Deloitte.

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Board of Directors and Shareholders of Points International Ltd.

We have audited the internal control over financial reporting of Points International Ltd. and subsidiaries (the "Company") as of December 31, 2009, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

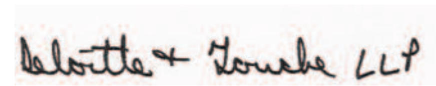
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as at and for the year ended December 31, 2009 of the Company and our report dated March 29, 2010 expressed an unqualified opinion on those financial statements and included a separate report titled Comments by Independent Registered Chartered Accountants on Canada-United States of America Reporting Difference referring to changes in accounting principles.



Independent Registered Chartered Accountants
Licensed Public Accountants
Toronto, Canada
March 29, 2010

Deloitte.

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

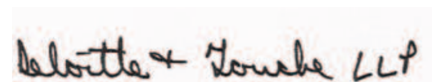
To the Board of Directors and Shareholders of Points International Ltd.

We have audited the consolidated balance sheets of Points International Ltd. and subsidiaries (the "Company") as at December 31, 2009 and 2008, and the consolidated statements of operations and deficit, comprehensive income (loss) and accumulated other comprehensive loss, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Points International Ltd. and subsidiaries as at December 31, 2009 and 2008 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

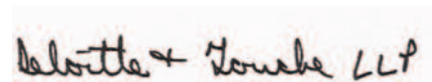
We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 29, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.



Independent Registered Chartered Accountants
Licensed Public Accountants
Toronto, Canada
March 29, 2010

COMMENTS BY INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS ON CANADA-UNITED STATES OF AMERICA REPORTING DIFFERENCE

The standards of the Public Company Accounting Oversight Board (United States) require the addition of an explanatory paragraph (following the opinion paragraph) when there are changes in accounting principles that have a material effect on the comparability of the Company's financial statements, such as the changes described in the consolidated financial statements that have a material effect on the comparability of the Company's financial statements such as the changes described in Note 2(q) referring to changes in accounting principles regarding the Company's adoption of Canadian Institute of Chartered Accountants' Handbook Section 3064, "Goodwill and Intangible Assets". Although we conducted our audits in accordance with both Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), our report to the Board of Directors and Shareholders, dated March 29, 2010, is expressed in accordance with Canadian reporting standards which do not require a reference to such changes in accounting principles in the auditors' report when the changes are properly accounted for and adequately disclosed in the financial statements.



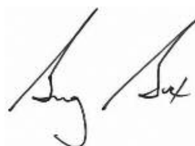
Independent Registered Chartered Accountants
Licensed Public Accountants
Toronto, Canada
March 29, 2010

CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of United States dollars)

AS AT DECEMBER 31,	2009	2008 Restated [Note 2(q)]
ASSETS		
Current Assets		
Cash and cash equivalents	$ 23,914	$ 22,854
Funds receivable from payment processors (Note 4)	5,855	5,066
Short-term investments (Note 5)	3,302	792
Security deposits (Note 6)	2,463	2,250
Accounts receivable (Note 7)	1,907	2,448
Future income tax asset (Note 23)	945	601
Current portion of deferred costs (Note 11)	139	247
Prepaid and sundry assets	759	1,548
	39,284	35,806
Property and Equipment (Note 8)	607	809
Intangible Assets (Note 9)	2,014	998
Goodwill (Note 10)	4,205	4,205
Deferred Costs (Note 11)	82	144
Other Assets (Note 12)	951	752
	7,859	6,908
	$ 47,143	$ 42,714
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 3,087	$ 3,217
Current portion of deferred revenue	609	1,087
Payable to loyalty program partners	30,215	25,967
	33,911	30,271
Deferred Revenue	301	259
	34,212	30,530
SHAREHOLDERS' EQUITY		
Accumulated Other Comprehensive Loss	(2,566)	(2,566)
Accumulated Deficit	(49,463)	(49,527)
	(52,029)	(52,093)
Capital Stock (Note 14)	56,662	56,662
Contributed Surplus (Note 16)	8,298	7,615
	12,931	12,184
	$ 47,143	$ 42,714

APPROVED ON BEHALF OF THE BOARD:



Bernay Box
Chairman

Rob MacLean
Director and Chief Executive Officer

See Accompanying Notes

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Expressed in thousands of United States dollars, except per share amounts)

FOR THE YEARS ENDED DECEMBER 31	2009	2008 Restated [Note 2(q)]
REVENUE		
Principal	$ 70,781	$ 65,483
Other partner revenue	8,946	9,194
Interest	52	920
	79,779	75,597
GENERAL AND ADMINISTRATION EXPENSES		
Direct cost of principal revenue	60,902	55,786
Processing fees and related charges	2,155	2,931
Employment costs	10,637	11,175
Marketing and communications	1,749	1,259
Technology services	935	882
Amortization	783	1,533
Foreign exchange (gain) loss	(242)	756
Operating expenses (Note 17)	2,794	3,008
Restructuring charges (Note 27)	332	–
	80,045	77,330
OPERATING LOSS – before undernoted	(266)	(1,733)
OTHER EXPENSES		
Interest on preferred shares	–	517
Interest and other charges	14	49
Impairment of long-lived assets (Note 18)	–	1,256
	14	1,822
LOSS BEFORE INCOME TAXES	(280)	(3,555)
Recovery of future income taxes	(344)	–
NET INCOME (LOSS)	$ 64	$ (3,555)
EARNINGS (LOSS) PER SHARE (Note 19)		
Basic	$ 0.00	$ (0.03)
Diluted	$ 0.00	$ (0.03)
DEFICIT – Beginning of year	$ (49,527)	$ (45,972)
NET INCOME (LOSS)	64	(3,555)
DEFICIT – End of year	$ (49,463)	$ (49,527)

See Accompanying Notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) AND ACCUMULATED OTHER COMPREHENSIVE LOSS

(Expressed in thousands of United States dollars)

FOR THE YEARS ENDED DECEMBER 31	2009	2008
COMPREHENSIVE INCOME (LOSS)		
NET INCOME (LOSS)	$ 64	$ (3,555)
Comprehensive income (loss)	$ 64	$ (3,555)
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance – Beginning of year	$ (2,566)	$ (2,566)
Balance – End of year	$ (2,566)	$ (2,566)

See Accompanying Notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of United States dollars)

FOR THE YEARS ENDED DECEMBER 31	2009	2008 Restated [Note 2(q)]
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 64	$ (3,555)
Items not affecting cash		
Amortization of property and equipment	446	582
Amortization of deferred costs	2	331
Amortization of intangible assets	335	620
Future income tax recovery	(344)	–
Unrealized foreign exchange (gain) loss	(368)	987
Employee stock option expense (Note 16)	683	648
Interest on Series Two and Four preferred Shares	–	517
Impairment of long-lived assets (Note 18)	–	1,256
Changes in non-cash balances related to operations (Note 20(a))	3,981	(5,939)
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	4,799	(4,553)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(244)	(487)
Additions to intangible assets	(1,351)	(350)
Sale of short-term investments	–	11,589
Purchase of short-term investments	(2,510)	(4,975)
CASH FLOWS (USED IN) PROVIDED BY INVESTING ACTIVITIES	(4,105)	5,777
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan repayments	–	(6)
Share issuance on capital transaction (Note 15)	–	1,688
Issuance of capital stock on exercise of stock options and warrants (Note 15)	–	270
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	–	1,952
EFFECT OF EXCHANGE RATE CHANGES ON CASH HELD IN FOREIGN CURRENCY	366	(1,858)
INCREASE IN CASH AND CASH EQUIVALENTS	1,060	1,318
CASH AND CASH EQUIVALENTS – Beginning of year	22,854	21,536
CASH AND CASH EQUIVALENTS – End of year (Note 20(c))	$ 23,914	$ 22,854
Supplemental Information		
Interest Received	$ 68	$ 947
Interest Paid	$ 15	$ 2

See Accompanying Notes

1. BASIS OF PRESENTATION AND BUSINESS OF THE CORPORATION

The accompanying consolidated financial statements of Points International Ltd. (the "Corporation") include the financial position, results of operations and cash flows of the Corporation and its wholly owned subsidiaries, Points International (US) Ltd., Points International (UK) Limited, and Points.com Inc.

