POINTS INTERNATIONAL LTD.
(formerly "Exclamation International Incorporated")

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

POINTS INTERNATIONAL LTD.
(formerly "Exclamation International Incorporated")

DECEMBER 31, 2002 AND 2001

CONTENTS

AUDITORS' REPORT

To the Shareholders of
Points International Ltd.

We have audited the consolidated balance sheets of Points International Ltd. as at December 31, 2002 and 2001 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

[signed]
Mintz & Partners LLP

Toronto, Ontario
February 27, 2003

CHARTERED ACCOUNTANTS

POINTS INTERNATIONAL LTD.
(formerly "Exclamation International Incorporated")
CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31	2002	2001
A S S E T S		
CURRENT		
Cash and short term investments (Note 3)	$ 7,341,700	$ 2,894,380
Accounts receivable	267,632	103,180
Prepaids and sundry assets	657,367	570,899
	8,266,699	3,568,459
LONG-TERM INVESTMENTS (Note 4)	151,629	171,129
CAPITAL ASSETS (Note 5)	1,764,199	3,231,535
INTANGIBLE ASSETS (Note 6)	1,956,539	120,312
FUTURE INCOME TAXES RECOVERABLE	590,000	590,000
DEFERRED FINANCE CHARGES	410,954	739,717
	$ 13,140,020	$ 8,421,152

APPROVED ON BEHALF OF THE BOARD:

[signed]

Robert MacLean, Chief Executive Officer and Director

[signed]

Christopher Barnard, President and Director

POINTS INTERNATIONAL LTD.
(formerly "Exclamation International Incorporated")
CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31	**2002**	**2001**
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 1,017,956	$ 486,605
Deposits	8,946,631	2,096,865
Current portion of obligation under capital leases	407,128	736,749
	10,371,715	3,320,219
OBLIGATION UNDER CAPITAL LEASES (Note 7)	-	305,174
CONVERTIBLE DEBENTURE (Note 8)	7,182,500	6,522,500
NON-CONTROLLING INTEREST (Note 19)	-	134,524
	17,554,215	10,282,417
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 9)	14,361,033	9,532,173
WARRANTS (Note 10)	425,588	-
DEFICIT	(19,200,816)	(11,393,438)
	(4,414,195)	(1,861,265)
	$ 13,140,020	$ 8,421,152

POINTS INTERNATIONAL LTD.
(formerly "Exclamation International Incorporated")
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

FOR THE YEARS ENDED DECEMBER 31	2002	2001
REVENUES		
Points operations	$ 2,308,846	$ 686,194
Interest	59,446	207,744
Appreciation on dilution of investment (Note 19)	-	89,035
Consulting and other	-	22,998
	2,368,292	1,005,971
GENERAL AND ADMINISTRATION	6,941,069	6,168,483
LOSS - Before interest, amortization and other deductions	(4,572,777)	(5,162,512)
Interest on convertible debenture (Note 8)	660,000	522,500
Interest and bank charges	50,071	158,785
Amortization of capital assets, intangible assets and deferred financing costs	2,408,800	1,836,814
	3,118,871	2,518,099
LOSS - Before non-controlling interest and discontinued operations	(7,691,648)	(7,680,611)
NON-CONTROLLING INTEREST	-	314,978
LOSS - From continuing operations	(7,691,648)	(7,365,633)
DISCONTINUED OPERATIONS		
Loss from discontinued operations (Note 20)	(115,730)	(2,163,602)
Loss on disposal of discontinued operations (Note 20)	-	(1,012,043)
Share of loss of disposed significantly influenced investments (Note 4)	-	(658,214)
NET LOSS	(7,807,378)	(11,199,492)
DEFICIT - Beginning of year	(11,393,438)	(193,946)
DEFICIT - End of year	$(19,200,816)	$(11,393,438)
LOSS PER SHARE - From continuing operations (Note 11)	$ (0.15)	$ (0.24)
NET LOSS PER SHARE (Note 11)	$ (0.15)	$ (0.36)

