MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following management's discussion and analysis (''MD&A'') of the performance, financial condition and future prospects of Points International Ltd. and its subsidiaries (which is also referred to herein as "Points" or the "Corporation") should be read in conjunction with the Corporation's audited financial statements (including the notes thereon) for the years ended December 31, 2009 and 2008. Further information, including Points' Annual Information Form ("AIF") for the year ended December 31, 2009, may be accessed at www.sedar.com or www.sec.gov. All financial data herein have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and all dollar amounts herein are in thousands of United States dollars unless otherwise specified. This MD&A is dated as of March 29th, 2010.

FORWARD-LOOKING STATEMENTS

This MD&A contains or incorporates forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, as amended, and forward-looking information within the meaning of the "safe harbour" provisions of applicable Canadian securities legislation (collectively, "forward-looking statements"). These forward-looking statements relate to, among other things, revenue, earnings, changes in costs and expenses, capital expenditures and other objectives, strategic plans and business development goals, and may also include other statements that are predictive in nature, or that depend upon or refer to future events or conditions, and can generally be identified by words such as "may", "will", "expects", "anticipates", "guidance", "intends", "plans", "believes", "estimates" or similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These statements are not historical facts but instead represent only Points' expectations, estimates and projections regarding future events.

Although the Corporation believes the expectations reflected in such forward-looking statements are reasonable, such statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. Undue reliance should not be placed on such statements. Certain material assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements. Known and unknown factors could cause actual results to differ materially from those expressed or implied in the forward-looking statements. Important assumptions, factors, risks and uncertainties are referred to in the body of this MD&A and also include those described in the press release announcing the Corporation's Fourth Quarter and 2009 financial results, and those described in Points' other filings with applicable securities regulators, including annual and interim financial statements and the notes thereto, Points' Annual Information Form, and Form 20-F.

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.

BUSINESS DEVELOPMENTS IN 2009 AND TO DATE

Partner News

1. ***Air France-KLM partners with Points to increase options for Flying Blue members***
   Air France-KLM, Europe's largest carrier, joined the network of loyalty programs partnered with Points. Points now takes a principal role and accepts greater responsibility in the operation of the Flying Blue Buy Miles service. Points' *Buy & Gift* service enables members of many frequent flyer programs to purchase additional award miles online.

2. ***Points expands and extends its partnership with US Airways Dividend Miles®***
   In January 2010, the Corporation announced a significant expansion and multi-year extension of its partnership with US Airways Dividend Miles®. The terms of the agreement reflect a more comprehensive partnership where Points takes a principal role and accepts greater responsibility in the operation of the *Buy, Gift* and *Transfer* miles programs available to US Airways' Dividend Miles program members.

3. ***Points renews partnerships with several existing loyalty programs***
   Points' successfully renewed partnerships with several leading loyalty programs, including American Airlines, Intercontinental Hotel Group, Lufthansa Airlines, Starwood Hotels, JetBlue and Hawaiian Airlines.

4. ***Restructured relationship with Delta Air Lines***
   Effective October 1, 2009, Delta Air Lines elected to leverage existing internal capabilities to provide the retail mileage sale and transfer programs previously operated by Points. In 2010, Points expects to re-launch its retail sale and transfer of SkyMiles services through a new distribution channel of sites not controlled by Delta Air Lines, including the Corporation's Consumer Hub at *Points.com*. Points continues to operate a number of other services for Delta Air Lines, including the corporate mileage wholesaling platform, auction service, pooling service, magazine and newspaper subscription service, as well as Points' *AirIncentives™* and offerings on the Consumer Hub at *Points.com*.

5. ***Chase Ultimate Rewards partners with Points in the US***
   In the fourth quarter of 2009, Points signed an agreement with Chase Card Services, the credit card division of J.P. Morgan Chase & Co, one of the largest financial services companies in the world. Under terms of the multi-year agreement, Points' *Exchange* product will be leveraged to facilitate the transfer of loyalty currencies for US cardmembers between Ultimate Rewards and its loyalty program partners, as well as enable new loyalty partnerships.

6. ***Points expands the roster of participating progams on the Currency Exchange***
   In 2009, Points expanded the roster of partners participating on the Currency Exchange to eleven including: Aeroplan®, AirTran Airways A+ Rewards, Alaska Airlines Mileage Program, American Airlines AAdvantage®, Continental Airlines OnePass®, Delta SkyMiles®, DISTANCIA, Frontier Airlines Early Returns®, Icelandair Awards Points, Midwest Airlines Midwest Miles, and Priority Club® Rewards.

Project ePoch

1. ***Upgrade of Technology Platform***
   A major focus of the Corporation's investment strategy for 2010 is to substantially enhance its technology platform to more efficiently drive and increase synergies between Points' private branded Loyalty Currency Services and the Consumer Hub at *Points.com*. The technology upgrade has expanded functionality to an initial set of Points' loyalty program partners. Management expects to upgrade all of its partners to the ePoch platform in 2010. This new platform will enable Points to deliver enhanced services and functionality and significantly improve operational efficiencies, including reducing the time and effort to integrate new partners.

2. ***Redesign and rebrand of the Consumer Hub at Points.com***
   As Points is developing the new platform for its Loyalty Currency Services, it is simultaneously rearchitecting the consumer side of the business on *Points.com*. The website is being designed with an entirely new user interface focused on managing enhanced content, integrating new partners and augmenting transaction functionality. This redesign will affect all aspects of the consumer proposition from brand positioning, look and feel, user interface, transaction flows, and product functionality. These changes are expected to be in market in 2010.

3. ***Rollout of enhanced distribution capability and social media functionality***
   On August 7, 2009, Points launched its first iGoogle™ application that allows *Points.com* users access to core functionality through their personalized iGoogle™ page. In addition, the Corporation added Facebook Connect® functionality. This allows new and existing users to login to *Points.com* using their Facebook accounts and facilitates additional point and mile sharing opportunities. Points' activity can also be followed via Twitter® at www.twitter.com/pointsadvisor.

CHANGE IN FUNCTIONAL AND REPORTING CURRENCY

Effective January 1, 2008, the Corporation changed its functional and reporting currency to the United States Dollar (US$). Prior to January 1, 2008, the Corporation reported its annual and quarterly balance sheets and related consolidated statements of operations and cash flows in the Canadian Dollar (CAD$). Comparative figures for 2007 have been revised to reflect the change in reporting currency.

REVENUE RECOGNITION OVERVIEW

The Corporation categorizes its revenue in three ways. First, principal revenue includes *Points.com* membership dues, loyalty program sign-up fees, technology design, development and maintenance revenue, hosting and management fees, and reseller revenue. Under a reseller arrangement, the Corporation takes on a principal role in a combination of the *Buy, Gift* and *Transfer* products and assumes additional responsibility (i.e., credit and/or inventory risk) for the operation of these products. Principal revenue has been recorded on a gross basis in accordance with EIC-123, "Reporting Revenue Gross as a Principal versus Net as an Agent." Technology design and development fees received for product development are recorded evenly over the initial term of the contract. Second, 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. This also includes other revenues received from partners which is not transactional in nature but has been earned in the period. Third, interest revenue is any revenue earned through the Corporation's investing activities arising from its operating cash flow.

USE OF NON-GAAP TERMS

The Corporation's financial statements are prepared in accordance with Canadian GAAP. Management uses GAAP and non-GAAP measures to better assess the Corporation's underlying performance and provides this additional information in this MD&A so that readers may do the same.