The Corporation operates in one segment, providing web-based solutions to the loyalty program industry. The range of ecommerce services include the retailing and wholesaling of loyalty program currencies, a range of additional ecommerce products that enhance either the loyalty program's consumer offering or its back-end operations, and management of an online consumer-focused loyalty points management web-portal. The Corporation's operations are moderately influenced by seasonality. Historically, revenues are highest in the fourth quarter in each year as redemption volumes typically peak at this time. During July and August, the Corporation experiences a slight decline in activity on the majority of its products as fewer consumers are online transacting miles and points.

The Corporation's functional and reporting currency is the US dollar (US$).

2. SUMMARY OF ACCOUNTING POLICIES AND ESTIMATES

Principles of Consolidation

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Note 28 describes and reconciles the significant measurement differences between Canadian GAAP and accounting principles generally accepted in the United States of America ("US GAAP") affecting the accompanying consolidated financial statements. A summary of significant accounting policies is set out below:

a) Estimates

The preparation of the Corporation's consolidated financial statements, in accordance with Canadian GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. On an ongoing basis, the Corporation evaluates its estimates, including those related to provisions for doubtful accounts, the provision for transaction losses (credit card chargebacks), income taxes, stock-based compensation, revenue recognition, and the valuation of goodwill, intangible assets and long-lived assets. The Corporation bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances.

b) Revenue recognition

The Corporation's revenue is categorized as principal, other partner revenue, and interest and is generated through the technology services provided to loyalty program partners. Revenue is recognized when evidence of an arrangement exists, the fee is fixed or determinable, services have been provided, and collection of the receivable is reasonably assured.

The Corporation's revenue has been categorized as follows:

Principal Revenue

Principal revenue groups together several streams of revenue that the Corporation realizes in delivering services to various programs. The following is a list of revenue streams and the related revenue recognition policy.

(i) Technical design and development work is performed at the commencement of a business relationship with a loyalty program partner. The majority of the technical design and development fees are the up-front charges to cover the Corporation's cost of setting up the loyalty program web interface and customizing the look and feel of the site to that of the loyalty program partner. Once the loyalty program partner website is functional, end consumers are able to transact on the site which gives rise to transactional revenue for the term of the contract. These technical design and development fees are recorded in accordance with Abstract 142 of the Emerging Issues Committee ("EIC-142") of The Canadian Institute of Chartered Accountants ("CICA") Handbook, "Revenue Arrangements with Multiple Deliverables". As such, this revenue is deferred, along with direct related costs to the extent there is deferred revenue, and recognized over the term of the contract, which approximates the period of expected benefit.

(ii) Customized technical design service fees are also charged to loyalty program partners who require custom programming or web-design work that is not tied to an ongoing stream of revenue. This revenue is distinct from any other existing agreement and the delivered product has stand-alone value to the loyalty program partner. This revenue is recognized on a percentage of completion basis.

(iii) Reseller revenue is a type of transactional revenue that is realized when the Corporation takes a principal role in the retailing and wholesaling of loyalty currency for loyalty program partners. The Corporation's role as the principal in the transaction is determined by the contractual arrangement in place with the loyalty program partner. In this instance, the Corporation has a substantive level of responsibility with respect to operations, marketing and commercial transaction support. As well, the Corporation assumes substantive credit and inventory risk with each transaction processed. Revenue earned as reseller revenue is recorded on a gross basis in accordance with Abstract 123 of the Emerging Issues Committee ("EIC-123") of the CICA Handbook, "Reporting Revenue Gross as a Principal versus Net as an Agent". Related costs are recorded as part of direct cost of principal revenue.

(iv) Loyalty program sign-up fees are charged to loyalty program partners at the commencement of a business relationship to gain access to the Corporation's proprietary *Points.com* web portal. This portal allows the end-consumers of loyalty programs to register and track the programs they participate in and allows them to transact loyalty currency in ways that are not possible within the core programs of the loyalty programs. The Corporation earns ongoing revenue from the ongoing transactions over the term of the contract. As such, in accordance with EIC-142, this revenue is deferred, along with direct related costs to the extent there is deferred revenue, and recognized over the term of the contract, which approximates the period of expected benefit.

(v) Hosting fees are charged to certain loyalty program partners for the hosting of web-based services carried out by the Corporation. These fees are charged monthly to the loyalty program partners over the term of the contract. Revenue is recognized on a monthly basis over the term of the contract as it approximates the period of expected benefit.

(vi) Management fees are charged to loyalty program partners who require custom marketing or non-technical solutions that are not covered by any other agreements with the Corporation. This revenue is recognized over the period that the service is provided.

Other Partner Revenue

Other partner revenue is primarily a type of transactional revenue that is realized when the Corporation takes an agency role in the retailing and wholesaling of loyalty currency for loyalty program partners. The Corporation's role as an agent in the transaction is determined by the contractual arrangement in place with the loyalty program partner. In this instance, the Corporation has a minimal level of responsibility with respect to operations, marketing and commercial transaction support. As well, the Corporation assumes minimal credit and inventory risk with each transaction processed. Other partner revenues are recorded on a net basis. Other partner revenue also includes other revenues received from partners which are not transactional in nature but have been earned in the period.

Interest Revenue

Interest revenue is earned on funds invested in accordance with the Corporation's Board approved Investment Policy. Interest revenue is recognized when earned on an accrual basis.

c) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with maturities of three months or less at the date of purchase, and are carried at cost which approximates their fair value because of the short-term nature of the instruments.

d) Funds receivable from payment processors

Funds receivable from payment processors are amounts collected on behalf of the Corporation and held for up to three days before being released to the Corporation.

e) Short-term investments

Short-term investments consist of highly liquid investments (term deposits) with original maturity dates between three and twelve months, and are carried at amortized cost using the effective interest method which approximates fair value.

f) Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is based on the estimated useful lives of the assets using the methods and annual rates as follows:

Furniture and equipment	20% declining balance basis
Computer equipment	30% declining balance basis
Software	straight-line over 3 years
Leasehold improvements	straight-line over shorter of useful life or the lease term

In accordance with CICA Handbook Section 3063, "Impairment of long-lived assets," the Corporation evaluates the carrying value of long-lived assets whenever events or changes in circumstances indicate that a potential impairment has occurred. An impairment has occurred if the carrying value of an asset is not recoverable. If the fair value is less than the carrying amount of the asset, an impairment charge is recognized for the difference.

g) Intangible assets

Intangible assets not subject to amortization are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount. When the carrying amount of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to the excess.

For intangible assets subject to amortization, the Corporation assesses impairment only if impairment indicators exist. If the carrying amount of the finite lived intangible asset cannot be recovered from undiscounted cash flows, an appropriate amount will be charged to income as an impairment charge at that time.

Patents will be amortized over the useful life of the patent, commencing when the patents have been granted. As of December 31, 2009, the Corporation does not have any registered patents. Registered trademarks have been determined to have an indefinite life and are therefore not amortized.