See Accompanying Notes

POINTS INTERNATIONAL LTD.
(formerly "Exclamation International Incorporated")
CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss from continuing operations	$ (7,691,648)	$ (7,365,632)
Items not affecting cash		
Amortization of capital assets	1,512,887	1,540,242
Amortization of deferred financing costs	328,763	246,572
Amortization of intangible assets	567,150	50,000
Non-controlling interest	-	(314,978)
Appreciation on dilution of investment	-	(89,035)
Shares issued in exchange for services	366,379	200,000
Warrants issued in exchange for services	2,775	-
Interest accrued on convertible debenture	660,000	522,500
	(4,253,694)	(5,210,331)
Changes in non-cash balances related to operations (Note 12)	7,130,198	2,288,111
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	2,876,504	(2,922,220)
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment of loans receivable from significantly influenced companies	19,500	26,666
Purchase of capital assets	(45,551)	(1,325,489)
Purchase of intangible assets	(144,774)	(70,312)
Fees paid on acquisition (Note 13)	(139,750)	-
CASH FLOWS USED IN INVESTING ACTIVITIES	(310,575)	(1,369,135)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of convertible debenture	-	6,000,000
Deferred financing costs	-	(986,289)
Repayment of obligations under capital leases	(634,795)	(1,700,390)
Issuance of capital stock, net of share issue costs	2,631,916	965,950
Issuance of capital stock of Points.com Inc.	-	345,413
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	1,997,121	4,624,684
INCREASE IN CASH FROM CONTINUING ACTIVITIES	4,563,050	333,329
CASH FLOWS USED IN DISCONTINUED OPERATIONS	(115,730)	(1,945,634)
INCREASE (DECREASE) IN CASH FROM ALL ACTIVITIES	4,447,320	(1,612,305)
CASH AND SHORT TERM INVESTMENTS - Beginning of year	2,894,380	4,506,685
CASH AND SHORT TERM INVESTMENTS - End of year	$ 7,341,700	$ 2,894,380

See Accompanying Notes

1. BASIS OF PRESENTATION AND BUSINESS OF THE COMPANY

The accompanying consolidated financial statements of Points International Ltd. (formerly "Exclamation International Incorporated") include the financial position, results of operations and cash flows of the company and its wholly-owned subsidiaries, Exclamation Inc., Points International (U.S.) Ltd. and Points International (U.K.) Limited and its indirect wholly-owned subsidiary, Points.com Inc.

Until November 6, 2001, the company was in the business of investing in early stage Internet based businesses. The company provided initial start-up funds necessary to establish the business and provided management services in any necessary capacity, with the anticipation of divesting its individual holdings. On November 6, 2001, the company entered into a restructuring whereby it disposed of all of its investments in the first quarter of 2002 except Points.com Inc. and completely focused the resources of the company on Points.com Inc.

The company develops technology solutions for the loyalty program industry. Their portfolio of custom solutions facilitates the online sale and exchange of miles, points and currencies for a number of major loyalty programs.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Use of estimates

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles has required management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at December 31, 2002 and 2001 and the revenues and expenses reported for the years then ended. Actual results may differ from those estimates.

2. SIGNIFICANT ACCOUNTING POLICIES - Continued

b) Revenue recognition

Revenues from transaction processing are recognized as the services are provided under the terms of related contracts. Membership fees received in advance for services to be provided over a future period are recorded as deferred revenue and recognized as revenue evenly over the term of service. Related direct costs are also recognized over the term of the membership.

Revenues from the sales of loyalty program points are recorded net of costs, in accordance with Abstract 123 of the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants ("C.I.C.A."), "Reporting Revenue Gross as a Principal Versus Net as an Agent", when the collection of the sales proceeds is reasonably assured and other material conditions of the exchange are met. Gross proceeds received on the resale of loyalty program points, net of the commissions earned, are included in deposits in the attached consolidated balance sheet until remitted.

Nonrefundable partner sign-up fees with no fixed term, and for which the company is under no further obligations, are recognized as revenue when received.

Custom web site design revenues are recorded on the percentage-of-completion basis.

c) Cash and short-term investments

Cash includes amounts on deposit at the company's bank and amounts held for the company by a third party credit card processor. Such amounts represent a reserve in respect of purchases of miles/points.

Short-term investments are accounted for at the lower of cost and net realizable value.

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2. SIGNIFICANT ACCOUNTING POLICIES - Continued

d) Capital assets

Capital assets are recorded at cost less accumulated amortization. Rates and basis of amortization applied by the company to write-off the cost of the capital assets over their estimated useful lives are as follows:

Furniture and equipment	20% declining balance basis
Computer equipment	30% declining balance basis
Software	30% straight line basis
Technology costs	straight line over 3 years
Technology costs under capital lease	straight line over 3 years
Leasehold improvements	straight line over 5 years

Technology costs are capitalized in accordance with Section 3061 ("Property, Plant and Equipment") and EIC Abstract 118 ("Accounting for Costs Incurred to Develop a Web Site"), of the C.I.C.A. Handbook.

e) Intangible assets

Effective January 1, 2002, the company adopted Section 3062 ("Goodwill and Other Intangible Assets") of the C.I.C.A. Handbook. The effect of this was to reclassify $50,000 of goodwill, representing the value of the public listing, to intangible assets. Since the public listing has an indefinite life, no further amortization will be recorded.