Gross Margin

Management recognizes that total revenues less direct cost of principal revenue and processing fees and related charges, hereafter referred to by management as gross margin, is a non-GAAP financial measure which does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers. However, gross margin is viewed by management to be an integral measure of financial performance. Management is driving a shift in the Corporation's revenue mix toward principal relationships with higher gross margins that are expected to lead to sustained profitability for the Corporation. Many of the recent agreements signed with partners have been under the principal model, and the additional consumer services that will be launched on the *Points.com* portal are expected to improve gross margins. Combined with a strict focus on containing operating expenditures, these new deals and products are expected to be accretive to overall profitability.

Gross Margin Information

(in thousands of US dollars)	**2009**	2008	2007[1]
Total revenue	**$ 79,779**	$ 75,597	$ 30,364
Direct cost of principal revenue	**60,902**	55,786	14,390
Processing fees and related charges	**2,155**	2,931	1,506
Total direct costs	**63,057**	58,717	15,896
Gross margin	**$ 16,722**	$ 16,880	$ 14,468

(1) See CHANGE IN FUNCTIONAL AND REPORTING CURRENCY – pg.7

In 2007, the Corporation introduced the reseller model whereby Points acts as the end retailer of the loyalty program currency, buying the currency at a wholesale value from the loyalty program and reselling it to retail customers. Under a reseller arrangement, Points becomes further integrated with its partners by taking a principal role in the operations, marketing and commercial transaction support and records revenue on a gross basis along with any associated direct costs. Since 2007, the Corporation's strategy has been focused on pursuing new partnership relationships where it assumes a principal role and converting existing partners to the reseller model. Accordingly, the Corporation has seen both total revenues and direct costs increase significantly since the introduction of the reseller model in 2007.

The growth in gross margin from 2007 to 2008 can be attributed to the addition of new partners. Management considers 2009 to have been a key transitional year in its business with new partnerships at higher gross margins offsetting margin concessions made towards the end of 2008. This resulted in 2009 gross margin that was in line with 2008. Management continues to pursue higher margin business opportunities.

Earnings (Loss) Before Interest, Taxes, Amortization, Foreign Exchange, Impairment and Restructuring ("EBITDA")

Management recognizes that earnings (loss) before interest, taxes, amortization, foreign exchange, impairment, and restructuring charges, hereafter referred to by management as EBITDA, is a non-GAAP financial measure which does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers. However, management believes that EBITDA is an important measure because it is a recognizable and understandable measure of the Corporation's cash utilization or growth, and is a standard often scrutinized by investors in small to mid-capitalization companies. EBITDA is one of the measures used internally to evaluate performance and employee bonuses are based on achieving an EBITDA target determined by the Board of Directors.

Reconciliation of Operating Loss to EBITDA

(in thousands of US dollars)	**2009**	2008	2007[1]
Operating loss	**$ (266)**	$ (1,733)	$ (2,998)
Amortization	**783**	1,533	2,847
Foreign exchange (gain)/loss	**(242)**	756	518
Restructuring charges[2]	**332**	–	–
EBITDA	**$ 607**	$ 556	$ 367

(1) See CHANGE IN FUNCTIONAL AND REPORTING CURRENCY – pg.7

(2) See RESTRUCTURING CHARGES – pg.12

For the year ended December 31, 2009, the Corporation's EBITDA was $607, an increase of $51 or 9% over the prior year. The improvement in EBITDA over the prior year can be attributed to maintaining gross margins near prior year levels while reducing operating expenditures through cost containment initiatives undertaken by management. Although the restructured relationship with Delta Air Lines had a material impact on revenues, the terms of the restructuring provided for a series of payments over the fourth quarter of 2009 that allowed the Corporation to maintain its initial 2009 forecast of positive EBITDA released on March 11, 2009.

SELECTED FINANCIAL INFORMATION

The following information is provided to a give a context for the broader comments elsewhere in this report.

(in thousands of US dollars, except per share amounts)	**2009**	2008	2007[1]
Revenue	**$ 79,779**	$ 75,597	$ 30,364
Gross margin	**16,722**	16,880	14,468
EBITDA	**607**	556	368
Net loss before income taxes	**(280)**	(3,555)	(4,135)
Net income (loss)	**$ 64**	$ (3,555)	$ (4,135)
Earnings (loss) per share			
Basic	**$ 0.00**	$ (0.03)	$ (0.04)
Fully diluted	**$ 0.00**	$ (0.03)	$ (0.04)
Weighted average shares outstanding			
Basic	**149,820,940**	136,636,629	118,307,829
Fully diluted	**149,820,940**	137,790,525	149,318,672
Total assets	**$ 47,143**	$ 42,714	$ 49,746
Shareholders' equity (deficiency)	**$ 12,931**	$ 12,184	$ (7,193)

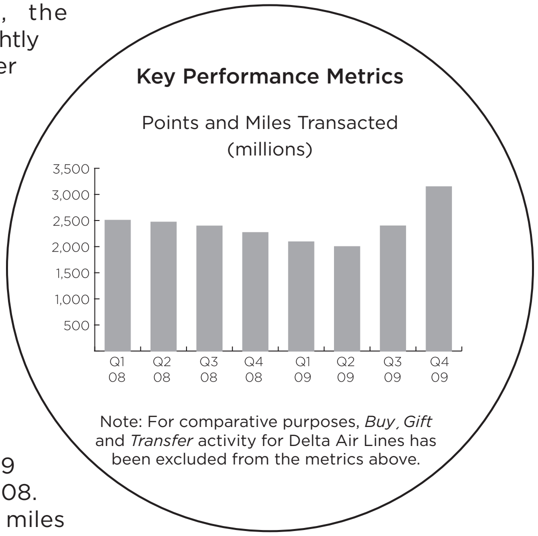
(1) See CHANGE IN FUNCTIONAL AND REPORTING CURRENCY – pg.7

BUSINESS CONDITIONS

The Corporation and the majority of its loyalty program partners operate in the travel industry. In 2009, the ongoing global recession continued to place significant pressures on the travel and loyalty program industries. Similar to the general decline in demand for goods and services, the level of loyalty program activity associated with the purchase and transfer of miles and points softened in the first half of 2009. As a result of this softness, the Corporation has seen an increased interest on behalf of many of its partners to boost awareness and overall marketing activity associated with the Points operated Loyalty Currency Services.

Despite this challenging environment, management believes that its suite of Loyalty Solutions are well positioned to assist loyalty programs in finding more ways to enhance the value proposition to their respective loyalty members, engage inactive members and ultimately increase transactional activity. As the focus for loyalty reward program operators shifts from increasing program size to growing program value, management believes the opportunity to cross-sell products that allow end users to utilize their reward currencies in different ways will increase.

Points and miles transacted is considered a key performance measure by Management, as it is viewed as an indicator of the overall demand for the Corporation's products and services. Fluctuations in miles and points transacted are significantly impacted by the timing of promotions run by Points on behalf of its loyalty program partners and, to a lesser extent, seasonality. Historically, the Corporation experiences slightly higher activity in November and December as redemption levels increase during the holiday season.



