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 consolidated financial statements (including the notes thereon) for the year ended December 31, 2007 and with the Corporation's 2006 audited consolidated financial statements. Further information, including Points' Annual Information Form ("AIF") for the year ended December 31, 2007, 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 Canadian dollars unless otherwise specified. This MD&A is dated as of March 19, 2008.*

The Corporation and its subsidiaries maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings made pursuant to Multilateral Instrument 52-109 is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators' rules and forms. The Corporation's Chief Executive Officer and Chief Financial Officer have evaluated the disclosure controls and procedures as of December 31, 2007 and the conclusions of such review are set out under "Disclosure Controls and Procedures" on page 36 hereof.

FORWARD-LOOKING STATEMENTS

This MD&A contains or incorporates forward-looking statements within the meaning of the 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"). All statements, other than statements of historical fact, are forward-looking statements. These forward-looking statements relate to, among other things, revenue growth through existing sources, new sources of revenue, sales of new products, increases in registered users, increases in transaction sizes, growth in costs and expenses, increases in liquidity, generation of positive cashflow, 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," "intends," "plans," "believes," "estimates" or similar expressions. In addition, any statements that refer to expectations, projections and 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 factors, estimates or 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. Such factors are referred to in the body of this MD&A and also include the risks and uncertainties discussed herein, the matters set forth under "Risks and Uncertainties" contained in the AIF filed with applicable securities regulators and the factors detailed in Points' other filings with applicable securities regulators, including the factors detailed in Points' annual and interim financial statements and the notes thereto. Readers are cautioned that forward-looking statements are not guarantees of future performance.

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.

UPDATE ON ACCOUNTING CHANGES

RESTATEMENT

The information contained in this MD&A has been adjusted to reflect the restatement of our previously issued financial statements and other financial information, as more fully described below.

Restatement of Transition Services Costs in Goodwill

During 2007, the Corporation's 2006 40-F filing was reviewed by the U.S. Securities and Exchange Commission. As a result of that review process which was concluded on February 29, 2008, the Corporation will be restating its 2006 consolidated financial statements to write down transition service costs that were originally capitalized to Goodwill. Costs of $365,515 and $306,138 incurred in the MilePoint acquisition in 2004 and 2005, respectively were incorrectly added to Goodwill. These costs should have been expensed as incurred. The effect of the restatement is to increase the net loss in each the 2004 and 2005 years. As a result of this restatement, the 2006 opening balance for Goodwill has been reduced by $671,653 and the 2006 opening Deficit increased by the same amount.

As part of a thorough review of the financial disclosures made in prior years carried out by management in 2007, the Corporation will be restating its consolidated financial statements for the year ended December 31, 2006 as follows:

(a) Restatement of Cash and Cash Equivalents, Security Deposits and Funds Receivable From Payment Processors:

The Corporation has restated items historically disclosed as Cash and Cash Equivalents into three line items on the Consolidated Balance Sheet. Funds receivable from payment processors are amounts collected on behalf of the Corporation by payment processors. The funds are held for up to three days before being released to the Corporation. As such, these amounts do not meet the definition of cash and cash equivalents as previously reported and have been moved from cash and cash equivalents to funds receivable from payment processors. Security deposits are amounts held on a rolling six month basis by the Corporation's payment processors that process deposit and credit card transactions. Historically, these amounts were recorded as a component of cash and cash equivalents, with disclosure in the notes to the financial statements.

(b) Restatement of Public Company Costs:

In 2000, the Corporation became a public company through a reverse take over of its parent company. Costs of $150,000 incurred to effect the reverse take over were incorrectly capitalized and included within Goodwill. This Goodwill item was subsequently amortized in 2000 and 2001, resulting in a carrying value of $50,000 at the end of 2001. As a result of this restatement, the 2006 opening balance for Goodwill has been reduced by $50,000 and the 2006 opening Deficit increased by the same amount.

(c) Restatement of Upfront Contract Initiation Fees:

The Corporation has determined that it had contracts with multiple deliverables. As such, the Corporation has applied guidance found in Abstract 142 of the Emerging Issues Committee ("EIC-142") of the Canadian Institute of Chartered Accountants (CICA) Handbook, "Revenue Arrangements with Multiple Deliverables" and determined that, for some contracts, there was only one unit of accounting. In particular, for contracts which contain ongoing service requirements, fees and direct costs for initial set-up, have been deferred and recognized evenly over the term of the contract. Previously, the fees and direct costs had incorrectly been recognized as initial set-up occurred. The impact of this correction is included below by year. The cumulative net effects of these errors prior to 2006 are recognized in the restated consolidated financial statements of 2006.

The effect is as follows:

	2003-2005	2006
Decrease in revenue as previously recognized	$ (460,305)	$ (550,986)
Decrease in costs as previously recognized	199,499	271,618
Decrease in net income	$ (260,806)	$ (279,368)
Increase in deferred revenue	$ (460,305)	$ (579,634)
Increase in deferred costs	199,499	300,266
Increase in deficit	$ (260,806)	$ (279,368)

The following table summarizes the impact of the restatement adjustments on the Corporation's previously reported consolidated balance sheet, income statement, and cash flow amounts for the year ended December 31, 2006:

	2006 As Reported	Affecting periods prior to 2006	2006 Restatement	Ref	2006 As Restated
Balance Sheet Items					
Cash and cash equivalents	$ 24,689,040	$ –	$ (4,930,550)	a	$ 19,758,490
Security deposits	–	–	1,220,209	a	1,220,209
Funds receivable from payment processors	–	–	3,710,341	a	3,710,341
Current portion of deferred costs	–	107,053	176,596	c	283,649
Current assets	29,124,218	107,053	176,596		29,407,867
Goodwill					
Public company costs		(50,000)		b	
Transition services costs		(671,653)	–		
Goodwill	4,850,722	(721,653)	–		4,129,069
Deferred costs	1,167,330	92,446	123,670	c	1,383,446
Total assets	**40,652,942**	**(522,154)**	**300,266**		**40,431,054**
Current portion of deferred revenue	158,788	222,048	395,415	c	776,251
Deferred revenue	–	238,257	184,219	c	422,476
Total liabilities	44,047,143	460,305	579,634		45,087,082
Deficit	**(55,335,455)**	(982,459)	(279,368)		(1,261,827)
Deficit - restated					**(56,597,282)**
Liabilities and Shareholders' Deficiency	**$ 40,652,942**	**$ (522,154)**	**$ 300,266**		**$ 40,431,054**

	2006 As Reported	2006 Restatement	Ref	2006 As Restated
Income Statement Items				
Total revenue	$ 12,246,689	$ (550,986)	c	$11,695,703
Sales commission and related expenses	897,401	(79,214)	c	818,187
Employment costs	8,378,316	(221,052)	c	8,157,264
Foreign exchange loss (gain)	(19,329)	28,648	c	9,319
Net loss	**$(7,906,695)**	**$ (279,368)**		**$(8,186,063)**
Loss per share	**$ (0.07)**	**$ (0.01)**		**$ (0.08)**

	2006 As Reported	2006 Revised	2006 Restatement	Ref	2006 As Restated
Statement of Cash Flows					
Net loss	$(7,906,695)	$ –	$ (279,368)	c	$(8,186,063)
Items not affecting cash					
Unrealized foreign exchange loss / (gain)	2,189	208,558	(25,236)		185,511
Changes in non-cash balances related to operations					
Increase in security deposits	–	–	(245,421)	a	(245,421)
Increase in funds received from payment processors	–	–	(796,848)	a	(796,848)
Decrease in accounts receivable	489,817	126,094	–		615,911
Increase in deferred costs	–	–	(300,266)	c	(300,266)
Increase in prepaids and sundry assets	(218,064)	(184,791)	–		(402,855)
Increase (decrease) in accounts payable and accrued liabilities	1,018,764	(4)	–		1,018,760
Increase in deferred revenue	–	2,321	562,196	c	564,517
Increase (decrease) in payable to loyalty program partners	4,820,759	(40,499)	–		4,780,260
Changes in non cash balances related to operations	6,111,276	(96,879)	(780,339)		5,234,058
Cash flows provided by operating activities	**3,002,907**	**111,679**	**(1,084,943)**		**2,029,643**
Effect of exchange rate changes on Cash held in foreign currency	**491,139**	**(111,679)**	**(91,870)**	a	**287,590**
Increase in Cash and Cash Equivalents	**4,705,433**		**(1,176,813)**		**3,528,620**
Security deposits			(957,669)	a	
Funds receivable from payment processors			(2,796,068)	a	
Cash and Cash Equivalents - Beginning of year	**19,983,607**		**(3,753,737)**		**16,229,870**
Security deposits			(1,220,209)	a	
Funds receivable from payment processors			(3,710,341)	a	
Cash and Cash Equivalents - End of year	**$ 24,689,040**		**$ (4,930,550)**		**$ 19,758,490**

The Corporation's financial statements for the year ended December 31, 2007 and this MD&A have been prepared on the basis of the foregoing changes. Furthermore, the comparative numbers from 2006 and, where applicable, 2005 have also been revised to reflect these changes.

BUSINESS OVERVIEW

The Corporation provides a range of ecommerce and technology services to loyalty program operators that can be categorized in three distinct ways: (a) managing an online consumer loyalty currency management portal; (b) the sale of loyalty currencies (frequent flyer miles, hotel points, credit card points, etc.), both retail and wholesale, through loyalty program branded ecommerce channels; and (c) offering a range of additional white label ecommerce products to large loyalty programs that enhance either the loyalty program's consumer offering or its backend operations.

The Corporation offers a loyalty currency management portal ("*www.points.com*" or "*Points.com*") where members of multiple loyalty programs can track and manage their loyalty currencies much like their other financial assets. Through this portal, users are able to manage their portfolio of loyalty programs, conduct unique redemptions and trade their loyalty currencies with other *Points.com* users through a newly launched peer-to-peer marketplace, the *Global Points Exchange*. To facilitate these transactions, the Corporation has agreements with each loyalty program operator pursuant to which Points is paid a fee per mile or point transacted in order to fund redemption. Points takes a commission from this fee and utilizes the remaining funds to purchase either a different loyalty currency (called a "*Swap*"), purchase a retail good, such as a gift certificate (called "*Redeem*") or pay for a hotel room (called "*Book with Points*"). When *Points.com* users trade points between themselves through the *Global Points Exchange* ("*GPX*"), they must pay to the Corporation a fee per mile or point traded. Part of this fee is then remitted to each loyalty program involved in the trade. There are other transactions available to the consumer at *Points.com* including a paid annual membership that affords the user additional benefits. The Corporation has also begun to sell advertising space on the web site as well as in its email communications.