Patents and trademarks will be amortized over a period of three years commencing when the patents have been granted, expected to be in fiscal 2003.

Acquired technology, representing the excess of the cost over the values attributed to the underlying net assets of the acquired shares of Points.com Inc. (Note 13), will be amortized on a straight-line basis over a period of three years.

If the company determines that there is permanent impairment in the value of the unamortized portion of the intangible assets, as future earnings will not be realized as projected, an appropriate amount of unamortized balance of intangible assets will be charged to income as an "impairment charge" at that time.

2. SIGNIFICANT ACCOUNTING POLICIES - Continued

f) Long-term investments

Investments in shares of companies over which the company exercises significant influence are accounted for using the equity method.

Investments in shares of companies over which the company does not exercise significant influence are accounted for using the cost basis.

The company reviews all of its long-term investments regularly and provides for any decline in the value of the investment to the estimated net recoverable amount.

g) Deferred finance charges

Charges incurred in respect of financing are deferred and charged to income on a straight-line basis over three years. Deferred finance charges represent legal and other related fees incurred to obtain the financing described in Note 8.

h) Capital leases

Leases which transfer substantially all of the benefits and risks of ownership of the property to the company are treated as an acquisition of an asset and an obligation.

i) Dilution of investments

Gains arising from third parties acquiring an interest in the company's investees are shown in the attached consolidated statement of operations as an appreciation on dilution of investment.

j) Costs of raising capital

Incremental costs incurred in respect of raising capital are charged against equity proceeds raised.

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2. SIGNIFICANT ACCOUNTING POLICIES - Continued

k) Translation of foreign currency

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items. Income and expenses are translated at average exchange rates prevailing during the year. Realized and unrealized foreign exchange gains and losses are included in earnings.

The results of foreign operations which are financially and operationally integrated with the company are translated using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the rate of exchange prevailing at year-end. Fixed assets have been translated at the rates prevailing at the dates of acquisition. Revenue and expense items are translated at the average rate of exchange for the year. Exchange gains or losses on translation are charged to income.

l) Income taxes

The company follows the asset and liability approach to accounting for income taxes.

The income tax provision differs from that calculated by applying the statutory rates to the changes in current or future income tax assets or liabilities during the year.

Current income taxes payable differ from the total tax provisions as a result of changes in taxable and deductible temporary differences between the tax basis of assets and liabilities and their carrying amounts in the balance sheet.

m) Non-controlling interest

Non-controlling interest in the attached consolidated balance sheet represented third party interests in subsidiaries' net assets at the time of the investment by third parties as well as the interest of third party shareholders in the net income of any subsidiaries that were not wholly-owned.

n) Non-monetary transactions

Transactions in which shares or other non-cash consideration are exchanged for assets or services are valued at the fair value of the assets or services involved in accordance with Section 3830 ("Non-monetary Transactions") of the C.I.C.A. Handbook.

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2. SIGNIFICANT ACCOUNTING POLICIES - Continued

o) Earnings per share

During the 2001 fiscal year, the company adopted Section 3500 ("Earnings per Share") of the C.I.C.A. Handbook, which directs that the treasury stock method be used to account for options and warrants.

p) Stock-based compensation

Effective January 1, 2002, the company adopted Section 3870 ("Stock-Based Compensation and Other Stock-Based Payments") of the C.I.C.A. Handbook. As permitted by Section 3870, the company has applied this change prospectively for new awards granted on or after January 1, 2002. In periods prior to January 1, 2002, the company recognized no compensation when stock options or warrants were issued to employees or non-employees.

Employees

The company has chosen to recognize no compensation when stock options are granted to employees and directors under stock option plans with no cash settlement features. Pro-forma net income and earnings per share, as if the fair value based accounting method had been used to account for stock-based compensation cost, are provided.

Non-employees

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

3. SHORT-TERM INVESTMENTS

Cash and short-term investments include a guaranteed investment certificate of $37,159 maturing on January 14, 2003 bearing interest at 1% and a short-term U.S. note of US$1,367,097 (CAD$2,156,732) maturing on January 7, 2003.