Despite a challenging economic environment, total miles and points transacted remained near 2008 levels. Excluding Delta Air Lines, which is no longer a material contributor to transactional activity, total miles and points transacted in fiscal 2009 decreased by 1% over 2008. The first half of 2009 saw miles and points transacted decline due to softness in the market stemming from economic pressures. Transactional activity strengthened in the second half of the year due to the launch of the Air France-KLM partnership in the third quarter combined with successful promotional efforts that delivered strong responses from the respective membership bases. The Corporation posted record levels of miles and points transacted in the fourth quarter of 2009. Management anticipates total transactional activity in 2010 to improve on the 2009 results through organic growth in existing partnerships and the addition of new loyalty program partners. The 2010 plan incorporates similar promotional activity patterns to maximize the marketing efforts and resources.

RESULTS OF OPERATIONS

Revenue

(in thousands of US dollars)	**2009**	2008	2007(1)
Principal	**$ 70,781**	$ 65,483	$ 19,643
Other partner revenue	**8,946**	9,194	10,032
Interest	**52**	920	689
Total Revenue	**$ 79,779**	$ 75,597	$ 30,364

(1) See CHANGE IN FUNCTIONAL AND REPORTING CURRENCY – pg.7

Revenue for the year ended December 31, 2009 was $79,779, an increase of $4,182 or 6% over 2008 and in line with the Corporation's revised revenue guidance range of $70,000 and $80,000 issued on August 12, 2009. Due to the restructured relationship with Delta Air Lines, the Corporation modified its initial 2009 forecast of revenue, which ranged between $85,000 and $95,000.

Principal revenue increased by $5,298, or 8% over the prior year ended December 31, 2008. The growth in principal revenue can be attributed to the conversion of Alaska Airlines to the reseller model in the third quarter of 2008 and the launch of Air France-KLM and Mexicana Airlines under the reseller model in 2009. These effects were partially offset by the restructuring of the Delta Air Lines agreement effective October 1, 2009 and a general softening in the market stemming from economic pressures in the first half of 2009.

Other partner revenue decreased by $248, or 3% from the prior year ended December 31, 2008. The decline in other partner revenue over prior year periods can be attributed to two factors. First, the Corporation successfully converted Alaska Airlines to the reseller model during the third quarter of 2008, decreasing other partner revenue but increasing principal revenue. Secondly, Northwest Airlines discontinued their *Buy* and *Gift* products in the fourth quarter of 2008 and their *Transfer* product in the second quarter of 2008. These impacts were partially offset by a series of payments related to the restructured relationship with Delta Air Lines in the fourth quarter of 2009.

Interest revenue decreased $868 or 94% over the prior year ended December 31, 2008 due to a significant decline in short-term interest rates relative to 2008. Points' short-term investments are valued quarterly at the lower of cost or market value. At December 31, 2009, the Corporation's investments were earning interest between 0.01% and 0.35% per annum.

Dependence on Loyalty Program Partners

For the year ended December 31, 2009, three partners represented 81% (2008 – two partners represented 78%) of the Corporation's consolidated revenue. In addition, as at December 31, 2009, 16% of the Corporation's payables to loyalty partners are attributed to three customers (2008 – three partners represented 64%). The loss of any one or more of the Corporation's key loyalty program partners could have a material adverse affect on the Corporation's business, revenues, operating results and financial condition. The restructured relationship with Delta Air Lines effective October 1, 2009 had a materially adverse impact on the Corporation's fourth quarter revenues in fiscal 2009. Management anticipates the percentage of revenue contributed by these three partners to decline in 2010 as it launches new partnerships.

Direct costs and gross margin

(in thousands of US dollars)	**2009**	2008	2007(1)
Direct cost of principal revenue	**$ 60,902**	$ 55,786	$ 14,390
Processing fees and related charges	**2,155**	2,931	1,506
Total direct costs	**$ 63,057**	$ 58,717	$ 15,896

(1) See CHANGE IN FUNCTIONAL AND REPORTING CURRENCY – pg.7

Direct costs consist of the directly variable and attributable costs incurred for revenues earned. Direct cost of principal revenue represents the cost of miles paid to partners for miles transacted. Processing fees and related charges include credit card fees and other adjustments. Direct costs will continue to scale with the number and size of loyalty programs contracted under the principal model and growth of existing products and will generally grow in line with the growth in principal revenue.

The direct cost of principal revenue grew by $5,116, or 9% over the prior year, in line with the growth in principal revenue. The decline of processing fees in 2009 is attributed to a change in economics under a renewed relationship with an existing partner in the second quarter of 2008 and the restructured relationship with Delta Air Lines.

Gross margin of $16,722 for the year ended December 31, 2009 decreased $158 or 1% over the prior year. See GROSS MARGIN section on page 8 for additional information.

Ongoing operating costs

(in thousands of US dollars)	**2009**	2008	2007(1)
Employment costs	**$ 10,637**	$ 11,175	$ 8,756
Marketing and communications	**1,749**	1,259	1,544
Technology services	**935**	882	850
Operating expenses	**2,794**	3,008	2,950
Total ongoing operating costs	**$ 16,115**	$ 16,324	$ 14,100

(1) See CHANGE IN FUNCTIONAL AND REPORTING CURRENCY – pg.7

Ongoing operating costs were $16,115 for the year ended December 31, 2009, a decrease of $209 or 1% from the prior year. Management's ability to control ongoing operating costs is a key focus to ensure that increases to gross margin are accretive to EBITDA.

Employment Costs

Employment costs include salaries, employee stock option expense, contract labour charges, recruiting, benefits and other government charges. Employment costs decreased $538 or 5% from 2008. The decrease can be attributed to higher capitalized employment costs related to the development of the new Loyalty Currency Services technology platform. Expected efficiencies to be gained from this new platform enabled the Corporation to begin restructuring its operating expenses. Accordingly, the Corporation significantly reduced its use of external contractors and reduced full-time equivalents by approximately 20% during the second half of 2009. The number of short-term contractors decreased from 18 as at December 31, 2008 to 4 as at December 31, 2009. Full-time headcount decreased from 97 as at December 31, 2008 to 91 as at December 31, 2009. Management does not expect significant headcount adjustments in 2010.

Marketing and Communications

Marketing expenditures are focused on loyalty program marketing initiatives, increasing the number of placements on contracted loyalty program websites and the effectiveness of existing placements. Marketing costs for the year ended December 31, 2009 increased by $490, or 39% from the prior year, as a result of increased promotional efforts and initial costs focused on the rebrand and redesign of the Consumer Hub at *Points.com*. Management anticipates marketing expenditures to increase in 2010 in line with the growth in revenues from the Consumer Hub at *Points.com*.

Technology Services

Technology expenses include online hosting and managed services, equipment rental, software licenses and capital lease expenses. The Corporation has been able to work with its service provider in this area to control cost increases to 6%, while not impacting the technology and services that operate the Corporation's business.

Operating Expenses

Operating expenses include office overhead, travel expenses, professional fees and other costs associated with operations. Operating expenses decreased $214, or 7% from the prior year. The decrease over the prior year can be attributed to initiatives undertaken by management to actively manage costs, including limitations on travel related costs and renegotiating vendor contracts.