Internal use software development costs are amortized on a straight-line basis over 3 to 5 years.

h) Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of the tangible and intangible net assets acquired. Goodwill is not amortized. The Corporation tests goodwill for impairment annually, at each year end, to determine whether the carrying value exceeds the fair value. If the carrying value cannot be recovered from future discounted cash flows, an appropriate amount will be charged to income as an impairment charge at that time.

i) Deferred costs

In relation to the Corporation's technology design and development revenue, and loyalty program sign up fees involving revenue arrangements with multiple deliverables, the Corporation incurs direct upfront contract revenue initiation costs associated with the website application design and development. Deferred costs relating to the revenue streams are deferred to the extent of the deferred revenue. These costs are deferred and amortized over the expected life of the agreement.

Direct costs associated with securing key loyalty program partner relationships are deferred and amortized over the expected life of the partner agreement.

j) Payable to loyalty program partners

Payable to loyalty program partners includes amounts collected through ecommerce services for retailing, wholesaling and other loyalty currency services.

k) Deferred revenue

Deferred revenue includes proceeds received in advance for technology design and development work which are deferred and recognized over the expected life of the partner agreement.

Deferred revenue also includes proceeds for mileage, where the issuance of this mileage to loyalty program members occurs at a later date. Deferred revenue also includes membership fees for services to be provided over a future period. This revenue is recognized over the membership term.

l) Translation of foreign currency

Assets and liabilities denominated in foreign currencies are translated into United States dollars at exchange rates prevailing at the balance sheet date for monetary items. Revenue and expenses are translated at average exchange rates prevailing during the year. Realized and unrealized foreign exchange gains and losses are accounted for and disclosed separately and are included in net earnings.

The results of foreign operations, which are financially and operationally integrated with the Corporation, are translated using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currencies have been translated into the Corporation's reporting currency, the United States dollar, at the rate

of exchange prevailing at year end. Fixed assets have been translated at the rates prevailing at the dates of acquisition. Revenue and expense items are translated at the average exchange rates prevailing during the year except for amortization, which is translated at the rates of exchange applicable to the related assets.

m) Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the enactment or substantive enactment date.

The Corporation provides a valuation allowance for future tax assets when it is more likely than not that some portion or all of the future tax assets will not be realized.

n) Earnings per share

The Corporation uses the treasury stock and if-converted method to calculate diluted earnings per share.

Diluted earnings per share considers the dilutive impact of the exercise of outstanding stock options and warrants, and conversion of preferred shares, as if the events had occurred at the beginning of the period or at a time of issuance, if later.

o) Stock based compensation

Employees

The Corporation has a stock option plan for directors, officers and employees. The Corporation applies the fair value method to all grants of stock options. The fair value of options granted is estimated at the date of grant using the Black-Scholes option pricing model incorporating assumptions regarding risk-free interest rates, dividend yield, expected volatility of the Corporation's stock, and a weighted average expected life of options. The estimated fair value of the options that are ultimately expected to vest based on performance-related conditions, as well as the options that are expected to vest based on future service, are recorded over the option's vesting period and charged to earnings with a corresponding charge to contributed surplus. In determining the amount of options that are expected to vest, the Corporation takes into account voluntary termination behaviour as well as trends of actual option forfeitures. Any consideration paid on the exercise of stock options is added to share capital with the related portion previously added to contributed surplus when the compensation costs were charged to earnings.

Non employees

For stock based compensation issued to non employees, the Corporation recognizes an asset or expense based on the fair value of the equity instrument issued.

p) Financial instruments

Financial instruments are classified into one of the following four categories: held-for-trading (assets or liabilities), loans and receivables, held-to-maturity, and other financial liabilities. Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading items in which case they are expensed as incurred. All financial instruments are initially measured at fair value. Measurement in subsequent periods depends on the classification of the financial instrument.

Held-for-trading (assets or liabilities)
This category is comprised of certain investments in equity and debt instruments, stand-alone derivatives, other than those designated as hedging items, and embedded derivatives requiring separation. They are carried in the balance sheet at fair value with changes in fair value recognized in the statements of operations.

Loans and receivables
These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They arise principally through the provision of goods and services to customers (accounts receivable), but also incorporate other types of contractual monetary assets. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest method, less any provision for impairment.

Held-to-maturity investments
These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Corporation's management has the positive intention and ability to hold to maturity and comprises certain investments in debt securities. These assets are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest method, less any provision for impairment.

Other financial liabilities
Other financial liabilities include all financial liabilities other than those classified as held-for-trading and comprise trade payables, and other short-term monetary liabilities. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

The Corporation's financial assets and liabilities are classified and measured as follows:

Asset/Liability	Category	Measurement
Cash and cash equivalents	Held-for-trading	Fair value
Funds receivable from payment processors	Loans and receivables	Amortized cost
Short-term investments	Held-to-maturity	Amortized cost
Security deposits	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Payable to loyalty program partners	Other financial liabilities	Amortized cost

q) Adoption of new accounting policies

Goodwill and Intangible Assets

Effective January 1, 2009, the Corporation adopted CICA Handbook Section 3064, "Goodwill and Intangible Assets", which replaced Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs." The new Section establishes standards for the recognition, measurement, presentation, and disclosure of goodwill and intangible assets, provides more specific guidance on the recognition of internally developed intangible assets, and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets.

As a result of adopting Section 3064, the Corporation reclassified $518 of internal use software development costs as at January 1, 2009 and December 31, 2008 from "Property and equipment" to "Intangible assets" on the consolidated balance sheets. Corresponding amortization expense of $503 for the year ended December 31, 2008 has been reclassified from "Amortization of property and equipment" to "Amortization of intangible assets" on the consolidated statements of operations and deficit.

Financial Statement Concepts

Effective January 1, 2009, the Corporation adopted CICA Handbook Section 1000, "Financial Statement Concepts." This amended section removes references to the recognition of assets and liabilities solely on the basis of matching net income items and clarifies the timing of expense recognition and the creation of an asset. The amendment to this standard did not have a material impact on the financial position or earnings of the Corporation.

Credit Risk and Fair Value of Financial Assets and Liabilities

In January 2009, the CICA's Emerging Issue Committee ("EIC") issued abstract EIC-173, "Credit Risk and the Fair Value of Financial Assets and Liabilities," which requires entities to take both counterparty credit risk and their own credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. EIC-173 is effective for interim and annual periods ending on or after January 20, 2009. Upon adoption, there was no material impact on the financial position or earnings of the Corporation.

Financial Instruments

In June 2009, the CICA issued amendments to its Financial Instruments – Disclosure standard to expand disclosures of financial instruments. These amendments are effective for the Corporation for the year ended December 31, 2009 and introduce a three-level fair value hierarchy that prioritizes the quality and reliability of information used in estimating the fair value of instruments. The fair values for the three levels are based on:

- Level 1 – quoted prices in active markets
- Level 2 – models using observable inputs other than quoted market prices
- Level 3 – models using inputs that are not based on observable market data

The Corporation has included these additional disclosures in Note 22.

3. FUTURE ACCOUNTING POLICIES

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that profit-oriented publicly accountable enterprises will be required to adopt International Financial Reporting Standards. IFRS will replace current Canadian GAAP for those enterprises. For the Corporation, IFRS will be effective for interim and annual periods commencing January 1, 2011, including the preparation and reporting of one year of comparative figures.

The Corporation has established a project team to support adopting IFRS. The project team is actively monitoring developments and guidance on the application of IFRS to the Corporation. As a result of proposed changes to certain IFRS, together with the current stage of the Corporation's IFRS project, the Corporation cannot reasonably quantify, at this time, the full impact that adopting IFRS will have on its financial position and future results.