Utilizing the same proprietary infrastructure through which it operates *Points.com*, the Corporation also offers loyalty program operators various white label *Ecommerce Services*. These services fall into two categories.

The first category is comprised of those *Ecommerce Services* that allow a loyalty program operator to increase revenues earned from its membership base and are predominantly focused on offering various retail transactions directly to loyalty program members. These services allow such members to either purchase additional miles or points in order to top up their accounts to reach a redemption threshold (this service is called "*Buy*" or "*Gift*") or to transfer pre-existing miles or points into another member's account, typically a family member or friend, as another means of enabling that other member to accumulate sufficient miles or points to reach a redemption threshold (this service is called "*Transfer*"). Additionally, the Corporation offers an *Ecommerce Service* that allows loyalty programs to wholesale their miles or points to third parties who then use the miles or points as a customer or employee incentive (this service is called "*Corporate*"). The Corporation uses a version of this wholesaling platform to offer third parties the ability to buy generic 'airline mileage codes' that their customers can then turn into miles in the participating loyalty program of their choice (this service is called "*Air Incentives*").

The Corporation offers these retailing and wholesaling services under two economic models. In some cases, Points acts as the end retailer of the loyalty program miles or points, by buying the currency at a wholesale value from the loyalty program and then reselling it to retail customers. Points earns a margin on each sale. The Corporation refers to this as its "*Principal*" or "*Reseller*" model. In other cases, the Corporation deploys these services on behalf of the loyalty program in exchange for a commission on each sale of miles or points effected using the service. In these cases, the Corporation acts as an agent for the loyalty program in each transaction. The Corporation refers to this as its "*Agency*" model.

The second category of *Ecommerce Services* is comprised of certain services provided directly by the Corporation or provided in cooperation with third party suppliers. The *Ecommerce Services* provided directly are (a) selling top tier status on behalf of loyalty program operators to eligible members (called "*Elite*"); (b) selling travel club memberships that offer eligible members a bundle of benefits (called "*Travel Club*"); and (c) selling lounge access and other program branded merchandise. The *Ecommerce Services* provided in cooperation with other technical platform providers, are comprised of: (a) an auction platform ("*Auction*"); (b) a magazine and newspaper redemption service; (c) an online shopping mall platform where affiliate commissions are partly used to fund an extra incentive of miles or points for a loyalty programs' members (called "*Earn*"); and (d) an online travel booking service using miles and points as the form of payment ("*Book with Points*"). In addition, the Corporation offers backend integration services to loyalty program operators to facilitate bilateral currency relationships ("*Integrate*"). For all these *Ecommerce Services* transactions the Corporation earns either a transaction based commission, a fixed transaction fee or a monthly operating fee.

As part of its operating economics, the Corporation also earns interest income on the cash flows generated by the transactions undertaken through *Points.com* and the *Ecommerce Services*.

SIGNIFICANT BUSINESS DEVELOPMENTS IN 2007 AND TO DATE

1. US Airways, Alaska Airlines, Delta Air Lines Extend Partnership with Points

   US Airways, Alaska Airlines and Delta Air Lines have extended their relationships with Points for an additional three year period. US Airways has renewed its participation in the Corporation's consumer portal, *Points.com*, as well as extended and expanded its use of the *Buy*, *Gift*, and *Corporate Ecommerce Services*. In addition, US Airways has added *Transfer* to its product mix in January 2007. With Alaska Airlines, Points has taken more active responsibility in providing *Buy, Gift, Corporate* and *Transfer* services with full responsibility for financial administration of the *Ecommerce Services* including credit card fees and associated credit card processing risks. The renewed relationship with Delta Air Lines reflects a more comprehensive relationship with the Corporation as it takes on a Principal role, accepting greater responsibility in the operation of the *Buy, Gift* and *Transfer* programs available to Delta's SkyMiles customers. Delta Air Lines has also launched a new online *Auction* using technology developed by the Corporation and its partner, Truition, and has expanded its use of *Buy* and *Transfer* programs, enabling customers from around the world to purchase, gift and transfer miles online at delta.com.

2. Icelandair Group, ATA Airlines, British Midland Airways, Choice Hotels Increase Options for Loyalty Program Members

   Members of the Icelandair Saga Club Award Program are now able to *Swap* their Award Points with other loyalty programs and *Redeem* their Award Points for merchandise through *Points.com*. In addition, Points now provides an online solution permitting Saga Club members to *Buy, Gift*, and *Transfer* Award Points with others. The Corporation also now provides an online solution for ATA Airlines Travel Awards Program Members who wish to *Buy, Gift*, or *Transfer* their Travel Award Points and an online solution for British Midland Airways' Diamond Club Members to *Buy* or *Gift* points. Expanding its penetration in the hotel industry, the Corporation now provides an online solution for Choice Hotels' Choice Privileges Rewards Program Members who wish to *Buy* or *Gift* points.

   Points has taken a Principal role in the operations, marketing, and commercial transaction support for these new products.

3. The Corporation adds *Book with Points* and the *Global Points Exchange* to *Points.com*

   In the second half of 2007, the Corporation launched beta versions of two new products on *Points.com*: *Book with Points* and the *Global Points Exchange*. *Book with Points* (*BwP*) allows end consumers to use their loyalty miles or points to book a hotel room as a reward. This is made possible by an arrangement the Corporation has entered into with Travelocity whereby end consumers are given access to the hotel room inventory of the Travelocity online site priced in loyalty miles or points through *Points.com*. The *Global Points Exchange* is the world's first peer-to-peer exchange of loyalty miles and points for end consumers. With the addition of these new products, *Points.com* provides a more comprehensive and engaging consumer experience.

4. American Express Signs Long Term Contract Extension

   American Express entered into a long term contract extension, as part of which American Express has broadened the redemption options available to American Express Membership Rewards members through *Points.com*. Additionally, American Express continues to use Points' *Integrate* services to facilitate transfers of Membership Rewards points into other programs from the American Express Membership Rewards web site.

5. Continental Airlines Redesigns the OnePass® Online Auction

   The Corporation and Continental Airlines redesigned the OnePass® Online *Auction* using technology developed by the Corporation and its partner, Truition. This was the fourth auction product launched by the Corporation and Truition.

REVENUE RECOGNITION POLICIES

Points categorizes its revenue in three ways. First, principal revenue is any revenue that is not commission revenue or interest revenue, as defined below, and includes: *Points.com* membership dues, loyalty program sign-up fees, technology design, development and maintenance revenue, hosting and management fees, reseller revenue where Points assumes credit and/or inventory risk (i.e., acts as a Principal), and *Travel Club* membership revenue. Principal revenue has been 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 Agent*". Second, commission revenue is any commissions earned that is calculated as a percentage of a transaction or a fixed dollar value per transaction and where Points assumes no credit or inventory risk. Commission revenue has been recorded in accordance with EIC-123 of the CICA Handbook. Third, interest revenue is any revenue earned through the Corporation's investing activities arising from its operating cash flow.

Based on these categorizations, the revenue recognition policies for *Points.com* and the *Ecommerce Services* are as follows:

Points.com

The Corporation earns revenue from *Points.com* in three ways.

First, a commission is earned for certain activities (e.g., *Swap, Redeem* and *Earn*) performed by *Points.com* members. The Corporation earns commission revenue on all *Swap* and *Redeem* transactions by charging a percentage commission calculated against the value of the loyalty currency tendered for exchange by the loyalty program member. For the *Swap* and *Redeem* models, the loyalty program operator sets the value of the currency tendered for redemption and, for each transaction, a percentage of this value is remitted to the Corporation with the balance being used to purchase the currency of another participating loyalty program. *Swap* and *Redeem* commissions are recognized net of costs as the services are provided under the terms of related contracts. The Corporation also earns commission revenue each time a registered user completes an *Earn* transaction on *Points.com*. The actual commission earned varies based on the affiliate program. *Earn* commissions are recognized net of costs as the services are provided under the terms of related contracts.

Second, loyalty program members may elect to pay a subscription fee to become a *Points.com* Gold Member. The Gold Membership affords members certain benefits not available to registered users who have not purchased memberships. *Points.com* membership dues received in advance of services are recognized over the term of service. Throughout 2006 and 2007, subscription fees for the *Points.com* Gold Membership were $4.95 per month or $49.95 annually. These dues are categorized as principal revenue.

Third, the Corporation may earn a sign-up fee when a loyalty program operator joins *Points.com*. Loyalty program sign-up fees for initial set-up costs are recognized evenly over the term of the contract and are categorized as principal revenue.

Sale of Loyalty Currency

The Corporation earns principal revenue from the sale of loyalty program currency where it acts as a reseller of such currency, takes a principal role in the operations, marketing and commercial transaction support and assumes credit and/or inventory risk in generating that revenue. This principal revenue is recognized when the loyalty currency has been credited to the loyalty customer account.

The Corporation earns commission revenue from the sale of loyalty program currency where it has entered into an agreement with a loyalty program operator to act as an agent and earn commissions (either as a percentage of transaction value or a fixed dollar amount per transaction) on each sale. This commission revenue is recognized as the services are provided.

Principal revenue is earned on the sale of *Air Incentives* and the Corporation recognizes the revenue associated with the purchase of each airline mileage code at the time the end consumer redeems the code. If the code expires prior to redemption, the Corporation recognizes the revenue associated with the purchase of the unredeemed code.

Technology design and development revenues are recorded evenly over the term of the initial contract and are categorized as principal revenue. Hosting and management fees are recognized in the period these services are provided and are categorized as principal revenue.

Other Ecommerce Services

Travel Club revenue, categorized as principal revenue, is a combination of web site maintenance and monthly program management fees recognized in the period of service and with a profit share per membership sold which is recognized in the period of sale.