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4. LONG-TERM INVESTMENTS

The company's investments, that are not consolidated in the attached financial statements, are:

	2002	2001
Bigtree.com Ltd.	$ -	$ 19,500
ThinApse Corp.	151,629	151,629
	$ 151,629	$ 171,129

a) The individual investments consist of:

(i) Bigtree.com Ltd.

	2002	2001
Loans receivable (Note 4(c))	$ -	$ 19,500
Shares at cost	-	49
Accumulated share of income	-	184,063
Accumulated amortization of purchased goodwill	-	(184,112)
	$ -	$ 19,500

As described in Note 20, the company disposed of its 49% equity investment in Bigtree.com Ltd. during the year for $19,500.

(ii) ThinApse Corporation
- 12% interest, cost basis

	2002	2001
Shares at cost	$ 151,629	$ 151,629

The share component of these investments have options and warrants attached. No value has been assigned to these options and warrants or any other interest attached to the long-term investments.

4. LONG-TERM INVESTMENTS - Continued

b) As all of the significantly influenced investments were discontinued during fiscal 2001 as part of the restructuring described in Note 20, the share of income of (loss from) significantly influenced investments is included as part of results of discontinued operations and for 2001 is comprised as follows:

	2002	2001
Bigtree.com Ltd.		
Share of (loss) income	-	(358,740)
Write-off of accounts receivable	-	(90,989)
Writedown of loans receivable	-	(208,485)
	$ -	$ (658,214)

c) The loans receivable included in (a), above were as follows:

	2002	2001
(i) Bigtree.com Ltd.	$ -	$ 106,668
(ii) Bigtree.com Ltd.	-	49,000
(iii) Bigtree.com Ltd.	-	50,000
(iv) Bigtree.com Ltd.	-	22,317
	-	227,985
Less: Writedown to net realizable value	-	(208,485)
	$ -	$ 19,500

The loans were written down in 2001 to the net realizable value which was recovered in 2002.

5. CAPITAL ASSETS

2002	Cost	Accumulated Amortization	Net Carrying Amount
Furniture and equipment	$ 237,277	$ 97,753	$ 139,524
Computer equipment	236,098	138,086	98,012
Software	330,431	196,131	134,300
Technology costs	948,372	631,011	317,361
Technology costs under capital lease	2,969,694	1,979,796	989,898
Leasehold improvements	191,804	106,700	85,104
	$ 4,913,676	$ 3,149,477	$ 1,764,199

2001	Cost	Accumulated Amortization	Net Carrying Amount
Furniture and equipment	$ 235,303	$ 63,119	$ 172,184
Computer equipment	236,098	96,080	140,018
Software	317,633	99,136	218,497
Technology costs	917,592	320,017	597,575
Technology costs under capital lease	2,969,694	989,898	1,979,796
Leasehold improvements	191,804	68,339	123,465
	$ 4,868,124	$ 1,636,589	$ 3,231,535

Included in computer equipment is $88,353 (2001 - $126,219) of assets under capital lease (Note 7).

6. INTANGIBLE ASSETS

	Cost	Accumulated Amortization	Net Carrying Amount 2002	Net Carrying Amount 2001
Public status	$ 150,000	$ 100,000	$ 50,000	$ 50,000
Patents and trademarks	215,086	-	215,086	70,312
Acquired technology (Note 13)	2,258,603	567,150	1,691,453	-
	$ 2,623,689	$ 667,150	$ 1,956,539	$ 120,312

During fiscal 2001, $826,847 of goodwill, net of $404,917 of accumulated amortization, was written off as part of the loss on disposal of discontinued operations as follows:

	Cost	Accumulated Amortization	Net
ThinOffice Inc. (Note 20)	$ 205,000	$ 93,933	$ 111,067
Exponential Entertainment Inc. (Note 20)	621,847	310,984	310,863
	$ 826,847	$ 404,917	$ 421,930

7. OBLIGATION UNDER CAPITAL LEASES

The company is committed under various capital lease agreements for technology development whereby it is required to make monthly blended payments of principal and interest of approximately $65,000. The remaining balance is due in fiscal 2003.