Business Combinations, Consolidated Financial Statements, and Non-controlling Interests

In January 2009, the CICA issued new accounting standards on Business Combinations, Consolidated Financial Statements and Non-controlling Interests. The Business Combinations standard provides clarification as to what an acquirer must measure when it obtains control of a business, the basis of valuation and the date at which the valuation should be determined. Most acquisition-related costs must be accounted for as expenses in the periods they are incurred. This new standard will be applicable for acquisitions that are completed on or after January 1, 2011 although adoption in 2010 is permitted to facilitate the transition to IFRS in 2011. The Consolidated Financial Statements standard establishes guidance for preparing consolidated financial statements after the acquisition date. The Non-controlling Interests standard provides guidance on the accounting and presentation of non-controlling interest. These new standards must all be adopted concurrently.

Revenue Arrangements with Multiple Deliverables

In December 2009 the Emerging Issues Committee issued new EIC-175, to replace the existing EIC-142 "Revenue Arrangements with Multiple Deliverables". These amendments require a vendor to allocate arrangement consideration at the inception of an arrangement to all deliverables using the relative selling price method. It also changes the level of evidence of the standalone selling price required to separate deliverables when more objective evidence of the selling price is not available. Given the requirement to use the relative selling price method of allocating arrangement consideration, it prohibits the use of the residual method.

EIC-175 may be applied prospectively and should be applied to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011. Early adoption is permitted.

4. FUNDS RECEIVABLE FROM PAYMENT PROCESSORS

Funds receivable from payment processors are funds due from the Corporation's credit card processors. These funds represent amounts collected from customers and are typically deposited directly to the Corporation's bank account within 3 business days from the date of sale.

5. SHORT-TERM INVESTMENTS

Short-term investments represent amounts invested in term deposits with original maturity dates between 3 and 12 months. The average interest rate on the short-term investments at year end was 0.27% per annum (2008 – 2.17%). Included in short-term investments is restricted cash of $802 (2008 – $792) held primarily as collateral for commercial letters of credit issued in accordance with the terms of business agreements.

6. SECURITY DEPOSITS

Security deposits are amounts held by the Corporation's payment processors as collateral in accordance with the terms of the credit card processing agreements. This collateral balance is based on a percentage of the Corporation's processing volume over the past six months.

7. ACCOUNTS RECEIVABLE

The Corporation's accounts receivable are comprised mainly of amounts owing to the Corporation by loyalty program partners for transactions carried out on the *Points.com* website and for amounts charged with respect to the loyalty program sign-up and the technology design and development fees. The amount is presented net of an allowance for doubtful accounts. At year end the allowance was $8 (2008 - $63).

8. PROPERTY AND EQUIPMENT

2009	Cost	Accumulated Amortization	Net Carrying Amount
Furniture and equipment	$ 420	$ 217	$ 203
Computer equipment	598	305	293
Software	1,154	1,062	92
Leasehold improvements	887	868	19
	$ 3,059	$ 2,452	$ 607

2008	Cost	Accumulated Amortization	Net Carrying Amount
Furniture and equipment	$ 719	$ 425	$ 294
Computer equipment	1,038	722	316
Software	1,441	1,361	80
Leasehold improvements	889	770	119
	$ 4,087	$ 3,278	$ 809

9. INTANGIBLE ASSETS

Intangible assets of $2,014 (2008 - $998) are comprised of the following:

a) Intangible assets subject to amortization

2009	**Cost**	**Accumulated Amortization**	**Net Carrying Amount**
Patents	**$ 470**	**$ –**	**$ 470**
Internal use software development costs	**6,786**	**5,327**	**1,459**
	$ 7,256	**$ 5,327**	**$ 1,929**

2008	Cost	Accumulated Amortization	Net Carrying Amount
Patents	$ 403	$ –	$ 403
MilePoint contracts and customer list	3,445	3,445	–
Internal use software development costs	8,386	7,868	518
	$ 12,234	$ 11,313	$ 921

The Corporation has several patent applications pending approval that relate directly to the process and technology that run the Corporation's current business platform. The carrying amounts are representative of actual costs incurred to date in pursuing patent applications. Patents will be amortized over the remaining life of the patent commencing when the patents have been granted. To date, none of the patents have been granted and therefore no amortization has been recorded.

On March 31, 2004, the Corporation acquired substantially all of the business assets of MilePoint, Inc., a loyalty program technology provider and operator. As part of the acquisition, the Corporation acquired the customer list and contracts between MilePoint and certain loyalty program partners for the operation of technology solutions. The fair value assigned to the contracts and customer list at the time of acquisition was $3,859. In December 2008, the Corporation recorded an impairment charge of $414 related to the remaining carrying value of its MilePoint contracts and customer list asset. The remaining carrying value related solely to a contract with one loyalty program partner. The partner discontinued its use of the product associated with this contract, which was sufficient to suggest impairment. The impairment charge is included in the Impairment of long-lived assets line (see Note 18) in the Consolidated Statements of Operations. The remaining net book value is nil (2008 - nil).

In December 2008, the Corporation recorded an impairment charge of $258 related to internal use software development assets. The impairment charge is related to technical assets for which the Corporation will not continue to fund. Changes in the marketplace were sufficient to indicate impairment to the carrying value. The Corporation's approach in determining the recoverable amount utilized a discounted cash flow methodology, which involved making estimates and assumptions regarding revenue growth, operating margins, and discount rates. These estimates may differ from actual results of operations and cash flows. In the Consolidated Statements of Operations, the impairment charge is included in the Impairment of long-lived assets line (see Note 18).

In December 2008, Management re-evaluated its patent strategy. Management determined that it would abandon the pursuit of certain patent applications which did not support the long-term strategic plans of the Corporation. The Corporation recorded an impairment charge of $584 which represented the costs incurred in pursuing the patent applications that were abandoned. The impairment charge is included in the Impairment of long-lived assets line (see Note 18) in the Consolidated Statements of Operations.

b) Intangible assets not subject to amortization

The Corporation holds several trademark registrations in Canada and the United States. The carrying amounts of $85 (2008 – $77) are representative of actual costs incurred to date in registering trademarks. Trademarks are still deemed to have an indefinite useful life, and are therefore not amortized. They continue to be tested for impairment if impairment indicators exist.

10. GOODWILL

Goodwill of $4,205 (2008 – $4,205) relates entirely to the excess of the purchase price over the fair values of the business assets of MilePoint, Inc. acquired in 2004 (see Note 9). In accordance with the CICA Handbook Section 3064, "Goodwill and Intangible Assets," a valuation of the goodwill occurs annually at year end. As at December 31, 2009 and 2008, there has been no impairment.

11. DEFERRED COSTS

Deferred costs include the following: (1) direct upfront contract initiation costs associated with website application design and development revenues; and (2) direct partner relationship costs, which relate to the issuance of shares by the Corporation to a key loyalty program partner to secure the relationship.

Upfront contract initiation costs relate to the Corporation's partner sign-up and technology design and development revenues involving arrangements with multiple deliverables and are deferred and recognized over the expected life of the agreement. Direct partner relationship costs are amortized over the expected benefit period of the relationship. The amortization of deferred costs was $2 in 2009 (2008 –$331)

12. OTHER ASSETS

Other assets include the non-current portion of certain loyalty reward currencies held by the Corporation that are used in *Points.com* promotional activities. The current portion of this asset is recorded under the Prepaid and sundry assets line.