Through all of the other types of *Ecommerce Services*', such as *Elite, Auction, Earn*, *Integrate, Book with Points*, and the sale of loyalty program branded items, the Corporation earns either a fixed dollar value per transaction or a commission based on the value of each transaction. These revenues are recognized at the time the service is delivered and are categorized as commission revenue.

Technology design and development revenues are recorded evenly over the term of the initial contract and are categorized as principal revenue.

Interest

The Corporation earns interest revenue on the cash flows created through the operation of both *Points.com* and *Ecommerce Services*.

KEY BUSINESS DRIVERS

Revenue growth has historically been, and will continue to be, generated by the growth of membership in and use of *Points.com* and the suite of *Ecommerce Services*.

Growth in the number of individual members using *Points.com* is driven by three factors that contribute to increased web site traffic and the ease with which a consumer can join *Points.com* to conduct transactions. These factors are web site usability and enhancements, marketing (awareness and brand) and partner activity. For additional information, see "*Points.com Growth*" on page 15 hereof.

Growth in *Ecommerce Services* will occur through the growth of existing partner relationships, supplemented with new business relationships established throughout the year. For additional information, see "*Ecommerce Services* Growth" on page 16 hereof.

While the Corporation has no control over the growth of the loyalty program industry, management considers it an important factor in the Corporation's growth prospects. For additional information, see "*Growth of the Loyalty Program Industry*" on page 17 hereof.

RESULTS OF OPERATIONS – REVENUE

Overview

Revenue	2007	2006 As Restated [1]	2005 As Restated[1]
Principal	$ 20,109,876	$ 3,099,182	$ 2,703,269
Commissions	10,780,678	8,373,966	6,888,260
Interest income	717,146	222,555	598,556
Total Revenue	**$ 31,607,700**	**$ 11,695,703**	**$ 10,190,085**

Note:

(1) See "Restatement" on page 6.

Revenue for the year ended December 31, 2007 was $31,607,700, representing an increase of $19,911,997 (170%) over the year ended December 31, 2006, this compares with prior year revenue growth of $1,505,618 (15%) over the year ended December 31, 2005. The Corporation attributes a large portion of its 2007 revenue growth to the recognition of revenue as gross on contracts with loyalty program operators where the Corporation has taken on a principal role under the reseller model. As well, new products launched during the year, and organic growth of the Corporation's existing products. In 2007, the Corporation renewed and expanded two of its existing relationships under the reseller model, added four new relationships under the reseller model, and sold an additional 16 products resulting in additional principal and commission revenues and grew its existing product revenue. This growth in revenue was offset by a negative foreign exchange impact on the Corporation's revenue. Adjusting for the impact of the weakening U.S. dollar, revenue would have increased a further $2.98 million which would have resulted in approximately $34.59 million in revenue for the year.

Principal revenue accounted for 64%, commission revenue accounted for 34% and interest revenue accounted for 2% of the Corporation's total revenue. Principal revenue increased by $17.0 million (over the $3.1 million in earned in 2006) as a result of new relationships under the reseller model with ATA Airlines, Icelandair, Choice Hotels and British Midland Airlines and renewed relationships with Alaska Airlines and Delta Air Lines. Under these new and renewed relationships, the Corporation takes on a principal role in a combination of the *Buy, Gift* and *Transfer* products and assumes additional responsibility for the operation of these products. Costs directly related to principal revenue increased by $14.6 million during the year from nil in 2006 and nil in 2005, reflecting the shift to the reseller model. For additional information see "*Direct Cost of Principal Revenue*" on page 18 hereof.

The Corporation experienced stronger growth in commission revenue in 2007. Commission revenue grew by $2.4 million (29%) from $8.4 million in 2006 to $10.8 million in 2007. The prior year growth in commission revenue was $1.5 million (22%). The majority of this growth was as a result of increased activity during the year of the Corporation's existing products.

Interest revenue increased $0.495 million (222%) from the year ended December 31, 2006; this compares with a decrease of $0.376 million in 2006 interest revenue versus 2005 interest revenue. See "*Other Factors Contributing to Revenue Growth – Interest* " on page 16 for additional information.

For the year ended December 31, 2007, there were three customers who each individually represented more than 10% of the Corporation's revenue. In aggregate these three customers represented 75% (three customers in 2006 represented 58%, and three customers in 2005 represented 49%) of the Corporation's total revenue. In addition, 65% (2006 – 65% and 2005 – 71%) of the Corporation's amount Payable to loyalty program partners are due to these three customers.

The Corporation's main sources of revenue are the *Ecommerce Services* focused on the sale of loyalty currency. The Corporation now has over six years of operating history with this type of service and it has been the Corporation's consistent experience that these services drive a very predictable revenue stream due to the sheer size of the participating loyalty programs' membership bases. Management considers revenue from monthly management fees, membership fees, transaction fees and commissions and interest to be predictable revenue based on its extensive operating experience.

The Corporation's operations are not significantly influenced by seasonality. However, one loyalty program operator's *Elite* product is only available to its members from late January to mid April with most activity occurring in February and March. In addition, the Corporation experiences slightly higher activity in November and December on *Points.com* as members *Redeem* miles and points for gift certificates. 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. This modest decline (per product) has occurred in each of the past three years.

Revenue Growth

Revenue growth has historically been and will continue to be generated by the growth of membership in and use of *Points.com* as well as the suite of *Ecommerce Services*. Growth in usage will occur from the growth of existing relationships, supplemented with new business relationships established throughout the year. Management expects the existing contracts to continue to generate growing revenues and, based on continuing business development efforts, is optimistic about new revenue sources in future periods.

New Ecommerce Services

The *Ecommerce Services* drive revenue growth based on the number of loyalty program operators and consumer members who participate in the various products. During 2007, two new loyalty program operators joined as *Ecommerce Services* Partners, 20 additional *Points.com* products were placed and 16 additional *Ecommerce Services* were deployed with existing and newly contracted loyalty program operators. The Corporation experienced increased growth in 2007 as it added more *Ecommerce Services* Loyalty Program Partners than were added in the prior year and deployed more *Points.com* products and *Ecommerce Solutions*, than were placed in the previous year. The addition in 2007 of *Book with Points* and *Global Points Exchange* on *Points.com*, resulted in 13 of the 20 new *Points.com* product offerings. The Corporation deployed 11 new *Ecommerce Services* to four newly contracted loyalty program operators and placed 5 additional products with loyalty programs where the Corporation had an existing relationship. In 2006, the Corporation deployed 6 new *Ecommerce Services* to new and existing loyalty program operators.

***Points.com* and *Ecommerce Services* metrics**	**2007**	**2006**	**2005**
Number of Products / Participating Loyalty Programs			
Swap	29	27	23
Redeem	22	20	16
Earn on Points.com	6	3	–
Book with Points	8	–	–
Global Points Exchange	5	–	–
Total *Points.com* product installations	**70**	**50**	**39**
Buy	20	18	16
Gift	20	17	15
Transfer	11	8	7
Corporate	10	11	12
Elite	2	2	2
Systems Design	7	6	5
Integrate Partners(1)	5	5	6
Auction	4	1	–
Travel Club	1	1	–
Total *Ecommerce Services* (2)	**80**	**69**	**63**
Total *Points.com* and *Ecommerce Services*	150	119	102
***Ecommerce Services* Loyalty Program Partners**(3)	**24**	**22**	**22**

Notes:
(1) Each *Integrate* partner will have third parties integrated into its technology platform. There are 18 existing partner integration addons among the five Integrate partners as at December 31, 2007.
(2) In 2007, the Corporation deployed *Ecommerce Services* for four partners and ceased operations of services for two partners. The two partners who shut down their services during the year continue to be partners on *Points.com*. In total, 16 products were deployed, while five products were lost as a result of the two partners who ceased activity.
(3) A "partner", is a loyalty program operator on whose behalf the Corporation has deployed one or more *Ecommerce Services* products. As at December 31, 2007, 13 operators were partners in both *Points.com* and *Ecommerce Services*.

Selling additional *Ecommerce Services* is an important source of new revenue. New *Ecommerce Services* sold to loyalty program operators grow the base of products being managed and therefore the existing revenue base and, in the case of sales to new loyalty program operators, provide an opportunity to cross sell additional *Ecommerce Services* with the same loyalty program. Revenue from new *Ecommerce Services* declined slightly from $2.47 million in 2006 to $2.41 million in 2007. Adjusting for the impact of the weakening U.S. dollar, revenue from new *Ecommerce Services* would have increased a further $239,000, resulting in moderate growth of new revenue over fiscal year 2006. During 2006, the *Travel Club* product was launched and contributed significantly to the new revenue that year. In 2007, revenue from the *Travel Club* product was included in the growth of the Corporation's existing revenues.

Management believes that its *Ecommerce Services* are applicable to all large loyalty program operators and will continue to focus business development resources on both sales of new products to loyalty program operators that presently contract for one or more *Ecommerce Services* and sales to loyalty program operators with which the Corporation does not yet have a relationship. Management is continuing to focus on expanding the *Points.com* loyalty program base in 2008 across various loyalty markets. In particular, Points will continue to focus on contracting reward programs in the financial services, gaming, hotel, retail, and online categories.

Revenue for 2008 attributable to the deployment of new *Ecommerce Services* is more difficult to project than growth in existing *Ecommerce Services*. Future revenue growth is still substantially dependent upon new contracts for the suite of *Ecommerce Services* products. While management expects continued business development success, there is no certainty that the Corporation will continue its past success at acquiring new contracts.

Growth in Existing Ecommerce Services

The large majority of existing *Ecommerce Services* products that Points operates continue to grow year-over-year through increased consumer awareness, consumer adoption, and loyalty program growth. In addition to this organic growth, Points has experienced significant revenue growth through the conversion of certain existing relationships from the agency model to the reseller model and for which the Corporation now acts as a principal. As Points earns a retail margin on transaction fees charged directly to loyalty program members under the principal model or commissions from the loyalty program operators under the agency model and as use of the products continue to grow, Points expects to continue to derive significant revenue from its existing products.

Revenue from existing *Ecommerce Services* went from $9.0 million in 2006 to $28.5 million in 2007. This increase can be attributed primarily to the conversion in the year of two existing relationships from the agency model to the reseller model and organic growth across the Corporation's existing products. Adjusting for the impact of the weakening U.S. dollar, revenue from existing *Ecommerce Services* would have increased a further $2.8 million.