Amortization, interest and other expenses

(in thousands of US dollars)	**2009**	2008	2007(1)
Amortization	**$ 783**	$ 1,533	$ 2,847
Foreign exchange (gain) loss	**(242)**	756	518
Interest on preferred shares	**–**	517	1,092
Interest and capital tax	**14**	49	46
Impairment of long-lived assets(2)	**–**	1,256	–
Restructuring charges(3)	**332**	–	–
Recovery of future income taxes(4)	**(344)**	–	–
Total amortization, interest and other expenses	**$ 543**	$ 4,111	$ 4,503

(1) See CHANGE IN FUNCTIONAL AND REPORTING CURRENCY – pg.7

(2) See IMPAIRMENT OF LONG-LIVED ASSETS – pg.12

(3) See RESTRUCTURING CHARGES – pg.12

(4) See RECOVERY OF FUTURE INCOME TAXES – pg.13

Amortization Expense

Amortization expense decreased $750 or 49% from the prior year ended December 31, 2008, primarily due to the end of the amortization period with respect to certain purchases made by the Corporation in prior years. In addition, the Corporation ceased amortization of the MilePoint Inc. business asset acquisition that occurred in April 2004. This asset was considered impaired in the fourth quarter of 2008 and the remaining carrying value was written off at that time. Amortization expense is expected to increase in 2010 as the Corporation begins to amortize its new technology platforms.

Foreign Exchange (Gain) Loss

Foreign exchange gains and losses arise from the translation of the Corporation's balance sheet and expenses. The Corporation holds balances in foreign currencies (e.g., non-US dollar denominated cash and short-term investments, accounts payable and accrued liabilities, and deposits) that give rise to exposure to foreign exchange risk. At period end, non-US dollar balance sheet accounts are translated in accordance with the period-ending foreign exchange ("FX") rate. To the extent that the foreign denominated assets and liabilities are not equal, the net effect after translating the balance sheet accounts is charged to the income statement. The Corporation has very limited control over the FX loss (gain) from one period to the next. In general and strictly relating to the FX loss (gain) of translating certain non-US dollar balance sheet accounts, a strengthening US dollar will lead to a FX loss while a weakening US dollar will lead to a FX gain.

Canadian / US FX Rates(1)	**2009**	2008	2007
Period Start	**0.818**	1.018	0.857
Period End	**0.953**	0.818	1.018
Period Average	**0.880**	0.944	0.929

(1) Source: www.oanda.com

The translation of the Corporation's expenses is, and will continue to be, sensitive to changes in the Canadian / US FX rate. A change to the FX rate has an impact on certain expenses of the Corporation, including employment costs, professional fees, and office expenses. For the year ended December 31, 2009, approximately 16% (2008 – 18%) of the Corporation's expenses (including non-cash interest expense but excluding provision for future income taxes) are in CAD$ and 9% (2008 – nil) of the Corporations expenses are in EUROs, with the remaining expenses primarily US$. Management expects that the percentage of CAD$ expenses will decrease in the future as it adds additional international partners under the reseller model.

In an effort to minimize its risk to fluctuations in the Canadian / US exchange rate and control costs, management has implemented a hedging strategy in 2010 utilizing forward contracts to fix the exchange rate over the majority of its CAD$ expenses.

For the year ended December 31, 2009, the Corporation recorded a FX gain of $242 (2008 – ($756)). The FX gain was primarily due to a weakening US dollar which resulted in unrealized FX gains on the translation of the Corporation's non-US dollar cash reserves.

Restructuring Charges

During the third quarter of 2009, the Corporation initiated a restructuring of its operations in anticipation of expected efficiencies it would 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. During the year ended December 31, 2009, the Corporation paid $178, in severance costs. 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.

Impairment of Long-Lived Assets

In 2008, the Corporation recorded total impairment charges of $1,256 related to three long-lived assets.

At the end of 2008, Management re-evaluated its patent strategy and determined that it would abandon the pursuit of certain patent applications which did not support the long-term strategic plans of the Corporation. Some of these included applications in non-core jurisdictions. The Corporation recorded an impairment charge of $584 which represented the costs incurred to date in pursuing the patent applications that have now been abandoned.

In addition, the Corporation recorded an impairment charge of $414, related to the remaining carrying value of a contract and customer list intangible asset that arose from the MilePoint Inc. business asset acquisition in 2004. This asset was being amortized over the term of the contracts acquired in the acquisition. The remaining carrying value related solely to a contract with one loyalty program partner who discontinued its use of the MilePoint product associated with this contract. Once these products were discontinued by the partner, Management determined the remaining value to be impaired.

Lastly, the Corporation recorded an impairment charge of $258 related to internal use software development assets. The impairment is related to technical assets for which the Corporation will not continue to fund due to changes in the market place. Changes in the market place were sufficient to indicate impairment to the carrying value.

In 2009, no impairment charge was recorded.

Recovery of Future Income Taxes

The Corporation is subject to tax in multiple jurisdictions and assesses its taxable income to ensure eligible tax deductions are fully utilized. The Corporation recorded a future income tax recovery of $344 which relates to a change in estimate of loss carry-forwards that will be utilized in future periods to offset future taxable income.

Net income (loss) and earnings (loss) per share

(in thousands of US dollars, except per share amounts)	**2009**	2008	2007(1)
Net income (loss)	**$ 64**	$ (3,555)	$ (4,135)
Earnings (loss) per share			
Basic	**$ 0.00**	$ (0.03)	$ (0.04)
Fully diluted	**$ 0.00**	$ (0.03)	$ (0.04)

(1) See CHANGE IN FUNCTIONAL AND REPORTING CURRENCY – pg.7

The Corporation reported net income of $64, or nil per share for the year ended December 31, 2009 compared with a net loss of $3,555, for the year ended December 31, 2008 or $0.03 net loss per share. Earnings for the year ended December 31, 2009 represented a $3,619, or $0.03 per share improvement over the prior year. This increase over the prior year can be primarily attributed to lower operating expenditures, a foreign exchange gain, and impairment charges incurred in the prior year. This was partially offset by restructuring charges taken and lower interest income earned in 2009.

The Corporation's basic earnings per share is calculated on the basis of the weighted average number of outstanding common shares for the period, which amounted to 149,821 thousand common shares for the year ended December 31, 2009, compared with 136,637 thousand for the year ended December 31, 2008. The Corporation reported nil basic earnings per share for the year ended December 31, 2009 compared with a basic loss per share of $0.03 for the year ended December 31, 2008 and a basic loss of $0.04 per share for the year ended December 31, 2007. For the years ended December 31, 2008 and December 31, 2007 the basic and diluted loss per share were the same as the impact of conversions, options and warrants were anti-dilutive.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated Balance Sheet Data as at December 31,

(in thousands of US dollars)	**2009**	2008	2007(1)
Total funds available	**$ 35,534**	$ 30,962	$ 35,629
TOTAL ASSETS	**47,143**	42,714	49,746
Current liabilities	**33,911**	30,271	35,872
Liabilities	**34,212**	30,530	56,938
Shareholders' Equity	**12,931**	12,184	(7,192)
LIABILITIES AND SHAREHOLDERS' EQUITY	**47,143**	42,714	49,746
Working Capital	**$ 5,373**	$ 5,534	$ 5,758

(1) See CHANGE IN FUNCTIONAL AND REPORTING CURRENCY – pg.7

The Corporation's financial strength is reflected in its balance sheet. As at December 31, 2009, the Corporation continues to remain debt-free with $35,534 (2008 – $30,962) of total funds available, which is comprised of cash and cash equivalents, funds receivable from payment processors, short-term investments, and security deposits.

The Corporation's working capital (defined as current assets minus current liabilities) was $5,373 at December 31, 2009 versus working capital of $5,534 as at December 31, 2008. The increase in cash funds available was offset by a corresponding increase in current liabilities due to the timing of partner payments. The decline in working capital was primarily due to the reclassification of certain current prepaid assets to non-current other assets, which was offset by an increase in the future income tax asset. Management considers its working capital position to be sufficient to meet its current obligations.