13. CONVERTIBLE PREFERRED SHARES

a) Series Two preferred share

In 2003, the Corporation issued one Series Two preferred share for aggregate consideration of CAD$12,400,000. The Series Two preferred share was a voting, convertible share and ranked equally with the Series Four preferred share and in priority to the common shares. The Series Two preferred share was convertible until 5:00 p.m. on March 31, 2013 (Toronto time), for no additional consideration, into 24,028,016 common shares subject to adjustment in accordance with its anti-dilution protection provisions (the "Underlying Shares").

If not converted, the Series Two preferred share would have been redeemed on March 31, 2013 for the greater of CAD$12,400,000 plus 7% per annum interest calculated on a daily basis from the date of issue of the Series Two preferred share and the market value of the common shares into which the Series Two preferred share could then be converted.

On June 11, 2008, the holder of the Series Two preferred share exercised its right to convert the Series Two preferred share into 24,028,016 common shares of the Corporation (See Note 14 (a)).

b) Series Four preferred share

In 2005, the Corporation issued one Series Four preferred share for aggregate cash consideration of CAD$3,454,611. The Series Four preferred share was a voting, convertible share and ranked equally with the Series Two preferred share and in priority to the common shares. The Series Four preferred share was convertible until 5:00 p.m. on March 31, 2013 (Toronto time), for no additional consideration, into 5,411,434 common shares, subject to adjustment in accordance with its anti-dilution protection provisions. In all material respects, including anti-dilution protection, the terms of the Series Four preferred share were identical to the Series Two preferred share.

If not converted, the Series Four preferred share would have been redeemed by the Corporation on March 31, 2013 for the greater of CAD$3,454,611 plus 7% per annum interest calculated on a daily basis from the date of issue of the Series Four preferred share and the market value of the common shares into which the Series Four preferred share could then be converted.

On June 11, 2008, the holder of the Series Four preferred share exercised its right to convert the Series Four preferred share into 5,411,434 common shares of the Corporation (See Note 14 (a)).

14. CAPITAL STOCK

Authorized
Unlimited common shares
Unlimited preferred shares

Issued
The balance of capital stock is summarized as follows (all amounts in US dollars unless otherwise noted):

Common shares	Number	Cash Proceeds	Amount
Balance January 1, 2008	120,020,115	$ –	$ 34,887
Conversion of preferred shares (i)	29,439,450	–	20,326
Share surrender and cancellation (ii)	(1,591,322)	–	(587)
Shares issued (iii)	1,591,322	2,563	2,563
Share issuance costs (iv)	–	(875)	(875)
Exercise of stock options (v)	212,505	148	201
Exercise of warrants (vi)	148,870	121	147
Balance December 31, 2008 and 2009	149,820,940	$ 1,957	$ 56,662

i) On June 11, 2008, the holder of the Series Two and Series Four preferred shares exercised its right to convert the Series Two and Series Four preferred shares into 24,028,016 and 5,411,434 common shares, respectively.

ii) On June 11, 2008, immediately following the conversion of the preferred shares, the same shareholder surrendered 1,591,322 common shares back to the Corporation for cancellation.

iii) On June 11, 2008, the Corporation issued 1,591,322 new common shares from treasury. The pricing set by the syndicate before transaction costs was $1.65 CAD per share.

iv) Share issuance costs of $875 were incurred by the Corporation related to all capital transactions on June 11, 2008. Net cash flows from share issuance of capital stock was $1,688.

v) 212,505 options previously issued to employees, directors, advisors and consultants were exercised at prices ranging from CAD$0.22 to CAD$1.01 per share.

vi) On April 1, 2008, the remaining 148,780 warrants were exercised in full at a price of CAD$0.83 per share.

Capital Transactions

The following summarizes the transactions that took place related to the conversion of the Series Two and Series Four preferred shares.

a) *Conversion of preferred shares*

On June 11, 2008, the holder of the Series Two and Series Four preferred shares exercised its right to convert the Series Two and Series Four preferred shares into 24,028,016 and 5,411,434 common shares, respectively, of the Corporation. As a result of the conversion, the Corporation's liability related to the Series Two preferred share was reduced by $16,201 (including accrued interest of $4,097) and its liability related to the Series Four preferred share was reduced by $4,125 (including accrued interest of $754). In total, a $20,326 reduction in the liability related to the convertible preferred shares has been recorded as share capital on the conversion and represents the stated value of the common shares that were issued as part of this transaction.

The change in the convertible preferred shares from December 31, 2007 to the date of conversion and the amounts included in income for the year are as follows:

Convertible preferred shares	
Balance at January 1, 2008	$ 20,679
Interest on preferred shares	516
Foreign exchange gain	(869)
Balance at June 11, 2008	20,326
Conversion of preferred shares	(20,326)
Balance at December 31, 2008	$ –

b) *Share surrender and cancellation*

Immediately following the conversion of the preferred shares, the same shareholder surrendered 1,591,322 common shares back to the Corporation for cancellation. The stated value of the shares cancelled was calculated at the average amount of the shares in capital stock and amounted to $587. Share capital was reduced by this amount and an equal amount was credited to contributed surplus to account for this transaction.

c) *Issuance of common shares*

As part of the financing transaction, the Corporation issued 1,591,322 new common shares from treasury, at $1.65 CAD to the syndicate of underwriters. As a result, before share issuance costs, the share capital of the Corporation was increased by $2,563.

The following table summarizes the transactions on June 11, 2008:

	Number of shares				
	Preferred	Common	Preferred	Common	Contributed Surplus
Conversion of Series Two preferred share	(1)	24,028,016	$ (16,201)	$ 16,201	$ –
Conversion of Series Four preferred share	(1)	5,411,434	(4,125)	4,125	–
Surrender and cancellation of common shares	–	(1,591,322)	–	(587)	587
Stock issued from treasury at $1.65 CAD	–	1,591,322	–	2,563	–
Share issue costs		–	–	(875)	–
Total as at June 11, 2008	(2)	29,439,450	$ (20,326)	$ 21,427	$ 587

15. STOCK OPTIONS

a) Stock option plan

The Corporation has a stock option plan under which employees, directors and consultants are periodically granted stock options to purchase common shares at prices not less than the market price of the common shares on the day prior to the date of grant. The options generally vest over a three year period and expire five years from the grant date. In 2008, the shareholders of the Corporation approved an increase in the maximum number of issuable shares under the stock option plan from 14,058,406 to 18,000,000.

	December 31, 2009	December 31, 2008
Options authorized by shareholders	**18,000,000**	18,000,000
Less: options exercised	**(6,812,318)**	(6,812,318)
Net options authorized	**11,187,682**	11,187,682
Less: options issued & outstanding	**(9,215,031)**	(8,494,298)
Options available to grant	**1,972,651**	2,693,384

b) Stock options

Stock-based compensation plan

At December 31, 2009, the Corporation had one stock-based compensation plan, which is described above. The Corporation accounts for stock options granted under this plan in accordance with the fair value based method of accounting for stock-based compensation. The estimated fair value of the options that are ultimately expected to vest is recorded over the option's vesting period and charged to stock-based compensation. In determining the amount of options that are expected to vest, the Corporation takes into account voluntary termination behaviour as well as trends of actual option forfeitures. The compensation cost that has been charged against income and included in employment costs for this plan is $683 for 2009 (2008 - $648).