8. CONVERTIBLE DEBENTURE

On March 15, 2001, the company issued a convertible debenture in the amount of $6,000,000. The original terms contemplated that $2,000,000 of the principal would be due on March 15, 2003 and $4,000,000 would be due on March 15, 2004. Interest accrued at a rate of 11% per annum. $665,600 of the interest was due on March 15, 2003 with the remaining interest due on March 15, 2004. In addition, the debenture holder had the right to convert $2,000,000 of the principal plus all accrued interest into 3,809,254 common shares of the company. As well, the company wrote a call option on a portion of its shares of Points.com Inc. which would satisfy the remaining principal and accrued interest.

8. CONVERTIBLE DEBENTURE - Continued

During fiscal 2002, as part of the restructuring described in Note 13, the terms of the debenture were amended. The debenture holder has the right to convert the principal plus all accrued interest into 18,908,070 common shares of the company. In the event that the debenture is not converted, the principal of $6,000,000, together with accrued interest at a rate of 11% per annum, is due on March 15, 2004. Accordingly, accrued interest payable of $1,182,500 (2001 - $522,500) is included with the convertible debenture as a non-current liability in the attached consolidated balance sheet. At the election of the debenture holder, the term may be extended by up to four one-year periods. The debenture is secured by a general security agreement.

As consideration for restructuring the terms, the company issued to the debenture holder 250,000 common shares valued at $62,500 (Note 9(vii)) and 595,667 warrants, valued at $37,825 (Note 10(d)). As well, the company issued to the debenture holder one Series One non-voting preferred share (Note 9). In the event of the liquidation, dissolution or winding-up of the company or other distribution of assets of the company for the purpose of winding-up its affairs prior to either (i) conversion into common shares of greater than $2,000,000 of the $6,000,000 principal amount of the convertible debenture or (ii) repayment in full of the convertible debenture, the holder of the Series One preferred share shall be entitled to (a) receive from the assets of the company $4,000,000 before any amounts shall be paid to the holders of any common or other shares ranking junior to the Series One preferred share and (b) share pro rata (on the basis that the Series One preferred share shall represent that number of common shares into which the convertible debenture is then convertible) with the holders of all other participating shares in further distributions from the assets of the company to an aggregate maximum of $20,000,000 in addition to the sum specified in (a).

The Series One preferred share is entitled to a dividend in the event of specified change of control transactions which dividend is approximately equal to the liquidation preference of such share. The Series One preferred share will automatically convert into one common share immediately following the earliest of (i) repayment in full of the convertible debenture, (ii) conversion into common shares of greater than $2,000,000 of the $6,000,000 principal amount of the convertible debenture and (iii) the payment in full of a dividend on the Series One preferred share.

In connection with the finalization of the investment in the company described in Note 22(b), the holder of the convertible debenture has agreed to accept repayment without interest within 30 days of any change in control as a result of the exercise of the warrants and to waive its conversion right so long as the warrants issued as described in Note 22(b) are outstanding and within 30 days thereafter if the debenture is paid.

9. CAPITAL STOCK

Authorized

Unlimited	common shares
Unlimited	Series A preference shares, convertible into one common share and one-half of one Series B common share purchase warrant
1	Series One preference share, convertible into one common share, non-voting

Issued

The balance of capital stock is summarized as follows:	2002	2001
Common shares	$ 14,361,032	$ 9,532,173
Series One preference share	1	-
Series A preference shares	-	-
	$ 14,361,033	$ 9,532,173

Common shares	Number	Amounts
Balance December 31, 2000	25,918,913	$ 6,881,457
Issued on completion of reverse takeover (i)	722,049	-
Issued on conversion of Series A preference shares	3,443,000	1,484,766
Issued in private placement (ii)	625,000	325,000
Issued on exercise of options (iii)	1,118,750	223,750
Issued on exercise of Series B warrants (iv)	500,000	375,000
Issued on exercise of options (v)	85,000	42,200
Issued in exchange for legal fees (vi)	400,000	200,000
Balance December 31, 2001	32,812,712	9,532,173
Issued on acquisition of Points.com Inc. shares (vii)	7,536,160	1,884,040
Issued in exchange for consulting services (viii)	1,187,290	151,379
Issued in private placement (ix)	12,000,000	3,000,000
Issued on exercise of options	99,155	2,178
Issued in exchange for services (x)	861,000	215,000
	54,496,317	14,784,770
Less: share issue costs		423,738
Balance December 31, 2002	54,496,317	$ 14,361,032

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9. CAPITAL STOCK - Continued

Series One preference shares	Number	Amounts
Issued on restructuring of convertible debenture (Note 8)	1	$ -
Series A preference shares		
Balance December 31, 2000	3,443,000	$ 1,484,766
Converted to common shares	(3,443,000)	(1,484,766)
Balance December 31, 2001 and 2002	-	$ -

(i) On January 1, 2001, the remaining 577,638 shares of Exclamation Inc. not tendered at the time of the reverse takeover (February 1, 2000) were exchanged for 722,049 common shares of the company.