Sources and Uses of Cash

Cash Inflow (Outflow) Summary

(in thousands of US dollars)	**2009**	2008	2007(1)
Operating activities	**$ 4,799**	$ (4,553)	$ 11,378
Investing activities	**(4,105)**	5,777	(8,432)
Financing activities	**–**	1,952	1,345
Effects of exchange rates	**366**	(1,858)	305
Change in cash and cash equivalents	**$ 1,060**	$ 1,318	$ 4,596

(1) See CHANGE IN FUNCTIONAL AND REPORTING CURRENCY – pg.7

Operating Activities

Cash flows provided by operating activities in fiscal 2009 were due to positive EBITDA, and the timing of payments with certain loyalty program operators. Positive cash flows provided by operating activities increased over the prior year largely due to one-time changes in the timing of payments to certain loyalty program partners made in the fourth quarter of 2008.

Investing Activities

Cash used in investing activities of $4,105 for the year ended December 31, 2009 was primarily related to the purchase of short-term investments to best utilize the Corporation's cash on hand. In addition, the Corporation invested in the development of its new Loyalty Currency Services technology platform and enhancements made to the Consumer Hub at *Points.com*. Cash flows provided by investing activities of $5,777 in fiscal 2008 primarily related to the sale of short-term investments.

Management anticipates significant levels of capital expenditures to be incurred throughout 2010 as it continues to focus on product and technology development as part of Project ePoch, a core strategy to the Corporation's future growth plans. The Corporation will fund these capital expenditures entirely from its working capital.

Financing Activities

The Corporation did not use or generate funds from financing activities this year. At present, the Corporation does not anticipate raising capital through the issuance of debt or equity.

Contractual Obligations and Commitments

(in thousands of US dollars)	**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 relation to the reseller model, the Corporation has made contractual commitments on the minimum value of transactions processed over the term of its agreements with loyalty program operators. In connection with this type of guarantee, the Corporation would be obligated to purchase mileage from the loyalty program partner equal to the value of the revenue commitment shortfall. The Corporation would be able to utilize this mileage in subsequent sales activity, incentive programs, and marketing activities.

The Corporation does not anticipate that it will incur any further financial obligations as a result of these contractual commitments. Accordingly, no amount has been recorded in the consolidated financial statements to date related to such future contractual commitments.

Cash from Exercise of Options

Certain options are due to expire within 12 months from March 24, 2010. If exercised in full, the proceeds from the exercise of these securities will increase cash by CAD$442,217. Assuming the exercise in full of these securities, issued and outstanding common shares will increase by 494,667 shares.

Securities with Near-Term Expiry Dates – Outstanding Amounts as at March 24, 2010 (figures in CAD$)

Security Type	Expiry Date	Number	Strike Price	Proceeds
Options	5/10/2010	349,667	$ 0.85	$ 297,217
Options	1/25/2011	145,000	$ 1.00	145,000
Total		494,667		$ 442,217

OUTSTANDING SHARE DATA

As at March 24, 2010, the Corporation has 149,820,940 common shares outstanding.

As at March 24, 2010, the Corporation has outstanding options to acquire up to 11,103,077 common shares. The options have exercise prices ranging from $0.34 to $2.49 with a weighted average exercise price of $0.98. The expiration dates of the options range from May 10, 2010 to March 22, 2015.

The following table lists the common shares issued and outstanding as at March 24, 2010 and the securities that are currently convertible into common shares along with the maximum number of common shares issuable on conversion or exercise.

	Common Shares	Proceeds on Exercise
Common Shares Issued & Outstanding	149,820,940	
Convertible Securities:		
Stock options	11,103,077	CAD$ 10,900,810
Diluted	160,924,017	CAD$ 10,900,810
Securities Excluded from Calculation:		
Options available to grant from ESOP (1)	84,605	

(1) The number of options available to grant is calculated as the total stock option pool less the number of stock options exercised and the number of outstanding stock options.

FOURTH QUARTER RESULTS

Results of Operations	for the three months ended		
(in thousands of US dollars, except per share amounts)	**December 31, 2009**	September 30, 2009	December 31, 2008
Revenue	**$ 16,577**	$ 20,732	$ 21,702
Direct cost of principal revenue	**10,153**	16,393	16,928
Processing fees and related charges	**379**	582	617
Total direct costs	**10,532**	16,975	17,545
Gross margin	**6,045**	3,757	4,157
Ongoing operating costs	**4,364**	3,685	4,116
EBITDA	**1,681**	72	41
Amortization, interest and other expenses	**(217)**	337	3,068
Net income (loss)	**1,898**	(265)	(3,027)
Earnings (loss) per share			
Basic	**$ 0.01**	$ (0.00)	$ (0.02)
Fully diluted	**$ 0.01**	$ (0.00)	$ (0.02)

Revenue

Revenues of $16,577 decreased $4,155 or 20% from the third quarter of 2009 and decreased $5,125 or 24% from the fourth quarter of 2008. The decrease in revenues from the prior periods can primarily be attributed to a decline in principal revenues due to the restructured relationship with Delta Air Lines effective October 1, 2009. This was partially offset by the launch of a new partnership in the third quarter of 2009 and successful promotional efforts during the fourth quarter.

Direct costs and gross margin

Direct costs of $10,532 decreased $6,443 or 38% from the third quarter of 2009 and decreased $7,013 or 40% from the fourth quarter of 2008. The decrease over prior periods can be attributed to the restructured relationship with Delta Air Lines effective October 1, 2009.

Gross margin increased $2,228 or 61% over the third quarter of 2009 and increased $1,888 or 45% over the fourth quarter of 2008. The increases in gross margin was due to two reasons.

First, the terms of the restructuring with Delta Air Lines provided for a series of payments over the fourth quarter of 2009. These payments allowed the Corporation to maintain its expected 2009 economics associated with this relationship. Second, the Corporation achieved record levels of transactional activity during the fourth quarter of 2009 through effective promotional efforts on behalf of many loyalty program partners.

Ongoing operating costs

	for the three months ended		
(in thousands of US dollars)	**December 31, 2009**	September 30, 2009	December 31, 2008
Employment costs	**$ 2,641**	$ 2,538	$ 2,895
Marketing and communications	**691**	328	298
Technology services	**240**	253	198
Operating expenses	**792**	566	725
Total ongoing operating costs	**$ 4,364**	$ 3,685	$ 4,116

Ongoing operating costs increased $679 or 18% over the third quarter of 2009 and increased $248 or 6% over the fourth quarter of 2008. The increase over the third quarter of 2009 can primarily be attributed to marketing expenditures related to the rebrand and redesign of the Consumer Hub at *Points.com* and an increase in general office expenses.

Amortization, interest and other expenses

	for the three months ended		
(in thousands of US dollars)	**December 31, 2009**	September 30, 2009	December 31, 2008
Amortization	**$ 233**	$ 200	$ 363
Foreign exchange (gain) loss	**(3)**	(70)	1,441
Interest and capital tax	**19**	(28)	8
Impairment of long-lived assets(1)	**–**	–	1,256
Restructuring charges(2)	**–**	332	–
Provision for future income taxes	**(466)**	(97)	–
Total amortization, interest, and other expenses	**$ (217)**	$ 337	$ 3,068

(1) See IMPAIRMENT OF LONG-LIVED ASSETS – pg.12

(2) See RESTRUCTURING CHARGES – pg.12

The Corporation recorded a foreign exchange gain of $3 in the fourth quarter of 2009 versus a foreign exchange loss of $1,441 in the fourth quarter of 2008. In the fourth quarter of 2008, the US dollar strengthened considerably from the end of the third quarter of 2008, resulting in a significant unrealized foreign exchange loss on the translation of the Corporation's non-US dollar cash reserves.