Points.com Growth

Currently, the *Points.com* business model is dependent on the total number of registered users, the number of registered users completing *Swap*, *Redeem*, *Earn*, *Book with Points*, or *Global Points Exchange* transactions (referred to herein as "transacting user(s)"), the total number of miles or points transacted per individual transaction, the total number of miles or points available per registered user and the mix of loyalty programs available to consumers on *Points.com*.

Points and miles transacted on *Points.com* has increased by 17% to 1.5 billion miles/points transacted versus 1.3 billion miles/points in 2006 and 590 million miles/points in 2005, a 153% increase. The majority of this increase is as a result of the increase in the total registered users during the period and the mix of loyalty programs available to consumers on *Points.com*. While points and miles transacted increased during the year, the new registered users added during the year has decreased as a result of management focusing resources on targeting higher value users Current Liabilities in its customer data base.

***Points.com* metrics as at December 31,**	**2007**	**2006**	**2005**
New registered users	312,946	454,424	450,647
Total registered users(1)	1,840,591	1,531,449	1,082,936
Points/ Miles Transacted (000,000s)	1,501	1,287	593
Cumulative Points/ Miles Transacted (000,000s)	4,074	2,573	1,286

Note:
(1) Total registered users consist of the number of registered users at the beginning of the period plus new registered users for the period less users who have deregistered during the period.

The number of transacting users and the number of transactions are driven by two factors. First, web site usability and enhancements, and second, marketing (merchandising, awareness and brand).

During 2007, the Corporation focused its resources on enhancing the product offering to consumers through adding products to the *Points.com* web site including *Book with Points* and the *Global Points Exchange*. The Corporation will continue to launch a more robust offering through enhancements to its new products throughout 2008. Management expects that these additional products and continued enhancements to the web site will increase the number of miles/points transacted in 2008.

In 2007, an additional element of targeting was introduced to the *Points.com* marketing mix. The Corporation's economics are more significantly affected by the number of miles or points transacted than the number of transactions and, accordingly, in concert with the focus on generating additional transactions, the Corporation began focusing resources on targeting higher value users in its base. Higher value users are defined as those users with larger balances of miles/points in their accounts or those that are in the top tiers of their respective programs. The Corporation anticipates that the average transaction size will increase as a result.

Ecommerce Services Growth

***Ecommerce Services* metrics**	**2007**	**2006**	**2005**
Points Transacted (000,000s)	9,428	6,452	5,243
Cumulative Points Transacted (000,000s)	30,026	20,598	14,146

Each web site or web site component created as a part of an *Ecommerce Services* product offering has been designed with the relevant loyalty program's look and branding, and is directly accessible to the loyalty program's members from the loyalty program web site. Activity generated through these products is primarily a function of the loyalty program marketing efforts. Points has begun to take a principal role in certain transactions conducted directly with certain loyalty programs' members. This role allows Points to have more influence over the marketing aspects of the products, which should lead to increased growth in transactions. Continuing to develop this principal activity is a main focus of the Corporation and is the foundation of much of the new business development activity now underway.

Points has seen continuous growth in the transactions conducted through its *Ecommerce Services* products since each launch and management expects this trend to continue for new and existing products. In addition, Points has recently engaged in discussions with a select group of loyalty program operators to apply its online marketing and other "best practices" to stimulate increased transaction activity on those operators' web sites run and hosted by Points. The objective is to increase transaction revenue for select products with select loyalty program operators in 2008 by incorporating the Corporation's subject matter expertise and merchandising experience. The Corporation has commenced implementation of several initiatives in this regard.

Other Factors Contributing to Revenue Growth

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

Interest Revenue

In 2007, the Corporation earned interest revenue of $717,146, compared with $222,555 in 2006 and $598,556 in 2005. The increase in interest revenue relative to 2006 and 2005 is a function of a higher balance of funds invested at higher yields. Funds continue to be invested in short-term and money market instruments. Points' short-term investments are valued quarterly at the lower of cost or market value. At December 31, 2007, the Corporation's investments were earning interest between 3.7% and 6.1% per annum.

Foreign Exchange Rates

The translation of the Corporation's revenues and expenses is, and will continue to be, sensitive to changes in the U.S. / Canadian foreign exchange rate ("FX Rate"). Changes to the FX Rate will have greater impact on the Corporation's revenue than on its expenses as approximately 95% of the Corporation's revenue is in U.S. dollars and the remaining 5% is split between Canadian dollars, Euros, British Pounds and Swiss Francs. Management expects that the percentage of U.S. dollar revenue will not decrease significantly in the near future. In 2007, approximately 43% of the Corporation's expenses (excluding interest on preferred shares) were in Canadian dollars and 56% were U.S. dollar-based. The Corporation does not have material foreign exchange risk with its cash expenses as it has sufficient foreign currency reserves to meet its foreign obligations.

In 2007, the average FX Rate (US$1.0 = C$ 1.066) used to translate revenue and expenses into Canadian dollars has continued to decline. For the impact of the foreign exchange rate on the Corporation's revenues, see "*Results of Operations – Revenue, Overview*" on page 12 hereof.

U.S. / Canadian FX Rates [1]	2007	2006	2005
Period Start	1.166	1.166	1.205
Period End	0.982	1.166	1.166
Twelve Month Average	1.066	1.132	1.212

Note:
(1) Source: www.oanda.com

Growth of the Loyalty Program Industry

The proliferation of loyalty programs in North America and around the world has been a phenomenon of the new millennium. Management understands that members of loyalty programs are much more likely to utilize *Points.com* and the other products from the suite of *Ecommerce Services* when they are close to a level at which they can redeem an award. The redemption level for an award varies by type of award (for example, a business-class flight takes more miles than an economy-class flight) and by program type (the "cost" of a flight typically starts at between 15,000 and 25,000 miles whereas a night in a hotel starts at 5,000 points). Therefore, growth in consumer loyalty program account balances will create demand for *Ecommerce Services*. Growth in program balances is a function of the growth in the number of programs, the number of participating consumers, time, and the number of consumers moving through a loyalty redemption (for example, receiving a reward of some type).

According to the Colloquy Group, a leading consultant and research firm focused on the loyalty marketing industry, the average annual loyalty membership growth between 2000 and 2006 was 5.93%, more that twice the annual growth rate of the U.S. Consumer Price Index. In that time, U.S. loyalty memberships grew from 973 million to over 1.3 billion, and the average U.S. household now belongs to approximately 12 loyalty programs. In summary, the loyalty program industry has seen significant growth in memberships in recent years.

RESULTS OF OPERATIONS – EXPENSES

Expenses increased in 2007 by 88% relative to 2006 versus a 2% increase in expenses in 2006 relative to 2005. Material changes in expenses are described in each section below.

General and Administration Expenses	2007	2006 As Restated[1]	2005 As Restated[1]
Direct cost of principal revenue	$ 14,585,813	$ –	$ –
Employment costs[2]	9,291,645	8,157,264	8,263,632
Sales commission and related exp.	1,618,877	818,187	627,018
Marketing and communications	1,650,075	2,607,609	2,217,032
Technology services[3]	918,140	1,055,967	1,103,563
Amortization of property and equipment	1,817,783	1,702,535	1,346,320
Amortization of intangible assets	760,495	890,346	1,143,884
Amortization of deferred costs	472,794	531,699	531,699
Foreign exchange loss/(gain)	547,186	9,319	490,039
Operating expenses [4]	3,159,014	2,739,527	2,514,213
Total	**$ 34,821,822**	**$ 18,512,453**	**$ 18,237,400**

Notes:
(1) See "Restatement" on page 6.
(2) Employment costs include salaries, employee stock option expense, contract labour charges, recruiting, benefits and government charges (Canada Pension Plan and Employment Insurance).
(3) Technology expenses include online hosting and managed services, equipment rental, software licenses and capital lease expenses.
(4) Operating expenses expenses include travel, professional fees, insurance, office rent, office expenses, capital tax and regulatory expenses.

As the Corporation continues to increase loyalty program participation in and sales of *Ecommerce Services*, significant resources continue to be required. Management has made revenue growth of the underlying business the highest priority while continuing to be diligent about controlling costs and capital expenditures.

Direct Cost of Principal Revenue

Direct cost of principal revenue was introduced in the first quarter of 2007 and relates to any direct cost associated with generating revenue directly from the loyalty program members through the *Ecommerce Services* or fulfilling redemption of certain *Ecommerce Services* product offerings. See "*Revenue Recognition Policies*" on page 11 hereof for a description of the revenue that these costs are associated with.

The cost of principal revenue was $14.6 million in 2007. These new costs result from the introduction of the reseller model for *Ecommerce Services* pursuant to which 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. These costs include the direct cost of the loyalty currency purchased. The Corporation expects these costs to continue to grow in line with revenue growth as it takes on a more active role as a reseller and expands and grows its principal revenues.

Under the reseller model, the Corporation has made contractual commitments with respect to the minimum values of loyalty currency to be purchased over the term of it agreements. The Corporation does not anticipate that it will incur any financial obligations as a result of the contractual commitments. For additional information, see "*Revenue Commitments*" on page 28 hereof.

Employment Costs

Employment costs increased in 2007 by 14% relative to 2006 versus no change in 2006 relative to 2005. The increase in employment costs in 2007 was in line with the increased headcount which grew from 62 at the end of 2006 to 72 at the end of 2007. In addition to the increased headcount, short-term contractors increased from 6 in 2006 to 27 at the end of December 2007. The increase in employees and contractors during the year was a result of the increased sales of new products during the year as well as the development of new proprietary technology for which certain costs have been capitalized. See page 26 "*Property and Equipment*" for more information.

As at December 31, 2007, the Corporation had 72 full-time employees.

	As at December 31,		
Full-Time Headcount[(1)] by Department	**2007**	**2006**	**2005**
Technology	31	27	45
Finance and Administration	17	14	15
Business Development & Account Management	12	10	9
Marketing and Customer Service	12	11	16
Total Full Time Employees	**72**	**62**	**85**
Short-Term contractors	***27***	***6***	***5***

Note:
(1) Headcount includes active employees and contractors covering a leave of absence for full-time positions within the department.

