial instrument is classified as debt. The related balance sheet value will be nil at March 31, 2004.

b. The Corporation reports deferred financing charges in connection with the Series Two Preferred Share issued pursuant to the IAC Investment, as this financial instrument is also classified as debt. The Series Two Preferred Share has 37 amortization periods remaining.

c. In consideration of the value to the Corporation of the Alignment Agreement with American Airlines, the Corporation issued 2,196,635 Common Shares to American Airlines valued at $2,240,568. The Common Shares have been classified as deferred costs and will be amortized over a period of five years. There are 19 amortization periods remaining.

d. The Corporation posted approximately $57,000 in fees in 2003 associated with the MilePoint Acquisition. These deferred costs and all other fees associated with MilePoint Acquisition incurred in 2004 will be included as part of the costs of acquisition.

Amortization of Intangible Assets

	2004	2003	2002
Annual Amortization[(1)]	1,287,655	756,201	567,150
Closing balance	3,758,037	1,320,692	1,946,539

Note:

(1) 2004 includes amortization of intangible assets ($3,725,000) acquired in the MilePoint Acquisition.

The excess of the cost over the value attributed to the underlying net assets of the shares of Points.com acquired in 2002 is amortized on a straight-line basis over a period of three years. Certain intangible assets (i.e. partner contracts) acquired through the MilePoint Acquisition will be amortized commencing in 2004 (see "Commitments Related to MilePoint Acquisition" for additional information). Goodwill related to the acquisition will not be amortized unless the assets are deemed to have become impaired, in which case the goodwill will be written off in the appropriate period.

Amortization of Property, Plant and Equipment

	2004	2003	2002
Annual amortization	358,585	1,589,206	1,512,890
Closing balance	1,482,951	513,723	1,764,199

The following initiatives in 2004 are expected to affect future period plant, property and equipment amortization expense:

a. Leasehold improvements and furniture and equipment costs are expected to increase by approximately $517,800 as a result of the move to a new facility.

b. Technology costs are expected to increase by approximately $811,000 as a result of the MilePoint Acquisition, and organic growth of the Corporation's existing products.

Other Non-Cash Expenses

Interest on Convertible Debenture

Accrued interest on any principal amount of the Debenture that is converted into common shares ceases to be payable. In addition, in the event that an exercise of the Warrants (as defined in "Liquidity – IAC Investment" below) results in a change of control of Points, accrued interest on the Debenture will be waived and the principal amount of the Debenture will be repayable within 30 days. See "Commitments Related to the Terms of Certain Financing Arrangements" below.

Interest on the outstanding principal amount of the Debenture accrues at a rate of 11% per annum. Interest compounds on an annual basis on the day immediately prior to each anniversary of the original issue date, being March 15, 2001. Thereafter, interest accrues on such compounded interest at the rate of 11% per annum.

	2008	2007	2006	2005	2004	2003	2002	2001
Accrued Interest ($000's)	257	1,209	1,089	981	884	854	660	522
Debenture Value ($000's)	12,457	12,200	10,991	9,902	8,920	8,036	7,183	6,522

Interest on the Series Two Preferred Share

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Accrued Interest ($000's)	244	868	868	868	868	868	868	868	868	868	624
Series Two Preferred Share Value ($000,000's)	21.1	20.9	20.0	19.1	18.2	17.4	16.5	15.6	14.8	13.9	13.0

Results of Operations – Earnings and Shareholder Equity

Net Loss

The Corporation reported a net loss of $6,536,191 for 2003, compared with a net loss of $7,807,378 for 2002. The major factor in the reduction of net losses was the growth in revenue.

Included in the 2003 net loss amount are non-cash expenses totalling $4,355,671, accounting for approximately 67% of the net loss and 35% of total expenses. Non-cash expenses contributing to the 2002 net loss totalled $3,068,800 or 39% of the net loss and 30% of total expenses.

Shareholder Equity

The deficit in shareholder equity has increased from $4,414,195 at December 31, 2002 to $5,222,809 at December 31, 2003. The increased deficit was largely related to Points' operating loss for 2003. Management expects the growth in this deficit to decrease as Points' business grows.

Loss Per Share

The Corporation's loss per share is calculated on the basis of the weighted average number of outstanding Common Shares for the year, which amounted to 58,823,652 shares at December 31, 2003, compared with 51,656,033 shares at December 31, 2002.

The Corporation reported a net loss of $0.11 per share for 2003, compared to a net loss of $0.15 for 2002. For 2003 and 2002, the number of fully diluted shares outstanding has not been computed as the effect would be anti-dilutive (meaning that the loss per share would decrease on a fully diluted basis) and therefore, in accordance with Canadian generally accepted accounting principles, fully-diluted loss per share is not computed. The fully diluted calculation for both fiscal 2003 and 2002 would have otherwise included Common Shares underlying outstanding securities, such as options, warrants and preferred shares convertible or exercisable to acquire Common Shares.