(ii) 625,000 common shares were issued in a private placement at $0.52 per share.

(iii) 1,118,750 options previously issued to employees and directors were exercised at $0.20 per share.

(iv) 500,000 Series B common share purchase warrants, issued in connection with the Series A preference shares, were exercised at $0.75 per share.

(v) 85,000 options ("agent options"), issued in connection with the company's initial public offering, were exercised at $0.50 per share.

(vi) 400,000 common shares were issued in exchange for legal fees of $200,000, which were valued based on the agreed amount of the expenditure. During fiscal 2001, $52,549 was applied against legal fees incurred, with the remainder applied against legal fees incurred in fiscal 2002.

(vii) On February 8, 2002, the company completed its restructuring described in Note 13 and issued 7,286,160 common shares in exchange for the remaining 5.9% interest in Points.com Inc. The company issued an additional 250,000 common shares to the holder of the debenture described in Note 8 as compensation for renegotiating the terms.

(viii) The company issued 1,187,290 common shares in exchange for consulting services provided by a director of the company. These services were provided under a contract that expired in 2002.

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9. CAPITAL STOCK - Continued

(ix) The company issued 12,000,000 common shares in a private placement at $0.25 per share. 922,000 warrants, valued at $53,476 (Note 10) and a commission of $230,500 was paid in connection with this private placement.

(x) 611,000 common shares were issued to pay off outstanding accounts payable of $152,500 and 250,000 common shares were issued in exchange for marketing services of $62,500.

10. OPTIONS AND WARRANTS

a) Stock option plan

The company has a stock option plan under which employees, directors and consultants are periodically granted stock options to purchase common shares at prices not less than the market price of the share on the day of grant. The company has authorized a total of 5,131,900 shares for issuance under this plan. The options vest over a three-year period and expire five years from the grant date.

b) Stock options

	2002		2001	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning of year	4,248,400	$ 0.52	4,720,900	$ 0.44
Granted	1,553,357	0.27	671,250	0.56
Exercised	-	-	(1,118,750)	0.20
Forfeited	(669,857)	0.66	(25,000)	0.63
End of year	5,131,900	$ 0.43	4,248,400	$ 0.52
Exercisable at end of year	3,555,176	$ 0.47	1,689,695	$ 0.34

In addition, as described in (c) below, as a result of rights previously granted to holders of options in Points.com Inc., up to 6,965,136 shares could be issued should all of the put options attached to these be exercised.

10. OPTIONS AND WARRANTS - Continued

b) Stock options

	Options outstanding			Options exercisable	
Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
$0.20 to $0.49	2,132,250	3.15	$ 0.24	1,579,800	$ 0.24
$0.50 to $0.99	2,749,650	2.44	0.52	1,608,876	0.51
$1.00 and over	250,000	2.84	1.00	166,500	1.00

c) Stock options of Points.com Inc.

In addition to the stock options described above, Points.com Inc., the company's indirect wholly-owned subsidiary, previously issued and, therefore, has outstanding stock options. The options outstanding are as follows:

	2002		2001	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning of year	4,868,238	$ 0.49	4,598,738	$ 0.27
Granted	-	-	359,500	3.46
Exercised	(39,600)	0.06	-	-
Forfeited	(750,857)	2.91	(90,000)	0.56
End of year	4,077,781	$ 0.03	4,868,238	$ 0.49
Exercisable at end of year	3,361,617	$ 0.03	2,469,764	$ 0.45

10. OPTIONS AND WARRANTS - Continued

c) Stock options of Points.com Inc.

	Options outstanding			Options exercisable	
Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
$0.01 to $0.49	4,077,781	2.31	$ 0.03	3,361,617	$ 0.03
$0.50 to $0.99	-	-	-	-	-
$1.00 and over	-	-	-	-	-

The holders of 2,781,715 options (all with strike prices at or below $0.055 per share) have been granted the right to put to the company the common shares of Points.com Inc. acquired on the exercise of such options for common shares in the company. The company has used a ratio of 2.5039 common shares per Points.com Inc. common share (equivalent to 6,965,136 common shares) for this purpose.

Subsequent to year end, as described in Note 22, 143,200 options were exercised.