In accordance with CICA Handbook Section 3870, employment costs include the expense for stock-based compensation issued to employees. The increase in employee stock option costs versus 2006 is related to options granted to new and existing executives and one new member of the board of directors. The cost of stock options is included in employment costs as follows:

	2007	**2006**	**2005**
Employee Stock Option Expense	583,934	366,981	408,435

Sales Commissions and Related Expenses

Sales commissions and expenses in 2007 increased by $800,690 or 98% over 2006, compared to an increase of $191,169 in 2006 over 2005. Sales commissions are primarily related to *Ecommerce Services* and will continue to vary according to loyalty programs contracted and growth of existing products. The majority of the current year-over-year increase is due to *Ecommerce Services* revenue increasing and the increased responsibility the Corporation has taken on with respect to certain products. A large portion of the increase relates to credit card fees and related costs incurred by the Corporation in offering these products. Management expects sales commissions and expenses to increase in 2008 through growth in existing and new *Ecommerce Services* business contracted.

Marketing and Communications

Marketing costs in 2007 decreased $957,533 or 37% versus 2006, compared to an increase of $390,577 in 2006 over 2005. During 2006, the Corporation broadened its marketing initiatives to include trials of off-line advertising. The results of these tests were less effective at driving registered users and transacting users than the marketing channels available through the Corporation's loyalty program partners and at a significantly higher cost per transacting user. Due to the off-line marketing results, the Corporation reduced the level of its variable and discretionary marketing expenditures in 2007 versus 2006. The marketing and branding foundation built in 2005 and 2006 has also made it possible to effectively execute efficient and productive promotions with loyalty program operators. Advertising expenditures are now focused on loyalty program marketing initiatives, increasing the number of placements on contracted loyalty program web sites and the effectiveness of existing placements. In addition, the Corporation has begun marketing initiatives, in certain cases at its own cost, to grow *Ecommerce Services* revenue.

Technology Services

A large portion of the Corporation's technology services costs are incurred in U.S. dollars. These costs have grown only marginally over the past three years after adjusting for the impact of the weakening of the U.S. dollar. Although in general, technology services costs increase in increments based on business growth, product performance, and hardware and software operating capacity, the Corporation has been able to work with its service provider to control these increases, while not impacting the technology and services that operate the Corporation's businesses. Management expects these costs to grow marginally in 2008 with the continued expansion of *Ecommerce Services*.

Operating Expenses

Operating expenses include office overhead, travel expenses, professional fees and other costs associated with operations. Operating expenses in 2007 increased by $419,487 or 15% over 2006, up from an increase of $225,314 in 2006 over 2005. The increase is primarily a result of the increased professional fees associated with consulting services and audit fees related to Sarbanes-Oxley ("SOX") compliance, and increased office and rent expense during the year.

Non-GAAP measure – Earnings (loss) before interest, amortization and foreign exchange ("EBITDA")

Management recognizes that the earnings (loss) before interest, amortization and foreign exchange, 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 internal measure and financial benchmark for its shareholders 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. For example, the Corporation has incurred large non-cash expenses (amortization) over the past several fiscal years that distort the financial and strategic gains the Corporation has made. EBITDA is used internally to evaluate performance and employee bonuses are based on achieving an EBITDA target determined by the Board of Directors.

Reconciliation of Net Loss to EBITDA

	2007	2006 As Restated(1)	2005 As Restated(1)
Net Loss	$(4,436,335)	$(8,186,063)	$(10,141,462)
Add back:			
Amortization of property, plant and equipment	1,817,783	1,702,535	1,346,320
Amortization of intangible assets	760,495	890,346	1,143,884
Amortization of deferred costs	472,794	531,699	531,699
Foreign exchange loss/(gain)	547,186	9,319	490,039
Interest on preferred shares	1,168,728	1,109,823	1,049,367
Interest, loss on short-term investment and capital tax	53,485	64,737	265,974
Interest on convertible debenture	–	194,753	778,806
Earnings (loss) before interest, amortization and foreign exchange- EBITDA	**$ 384,136**	**$(3,682,851)**	**$(4,535,373)**

Note:

(1) See "Restatement" on page 6.

For the fiscal year ended December 31, 2007, the Corporation's EBITDA was $384,136. This compares with negative EBITDA of ($3,682,851) for the fiscal year ended December 31, 2006 and a negative EBITDA of ($4,535,373) for the fiscal year ended December 31, 2005. Adjusting for the impact of the weakening U.S. dollar, EBITDA would have increased a further $1.1 million, which would have resulted in $1.5 million in EBITDA for 2007. Management expects to continue to achieve positive EBITDA for fiscal year 2008. See "*Forward-Looking Statements*" on page 5 hereof for safe harbour provisions.

RESULTS OF OPERATIONS – NON-CASH EXPENSES

Amortization Expenses

The Corporation's recorded amortization expense of $3,151,072 in 2007 compared to $3,124,580 in 2006 and $3,021,903 in 2005. There were no significant changes in amortization expense compared to prior periods. This is consistent with the moderate levels of capital spending over the same time frame. Amortization expenses are outlined in the following table:

Amortization Expense	2007	2006	2005
Deferred Costs	$ 472,794	$ 531,699	$ 531,699
Intangible Assets	760,495	890,346	1,143,884
Property and Equipment	1,817,783	1,702,535	1,346,320
Total	**$ 3,051,072**	**$ 3,124,580**	**$3,021,903**

Other Non-Cash Expenses

Foreign Exchange Loss (Gain)

The foreign exchange loss (gain) arises from re-valuing certain balance sheet accounts (e.g., U.S. dollar denominated cash and short-term investments and U.S. dollar denominated deposits). At period end, 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 no 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 balance sheet accounts, a strengthening U.S. dollar will lead to a FX gain while a weakening U.S. dollar will lead to a FX loss. During the year ended December 31, 2007, cash decreased by approximately $2.7 million as a result of the foreign exchange impact from cash held in other currencies. This decrease was offset by a positive approximately $3.2 million exchange impact on non-cash balances related to operations, primarily comprised of a decrease in deposits. The net effect for the twelve month period was an unrealized exchange gain of approximately $481,094.

Interest on Convertible Debentures / Interest on Preferred Shares

On April 12, 2006, Points' 8% Unsecured Convertible Debentures automatically converted into approximately 18.9 million common shares. As a result, accrued interest on the principal amount of the Debentures ceased to be payable. In 2006 up to the date of conversion, interest on the outstanding principal amount of the Debenture accrued at 8% per annum.

Interest on the Corporation's Series Two Preferred Share and the Series Four Preferred Share (collectively the "Preferred Shares") accrues on the principal amount at 7% per annum. The Preferred Shares mature on March 31, 2013. See "*Preferred Shares*" on page 28 hereof for additional information.

RESULTS OF OPERATIONS – EARNINGS AND SHAREHOLDERS' EQUITY

Loss

The Corporation reported a net loss of $4,436,335 for the fiscal year 2007, compared with a net loss of $8,186,063 for the fiscal year 2006, an improvement of $3,749,728. In 2006, the net loss improved by $1,955,399 from a net loss of $10,141,462 in 2005. The decrease in the net loss was primarily a function of revenue growth exceeding the increase in expenses. Revenue grew by $19,911,997 in 2007, while general and administrative expenses increased $16,309,369 and other expenses decreased by $147,100.

Shareholders' Equity

The deficit in shareholders' equity declined from a negative $4,656,028 at December 31, 2006 to negative $7,063,157 at December 31, 2007. The reduction was the result of the net loss for the year and partially offset by the exercise of stock options and warrants during the year.

Loss Per Share

The Corporation's loss per share is calculated on the basis of the weighted average number of outstanding Common Shares for the period, which amounted to 118,307,829 Common Shares for the year ended December 31, 2007, compared with 108,258,453 for the year ended December 31, 2006.

The Corporation reported a net loss of $0.04 per share for the fiscal year ending December 31, 2007, compared with a net loss of $0.08 per share for the fiscal year ending December 31, 2006, a 50% improvement. For the comparable periods, the impact on the loss per share of the diluted shares outstanding is equal to basic loss per share as the effect of conversions, options and warrants is anti-dilutive and not disclosed.

RESULTS OF OPERATIONS – FOURTH QUARTER 2007

Revenue

Revenue	For the three months ended Dec. 31, 2007	Sept. 30, 2007	Dec. 31, 2006 As Restated(1)
Principal	$11,288,359	$ 4,842,408	$ 1,110,988
Commission	2,690,395	2,438,547	2,459,788
Interest	255,759	250,537	48,273
Total Revenue	**$14,234,513**	**$ 7,531,492**	**$ 3,619,049**

Note:

(1) See "Restatement" on page 6.

Revenue increased by $10,615,463 or 293% over the fourth quarter of 2006 and increased by $6,703,021 or 89% over the third quarter of 2007. Principal revenue, where the Corporation records gross revenue, accounted for the majority of the growth as a result of the new and renewed relationships under the reseller model. Commission revenue also increased by $230,607 or 9% over the fourth quarter of 2006 and by $251,848 or 10% over the third quarter of 2007 due to new product activity and growth in existing activity.

Expenses

General and administrative expenses increased by $6,595,143 over the third quarter of 2007 and by $10,707,008 versus the fourth quarter of 2006. The majority of the increase is related to the increased direct cost of principal revenues, increased employment costs and increased sales commission and related expenses.

General & Administrative Expenses	For the three months ended Dec. 31, 2007	Sep. 30, 2007	Dec. 31, 2006 As Restated(1)
Direct cost of principal revenue	$ 9,327,963	$ 3,289,403	$ –
Employment costs(2)	3,022,793	2,074,175	1,775,916
Sales commission and related exp.	379,022	399,835	289,440
Marketing and communications	343,970	546,818	722,077
Technology services(3)	184,400	237,037	209,012
Amortization of property and equipment	472,696	442,625	428,223
Amortization of intangible assets	154,384	202,037	210,257
Amortization of deferred costs	118,199	118,198	132,926
Foreign exchange loss/(gain)	92,828	244,212	(217,379)
Operating expenses(4)	771,954	718,726	610,729
Total	**$14,868,209**	**$ 8,273,066**	**$ 4,161,201**

Notes:

(1) See "Restatement" on page 6.