Liquidity

Overview of Liquidity

Management views liquidity as the Corporation's ability to generate sufficient cash (or cash equivalents) to meet its obligations as they become due. Balance sheet liquidity indicators provide management with a test of the Corporation's current liquidity. Balance Sheet indicators of liquidity include cash, accounts receivable and accounts payable. Earnings before interest, taxes, depreciation and amortization ("EBITDA") are the key indicator of the change in the liquidity of Points' operations over a defined period of time. As the Corporation continues to add contracts to its portfolio of *Private Branded Solutions* and to the *Points Exchange*, revenues are expected to grow, resulting in increased liquidity.

Earnings (Loss) Before Interest, Amortization and Other Deductions

The Corporation uses earnings (loss) before interest, amortization and other deductions ("EBITDA") as an internal measure. Management believes that EBITDA is an important financial benchmark for its shareholders because it is a recognizable and understandable measure of the Corporation's cash burn or growth, and is a standard often scrutinized by investors in small to mid-capitalization companies. For example, the Corporation has incurred large non-cash expenses (depreciation and amortization) over the past several fiscal years that distort the financial and strategic gains the Corporation has made. Management expects the Corporation to have a positive EBITDA in 2005.

For the year ending December 31, 2003, the Corporation's EBITDA was ($2,170,767), compared with ($4,572,777) for 2002. The decrease in the loss was related to the growth of revenues, partially offset by a smaller increase in the management of general and administrative expenses, each as discussed herein.

IAC Investment

The following is a general summary of the terms of the IAC Investment. More comprehensive disclosure of the IAC Investment is contained in Points' Material Change Report dated March 21, 2003, which is hereby incorporated by reference. See also "Commitments Related to the Terms of Certain Financing Arrangements" below.

Under the IAC Investment, Points issued one convertible preferred share (the "Series Two Preferred Share") and Common Share purchase warrants (the "Warrants") for aggregate cash consideration of $12.4 million and $2.7 million, respectively. Based on Points' capitalization as at the date hereof, the Series Two Preferred Share is convertible, for no additional consideration, into 21,868,750 Common Shares. The Warrants are exercisable for three years from their date of issue (April 11, 2003) to acquire up to 55% of the Common Shares of Points (calculated on an adjusted fully diluted basis) less the number of Common Shares issued or issuable on conversion of the Series Two Preferred Share. As at the date hereof and based on Points' current capitalization, the Warrants are exercisable to acquire 80,743,867 Common Shares at an effective price per Common Share of $1.02 between April 11, 2004 and April 10, 2005 and $1.13 between April 11, 2005 and April 10, 2006 (resulting in an additional investment by IAC in Points, if exercised in full and depending on the year of exercise, of up to approximately $82.4 million or $91.6 million). Each of the Series Two Preferred Share and the Warrants contain anti-dilution protection provisions.

Cash and Current Assets

At December 31, 2003, the Corporation had a consolidated cash position of $20,274,836, compared with $7,341,700 at December 31, 2002. Current assets at December 31, 2003 were $22,104,427, compared with $8,266,699 at December 31, 2002.

	2003	2002	2001
Current assets	$ 22,104,427	$8,266,699	$3,568,458

Cash increased by $12,933,136 in 2003 over 2002. The primary reason for this increase in cash was the $15.1 million investment by IAC. This transaction was a one-time event and Points does not expect to raise capital again in this fashion. In addition, the growing operations of Points, including the number of new partners and *Points Solutions* contracted, increased cash (and, to a lesser extent, deposits). Management expects Points to continue to generate increasing amounts of cash through operations in 2004.

	2003	2002	2001
Cash and short-term investments	$20,274,836	$7,341,700	$2,894,380

Cash From Exercise of Certain Warrants and Options

Certain "in-the-money" warrants and options are due to expire in 2004 and in the first quarter of 2005. Assuming that the market price of the Common Shares remains above the exercise price of these securities, management expects the securities to be exercised. If exercised in full, the proceeds from the exercise of these securities will increase cash by approximately $1.65 million – assuming the exercise in full of these securities, issued and outstanding Common Shares will increase by over 10 million shares.

Security Type	Expiry Date	Number	Exercise / Conversion Price ($)	Proceeds Upon Exercise ($)
Warrants	21-Oct-04	2,500	$0.28	$700
Broker Warrants	30-Nov-04	88,525	0.25	22,131
Warrants	30-Nov-04	2,229,481	0.25	557,370
Points International Ltd. Options	14-Feb-05	1,752,000	0.50	876,000
Points International Ltd. Options	14-Mar-05	201,400	0.50	100,700
Options in subsidiary with liquidity put	17-Feb-05	641,501	Fair Market Value	14,091
Options in subsidiary with liquidity put	31-Mar-05	5,455,288	Fair Market Value	80,059
Total		10,370,695		$1,651,051

It is probable that investors will sell some amount of the Common Shares acquired through the exercise of these securities to cover the cash cost, any tax expense or simply to realize a gain. Increased selling pressure on the Common Shares may cause short-term downward pressure on the market price of the Common Shares.