The Corporation recorded a future income tax recovery of $466 in the fourth quarter of 2009, which relates to a change in estimate of loss carry-forwards that will be utilized in future periods to offset future taxable income.

The Corporation recorded non-recurring charges in both the third quarter of 2009 and fourth quarter of 2008. In the third quarter of 2009, the Corporation recorded restructuring charges of $332 related to a restructuring of its operating expenses in anticipation of expected efficiencies it will achieve from its new technology platform (see RESTRUCTURING CHARGES – page 12). In addition, the Corporation recorded impairment charges related to certain long-lived assets (see IMPAIRMENT OF LONG-LIVED ASSETS – page 12) in the fourth quarter of 2008.

EBITDA

Reconciliation of Operating Income (Loss) to EBITDA

	for the three months ended		
(in thousands of US dollars)	**December 31, 2009**	September 30, 2009	December 31, 2008
Operating income (loss)	**$ 1,451**	$ (391)	$ (1,762)
Amortization	**233**	200	363
Foreign exchange (gain)/loss	**(3)**	(70)	1,441
Restructuring charges[1]	**–**	332	–
EBITDA	**$ 1,681**	$ 71	$ 42

(1) See RESTRUCTURING CHARGES – pg.12

EBITDA of $1,681 increased $1,610 over the third quarter of 2009 and increased $1,639 over the fourth quarter of 2008. The EBITDA improvement over prior periods was primarily driven by growth in revenues at comparable or stronger margins.

SUMMARY OF QUARTERLY RESULTS

(in thousands of US dollars, except per share amounts) Quarter ended	Revenue	Net income (loss)	Basic earnings (loss) per Share	Fully diluted earning (loss) per Share
December 31, 2009	$ 16,577	$ 1,898	$ 0.01	$ 0.01
September 30, 2009	$ 20,732	$ (265)	$ 0.00	$ 0.00
June 30, 2009	$ 21,324	$ (471)	$ 0.00	$ 0.00
March 31, 2009	$ 21,146	$ (1,099)	$ (0.01)	$ (0.01)
December 31, 2008	$ 21,702	$ (3,027)	$ (0.02)	$ (0.02)
September 30, 2008	$ 20,384	$ (1,373)	$ (0.01)	$ (0.01)
June 30, 2008	$ 17,300	$ 43	$ 0.00	$ 0.00
March 31, 2008	$ 16,211	$ 802	$ 0.01	$ 0.01

CRITICAL ACCOUNTING ESTIMATES

Evaluation of 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. Because the valuation goodwill requires significant estimates and judgment about future performance and fair value, our future results could be affected if our current estimates of future performance and fair value change.

Income Taxes

The Corporation is required to estimate the income taxes in each of the jurisdictions in which it operates. This includes estimating a value for existing net operating losses based on the Corporation's assessment of its ability to utilize them against future taxable income before they expire. If the Corporation's assessment of its ability to use the net operating losses proves not to be accurate in the future, more or less of the net operating losses might be recognized as assets, which would impact the income tax expense, and consequently affect the Corporation's net earnings in the relevant year.

The Corporation is subject to examination by taxation authorities in various jurisdictions. Because the determination of tax liabilities involves certain uncertainties in interpreting complex tax regulations, management's best estimates is used to determine potential tax liabilities. Differences between the estimates and the actual amount of taxes are recorded in net earnings at the time they can be determined.

Stock-based compensation

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.

Changes in the subjective input assumptions can materially affect the fair value estimate and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the stock options. A change in the assumptions used by the Corporation could have an impact on net earnings.

CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

Effective January 1, 2009, the Corporation adopted Canadian Institute of Chartered Accountants ("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 and 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. In addition, the Corporation has classified $503 of amortization for the year ended December 31, 2008 from "Amortization of property and equipment" to "Amortization of intangible assets" on the consolidated statement 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 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 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 impact on the financial statements.

Financial Instruments

In June 2009, the CICA issued amendments to its Financial Instruments – Disclosure standard to expand disclosures of financial instruments consistent with new disclosure requirements made under International Financial Reporting Standards ("IFRS"). 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 of the Corporation's 2009 Annual Consolidated Financial Statements.

FUTURE ACCOUNTING POLICY CHANGES

International Financial Reporting Standards ("IFRS")

For the Corporation, IFRS will be required for interim and annual financial statements for the fiscal year commencing January 1, 2011, and will include the preparation and reporting of one year of comparative figures.

In order to prepare for the transition to IFRS, the Corporation has developed a formal IFRS Transition Plan which consists of three related phases: (i) planning and governance; (ii) review and detailed assessment; and (iii) design, development and implementation.

This plan includes a formal project structure including project governance, an estimate of required resources (both internal and external), a detailed timeline for the remainder of fiscal 2010, a training program, and a selection of all IFRS 1 elections. In addition, the Corporation is undergoing an assessment of the impact of IFRS on data systems, internal controls over financial reporting, disclosure controls and procedures, and business activities such as financing and compensation arrangements.

Management has assessed the impact of International Accounting Standard ("IAS") 38 "Intangible Assets," IAS 16 "Property, Plant & Equipment," and IAS 21 "The Effects of Changes in Foreign Exchange Rates." On initial assessment, no material differences were found after considering the measurement and recognition requirements of these standards. Management continues to assess the impact of the convergence towards IFRS on its financial reporting framework including the impact of potential significant differences between current IFRS and Canadian GAAP as they apply to the Corporation.

As we execute our IFRS Transition Plan and move from Canadian GAAP to IFRS, our disclosure on accounting differences is expected to increase. We will present our results for fiscal 2010 using Canadian GAAP while also presenting supplementary disclosure for fiscal 2010 according to IFRS for presentation in 2011. To accomplish this, the Corporation will effectively maintain two parallel books of account in 2010.

Business Combinations

In January 2009, the CICA issued a new Handbook Section 1582, "Business Combinations." Section 1582 will be converged with IFRS 3, "Business Combinations" and replaces Handbook Section 1581, "Business Combinations." Section 1582 establishes the standards for the measurement of a business combination and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This Section is effective for business combinations for which the acquisition date is on or after January 1, 2011. The Corporation may elect to early adopt this Section and if so, will be required to early adopt Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-controlling Interests."

Consolidated Financial Statements

In January 2009, the CICA issued Handbook Section 1601, "Consolidated Financial Statements," which replaces Handbook Section 1600, "Consolidated Financial Statements" other than the standards relating to non-controlling interests. The Section establishes the standards for preparing consolidated financial statements and is effective for fiscal years beginning on or after January 1, 2011. The Corporation may elect to early adopt this Section and if so, will be required to early adopt Section 1582, "Business Combinations" and Section 1602, "Non-controlling Interests."

Non-controlling Interests

In January 2009, the CICA issued new Handbook Section 1602, "Non-controlling Interests," which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is effective for fiscal years beginning on or after January 1, 2011. The Corporation may elect to early adopt this Section and if so, will be required to early adopt Section 1582, "Business Combinations" and Section 1601, "Consolidated Financial Statements."