The remaining 1,152,866 options in Points.com Inc. have not been granted a put right. The company has applied for regulatory approval to grant this put right to these option holders as well. Therefore, the number of shares of the company issuable on the exercise of put rights on all of the above options could be up to 9,852,000.

10. OPTIONS AND WARRANTS - Continued

d) Warrants

	2002		2001	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Beginning of year	-	$ -	4,967,250	$ 0.74
Granted	7,056,116	0.25	-	-
Exercised	-	-	(585,000)	0.71
Forfeited	-	-	(4,382,250)	0.74
End of year	7,056,116	$ 0.25	-	$ -
Exercisable at end of year	6,036,116	$ 0.25	-	$ -

	Warrants outstanding			Warrants exercisable	
Range of exercise prices	Number of warrants	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of warrants	Weighted average exercise price
$0.20 to $0.49	7,056,116	1.94	$ 0.25	6,036,116	$ 0.25
$0.50 to $0.99	-	-	-	-	-
$1.00 and over	-	-	-	-	-

e) Warrants of Points.com Inc.

The company's indirect wholly-owned subsidiary, Points.com Inc., has issued or committed to issue 8,930,633 warrants to airline partners with expiry dates between March 28, 2006 and April 1, 2007. Each warrant entitles the holder to acquire one common share of Points.com Inc. with an exercise price of US$1.96. The exercise of these warrants would dilute the company's interest in Points.com Inc. by 24%.

10. OPTIONS AND WARRANTS - Continued

f) Fair value

The weighted-average grant-date fair value of stock options granted to employees and directors during 2002 has been estimated at $0.06 using the Black-Scholes option-pricing model. For purposes of pro-forma disclosures, the estimated fair value of the options granted after January 1, 2002 is amortized to expense over the options' vesting periods. The company's pro-forma net income (loss) under Canadian generally accepted accounting principles would be reduced by $27,000 for the year ended December 31, 2002. Basic earnings (loss) per share figures would not have changed. The pricing model assumes weighted-average risk-free interest rates of 4.5%, weighted-average expected dividend yields of nil, weighted-average expected common stock price volatility of 12.88% and a weighted-average expected life of 5 years.

The weighted-average grant-date fair value of warrants granted during 2002 has been estimated at $0.06 using the Black-Scholes option-pricing model. The pricing model assumes weighted-average risk-free interest rates of 4.5%, weighted-average expected dividend yields of nil, weighted-average expected common stock price volatility of 12.88% and a weighted-average expected life of 3.5 years.

7,056,116 warrants were issued to non-employees during the year and have been recorded in the attached consolidated financial statements at their fair value of $425,588. 5,042,116 warrants, valued at $369,337, were issued in connection with the restructuring described in Note 13 and have been recorded as part of acquired technology. 922,000 warrants, valued at $53,476, were issued in connection with the private placement described in Note 9(ix) and have been recorded as share issue costs. The remaining 1,092,000 warrants, valued at $2,775, were issued in connection with various services and have been recorded as an expense.

11. EARNINGS PER SHARE

a) Basic earnings (loss) per share

Earnings (loss) per share are calculated on the basis of the weighted average number of common shares outstanding for the year which amounted to 51,656,033 shares (2001 - 30,997,824).

b) Fully-diluted earnings per share

The number of fully-diluted shares outstanding has not been computed as the effect would be anti-dilutive.

12. STATEMENT OF CASH FLOWS

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

	2002	2001
(Increase) decrease in accounts receivable	$ (164,452)	$ 119,980
Increase in prepaids and sundry assets	(86,468)	(169,362)
Increase in accounts payable and accrued liabilities	531,352	240,628
Increase in deposits	6,849,766	2,096,865
	$ 7,130,198	$ 2,288,111

b) Supplemental information

Interest and taxes

Interest of $50,071 (2001 - $158,785) was paid during the year. Interest of $59,446 (2001 - $266,744) was received during the year. No income taxes have been paid.

Non-cash transactions

Non-cash transactions in 2002 were as follows:

(i) Shares of Points.com Inc. were acquired in exchange for shares of the company valued at $1,821,540 and warrants valued at $331,512. Fees associated with this transaction valued at $100,325 were also settled in exchange for shares and warrants (Note 13);
(ii) Consulting fees of $151,379 were paid by the issuance of shares (Note 9(viii));
(iii) Share issue costs were paid by the issuance of warrants with a fair value of $53,476 and advertising costs were paid by the issuance of warrants with a fair value of $2,775 (Note 10);
(iv) Marketing services of $62,500 were paid by the issuance of shares and are being expensed over a one-year period ((Note 9(x));
(v) Other accounts payable of $152,500 were settled with shares of the company ((Note 9(x));
(vi) $31,315 of airmiles, received in exchange for hosting services provided, were valued at the purchase price of the miles. These were recognized as a charge to prepaid expenses and included in revenue. The expense will be recognized as the airmiles are used.
(vii) Interest of $660,000 was accrued on the convertible debenture (Note 8).