Accounts Receivable

The Corporation's accounts receivable, which primarily reflect December *Points Solutions* revenues, account for, on average, 17% of annual revenues. The Corporation expects accounts receivable to grow proportionately with growth in revenues. Management deems the risk of bad debts to be minimal based on the structure and nature of the Corporation's cash flows.

	2003	**2002**	**2001**
Accounts receivable	$1,004,370	$267,632	$103,180

Ability to Fund Future Growth

In 2003 the Corporation had cash flows of ($1,406,454) after changes in non-cash balances related to operations after reporting positive cash flows in 2002. Management expects that the Corporation will generate positive cash flows from its operating activities in 2004 and beyond. Management is confident that the Corporation's cash position is adequate to cover expenses and commitments in the short term, even if revenue growth is slower than planned, and expects that the revenue from the *Points Solutions* will generate sufficient cash to maintain capacity in the short term and grow capacity and resources in the long term. However, the Corporation is currently not generating an operating profit (revenues minus general and administrative expenses) and cannot be assured that revenue growth will be sufficient to meet liabilities as they come due.

Working Capital

Working capital (defined as current assets minus current liabilities) has reversed from a negative position in 2002 to $10,461,182 in 2003 as a result of both the IAC Investment and growth of the Corporation's revenues. Management expects working capital to remain positive and not degrade materially in 2004. As revenues increase, the Corporation expects cash and current assets to increase proportionately. If, as expected, the Corporation achieves operating profitability in 2005, working capital will continue to grow.

Pursuant to contractual commitments, the Corporation will take the necessary actions to ensure that its current assets are greater than its current liabilities.

Property, Plant and Equipment

The Corporation reported a decrease in property, plant and equipment to $513,723 at December 31, 2003, from $1,764,199 at December 31, 2002. The decrease was related to the amortization of property, plant and equipment during the year. Technology costs under capital lease are depreciated on a straight-line basis over three years. These costs account for 58% of gross property, plant and equipment costs in 2003. The Corporation's technology costs are currently, and are expected to remain, below industry averages as a result of prudent cost containment initiatives.

The carrying amount of existing property, plant and equipment will continue to decrease in 2004. However, leasehold improvements at the Corporation's new facility will increase property, plant and equipment and the corresponding amortization in 2004 and beyond.

Property, Plant and Equipment (net carrying amount)

	2003	2002	2001
Furniture and equipment	$124,868	$139,523	$172,186
Computer equipment	206,494	98,013	140,018
Software	105,762	134,300	218,497
Technology costs	23,782	317,361	597,575
Technology costs under capital lease	–	989,898	1,979,793
Leasehold improvements	52,817	85,104	123,466
Total Plant, Property and Equipment	**$513,723**	**$1,764,199**	**$3,231,535**

Goodwill

	2003	2002	2001
Goodwill and Other Intangibles(1)	$1,320,692	$1,946,539	$120,312

Note:

(1) On February 8, 2002, the Corporation completed a restructuring in which it acquired the 5% interest in its subsidiary Points.com that it did not already own, and discontinued all of its other operations. To acquire the remaining shares and outstanding broker warrants of Points.com, the Corporation issued 7,286,160 Common Shares, valued at $1,821,540 and 4,446,453 share purchase warrants with an exercise price of $0.25, valued at $331,512. An additional 595,667 share purchase warrants with an exercise price of $0.25, valued at $37,825, were issued to acquire existing warrants of Points.com and an additional 250,000 common shares, valued at $62,500, were issued to CIBC Capital Partners as a restructuring fee in connection with the restructuring of the Debenture. Legal fees of $139,750 were incurred with respect to the restructuring. The total consideration in the restructuring was $2,393,127, of which $134,524 was allocated to non-controlling interests and $2,258,603 to the cost of acquired technology.

Subsequent to the 2003 year-end, the Corporation completed the MilePoint Acquisition with $3,725,000 to be allocated to amortizing intangible assets and $3,775,000 to (non-amortizing) goodwill. In accordance with CICA handbook, Section 3062 goodwill will not be expensed unless it is deemed to have become impaired. Management has tested, and concluded, that none of the Corporation's goodwill has become impaired.

Current Liabilities

Current liabilities at December 31, 2003 were $11,643,245, compared with $10,371,715 at December 31, 2002. The increase was related to increased deposits, accounts payable and deferred revenue (membership fees received in advance for services to be provided over a future period are recorded as deferred revenue and recognized as revenue evenly over the term of service).

Through arrangements with partner loyalty programs such as those for POINTS*purchase* and POINTS*corporate* solutions, Points processes transactions involving the online sale of loyalty currencies and collects the funds on behalf of the loyalty program partner. Gross proceeds received on the sale of loyalty program points, net of the commissions earned, are included in deposits and deferred revenue until ultimately remitted. The level of deposits is influenced by partner activity and trends in the overall loyalty industry. As activity increases, the Corporation's deposits increase. The Corporation expects deposits to increase as it experiences organic growth with existing partners, establishes new partner relationships and integrates the MilePoint Acquisition.