Revenue Arrangements with Multiple Deliverables

In December 2009, the Accounting Standards Board 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.

RISK FACTORS

The following is a discussion of the risk factors relating to the Corporation and its business.

Economic Conditions

The current economic downturn may adversely impact the Corporation's revenue. The level of business activity of the Corporation's partners, which is affected by economic conditions, has a bearing on the results of Points' operations. The Corporation can neither predict the impact that current economic conditions will have on our future revenue, nor when economic conditions will show meaningful improvement. During an economic downturn, Points' partners and potential partners often cancel, reduce, defer or delay entering into new engagements. This may cause Points' pricing, revenue and profitability to be negatively impacted.

Travel Industry Risks

The Corporation and the majority of its loyalty program partners operate in the travel industry in North America. The ability of the Corporation's loyalty program partners to continue to drive commercial activity to their businesses is integral to generating loyalty points/miles for their respective programs. As well, the overall popularity of loyalty points/miles and value they have to end-customers is what drives the business activity of the Corporation. Points generates the majority of its revenue from end-customers who are transacting loyalty points/miles through the Corporation's online solutions. As such, the majority of revenue is transactional in nature and dependent on the number and size of these transactions. There is no assurance that the popularity of these programs will continue to grow or maintain current levels of popularity. A change in consumer tastes or a downturn in the travel industry in North America may adversely affect the Corporation's ability to generate ongoing revenue from transactions.

Dependence on Loyalty Program Partners

There can be no assurance that the Corporation will be successful in maintaining its existing contractual relationships with its loyalty program partners. The Corporation's loyalty program partners have in the past, and may in the future, negotiate arrangements that are short-term and subject to renewal, non-exclusive and/or terminable at the option of the partner on relatively short notice without penalty. Loyalty program partners that have not provided a long-term commitment or guarantee of exclusivity, or that have the ability to terminate on short notice, may exercise this flexibility to end their relationship with the Corporation or to negotiate from time to time more preferential financial and other terms than originally contracted for. The Corporation cannot ensure that such negotiations will not have a material adverse affect on the financial condition or results of operations of the Corporation. In addition, there can be no assurance that the Corporation will be able to establish relationships with new loyalty program partners.

For more information see the REVENUE section – DEPENDENCE ON LOYALTY PROGRAM PARTNERS on page 10.

Contractual Performance Commitments

The Corporation, in some of its agreements with loyalty program partners, has made commitments as to the number of points/miles it will process or revenues it will generate for its partners over the term of its agreements. The commitments are measured annually. There is a risk that these commitments may not be met, resulting in the Corporation being required to purchase the shortfall in points/miles to meet annual contracted levels and take these into inventory. The Corporation's ability to use or sell any purchased points/miles is limited by terms in its contracts. As a result, there is a risk that the Corporation may have difficulty in selling or making use of this inventory which could have a material adverse effect on the Corporation's business, revenues, operating results and financial condition. There is also a risk that the Corporation may have insufficient resources to purchase any shortfall and that the Corporation may need to obtain financing to meet such commitments. There is a risk that such financing may not be available to the Corporation. The failure to obtain such financing could have a material adverse impact on the Corporation's business, revenues, operating results and financial condition.

Lack of Profitability

Prior to the first quarter of 2008, the Corporation had never had a profitable quarter in its operating history. The Corporation may not be profitable in future periods.

Liquidity

The Corporation faces a liquidity risk due to various factors, including and not limited to, the unpredictability of the current economic climate, failure to secure appropriate funding vehicles and cash flow issues relating to the operation and management of the business. Failure to fulfill financial obligations due and owing from the Corporation as a result of this liquidity risk can have undesirable consequences on the Corporation. The Corporation takes several precautions in order to protect its interests, such as maintaining a suitable financing source to support the Corporation's operations and by ensuring that it has appropriate cash reserves to fulfill its financial obligations.

Competition

The ecommerce market is intensely competitive, and we have many competitors with substantial financial, marketing, personnel and technological resources. New competitors may also appear as new technologies, products and services are developed. Competition could affect our pricing strategies, and lower our revenues and net earnings. It could also affect our ability to retain existing partners and attract new ones. As well, competitors of the Corporation may have longstanding relationships with their customers. As a result, it may be difficult for the Corporation to penetrate certain markets to gain new customers or loyalty program partners.

Growth-Related Risks

The Corporation may be subject to growth-related risks, including working capital constraints, capacity constraints and pressure on its internal systems and controls. The Corporation's ability to manage potential future growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. Any inability of the Corporation to deal with this growth could have a materially adverse impact on its business, operations and prospects.

Internet Viability and System Infrastructure Reliability Risk

The end-consumers of the Corporation's software depend on internet service providers, online service providers and the Corporation's infrastructure for access to the software solutions the Corporation provides to its loyalty program partners. These services are subject to service outages and delays due to system failures, stability or interruption. As a result, the Corporation may not be able to meet a satisfactory level of service as contracted with its partners, and may cause a breach of the Corporation's contractual commitments, which could have a material adverse effect on the Corporation's business, revenues, operating results and financial condition.

Brand

The Corporation believes that continuing to strengthen its brand is an important factor in achieving widespread acceptance of the Corporation's services, and will require an increased focus on active marketing efforts. The Corporation will likely need to spend increasing amounts of money on, and devote greater resources to, advertising, marketing, and other efforts to create and maintain brand loyalty among users and potential users. Brand promotion activities may not yield increased revenues, and even if they do, any increased revenues may not offset the expenses incurred in building the Corporation's brand. If the Corporation fails to promote and maintain the Corporation's brand, or if the Corporation incurs substantial expenses in an unsuccessful attempt to promote and maintain the Corporation's brand, the Corporation's business could be harmed.

Online Advertising

The Corporation currently derives, and intends in the future to derive, a portion of its revenue from online advertising. The Corporation's ability to generate online advertising revenue will depend on a number of factors, including its user base being attractive to advertisers, its ability to derive better demographic and other information from users, competition for online advertising dollars from other media and changes in the advertising industry and economy generally.

Intellectual Property

Our success depends, in part, on our ability to protect our proprietary methodologies, processes, know-how, tools, techniques and other intellectual property that we use to provide our services. Our general practice is to pursue patent, copyright, trademark, trade secret or other appropriate intellectual property protection that is reasonable and necessary to protect and leverage our intellectual assets. We also assert trademark rights in and to our name, product names, logos and other markings used to identify our goods and services in the marketplace. We routinely file for and have been granted trademark registrations from trademark offices worldwide. All of these actions taken allow us to enforce our intellectual property rights should the need arise. However, the laws of some countries in which we conduct business may offer only limited protection of our intellectual property rights; and despite our efforts, the steps taken to protect our intellectual property may not be adequate to prevent or deter infringement or other misappropriation of intellectual property, and we may not be able to detect unauthorized use of our intellectual property, or take appropriate steps to enforce our intellectual property rights.

Infringing on the Intellectual Property Rights of Others

Third parties may assert claims against the Corporation alleging infringement of their intellectual property rights. An adverse determination in any litigation of this type could result in the Corporation being required to pay significant damages, require the Corporation to design around a third party's patent or to license alternative technology from another party. In addition, litigation may be time-consuming and expensive to defend and could result in the diversion of time and resources. Any claims by third parties may also result in limitations on the ability to use the intellectual property subject to these claims. Any of the foregoing could have a material adverse effect on the Corporation's business, revenues, operating results and financial condition.