Fair value

The fair value of each option grant is estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in years 2004 to 2009: dividend yield of nil for all five years; expected volatility is calculated for each grant date and has ranged from 29% to 80%, risk-free interest rate has ranged from 1.8% to 4.4% with an expected life of 3 years. The fair value of options granted in 2009 and 2008 were calculated using the following weighted assumptions:

	2009	2008
Dividend yield	**nil**	nil
Risk-free rate	**2.21%**	3.28%
Forfeiture rate	**36%**	36%
Expected volatility	**69.1%**	57.1%
Expected life of options	**3**	3

A summary of the status of the Corporation's stock option plan as of December 31, 2009 and 2008, and changes during the years ended on those dates are presented below.

	2009		2008	
	Number of options	**Weighted average exercise price (in CAD$)**	Number of options	Weighted average exercise price (in CAD$)
Beginning of Year	**8,494,298**	**$ 1.25**	7,202,541	$ 1.17
Granted	**1,891,115**	**$ 0.44**	2,099,242	$ 1.40
Exercised	**-**	**$ -**	(212,505)	$ 0.70
Expired	**(396,374)**	**$ 1.26**	(522,500)	$ 1.11
Forfeited	**(774,008)**	**$ 1.14**	(72,480)	$ 0.98
End of year	**9,215,031**	**$ 1.11**	8,494,298	$ 1.25
Exercisable at end of year	**5,379,329**	**$ 1.09**	3,086,169	$ 1.13
Weighted average fair value of options granted	**CAD$0.20**		CAD$0.50	

	Options outstanding			Options exercisable	
Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price (in CAD$)	Number of options	Weighted average exercise price (in CAD$)
$0.01 to $0.49	1,706,281	4.3	$ 0.44	708,320	$ 0.43
$0.50 to $0.99	2,313,750	2.0	$ 0.84	1,536,791	$ 0.84
$1.00 to $1.49	2,923,666	2.5	$ 0.16	1,185,654	$ 1.13
$1.50 to $1.99	2,166,334	2.8	$ 1.79	1,831,278	$ 1.51
$2.00 and over	105,000	3.0	$ 2.17	117,286	$ 1.44
	9,215,031			5,379,329	

Range of exercise prices	Vest based on employee service: Number of options	Vest based on employee service: Weighted average exercise price (in CAD$)	Vest based on performance criteria: Number of options	Vest based on performance criteria: Weighted average exercise price (in CAD$)
$0.01 to $0.49	354,182	$ 0.43	-	n/a
$0.50 to $0.99	776,959	$ 0.84	-	n/a
$1.00 to $1.49	1,438,012	$ 1.18	300,000	$ 1.23
$1.50 to $1.99	916,171	$ 1.51	-	n/a
$2.00 and over	50,378	$ 1.62	-	n/a
	3,535,702		300,000	

Range of exercise prices	Exercise price equals market price on grant: Number of options	Exercise price equals market price on grant: Weighted average exercise price (in CAD$)	Exercise price exceeds market price on grant: Number of options	Exercise price exceeds market price on grant: Weighted average exercise price (in CAD$)
$0.01 to $0.49	44,075	$ 0.40	1,847,040	$ 0.44

The expense to be recognized in future periods from the options outstanding at year-end using the year end foreign exchange rate is estimated to be $663 (2008 – $972). No options were exercised subsequent to year-end.

c) Warrants

There were 148,870 warrants outstanding at the beginning of fiscal 2008 with a weighted average exercise price in CAD of $0.83. All warrants were exercised in fiscal 2008 leaving a nil balance of warrants outstanding as at December 31, 2008 and 2009.

The weighted average grant date fair value of warrants granted were estimated at their grant date at CAD$0.21 using the Black Scholes option pricing model. The pricing model assumed a weighted average risk free interest rate of 3.8%, weighted average expected dividend yield of nil, weighted average expected common stock price volatility of 30% and a weighted average expected life of 3 years.

No common share purchase warrants were issued in 2009.

16. CONTRIBUTED SURPLUS

The changes in contributed surplus are as follows:

Contributed surplus – January 1, 2008	$ 6,433
Employee stock option expense	648
Fair value of stock options exercised	(53)
Share surrender and cancellation [(i)]	587
Contributed surplus – December 31, 2008	7,615
Employee stock option expense	683
Contributed surplus – December 31, 2009	$ 8,298

(i) On June 11, 2008, a shareholder surrendered 1,591,322 common shares back to the Corporation for cancellation (Note 14).

17. OPERATING EXPENSES

Operating expenses are comprised of:

	2009	2008
Office expenses, travel and personnel	**$ 1,318**	$ 1,407
Professional fees	**889**	1,024
Insurance, bad debts and governance	**587**	577
	$ 2,794	$ 3,008

18. IMPAIRMENT OF LONG-LIVED ASSETS

In December 2008, the Corporation recorded an Impairment of long-lived assets amount related to the following assets:

	2009	2008
Internal software development costs (Note 9)	**$ -**	$ 258
MilePoint contracts and customer list (Note 9)	**-**	414
Patents (Note 9)	**-**	584
	$ -	$ 1,256

19. EARNINGS (LOSS) PER SHARE

A reconciliation of the number of shares used in the earnings per share calculations is as follows:

	2009	2008
Weighted average number of shares outstanding per basic earnings per share calculation	**149,820,940**	136,636,629
Effect of dilutive instruments outstanding	**–**	1,153,896
Weighted average number of shares outstanding per diluted earnings per share calculation	**149,820,940**	137,790,525

a) Basic earnings (loss) per share

Earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the year.

b) Diluted earnings (loss) per share

Diluted (loss) per share represents what the net income (loss) per share would be if instruments convertible into common shares had been converted at the beginning of the period.

Convertible Preferred Shares

In determining diluted earnings per share, net income available to common shareholders is increased by the amount of interest accrued on the convertible preferred shares as this interest expense would not have been incurred if the shares had been converted at the beginning of the period. Similarly, the average number of common shares outstanding is increased by the number of shares that would have been issued had the conversion taken place at the beginning of the period.

Employee Stock Options

In determining diluted earnings per share, the average number of common shares outstanding is increased by the number of shares that would have been issued if all stock options with a strike price below the average share price for the period had been exercised at the beginning of the period, or at the time of issuance, if later. The average number of common shares outstanding is also decreased by the number of common shares that could have been repurchased if using the proceeds from the exercise of stock options to repurchase them on the open market at the average share price for the period. Stock options with a strike price above the average share price for the period are not adjusted because including them would be anti-dilutive.

In 2009 and 2008, the diluted earnings (loss) per share is equal to the basic earnings (loss) per share as the effect of conversions, options and warrants was anti-dilutive.

20. STATEMENT OF CASH FLOWS

a) Changes in non-cash balances related to operations are as follows:

	2009	2008
Increase in security deposits	**$ (213)**	$ (688)
(Increase) decrease in funds receivable from payment processors	**(789)**	61
Decrease in accounts receivable	**541**	906
Decrease in deferred costs	**170**	39
Decrease in prepaids and sundry assets	**789**	219
Increase in other assets	**(199)**	(752)
Decrease in accounts payable and accrued liabilities	**(130)**	(271)
Decrease in deferred revenue	**(436)**	(670)
Increase (decrease) in payable to loyalty program partners	**4,248**	(4,783)
	$ 3,981	$ (5,939)

b) Interest and taxes

Interest of $15 (2008 – $2) was paid during the year. In addition to this, the Corporation paid capital taxes of $23 (2008 – $48) in the year. Interest revenue of $68 (2008 – $947) was received during the year.

c) Cash and cash equivalents consists of cash and term deposits. There were no term deposits as at December 31, 2009 and 2008.

21. CAPITAL DISCLOSURES

The Corporation defines its capital as follows:

(i) Shareholders' equity;
(ii) Cash and cash equivalents and short-term investments.