(2) Employment costs include salaries, employee stock option expense, contract labour charges, recruiting, benefits and government charges (Canada Pension Plan and Employment Insurance).

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

(4) Operating expenses expenses include travel, professional fees, insurance, office rent, office expenses, capital tax and regulatory expenses.

The direct cost of principal revenue increased by $6,038,560 over the third quarter of 2007 as a result of the increase in activity during the quarter from new and renewed relationships under the reseller model. These costs were new to the year as a result of the Corporation taking on a more active role as a reseller and were not included in prior years.

Employment costs increased by $948,618 over the third quarter of 2007 and by $1,246,877 over the fourth quarter of 2006. The increase over the third quarter is as a result of increased contract labour expense as contractors employed increased to 27 at December 31, 2007 from 18 at September 30, 2007, expense related to the Corporation's bonus plan, one-time severance costs and higher recruiting expenses during the quarter.

Non-GAAP measure – Earnings (loss) before interest, amortization and foreign exchange ("EBITDA")

Reconciliation of Net Loss to EBITDA

	For the three months ended		
Reconciliation to EBITDA	**Dec. 31, 2007**	**Sept. 30, 2007**	**Dec. 31, 2006 As Restated[(1)]**
Net Loss	$ (935,195)	$(1,009,274)	$ (812,864)
Add back:			
Amortization of property and equipment	472,696	442,625	428,223
Amortization of intangible assets	154,384	202,037	210,257
Amortization of deferred costs	118,199	118,198	132,926
Foreign exchange loss/(gain)	92,828	244,212	(217,379)
Interest on preferred shares	292,182	292,182	277,456
Interest, loss on short-term investment and capital tax	9,317	(24,482)	(6,744)
Earnings (loss) before interest, amortization and foreign exchange - EBITDA	**$ 204,411**	**$ 265,498**	**$ 11,875**

Note:
(1) See "Restatement" on page 6.

EBITDA is a non-GAAP measure used by the Corporation. For a complete explanation, see "*Non-GAAP measure – Earnings (loss) before interest, amortization and foreign exchange ("EBITDA")*", on page 20 hereof.

For the three months ended December 31, 2007, the Corporation's EBITDA was $204,411. This compares with EBITDA of $265,498 for the three months ended September 30, 2007 and $11,875 for the three months ended December 31, 2006.

Net Loss

The Corporation reported a net loss of $935,195 for the fourth quarter of 2007, compared with a net loss of $1,009,274 for the third quarter of 2007 and a net loss of $812,864 in the fourth quarter of 2006. The decrease in the net loss over the third quarter of 2007 was primarily a function of revenue growth exceeding the increase in expenses.

The $122,332 increase in net loss over the fourth quarter of 2006 is as a result of a $310,207 increase in the foreign exchange loss, an increase in employment costs related to bonus and severance of $602,623, offset by a $790,498 improvement in all other items included in the net loss.

LIQUIDITY

Overview of Liquidity

Management views liquidity as the Corporation's ability to generate sufficient cash flow to meet its obligations as they become due. Balance sheet liquidity indicators provide management with a test of the Corporation's current liquidity. Balance sheet indicators of liquidity include cash and short-term investments, accounts receivable and accounts payable. Earnings (loss) before interest, amortization and foreign exchange is seen by management as a key indicator of the change in the liquidity of Points' operations over a defined period of time. As the Corporation continues to add contracts to its portfolio of *Ecommerce Services* and to *Points.com*, revenue is expected to grow, resulting in increased liquidity.

Current Assets

The Corporation had current assets of $40,880,983 at December 31, 2007, compared to $29,407,867 at December 31, 2006.

As at December 31,	**2007**	**2006 As Restated[(1)]**
Cash and cash equivalents	$ 21,148,331	$ 19,758,490
Funds receivable from payment processor	5,034,223	3,710,341
Short-term investments	7,272,200	–
Security deposits	1,533,073	1,220,209
Accounts receivable	3,293,291	2,375,966
Current portion of future income tax asset	590,000	–
Current portion of deferred costs	274,327	283,649
Prepaids and sundry assets	1,735,538	2,059,212
Total Current Assets	**$ 40,880,983**	**$ 29,407,867**

Note:
(1) See "Restatement" on page 6.

Current assets increased by $11,473,116 compared to December 31, 2006. The increase in current assets relative to the previous year-end is primarily related to the increase of $9,195,261 in the amounts payable to loyalty program partners and the $1,445,272 in cash proceeds received from the issuance of capital stock related to stock based compensation during the year. See "*Current Liabilities*" on page 27 hereof for growth in current liabilities attributed to amounts payable to loyalty program partners.

Cash from Exercise of Certain Warrants and Options

Certain "in-the-money" warrants and options are due to expire within 12 months from the date of this MD&A. Assuming that the market price of the common shares remains above the exercise price of these securities, management expects the securities to be exercised. If exercised in full, the proceeds from the exercise of these securities will increase cash by $738,837. Assuming the exercise in full of these securities, issued and outstanding common shares will increase by 756,370 shares.

<u>Securities with Near-Term Expiry Dates – Outstanding Amounts as at December 31, 2007</u>

Security Type	**Expiry Date**	**Number**	**Strike Price**	**Proceeds**
Options	02/16/2008	65,000	0.22	$ 14,300
Options	04/29/2008	7,500	0.87	6,525
Options	08/19/2008	15,000	0.95	14,250
Options	11/19/2008	20,000	1.01	20,200
Options	12/16/2008	500,000	1.12	560,000
Warrants	04/04/2008	148,870	0.83	123,562
Total		**756,370**		**$ 738,837**

Subsequent to year end, and as at March 4, 2008, the following securities due to expire within 12 months have been exercised or expired:

Security Type	Expiry Date	Number	Strike Price	Proceeds
Options - exercised	02/16/08	65,000	0.22	$ 14,300

Accounts Receivable

The Corporation expects accounts receivable to grow proportionately with growth in revenue; however there is some variability in this trend. Management deems the risk of bad debts to be nominal based on the structure and nature of the Corporation's business and the corresponding cash flows.

Ability to Fund Future Growth

In 2007, the Corporation had cash flows provided by operating activities after changes in non-cash balances related to operations of $11,017,625 compared to $2,029,643 in fiscal year 2006. The cash flow increase is primarily attributable to an increase in amounts payable to loyalty program partners from new *Ecommerce Services* products, increased sales volume of existing partners and an improvement in revenue net of cash expenses for the year ended December 31, 2007.

The Corporation expects to continue to generate positive cash flows from operations for the 2008 fiscal year by achieving positive EBITDA and continuing to grow the Corporation's amounts payable to loyalty partners through new *Ecommerce Services* products and growth of existing products.

Property and Equipment

The Corporation reported a decrease in net book value of property and equipment in the fiscal year ended December 31, 2007 due to amortization exceeding the additions during the period. Additions of $865,008 in 2007 include capitalized employment costs for two new *Points.com* products, *Book with Points* and *Global Points Exchange*, and costs related to the development of new *Ecommerce Services* products during the year. See "*Capital Resources – Planned Capital Expenditures*" on page 29 hereof for additional information.

Additional capitalized development costs associated with the Corporation's technology will increase property and equipment and the corresponding amortization in 2008 and beyond.

As at December 31,	2007	2006
Furniture and equipment	$ 198,157	$ 220,980
Computer equipment	278,263	262,065
Software	173,140	476,248
Technology development	1,121,995	1,638,434
Leasehold improvements	209,908	336,512
Total Property and Equipment	**$ 1,981,463**	**$ 2,934,239**

Goodwill

Goodwill originated from the acquisition of the MilePoint business assets in 2004. In accordance with CICA Handbook section 3062, "Goodwill and Other Intangible Assets", impairment is assessed annually by the Corporation at the fiscal year-end. Management tested the acquisition goodwill for impairment at December 31, 2007, and the acquisition goodwill was deemed not to be impaired. In accordance with GAAP, management will continue to test the acquisition goodwill on an annual basis.

As at December 31,	2007	2006 As Restated(1)
Goodwill(1)	$ 4,129,069	$ 4,129,069

Note:
(1) See explanations above under "Restatements" on page 6.

Current Liabilities

Current liabilities at December 31, 2007 were $35,226,828 compared with $25,142,313 at December 31, 2006. The increase compared to the previous year-end is primarily related to the increase in partner deposits.

As at December 31,	2007	2006 As Restated(1)
Accounts payable and accrued liabilities	$ 3,425,150	$ 3,342,869
Current portion of deferred revenue	1,600,194	776,251
Payable to loyalty partners	30,195,664	21,000,403
Current portion of loan payable	5,820	33,515
Total Current Liabilities	**$ 35,226,828**	**$ 25,153,038**

Note:
(1) See "Restatement" on page 6

Funds are collected from the end consumer through the provision of the *Ecommerce Services*, based on gross transaction value. Funds Payable to loyalty program partners include proceeds owed to the Partner for Agency transactions based on the gross transaction value less the Corporation's commissions as well as funds payable to loyalty partners in order to pay for the direct cost of Principal transactions. As activity increases across all of the *Ecommerce Services*, the Corporation expects funds payable to loyalty program partners to also increase.

In each period, the accounts payable and accrued liabilities include an accrual for projected employee bonuses to be paid in February of the following year, and other accrued charges.

The Corporation has sufficient foreign currency reserves to meet its foreign currency obligations and, as such, does not utilize any hedging or other strategies involving interest rate or currency derivatives.

Working Capital

Working capital (defined as current assets minus current liabilities) has increased from $4,254,829 at December 31, 2006 to $5,654,155 at December 31, 2007. See pages 25 through 27 hereof for additional information regarding the Corporation's current assets and current liabilities. Management expects that, through the growth of its products and its ability to control costs, working capital will continue to improve in 2008. See "*Risks and Uncertainties*" on page 31 hereof for additional information. Furthermore, the cash payments relating to the Preferred Shares occur in 2013. Management considers its working capital position to be sufficient to meet both its current obligations and near-term (1-5 years) obligations. See "*Long-Term Liabilities and Commitments*" on page 28 hereof for more information.