Defects in Software or Failures in Processing of Transactions

Defects in our owned or licensed software products, delays in delivery, and failures or mistakes in our processing of electronic transactions could materially harm our business, including our customer relationships and operating results. Our operations are dependent on our ability to protect our computer equipment and the information stored in our data centres against damage that may be caused by fire, power loss, telecommunication failures, unauthorized intrusion, computer viruses and disabling devices, and other similar events. A failure in our production systems or a disaster or other event affecting our production systems or business operations could result in a disruption or loss of availability of our products or services to our customers. Any disruption to our services could impair our reputation and cause us to lose customers or revenue, or face litigation, necessitate customer service or repair work that would involve substantial costs and distract management from operating our business.

Retention of Key Personnel

Our performance is substantially dependent on the performance of our key technical and senior management personnel. Our success is highly dependent on our continuing ability to identify, hire, train, motivate, promote and retain highly qualified management, directors, technical, and sales and marketing personnel. Competition for such personnel is always strong. Our inability to attract or retain the necessary management, directors, technical, and sales and marketing personnel, or to attract such personnel on a timely basis could have a material adverse affect on our business, results of operations, financial condition and the price of our securities.

Foreign Exchange

The US dollar is subject to fluctuations in the exchange rate of currencies of the countries in which the Corporation operates, including Canadian dollars, British pounds sterling and Euros. Accordingly, fluctuations in the exchange rates of world currencies could have a material adverse effect on the Corporation's reported results. In 2010, the Corporation entered into foreign currency forward contracts to hedge the exchange rate risk on the majority of its expected requirement for Canadian dollars.

In 2009, currency markets experienced volatility as a fall out from recent turbulence in the financial markets. In general and strictly relating to the FX loss (gain) of translating certain balance sheet accounts, a weakening US dollar will lead to a FX loss. Sensitivity to a +/- 10% movement in exchange rates with the US dollar would affect the Corporation's income and other comprehensive income by $96 (2008 – $672).

Credit Risk

The Corporation's term deposits expose 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 Loyalty Solutions 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.

Chargebacks

A chargeback is any credit card transaction undertaken by an end-customer that is later reversed or repudiated. The Corporation is subject to exposure in regard to chargebacks, a high incidence of which could result in penalties or eventual shut down of the payment method. While Points has fraud control measures in place to minimize exposure, chargebacks could have a material adverse effect on its business, operating results and financial condition.

Tax

The application of various domestic and international sales, use, occupancy, value-added and other tax laws, rules and regulations to the Corporation's products and services is subject to interpretation by the applicable taxing authorities. Many of the fundamental statutes and regulations that impose these taxes were established before the growth of the internet and ecommerce. If the tax laws, rules and regulations are amended, if new adverse laws, rules or regulations are adopted, or if current laws are interpreted adversely to the Corporation's interests, particularly with respect to occupancy or value-added taxes, the results could increase the Corporation's tax payments (prospectively or retrospectively) and/or subject it to penalties and decrease the demand for the Corporation's products and services if the Corporation passes on such costs to the consumer. As a result, these changes could have a material adverse effect on the Corporation's business, operating results and financial condition.

US and Canadian Securities Laws Compliance Risks

Any future changes to the laws and regulations affecting public companies, as well as compliance with existing provisions of the Sarbanes Oxley Act of 2002 ("SOX") in the U.S., National Instrument 52-109 and Part XXIII.1 of the Securities Act (Ontario), may cause the Corporation to incur increased costs as it evaluates the implications of new rules and responds to new requirements. Delays, or a failure to comply with the new laws, rules and regulations, could result in enforcement actions, the assessment of other penalties and civil suits. The new laws and regulations make it more expensive for the Corporation under indemnities provided by the Corporation to its officers and directors and may make it more difficult for the Corporation to obtain certain types of insurance, including liability insurance for directors and officers. Accordingly, the Corporation may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for the Corporation to attract and retain qualified persons to serve on its Board of Directors, or as executive officers. The Corporation may be required to hire additional personnel and utilize additional outside legal, accounting and advisory services — all of which could cause general and administrative costs to increase beyond what is currently planned. The Corporation is presently evaluating and monitoring developments with respect to these laws, rules and regulations, and cannot predict or estimate the amount of the additional costs the Corporation may incur or the timing of such costs.

The Corporation is required annually to review and report on the effectiveness of its internal control over financial reporting in accordance with SOX, section 404 and National Instrument 52-109. The Corporation's registered public accounting firm is also required to report on the effectiveness of management's review and on the effectiveness of the Corporation's internal control over financial reporting. Management's review is designed to provide reasonable, not absolute assurance, that all material weaknesses existing within the Corporation's disclosure controls and procedures and internal controls over financial reporting are identified.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The audited consolidated financial statements of Points International Ltd. are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. These statements include some amounts that are based on estimates and judgement. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

The Corporation's policy is to maintain systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, accurate and reliable and that the Corporation's assets are appropriately accounted for and adequately safeguarded. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and is comprised entirely of outside directors. The committee meets periodically with management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee reviews the Corporation's annual consolidated financial statements, the report of the independent registered chartered accountants, the comments by independent registered chartered accountants on Canada-United States of America reporting differences, and other information in the Annual Report. The Committee reports its findings to the Board for consideration by the Board when it approves the financial statements for issuance to the shareholders.

On behalf of the shareholders, the financial statements have been audited by Deloitte & Touche LLP, the external auditors, in accordance with Canadian generally accepted auditing standards and the standards of the Public Corporation Accounting Oversight Board (United States). Deloitte & Touche LLP has full and free access to the Audit Committee.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Corporation in reports filed with securities regulatory agencies is recorded, processed, summarized and reported on a timely basis and is accumulated and communicated to the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. An evaluation was carried out under the supervision of and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Corporation's disclosure controls and procedures (as defined in rules adopted by the US Securities and Exchange Commission ("SEC") and in National Instrument 52-109) as of December 31, 2009. Based on that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures were effective.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Corporation is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Internal control over financial reporting as defined under rules adopted by the SEC and National Instrument 52-109 is a process designed by, or under the supervision of, the Corporation's Chief Executive Officer and the Chief Financial Officer and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with Canadian generally accepted accounting principles. We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, management has concluded that as of December 31, 2009, our internal control over financial reporting is effective.

Internal control includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Corporation, provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with generally accepted accounting principles, provide reasonable assurance that receipts and expenditures are made only in accordance with authorization of management and the Board of Directors, and provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material impact on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and can provide only reasonable assurance with respect to the financial statement preparation and presentation.

The effectiveness of the Corporation's internal control over financial reporting as of December 31, 2009, has been audited by Deloitte & Touche LLP, the Corporation's Independent Registered Chartered Accountants, who also audited the Corporation's Consolidated Financial Statements for the year ended December 31, 2009.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Management believes the Corporation has sufficient qualified personnel with an appropriate level of knowledge and experience in the application of GAAP to exercise proper oversight over its financial reporting function and address the requirements of its normal financial accounting and reporting needs. As well, the use of external advisors to provide support and technical expertise in complex accounting issues will further reinforce disclosure controls and procedures and internal control over financial reporting.

There have been no changes in the Corporation's internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Rob MacLean
Chief Executive Officer

Anthony Lam
Chief Financial Officer