The amounts included in the Corporation's capital are as follows:

	2009	2008
Shareholders' equity	**$ 12,931**	$ 12,184
Cash and short term investments	**$ 27,216**	$ 23,646

The Corporation's financial strategy is designed and formulated to maintain a flexible capital structure to allow the Corporation the ability to respond to changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Corporation may issue additional debt or issue debt to replace existing debt with similar or different characteristics. The Corporation's financing and refinancing decisions are made on a specific transaction basis and depend on such things as the Corporation's needs, and market and economic conditions at the time of the transaction. The Corporation may invest in longer or shorter term investments depending on eventual liquidity requirements.

The Corporation does not have any externally imposed capital compliance requirements. There were no changes in the Corporation's approach to capital management during the period.

22. FINANCIAL INSTRUMENTS

Determination of fair value

The fair values of short-term financial assets and liabilities, including cash, short-term investments, security deposits, interest receivable and accounts payable and accrued liabilities, as presented in the balance sheet approximate their carrying amounts due to the short period to maturity of these financial instruments.

Fair value hierarchy

The Corporation has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies, as disclosed below. However, considerable judgment can be required to develop certain of these estimates. Accordingly, these estimated values are not necessarily indicative of the amounts the Corporation could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of each class of financial instruments are discussed below.

Quoted market prices for an identical asset or liability represent a Level 1 valuation. When quoted market prices are not available, the Corporation maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3. The following table outlines the fair value hierarchy of instruments carried at fair value.

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents (Note 20)	$ 23,914	$ -	$ -	$ 23,914
	$ 23,914	$ -	$ -	$ 23,914

Credit risk

The Corporation's term deposits and short-term investments held as collateral subject the Corporation to credit risk. The Corporation has guaranteed investment certificates, as per its practice of protecting its capital rather than maximizing investment yield. The Corporation manages credit risk by investing in cash equivalents, term deposits and short-term investments rated as A or R1 or above.

The Corporation, in the normal course of business, is exposed to credit risk from its customers and the accounts receivable are subject to normal industry risks. The majority of the Corporation's customers are loyalty program operators. The Corporation usually provides various ecommerce services to these loyalty program operators which normally results in an amount payable to the loyalty program operator in excess of the amount held in accounts receivable. The Corporation also manages and analyzes its accounts receivable on an ongoing basis which means the Corporation's exposure to bad debts is not significant.

As at December 31, the aging of accounts receivable is as follows:

	2009	2008
Current	**$ 1,269**	$ 2,062
Past due 31–60 days	**367**	163
Past due 61–90 days	**127**	105
Past due over 90 days	**152**	181
Trade accounts receivable	**1,915**	2,511
Less: allowance for doubtful accounts	**(8)**	(63)
	$ 1,907	$ 2,448

The following table provides the change in allowance for doubtful accounts for trade accounts receivable:

	2009	2008
Balance, beginning of year	**$ 63**	$ 74
Provision for doubtful accounts	**8**	27
Bad debts written off, net of recoveries, and other	**(63)**	(38)
Balance, end of year	**$ 8**	$ 63

The provision for doubtful accounts has been included in operating expenses in the consolidated statements of operations and deficit, and is net of any recoveries that were provided for in a prior period.

Interest rate risk

The Corporation does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates, relative to interest rates on the investments, owing to the short-term nature of the investments.

Liquidity risk

Liquidity risk is the risk that the Corporation may not have cash available to satisfy financial liabilities as they come due. The Corporation actively maintains access to adequate funding sources to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities as at December 31, 2009:

		Contractual Cash Flow Maturities			
	Carrying Amount	Total	Within 1 year	1 year to 3 years	3 years to 5 years
Accounts payable and accrued liabilities	$ 3,087	$ 3,087	$ 3,087	$ -	$ -
Payable to loyalty program partners	30,215	30,215	30,215	-	-
Operating leases [(1)]	-	4,742	665	1,270	2,807
Principal revenue [(1)]	-	125,449	27,947	62,489	35,013
	$ 33,302	$ 163,493	$ 61,914	$ 63,759	$ 37,820

(1) For further explanation on these contractual cash flows refer to Note 24.

Management believes that cash on hand, future cash flows generated from operations and availability of current and future funding will be adequate to support these financial liabilities.

Currency risk

The Corporation has customers and suppliers that transact in currencies other than the US dollar which gives rise to a risk that earnings and cash flows may be adversely affected by fluctuations in foreign currency exchange rates. The Corporation is primarily exposed to the Canadian dollar. The Corporation did not use financial instruments to hedge these risks in 2009.

The Corporation holds balances in foreign currencies that give rise to exposure to foreign exchange risk. In general and strictly relating to the foreign exchange (“FX”) gain of translating certain non-US dollar balance sheet accounts, a strengthening U.S. dollar will lead to a FX loss while a weakening U.S. dollar will lead to an FX gain. Sensitivity to a +/- 10% movement in all currencies held by the Corporation versus the US dollar would affect the Corporation’s loss and other comprehensive loss by $96 (2008 – $672).

Balances denominated in foreign currencies that are considered financial instruments are as follows:

As of December 31, 2009	USD Total	CAD	GBP	EUR	CHF
FX Rates used to translate to USD		0.9532	1.5928	1.4333	0.9636
Financial assets (in thousands of dollars)					
Cash and cash equivalents	$ 23,914	588	1,418	1,844	42
Funds receivable from payment processor	5,855	1	506	691	6
Short-term investments	3,302	841	-	-	-
Security deposits	2,463	-	40	151	1
Accounts receivable	1,907	54	316	16	-
	$ 37,441	1,484	2,280	2,702	49
Financial liabilities (in thousands of dollars)					
Accounts payable and accrued liabilities	$ 3,087	1,537	210	17	-
Payable to loyalty program partners	30,215	-	1,875	2,211	25
	$ 33,302	1,537	2,085	2,228	25

Revenues earned from the Corporation’s partners stationed in Canada are contracted in Canadian dollars. The Corporation receives these payments in Canadian dollars and uses these funds to fund the Canadian operating expenses thereby reducing its exposure to foreign currency fluctuations.

23. INCOME TAXES

The total provision for income taxes differs from that amount which would be computed by applying the Canadian federal income tax rate to the loss before provision for income taxes. The reasons for these differences are as follows:

	2009	2008
Income tax recovery at statutory rate 33.0% (2008 – 33.5%)	**$ (92)**	$ (1,191)
Increase (decrease) in taxes resulting from:		
Lower effective income tax rates in foreign jurisdictions	**12**	44
Lower effective income tax rate on future taxes	**505**	44
Tax cost of non-deductible items	**240**	907
Change in foreign exchange rates	**100**	-
Recognition of tax benefit on loss carry-forwards	**-**	(232)
Change in valuation allowance	**(1,164)**	478
Other	**55**	(50)
Total income taxes	**$ (344)**	$ -

The Corporation has non-capital losses carry forward for income tax purposes in the amount of approximately $ 25,267. The losses may be used to reduce future years' taxable income and expire approximately as follows:

		Jurisdictions		
	Total USD	Canada	United Kingdom	United States
2010	$ 3,640	$ 3,640	$ -	$ -
2011	5,492	5,492	-	-
2015	5,663	5,663	-	-
2022 - 2029	8,243	5,968	-	2,275
No expiry	2,229	-	2,229	-
Total	$ 25,267	$ 20,763	$ 2,229	$ 2,275

The nature and tax effects of the items that give rise to significant portions of the future income tax assets are as follows:

	2009	2008
Losses carried forward	**$ 8,417**	$ 8,787
Property and equipment	**2,828**	3,146
Share issue costs	**140**	310
Reserves	**86**	48
	11,471	12,291
Valuation allowance	**(10,526)**	(11,690)
Net future income tax asset	**$ 945**	$ 601

The Corporation has capital losses of $5,356 (2008 – $1,706) which can be carried forward indefinitely and are not included as part of the future tax asset.