Long-Term Liabilities and Commitments

Future Obligations (000,000s)					
Payments due by period	**Total [1]**	**5 Years or Greater**	**3-5 Years**	**1-3 Years**	**1 Year**
Series Two Preferred Share (non-cash expense until repayment)	$ 21.05	$ 16.49	$ 1.09	$ 2.60	$ 0.87
Series Four Preferred Share (non-cash expense until repayment)	5.39	4.12	0.30	0.73	0.24
Loan Payable	0.01	–	–	–	0.01
Operating Leases[2]	2.52	–	–	1.56	0.96
Revenue Commitments[3]	13.41	–	6.21	5.69	1.51
Purchase Commitments[4]	0.88	–	–	0.07	0.81
Total Contractual Obligations	$ 43.26	$ 20.61	$ 7.60	$ 10.65	$ 4.40

Notes:

(1) Represents the aggregate amount for the full duration of the contractual obligations (including years post 2012 and prior to 2008).

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

(3) Includes loyalty currency purchase commitments made with loyalty program operators contracted under the reseller model of *Ecommerce Solutions*.

(4) Includes loyalty currency purchase commitments made with loyalty program operators for co-marketing commitments.

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

Preferred Shares

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

In the event of redemption of the Preferred Shares on a Preferred Share Change of Control, the redemption amount payable will be equal to the greater of (i) 125% of the amount equal to (A) $12,400,000 for the Series Two Preferred Share and $3,454,611 for the Series Four Preferred Share plus (B) a return on that subscription price equal to 7% per annum calculated on a daily basis from the date of issue of the applicable Preferred Share to the date on which the applicable Preferred Share is redeemed and (ii) the product of the number of underlying shares and the greater of (A) the weighted average closing price of the common shares on the principal stock exchange on which the common shares then are traded for the ten days ending on the trading day immediately prior to public announcement of the Preferred Share Change of Control, and (B) the fair market value of the consideration paid per common share in the transaction resulting in the Preferred Share Change of Control.

Upon the occurrence of an event that is a Preferred Share Change of Control, Points may not have sufficient cash to pay the redemption amount on the Preferred Shares. As such, it is unlikely that management would consider a transaction that triggered such a payment unless the transaction provided for such payment.

Operating Leases

The operating leases primarily relate to specific office technology and technology service commitments.

Revenue Commitments

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

Purchase Commitments

The partner purchase commitments relate to contractual arrangements where the Corporation has committed to purchase loyalty currency and marketing from the partner for the purposes of promoting the Corporation's *Ecommerce Services*.

CAPITAL RESOURCES

Planned Capital Expenditures

Total capital expenditures in 2008 are expected to be in line with 2007 which include capitalized development, acquired hardware and software, and leasehold improvements. Capitalized development costs are expected to continue to make up the majority of the total expenditure in the 2008 fiscal year. The Corporation will fund 2008 capital expenditures from its working capital.

OUTSTANDING SHARE DATA

As at the date hereof, the Corporation has 120,160,930 common shares outstanding, one Series Two Preferred Share and one Series Four Preferred Share. Subject to anti-dilution adjustment, the Series Two Preferred Share is convertible into 24,028,016 common shares and the Series Four Preferred Share is convertible into 5,411,434 common shares.

As of the date hereof, the Corporation has outstanding options exercisable to acquire up to 7,096,726 common shares. The options have exercise prices ranging from $0.74 to $2.20 with a weighted average exercise price of $1.19. The expiration dates of the options range from April 29, 2008 to January 24, 2013.

The Corporation's subsidiary, Points.com Inc., has no outstanding options exercisable to acquire common shares of Points.com Inc. The last of the previously outstanding *Points.com* options and their related put rights were exercised in the second quarter of 2007.

As of the date hereof, the Corporation has outstanding warrants exercisable to acquire up to 148,870 common shares. The warrants have an exercise price of $0.83. The expiration date of the warrants is April 4, 2008.

The following table lists the common shares issued and outstanding as at March 19, 2008 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	Liability Reduction[1]
Common Shares Issued & Outstanding	120,160,930		
Convertible Securities			
Series Two Preferred Share	24,028,016	$ –	$ 16,187,226
Series Four Preferred Share	5,411,434	–	4,119,624
Broker warrants	148,870	123,562	–
Stock options	7,096,726	8,454,436	–
Sub-Total Convertible Securities	36,685,046	8,577,998	20,306,850
Fully Diluted	**156,845, 976**	**$ 8,577,998**	**$ 20,306,850**
Securities Excluded from Calculation			
Options available to grant from ESOP[2]	221,052		n/a

Notes:
(1) Liability reduction reflects the value outstanding on the balance sheet as at December 31, 2007.
(2) The number of options available to grant is calculated as the total stock option pool, less the number of stock options exercised, less the number of stock options granted.

SUMMARY OF RESULTS

The following summary of results has been prepared in accordance with Canadian GAAP and is reported in Canadian dollars.

Income Statement for the year ended December 31, 2007	2007	2006 As Restated(1)	2005 As Restated(1)
Revenue	$31,607,700	$11,695,703	$10,190,085
General and administrative expenses	34,821,822	18,512,453	18,237,399
Interest and other expenses	1,222,213	1,369,313	2,094,148
Net income (loss)	$ (4,436,335)	$(8,186,063)	$(10,141,462)
Net income (loss) per share(2)			
- basic	$ (0.04)	$ (0.08)	$ (0.12)
- diluted	n/a	n/a	n/a

Notes:
(1) See "Restatement" on page 6.
(2) In accordance with GAAP, the diluted loss per share has not been presented, as the effect would be anti-dilutive.

Balance Sheet as at December 31,	2007	2006 As Restated(1)
Current assets	$ 40,880,983	$ 29,407,867
Total assets	48,850,568	40,431,054
Total liabilities	55,913,725	45,087,082
SHAREHOLDERS' EQUITY		
Capital stock	45,994,159	43,051,048
Warrants	30,668	186,688
Contributed surplus	7,945,633	8,703,518
Retained earnings	(61,033,617)	(56,597,282)
Total	**$ (7,063,157)**	**$ (4,656,028)**

Note:
(1) See "Restatements" on page 6.

Summary of Quarterly Results (Unaudited)

Quarter ended	Revenues As Restated(1)	Net loss As Restated(1)	Loss per share(2) As Restated(1)
December 31, 2007	$14,234,513	$ (935,196)	$ (0.01)
September 30, 2007	7,531,492	(1,009,274)	(0.01)
June 30, 2007	4,614,008	(1,666,880)	(0.01)
March 31, 2007	5,227,687	(824,986)	(0.01)
December 31, 2006	3,619,049	(812,864)	(0.01)
September 30, 2006	2,812,647	(1,890,569)	(0.02)
June 30, 2006	2,546,229	(3,176,556)	(0.03)
March 31, 2006	2,717,778	(2,306,074)	(0.02)

Notes:
(1) See "Restatement" on page 6.
(2) In accordance with GAAP, the diluted loss per share has not been presented, as the effect would be anti-dilutive.

RISKS AND UNCERTAINTIES

Industry Risks

The Corporation and the majority of its partners operate in the travel industry in North America. The ability of the Corporation's partners to continue to drive commercial activity to their businesses is integral in generating loyalty miles/points to their respective programs. As well, the overall popularity of loyalty miles/points 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 miles/points through the Corporation's online solutions. As such, 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. The Corporation attempts to mitigate this risk through diversification into other business verticals and expansion of its loyalty partner base to Europe and Asia. These alternate business verticals include financial services, land-based retail and online retail.

Business Risks

Lack of Profitability

The Corporation has never had a profitable quarter in its operating history and may never have a profitable quarter. Net loss for the year ended December 31, 2007 was $4,436,335 ($8,186,063 for the year ended December 31, 2006).

Limited Financial Resources

In April 2005 the Corporation issued 18,134,300 common shares to a group of accredited investors for proceeds of $12.4 million and issued to Points Investments, Inc., an affiliate of IAC/InterActiveCorp, one Series Four Preferred Share for proceeds of $3.45 million.

Notwithstanding this financing, the financial resources of the Corporation continue to be limited. For 2007, the Corporation reported total revenue of $31,607,700 and cash flows provided by operating activities of $11,017,625 as compared with total revenue of $11,695,703 and cash flows provided by operating activities of $2,029,643 in 2006. If cash flows provided by operations do not remain positive and increase the Corporation's liquid and unencumbered cash position, it could adversely impact the Corporation's ability to pay its liabilities as they become due and/or exploit business opportunities and fund growth. Consequently, the Corporation could in the future be dependent upon its ability to obtain additional financing either by debt, equity or other means. The ability of the Corporation to arrange such additional financing will depend in part upon the then prevailing capital market conditions, as well as the business performance of the Corporation. In addition, pursuant to the terms of the Series Two Preferred Share, IAC/InterActiveCorp has a veto right over the Corporation's ability to incur debt outside the ordinary course of business. There can be no assurance that the Corporation will be successful in its efforts to arrange additional financing on terms satisfactory to the Corporation.

If additional financing is raised by the issuance of common shares from treasury, control of the Corporation may change and/or shareholders may suffer additional dilution. If additional financing is raised by the issuance of debt, the Corporation will be more highly leveraged going forward and interest payments upon such debt could have a negative impact on the cash flow of the Corporation. If adequate financing is not available, or is not available on acceptable terms, the Corporation may not be able to take advantage of opportunities, invest in technological development and enhancements or otherwise respond to competitive pressures and remain in business. In addition, the failure to secure additional financing could result in the failure of the Corporation to meet its liabilities as they become due, which would have a materially adverse effect on the Corporation.

Liabilities of the Corporation

As at December 31, 2007, the Corporation had outstanding consolidated current liabilities of $40,880,983 and consolidated total liabilities of $55,913,725, including its obligations under the Preferred Shares. There is no assurance that the Corporation will be able to repay such amounts when and if they are due, as any such repayment will be dependent upon generating sufficient cash reserves and may also be dependent upon securing additional financing.

Dependence On Loyalty Partners

For the year ended December 31, 2007, three of Points' customers represented 75% (three customers in 2006 represented 58%) of the Corporation's total revenue. The loss of one or more of these key loyalty partners could have a material adverse affect on the Corporation's business, revenue, operating results and financial condition.