The 2003 accounts payable and accrued liabilities include 2003 employee bonus accruals paid in January 2004, and other accrued charges. Accounts payable and accrued liabilities as a percent of annual revenues have declined from 48% in 2001 to 20% in 2003. It is expected that this percentage will continue its downward trend as the Corporation realizes economies of scale resulting in cost containment and increased revenues. The Corporation has sufficient foreign currency reserves to meet its foreign currency obligations and, as such, does not utilize any hedging or other strategies involving interest rate or currency derivatives.

	2003	2002	2001
Accounts payable and accrued liabilities	$1,187,598	$1,017,955	$486,605
Deposits	10,455,646	8,946,631	2,096,865
Current portion of obligation under capital lease	-	407,128	736,749

Long-Term Liabilities and Commitments

Contractual Obligations	Payments Due by Period (aggregate amount for multi-year periods) (000's)						
	Total[1]	2009 +	2008	2007	2006	2005	2004
Long-Term Debt[2] (non-cash until repayment)	$12,457	-	$6,257.2	$1,209.0	$1,089.2	$981.2	$884.0
Series Two Preferred Share (non-cash until repayment)	21,080.0	16,115.5	868.0	868.0	868.0	868.0	868.0
Capital Lease Obligations	-	-	-	-	-	--	-
Operating Leases[3] [5]	2,487.2	11.3	107.4	395.6	395.6	436.9	1,140.4
Partner Purchase Commitments[4] [5]	3,974.2	-	299.4	1,365.8	1,025.4	748.2	535.4
MilePoint Acquisition[6]	4,419.5				400.0	842.0	3,177.5
Total Contractual Obligations (000's)	**$44,417.9**	**$16,126.8**	**$7,531.9**	**$3,838.4**	**$3,778.2**	**$3,876.3**	**$6,605.3**

Notes:

(1) Represents the aggregate amount for the full duration of the contractual obligations (including years post 2008 and prior to 2004).

(2) The Debenture is due on March 15, 2005. The holder of the Debenture has the right to extend the term by one year for up to three consecutive years. See "Interest on Convertible Debenture" above for a summary of payments in a fiscal year if the Debenture matures.

(3) Includes technology services commitments and hardware and software operating leases.

(4) Includes mileage purchase and co-marketing commitments, see "Partner Purchase Commitments" below.

(5) Operating leases and partner purchase commitments, when combined, are equal to Note 17, "Commitments", of the audited annual consolidated financial statements.

(6) Cash commitments related to the MilePoint Acquisition include the purchase price ($3.5 million), anticipated transition costs (up to US$505,000) and anticipated consulting fees (US$120,000).

Elements of the foregoing table are explained in more detail in the following sections.

Commitments Related to the Terms of Certain Financing Arrangements

Background

On March 15, 2001, Points issued to CIBC Capital Partners, a division of Canadian Imperial Bank of Commerce ("CIBC Capital Partners"), the 11% $6,000,000 Debenture, which was amended and restated on February 8, 2002 and further amended effective April 11, 2003. The full principal amount of the Debenture was set to mature on March 15, 2004. However, in December 2003, CIBC Capital Partners exercised its right to extend the maturity date until March 15, 2005. CIBC Capital Partners has the option to extend the maturity date from March 15, 2005 for up to three more one-year extensions. Accrued interest on the Debenture as of December 31, 2003 is $2,036,372 and is included with the Debenture in long-term debt as a non-current liability in the consolidated balance sheet.

The $6,000,000 principal amount of the Debenture is convertible at the option of CIBC Capital Partners into up to 18,908,070 Common Shares. Accrued interest on any principal amount as converted ceases to be payable. The Debenture will also automatically convert in full into Common Shares immediately preceding certain liquidity events. The Debenture contains certain negative covenants in favour of CIBC Capital Partners.

As part of the reorganization of Points completed on February 8, 2002, Points issued to CIBC Capital Partners one preference share (the "Series One Preferred Share"). The holder of the Series One Preferred Share is entitled to a dividend (the "Dividend") in the event that, prior to an automatic conversion of the Debenture, (i) there is a merger or consolidation of Points (or a subsidiary of Points which owns all or substantially all of the assets of Points) with another corporation where, following such event, the shareholders of Points will not hold at least a majority of the voting power of the surviving/acquiring corporation, (ii) any person (other than CIBC Capital Partners) or persons acting jointly or in concert acquire 50% voting control or 50% of the equity of Points (a "Change of Control"), or (iii) there is a sale of all or substantially all of the assets of Points. The Dividend is approximately equal to $4,000,000 plus an amount calculated on the basis of a notional dissolution of the Corporation where the holder of the Series One Preferred Share is entitled to share *pro rata* (on the basis that the Series One Preferred Share represents that number of Common Shares into which the Debenture is then convertible) with the holders of all other participating shares in distributions from the assets of Points and assuming, for this purpose, that the value of the assets of Points available for distribution on this notional dissolution is the value attributable to the equity of Points implied by the transaction giving rise to the dividend event, as adjusted for the value of non Common Share equity not valued in the transaction giving rise to the Dividend. In no event may the Dividend exceed $24,000,000. Where an event occurs giving rise to the Dividend, CIBC Capital Partners is entitled to accelerate all amounts owing under the Debenture.