24. COMMITMENTS AND CONTINGENCIES

	Total	2010	2011	2012	2013	2014+
Operating lease(1)	**$ 4,742**	$ 665	$ 645	$ 625	$ 628	$ 2,179
Principal revenue(2)	**125,449**	27,947	31,972	30,517	16,712	18,301
	$ 130,191	$ 28,612	$ 32,617	$ 31,142	$ 17,340	$ 20,480

(1) The Corporation is obligated under various operating leases for premises, purchase commitments and equipment and service agreements for web hosting services.

(2) In relation to principal revenue, the Corporation has made contractual guarantees on the minimum value of transactions processed over the term of its agreements with certain loyalty program partners.

In addition, the Corporation is involved in a legal proceeding incidental to the normal course of business. The Corporation is of the view that although the outcome of such litigation cannot be predicted with certainty, the final disposition is not expected to have a material adverse effect on the Corporation's consolidated financial position or results of operations.

25. SEGMENTED INFORMATION

a) Reportable segments

The Corporation has only one operating segment, the portfolio of technology solutions to the loyalty program industry in each of 2009 and 2008 whose operating results were regularly reviewed by the Corporation's chief operating decision maker and for which complete and discrete financial information is available.

b) Enterprise-wide disclosures – Geographic information

$67,873 (2008 – $73,299), representing 85% (2008 – 97%) of the Corporation's revenue, was generated in the United States, $105 (2008 - $397), representing 1%, was generated in Canada and the remaining revenue was generated outside North America.

At December 31, 2009 and 2008, substantially all of the Corporation's assets were in Canada.

26. MAJOR CUSTOMERS

For the year ended December 31, 2009, there were three customers who individually represented more than 10% of the Corporation's total revenue. In aggregate these three customers represented 81% (two customers in 2008 represented 78%) of the Corporation's total revenue. In addition, 16% of the Corporation's amount payable to loyalty program partners is due to these three customers (three customers in 2008 represented 64%).

27. RESTRUCTURING CHARGES

In 2009, the Corporation undertook a restructuring of its operating expenses in anticipation of expected efficiencies it will achieve from its new technology platform. Under the restructuring, the Corporation reduced the number of full-time equivalents by approximately 20%, which included both employees and contractors. Accordingly, the Corporation incurred restructuring charges of $332 composed of employee severance and benefit arrangements. The Corporation paid $178 in severance costs during the year ended December 31, 2009. Included in accrued liabilities is the unpaid amount related to severance of $154 which will be fully paid at the end of the third quarter of 2010.

28. US GAAP RECONCILIATION

The significant differences between Canadian GAAP and US GAAP, and their effect on the consolidated financial statements of the Corporation, are described below.

The following table reconciles net income (loss) as reported in the accompanying consolidated statements of operations to net income (loss) that would have been reported had the financial statements been prepared in accordance with US GAAP:

	2009	2008
Net income (loss) in accordance with Canadian GAAP	**$ 64**	$ (3,555)
Internal use software development costs amortization	**-**	25
Net income (loss) in accordance with US GAAP	**$ 64**	$ (3,530)
Basic earnings (loss) per share	**$ 0.00**	$ (0.03)
Diluted earnings (loss) per share	**$ 0.00**	$ (0.03)

The cumulative effect of these adjustments on shareholders' equity is as follows:

	2009	2008
Shareholders' equity in accordance with Canadian GAAP	**$ 12,931**	$ 12,184
Internal use software development costs	**-**	(834)
Internal use software development costs amortization	**-**	834
Shareholders' equity in accordance with US GAAP	**$ 12,931**	$ 12,184

The cumulative effect of these adjustments on the reported assets is as follows:

	2009	2008
Assets in accordance with Canadian GAAP	**$ 47,143**	$ 42,714
Internal use software development costs	**-**	(834)
Internal use software development costs amortization	**-**	834
Assets in accordance with US GAAP	**$ 47,143**	$ 49,714

There is no difference in the cash flows as reported in the consolidated statements of cash flows under US GAAP.

Codification of authoritative accounting principles

In July 2009, the Financial Accounting Standards Board ("FASB") issued the *FASB Accounting Standards Codification™* ("ASC") as the single source of authoritative US GAAP (other than guidance issued by the US Securities and Exchange Commission), superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and related literature. This guidance was effective for interim and annual periods ending after September 15, 2009. Since that time, only one level of authoritative US GAAP exists. All other literature is considered non-authoritative. This guidance did not have an effect on the Corporation's financial position, or results of operations, however, references to specific accounting standards have been changed to refer to the appropriate section of the ASC.

Internal use software development costs

In 2008, Canadian GAAP allowed the capitalization and amortization of internal use software development costs incurred, subject to there being reasonable assurance that future benefits will be realized. Under US GAAP, ASC Topic 350 "Intangibles – Goodwill and Other" which replaces Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," provides specific guidance on when capitalization may commence, and what direct costs may be capitalized. Effective January 1, 2009, the Corporation adopted CICA Handbook Section 3064, "Goodwill and Intangible Assets", which replaced Section 3062, "Goodwill and Other Intangible Assets", and aligned with the US GAAP guidance on the capitalization and amortization of internal use software development costs.

Business combinations

The FASB issued ASC Topic 805 "Business Combinations" which replaces FAS 141(R), "Business Combinations" and significantly changes the principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The Corporation adopted ASC Topic 805 effective January 1, 2009 and based on the Corporation's assessment, the adoption of ASC Topic 805 did not have an impact on the Corporation's financial statements for purposes of the reconciliation of Canadian GAAP to US GAAP.

Accounting for uncertainty in income taxes

The Corporation adopted ASC Topic 740-10, formerly Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"). This clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes" ("FAS 109"). The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740-10 also provides accounting guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Based on the Corporation's assessment, the application of ASC Topic 740-10 did not have a significant impact on the Corporation's financial statements for purposes of the reconciliation of Canadian GAAP to US GAAP.

Financial instruments

The FASB issued ASC Topic 825 "Financial Instruments" which replaced FAS 159 "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FAS 115." This guidance permits entities to measure many financial instruments and certain other items at fair value that currently are not required to be measured at fair value. If elected, unrealized gains or losses on certain items will be reported in earnings at each subsequent reporting period. ASC Topic 825 became effective for the Corporation commencing with the year ended December 31, 2008. The Corporation has elected not to adopt the fair value measurement provisions of this Topic.

Subsequent events

In May 2009, the FASB issued guidance now incorporated in ASC Topic 855, "Subsequent Events" (ASC Topic 855) formerly statement of Financial Accounting Standards No. 165, ("Subsequent Events"). The standard is effective for interim or annual periods ending after June 15, 2009 and establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or available to be issued. The adoption of this standard did not have a material impact on the Corporation's financial statements.

Impact of Accounting Pronouncements Not Yet Adopted

Variable interest entities

In June 2009, the FASB issued a revised accounting standard to improve financial reporting by enterprises involved with variable interest entities. The standard replaces the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and: (i) the obligation to absorb losses of the entity; or (ii) the right to receive benefits from the entity. The standards are effective as of the beginning of the first annual reporting period that begins after November 15, 2009 and shall be applied prospectively. This guidance will be effective for the Corporation beginning in fiscal 2010. The Corporation presently does not expect this guidance to have an effect on its financial statements.