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 its 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.

U.S. 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. and Part XXIII.1 of the Securities Act (Ontario) and related rules, may cause the Corporation to incur increased costs as we evaluate the implications of new rules and respond 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; as such, it 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 our 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 we 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 Multilateral Instrument 52-109 of the Canadian Securities Administrators. The results of this review are reported in our Annual Report on Form 40-F and in our Management's Discussion and Analysis of Results of Operations and Financial Condition. Our 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.

In connection with the restatement of the Corporation's previously issued financial statements (as described in "*Restatement*" on page 6), management has concluded that the Corporation's design and control of the Corporation's disclosure controls and procedures and internal controls over financial reporting were not effective as of December 31, 2007. Management's review is designed to provide reasonable assurance, not absolute assurance, that all material weaknesses existing within the Corporation's disclosure controls and procedures and internal controls over financial reporting are identified. Material weaknesses represent deficiencies existing in the Corporation's disclosure controls and procedures and internal controls over financial reporting that may not prevent or detect a misstatement occurring which could have a material adverse affect on the quarterly or annual financial statements of the Corporation. In addition, management cannot assure you that the remedial actions being taken by the Corporation to address the material weaknesses identified will be successful, nor can management assure you that no further material weaknesses will be identified within its internal controls over financial reporting throughout 2008.

If the Corporation fails to maintain effective internal controls over its financial reporting, there is the possibility of errors or omissions occurring or misrepresentations in the Corporation's disclosures which could have a material adverse effect on the Corporation's business, its financial statements, and the value of the Corporation's common shares.

Internet Viability and System Infrastructure and Reliability

The widespread growth of internet usage has caused frequent interruptions and delays in transmitting and processing information and data over the internet. There can be no assurance that the internet infrastructure of the Corporation's own network systems will continue to be able to support the demands placed on it by the continued growth of the internet, the loyalty industry or that of its customers.

The viability of the internet could be affected if the necessary infrastructure is not sufficient, or if other technologies and technological devices surpass the internet as a viable channel for business transactions.

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 we provide to our partners. These services are subject to service outages and delays due to system failures, stability or interruption. Our loyalty partners may lose customers as a result of delays or interruption in service. As a result, the Corporation may not be able to meet a satisfactory level of service as contracted, and may cause a breach of the Corporation's contractual commitments, which could have a material adverse affect on the Corporation's business, revenues, operating results or financial condition.

Chargebacks

Chargebacks are any credit card transaction undertaken by an end-customer that is later reversed or repudiated. Points 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. As Points moves more actively to participate in its business relationships with loyalty partners as a principal, this risk is borne by the Corporation. Risk to the Corporation from chargebacks could exceed the margin of return to Points from the transaction being carried out. While Points has fraud control measures in place to minimize exposure, this factor could have a material adverse effect on its business, revenue, operating results and financial condition.

Contractual Performance Commitments

The Corporation, in some of its contractual relationships, has made commitments on the number of miles/points it will process over the contract term of its agreements. The commitments are measured annually on the anniversary date of the contracts. As a result, there is a risk that these commitments may not be met, resulting in the Corporation incurring a financial outlay to purchase the shortfall in points/miles to meet annual contracted levels and take these into inventory. There is a risk that in turn, the Corporation may have difficulty in selling this inventory which could have a material adverse effect on the Corporation's business, revenue, operating results and financial condition.

Foreign Exchange

The Corporation's financial results are reported in Canadian currency, which is subject to fluctuations in respect of currencies of the countries in which the Corporation operates, including U.S. dollars, British pounds sterling and Euros. Accordingly, fluctuations in the exchange rate of world currencies could have a positive or negative effect on the Corporation's reported results. At present, the Corporation does not utilize any hedging programs to mitigate the Corporation's currency risk. As a result, there can be no assurance that the Corporation will not experience currency losses in the future, which could have a material adverse effect on the Corporation's business, revenue, operating results and financial condition.

Dependence Upon Key Personnel

The Corporation's future success is dependent upon certain key management and technical personnel. The loss of these individuals and the inability to attract and retain highly qualified employees could have a material adverse effect on the Corporation's business, revenue, operating results and financial condition.

Stock Volatility

Over the past 12 months, the market price for the Corporation's common shares has experienced significant fluctuation and may continue to fluctuate significantly. The market price of the Corporation's common shares may be adversely affected by various factors such as quarterly variations in revenue and operating results, signing or loss of a customer, changes in earnings estimates by financial analysts, speculation in the press or analyst community and general market conditions. In addition, the stock market has from time to time experienced extreme price and volume fluctuations. These company-specific or broad market fluctuations may adversely affect the market price of the Corporation's common shares.

Although the Corporation's common shares are listed and traded in Canada on the Toronto Stock Exchange and in the U.S. on the O.T.C. Bulletin Board ("OTCBB"), this should not imply that there will always be a liquid market in the Corporation's common shares.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers will be subject with respect to the operations of the Corporation. As a result of the Corporation's efforts to engage people who have experience in the Corporation's area of business, some of the directors and officers have been and will continue to be engaged in other businesses. Situations may arise where the directors and officers will be in direct competition or have an interest in parties that conflict with the Corporation. Any such conflicts will be subject to the governance practices of the board of directors of the Corporation and governed by the law applicable to directors' and officers' conflicts of interest.

Limited Customers

There can be no assurance that the Corporation will be successful in marketing its products to potential retail customers and loyalty program operating partners. Competitors of the Corporation may have long-standing 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. In addition, it is possible that the Corporation will not be able to maintain its existing relationships with retail customers and loyalty program partners.

Revenue

Operating revenue are derived from contracts for *Ecommerce Services*. This includes revenue in the form of development fees, maintenance fees and commissions, membership fees and revenue from *Points.com* in the form of fees and commissions. Revenue growth is dependent on attracting new partners and customers for the Corporation's business, increasing the number of transactions engaged in by current consumers, and in securing continued contracts for its *Ecommerce Services*. Competition or other business factors may have a material adverse effect on the Corporation's ability to grow its revenue and become profitable.

OUTLOOK

Points believes it has been a pioneer in the loyalty industry, with little or no competition from parties external to the loyalty program operators themselves. The Corporation looks to build on its unique competitive position to further strengthen its relationships with currently contracted loyalty program operators and to sign additional loyalty program operators, especially in less penetrated markets such as Europe and Asia, to *Points.com* and *Ecommerce Services*. To date in 2008, the Corporation has renewed and strengthened existing relationships with five loyalty program operators and signed contracts with four new loyalty program operators. The Corporation also looks to build on its proprietary technology, which will help broaden and strengthen existing relationships and attract new relationships. New functionality being added to the Corporation's software offerings at the end of 2008 will allow end consumers more ways to make the most of their points and miles, and in turn, provide more revenue opportunities for Points and loyalty program operators. Additionally, continued expansion of the reseller model leverages Points' experience in marketing its offerings to consumers and will further strengthen Points' existing relationships. Management continues to be optimistic about the Corporation's position within the loyalty industry and its ability to service new loyalty program operators in Europe and Asia, as well as new loyalty program operators in non-travel business verticals, and believes that the future will continue to build upon 2007's milestone achievement of positive EBITDA.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying 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 external report of the independent registered chartered accountants, the comments by independent registered chartered accountants on Canada-United States of America reporting difference, auditor's report and other information in the Annual Report. The committee reports 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 and Touche LLP, the external auditors, in accordance with Canadian generally accepted auditing standards. Deloitte and 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 U.S. Securities and Exchange Commission ("SEC")) as of December 31, 2007. Based on that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were not effective.

As discussed below, the Corporation identified weaknesses in the design and implementation of internal control over financial reporting as at December 31, 2007. Internal control over financial reporting is a sub-set of disclosure controls and procedures such that a material weaknesses in the former generally indicate weaknesses in the latter.

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 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 generally accepted accounting principles.

Internal controls include 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.

Management, including the Corporation's Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As a result of the restatements reflected in the December 31, 2007 financial statements and audit adjustments related thereto, the Corporation has concluded that there is a material weakness in internal control over financial reporting as of December 31, 2007.

The Corporatioin has not demonstrated the timely and in-depth involvement of external resources to supplement their knowledge of generally accepted accounting principles, particularly with respect to complex revenue recognition matters related to upfront contract initiation fees in prior years. Given that the current internal controls did not detect these past errors, a material weakness existed as of December 31, 2007. Due to this material weakness, management, including the Corporation's Chief Executive Officer and Chief Financial Officer, has concluded that internal control over financial reporting was not effective as of December 31, 2007.

The effectiveness of the Corporation's internal control over financial reporting as of December 31, 2007 has been audited by Deloitte & Touche, LLP, Independent Registered Chartered Accountants, as stated in their report which is included herein.

REMEDIATION

During the year, the Corporation took several measures to enhance its internal controls. Specifically, the Corporation has supplemented its internal controls with the following remedial actions:

- In April 2007, the Corporation increased its internal knowledge both in Canadian and U.S. generally accepted accounting principles with the hiring of a new Chief Financial Officer, and Director of Finance;
- When complex or unusual transactions surface, senior management has committed to actively seeking a solution in-house and then consulting third party consultants for a second opinion;
- Effective for the third quarter of 2007, third party consultants conduct a review of key events in the quarter and provide comments on the applicable related disclosures; and
- In addition to the significant increase in generally accepted accounting principles knowledge accessible to the Corporation throughout 2007, the Corporation has established a number of control procedures designed to strengthen our capabilities to both identify and address any potential errors before they are reported in the future.

In response to the material weakness in the Corporation's internal controls as of December 31, 2007 noted above, the Corporation has engaged additional involvement of external resources for any new complex accounting matters. With the implementation of these corrective actions, the Corporation believes that the above noted material weakness has been remediated as of the release date of its December 31, 2007 financial statements. However, the effectiveness of such procedures will not be tested until the close of the Corporation's first quarter in 2008.

The Corporation will continue to periodically review its disclosure controls and procedures and internal control over financial reporting and may make modifications from time to time as considered necessary or desirable.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There are no changes in the Corporation's internal control over financial reporting during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

T. Robert MacLean
Chief Executive Officer

Anthony R. Lam
Chief Financial Officer

March 19, 2008