In connection with the IAC Investment, the Debenture was amended such that (i) the Debenture is repayable (without accrued interest, the repayment of which is waived) by Points within 30 days of a Change of Control of Points resulting from the exercise of the Warrants and (ii) the Debenture is not convertible for so long as the Warrants are outstanding and will not be convertible after the Warrants are exercised if the Debenture is repaid within 30 days of the Change in Control resulting from the exercise of the Warrants. Points and CIBC Capital Partners also acknowledged, in connection with the IAC Investment, that in the event of the exercise of the Warrants resulting in a Change of Control, the application of the terms of the Series One

Preferred Share in that situation results in the Dividend equalling the lesser of (i) $24,000,000 and (ii) $4,000,000 plus the number of Common Shares into which the Debenture is then convertible, multiplied by the exercise price paid per Common Share on the exercise of the Warrants. Points has agreed that, within 30 days of the exercise of the Warrants in full, it will pay all amounts owing under the Debenture and the Series One Preferred Share. Except in connection with the exercise of the Warrants by IAC, Points is not entitled to pre-pay the Debenture.

Maturity of Debenture

Assuming the Warrants have not been exercised and the Debenture matures on March 15, 2005, the Corporation will be required to repay $6 million of principal and $3,108,422 of accrued interest. It is possible that the repayment of $9,108,422 of principal and accrued interest will cause the Corporation to be in a negative working capital position, may materially threaten its solvency and/or may severely restrict the ability to grow its business. There is no certainty that the Corporation would have sufficient cash at such time to make the repayment.

Exercise of Warrants

If the Warrants are exercised resulting in a Change of Control prior to the maturity of the Debenture, as at the date hereof and based on the Corporation's current share capitalization, the Corporation would receive between approximately $82.4 million and $91.6 million, depending on the year of exercise. On the exercise of the Warrants resulting in a Change of Control, the Corporation would be required to repay the $6 million principal amount of the Debenture and pay the Dividend, which would then be payable on the Series One Preferred Share (up to a maximum of $24 million). In this situation, management expects that Points would have sufficient cash to make such payments.

Redemption Rights of Series Two Preferred Share Holder

Unless the Series Two Preferred Share has been converted at the option of the holder, Points will be required to redeem the Series Two Preferred Share upon the earlier of (i) March 31, 2013 and (ii) a person (other than the holder of the Series Two Preferred Share) acquiring shares of Points sufficient to elect a majority of the board of directors of Points (a "Series Two Share Change of Control").

In the event of redemption of the Series Two Preferred Share on a Series Two Share Change of Control, the redemption amount payable will be equal to the greater of (i) 125% of the amount equal to (A) the subscription price of the Series Two Preferred Share plus (B) a return on that subscription price equal to 7% per annum, calculated from the date of issue of the Series Two Preferred Share to the date on which the Series Two Preferred Share is redeemed and (ii) the greater of (A) the value of the Common Shares into which the Series Two Preferred Share then could be converted on the day immediately prior to public announcement of the Series Two Share Change of Control and (B) the product of the Common Shares into which the Series Two Preferred Share then could be converted and the fair market value of the consideration paid per Common Share in the transaction resulting in the Series Two Share Change of Control.

Other Change of Control Event

Upon the occurrence of an event that is a Change of Control and a Series Two Share Change of Control, and is unrelated to the exercise of the Warrants by IAC, Points may not have sufficient cash to pay the Dividend, the amounts due under the Debenture and/or the redemption amount on the Series Two Preferred Share. As such, it is unlikely that management would consider a transaction that triggered the above payments unless the transaction provided for payment of the outstanding obligations.

Partner Purchase Commitments(1)

	2008	2007	2006	2005	2004
Mileage/Point Purchase Commitments	$278,339	$990,369	$727,673	$536,180	$396,471
Marketing Commitments	21,037	375,434	297,758	211,991	138,914
Total Partner Purchase Commitments	**$299,376**	**$1,365,803**	**$1,025,431**	**$748,171**	**$535,385**

Note:

(1) U.S. dollar commitments have been converted at the year-end exchange rate of US$1 = C$1.2946.

As part of the contractual requirements of certain commercial agreements, Points has committed to purchase miles and points from partners at predetermined rates. When purchased, the miles are recorded as an asset (i.e., prepaid expense) until expensed as marketing expenditures in the period of use.

A large portion of the current prepaids and sundry assets of the Corporation include prepaid mileage commitments purchased from the Corporation's partners. The percent of prepaids & sundry assets as a percentage of annual revenues has declined from 57% in 2001 to 14% in 2003. It is expected that this percentage will level off as the Corporation continues to offer incentives and other marketing programs. While prepaid miles may remain the same or lower as an overall percentage of prepaids and sundry assets, management expects the prepaid miles account to increase as a result of the mileage purchase commitments from various partners.

	2003	2002	2001
Prepaid mileage	$516,651	$313,454	$35,000
Sundry assets	308,570	343,913	535,899
Total	**$825,221**	**$657,367**	**$570,899**

Commitments Related to MilePoint Acquisition

On March 31, 2004 Points completed the MilePoint Acquisition. The purchase price for the assets of MilePoint was $7.5 million and was satisfied through a combination of $3.5 million in cash and four million Common Shares (worth approximately $4 million). An initial $1.9 million was paid in cash on closing, with the balance payable semi-annually over two years. The four million shares were issued into escrow on closing and will be released to MilePoint in four unequal tranches over two years.

In 2003, MilePoint earned revenue of $2.2 million (unaudited) and was slightly profitable. Points expects to realize significant operating synergies by integrating MilePoint's products into Points' operations. Management expects that most of the synergies will be achieved by the end of 2004.

Points' business objective in acquiring the assets of MilePoint was to increase its volume of business at minimal additional costs outside of the purchase price and transition costs. Management expects that the acquisition will increase revenues and, including all amortizations, be accretive to net income by the end of 2004. It is expected that the revenue/cash flow from the acquired assets will be sufficient to pay the cash portion of the purchase price over the 24-month period following the acquisition.

Management believes that the Corporation's established facilities and existing employees, working in conjunction with MilePoint resources retained during the transition period, will be sufficient to sustain the additional volume of business from the acquired assets.

The impact of the acquisition to Points' balance sheet in 2004 will be to increase intangible assets by $3,725,000 and goodwill by $3,775,000. The amortization of the assets is based on the estimated life of the acquired assets (i.e., the partner contracts).

The amortization and the balance of the purchased intangible assets at December 31, 2004 are expected to be as follows:

	2004
Amortization Expense	$534,787
Closing Balance (Intangible Assets)	3,190,213
Goodwill	$3,775,000

In addition to the existing revenue streams acquired from MilePoint, offering *Points Solutions* to the customers acquired from MilePoint represents a potentially valuable stream of revenue.

As with any acquisition, the smooth transition into the Corporation's operations poses challenges. Transition risks include difficulties in integrating MilePoint's business into the Corporation's and the possibility of human resources capacity limits to launch additional new partners during the transition.

The payment of the purchase price under the terms of the MilePoint Acquisition is as follows:

	Months from Closing						Totals	
Payout	**0**	**4**	**6**	**12**	**18**	**24**	**Shares**	**Cash**
Cash	$1,900,000		$400,000	$400,000	$400,000	$400,000		$3,500,000
Shares		1,300,000		700,000	1,500,000	500,000	4,000,000	
Share Value(1)		$1,300,000		$700,000	$1,500,000	$500,000		$4,000,000
Total							**4,000,000**	**$7,500,000**

Note:

(1) Based on the simple 20-day weighted average Common Share price of $1.00 per share at signing.

In 2004, the Corporation is required to pay $2,300,000 ($1.9 million on March 31 and $400,000 September 30) in cash in partial satisfaction of the purchase price for MilePoint's business. In addition, MilePoint and the Corporation are party to a Transition Services Agreement ("TSA") whereby MilePoint employees and resources will continue to support the products and partner relationships throughout 2004. Under the TSA, the Corporation has agreed to reimburse MilePoint for expenses incurred in providing transition services, to a maximum of US$505,000. Points has also entered into two consulting agreements with MilePoint and the senior business development principals at MilePoint. The two consultants will be focused on supporting existing relationships and selling *Points Solutions* to existing and new partners.

Management of Points expects that the cash cost of the MilePoint Acquisition will largely be recaptured through the new revenue provided by the purchased assets over the 24-month period following March 31, 2004.

Commitments Related to Lease Financing Arrangements

While the Corporation has completed its capital lease obligations in 2003, several operating leases for hardware and premises remain outstanding.

The Corporation's lease on its current premises will expire in February 2005. The Corporation has signed a 45-month sublease agreement and will move to significantly larger facilities in the second quarter of 2004 to accommodate the increase in employees. In 2004, the Corporation will be paying approximately $240,000 for its current office facilities and $104,000 for its new office facilities. Property lease costs are outlined the table below. Management is seeking a sublet arrangement for the remaining duration of its lease at its current location, which expires in February 2005.

The projected figures do not include leasehold improvement amounts for Points' new facilities. Leasehold improvements for the new facilities are included in 2004 capital expenditures (see "Planned Capital Expenditures" below). The operating leases primarily relate to specific office technology and technology service commitments.

Capital Leases

	2003	2002	2001
Current portion of obligation under capital leases	–	$407,128	$736,749

Operating Leases

	2008	2007	2006	2005	2004
Property Lease	$96,075[1]	$384,300	$384,300	$402,911	$344,228
Technology Services Commitments	11,287	11,287	11,287	34,051	796,189
Operating Lease Commitments	**$107,362**	**$395,587**	**$395,587**	**$436,962**	**$1,140,417**

Note:

(1) Commitment ends February 28, 2008.

Capital Resources

Planned Capital Expenditures

In 2003, the Corporation purchased new equipment to allocate to new and existing partners and products. Approximately 91% of the Corporation's gross capital expenditure costs are technology (hardware and software) related.

	2004	2003	2002	2001
Leasehold Improvements	$516,800	$20,794	$1,973	$84,105
Computer Hardware and Software	811,013	317,936	43,578	1,241,381
Total Capital Expenditures	**$ 1,327,813**	**$338,730**	**$45,551**	**$1,325,486**

In 2004, the Corporation will incur significant costs in connection with its move to new facilities in the second quarter of 2004. Management expects that leasehold improvements and furniture for the new premises will cost approximately $516,800.

The Corporation expects to increase its capital expenditures related to computer hardware and software to approximately $811,000; a 255% increase over 2003. Expected software expenditures include: licenses ($225,000), marketing tools ($135,000), upgrades to internal reporting tools ($215,000) and development tools ($60,000). Management believes that the hardware and software capital expenditures are necessary to keep the development of the Corporation's primary technology assets in line with industry standards.

Management expects to fund 2004 capital expenditures from its working capital.

Unplanned Securities Issuances

Pursuant to the terms of the Debenture, the Investor's Rights Agreement dated April 11, 2003 between IAC, Points and an affiliate of IAC and the terms of the Series Two Preferred Share, IAC and CIBC Capital Partners have significant control over the Corporation's ability to raise capital whether by way of an equity issuance or the incurrence of debt. However, in the event the Corporation requires additional capital, it does not expect that any required consents would be unreasonably withheld. Based on expected revenue and available resources, Points does not expect to require any additional equity financing to facilitate growth of the business or current operations.

Outstanding Share Data

As at the date hereof, the Corporation has 68,046,319 Common Shares outstanding, one Series One Preferred Share and one Series Two Preferred Share. The Series One Preferred Share is convertible into one Common Share in certain circumstances. Subject to anti-dilution adjustment, based on Points' current capitalization, the Series Two Preferred Share is convertible into 21,868,750 Common Shares.

The Corporation has outstanding options exercisable to acquire up to 5,777,784 Common Shares. The options have exercise prices ranging from $0.20 to $1.37 with a weighted average exercise price of $0.68. The expiration dates of the options range from March 22, 2004 to April 21, 2009.

The Corporation's subsidiary, Points.com, has outstanding options exercisable to acquire up to 2,929,054 common shares of Points.com. The holders of these options have been granted the right to put the shares acquired on the exercise thereof to the Corporation in return for Common Shares with a fair market value equal to the fair market value so put. The Corporation has used a ratio of 2.5039 Common Shares to one Points.com share for this purpose and has authorized the issuance of up to a maximum of 7,334,057 Common Shares in this regard. The Points.com options have exercise prices ranging from $0.005 to $0.055 with a weighted average exercise price of $0.04. The expiration dates of the options range from February 17, 2005 to September 1, 2005.

The Corporation has outstanding warrants exercisable to acquire up to 83,541,484 Common Shares. The warrants have exercise prices ranging from $0.25 to $1.02 with a weighted average exercise price of $1.00. The expiration dates of the options range from October 21, 2004 to April 11, 2006.

The Corporation has outstanding an 11% $6,000,000 senior secured convertible Debenture which is convertible into 18,908,070 Common Shares. The Debenture is not convertible for the period that the Warrants are outstanding. At the option of the Debenture holder, the maturity of the Debenture is extendible for up to three additional one-year periods. Assuming the Warrants have not been exercised and the Debenture matures on March 15, 2005, the Corporation will be required to repay $6 million of principal and $3,108,422 of accrued interest. It is possible that the repayment of $9,108,422 million of principal and accrued interest will cause the Corporation to be in a negative working capital position, may materially threaten its solvency and/or may severely restrict the ability to grow its business. There is no certainty that the Corporation would have sufficient cash at such time to make the repayment.

Selected Financial Results and Highlights

(Prior years restated to reflect the 2002 restructuring)

Income Statement	**Year ended December 31**		
	2003	**2002**	**2001**
Revenue	$5,858,704	$ 2,368,292	$ 1,005,971[1]
General and administrative expenses	8,029,471	6,941,069	6,168,483
Loss before interest, amortization and other deductions	(2,170,767)	(4,572,777)	(5,162,512)
Income (loss) before discontinued operations and extraordinary items	(6,536,191)	(7,691,648)	(7,365,633)
Net income (loss) per share – before discontinued operations and extraordinary items			
- basic	(0.11)	(0.15)	(0.24)
- fully diluted	n/a	n/a	n/a
Net income (loss)	(6,536,191)	(7,807,378)	(11,199,492)
Net income (loss) per share			
- basic	(0.11)	(0.15)	(0.36)
- fully diluted	n/a	n/a	n/a

Note:

(1) In 2001, prior to restructuring, a subsidiary of the Corporation recognized revenues of $89,035 attributed to "appreciation on dilution of investment" and $22,998 attributed to "consulting".

Balance Sheet	**As at December 31**		
	2003	**2002**	**2001**
Cash and short-term investments	$20,274,836	$7,341,700	$2,894,380
Total assets[1]	27,481,286	13,140,020	8,421,152
Long-term liabilities	21,060,850	7,182,500	6,962,198
CASH DIVIDENDS DECLARED - PER SHARE	–	–	–
SHAREHOLDERS EQUITY			
- warrants	2,785,737	425,588	–
- capital stock	17,728,461	14,361,033	9,532,173
- retained earnings	(25,737,007)	(19,200,816)	(11,393,438)
Total	(5,222,809)	(4,414,195)	(1,861,265)

Note:

(1) Financial results from minority holdings are not consolidated into the Corporation's consolidated financial statements, as the Corporation does not exercise control in these entities.

Selected Quarterly Information (Consolidated)

2003 Income Statement

	Q4	**Q3**	**Q2**	**Q1**
Revenue	$1,449,378	$1,647,566	$1,457,568	$1,304,192
General and administrative	2,651,317	2,160,978	1,710,455	1,506,721
Operating Loss – before interest, amortization and other deductions	(1,201,939)	(513,412)	(252,887)	(202,529)
Income (loss) before discontinued operations and extraordinary items	(2,605,974)	(1,628,391)	(1,283,337)	(1,018,489)
Net income (loss) per share – continuing operations	(0.04)	(0.03)	(0.02)	(0.02)
Net income (loss)	(2,605,974)	(1,628,391)	(1,283,337)	(1,018,489)
Net income (loss) per share	(0.04)	(0.03)	(0.02)	(0.02)

2003 Balance Sheet

	Q4	**Q3**	**Q2**	**Q1**
Cash and short-term investments	$20,274,836	$21,833,287	$24,396,879	$10,470,735
Total assets(1)	27,481,286	29,456,797	30,507,645	16,144,871
Long-term liabilities	21,060,850	20,484,978	20,102,978	7,347,500
CASH DIVIDENDS DECLARED – PER SHARE	-	-	-	-
SHAREHOLDERS EQUITY				
- warrants	2,785,737	2,785,737	2,805,308	390,573
- capital stock	17,728,461	17,726,761	15,371,255	14,549,703
- retained earnings	(25,737,007)	(23,131,032)	(21,502,641)	(20,219,305)
Total	($5,222,809)	($2,618,534)	($3,326,078)	($5,279,029)

Note:

(1) Financial results from minority holdings are not consolidated into the Corporation's consolidated financial statements, as the Corporation does not exercise control in these entities.

2002 Income Statement

	Q4	Q3	Q2	Q1
Revenue	$911,940	$ 729,467	$427,534	$299,351
General and administrative	1,772,433	1,656,786	2,044,452	1,467,398
Operating Loss – before interest, amortization and other deductions	(860,493)	(927,319)	(1,616,918)	(1,168,047)
Income (loss) before discontinued operations and extraordinary items.	(1,762,215)	(1,725,072)	(2,390,069)	(1,814,292)
Net income (loss) per share – continuing operations	(0.03)	(0.03)	(0.05)	(0.04)
Net income (loss)	(1,762,000)	(1,725,072))	(2,390,069)	(1,930,237)
Net income (loss) per share	(0.03)	(0.03)	(0.05)	(0.04)

2002 Balance Sheet

	Q4	Q3	Q2	Q1
Cash and short-term investments	$7,341,700	$4,424,308	$4,985,387	$5,341,778
Total assets[(1)]	13,140,020	10,864,170	11,370,933	12,380,615
Long-term liabilities	7,182,500	7,017,500	6,856,810	6,780,292
CASH DIVIDENDS DECLARED – PER SHARE	-	-	-	-
SHAREHOLDERS EQUITY				
- warrants	425,588	425,588	-	-
- capital stock	14,361,033	14,362,084	14,213,686	14,337,092
- retained earnings	(19,200,816)	(17,438,815)	(15,713,743)	(13,323,674)
Total	($4,414,195)	($2,651,143)	($1,500,057)	$1,013,418

Note:

(1) Financial results from minority holdings are not consolidated into the Corporation's consolidated financial statements, as the Corporation does not exercise control in these entities.