12. STATEMENT OF CASH FLOWS - Continued

Non-cash transactions in 2001 were as follows:

(i) Legal fees of $200,000 were paid by the issuance of shares of the company (Note 9(vi));
(ii) Technology costs, with an original carrying value of $1,115,134, were acquired by way of capital leases;
(iii) $35,000 of airmiles, received in exchange for services provided, were valued at the purchase price of the airmiles. These were recorded as a charge to prepaid expenses and included in revenue. The expense will be recognized as the airmiles are used; and
(iv) Shares of Points.com Inc. were issued in exchange for legal fees valued at $102,000. These are included in "non-controlling interest" in the attached consolidated balance sheet and "appreciation on dilution of investment" in the attached consolidated statement of operations.
v) Interest of $522,500 was accrued on the convertible debenture (Note 8).

c) Cash and short-term investments consists of:

	2002	2001
Cash	$ 3,845,470	$ 1,241,560
Short-term investments (Note 3)	2,193,891	1,652,820
Cash held by credit card processor	1,302,339	-
	$ 7,341,700	$ 2,894,380

13. ACQUISITION

On February 8, 2002, the company received regulatory approval to proceed with a restructuring in which it acquired the 5.9% interest in Points.com Inc. it did not already own and discontinued all of its other operations (Note 20). To acquire the remaining common and Class C shares and outstanding broker warrants of Points.com Inc., the company issued 7,286,160 common shares, valued at $1,821,540 (Note 9(vii)) and 4,446,453 share purchase warrants with an exercise price of $0.25, valued at $331,512 (Note 10).

595,667 share purchase warrants with an exercise price of $0.25, valued at $37,825, were issued to acquire existing warrants of Points.com Inc. 250,000 common shares, valued at $62,500, were issued to the debenture holder, described in Note 8, in consideration for the restructuring. Legal fees of $139,750 were incurred with respect to the restructuring.

The total consideration given up in respect of this transaction was $2,393,127. $134,524 was allocated to non-controlling interests with the excess, $2,258,603, allocated to the cost of acquired technology (Note 6).

14. FINANCIAL INSTRUMENTS

The company's significant financial assets and liabilities are cash, short-term investments and convertible loans which are substantially stated at fair value. Interest rates, maturities and security affecting the currency, interest and credit risk of the company's financial assets and liabilities have been disclosed in Notes 3, 7, 8 and 12.

15. INCOME TAXES

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

	2002	2001
Income tax recovery at statutory rate	$ (3,017,000)	$ (5,032,000)
Share of income of significantly influenced investments for which there is no tax effect	-	248,000
Amortization of intangible assets for which there is no tax effect	567,000	142,000
Gain on dilution for which there is no tax effect	-	(39,000)
Losses for which no benefit has been recorded	2,450,000	4,681,000
Net income tax recovery	$ -	$ -

The company has non-capital losses carry-forward for income tax purposes in the amount of $15,833,000 which may be applied against future years' taxable income. The losses may be used to reduce future years' taxable income and expire approximately as follows:

2005	$ 179,000
2006	$ 604,000
2007	$ 2,662,000
2008	$ 6,659,000
2009	$ 5,729,000

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

Future income tax assets are comprised of:	2002	2001
Losses carried forward	$ 6,114,000	$ 4,273,000
Capital assets	964,000	563,000
Share issue costs	492,000	477,000
	7,570,000	5,313,000
Valuation allowance	(6,980,000)	(4,723,000)
Net future income tax asset	$ 590,000	$ 590,000

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16. RELATED PARTY TRANSACTIONS

The following are the transactions and balances with related parties:

a) Accounts receivable include $nil (2001 - $29,883) due from companies in which the company has a significant influence investment. The amount arose from expenses paid on behalf of the investees and services provided to the investees made in the normal course of operations and accounted for at normal trade terms.

b) Prepaids and sundry assets include a loan of $50,000 (2001 - $75,000) plus accrued interest due from a director of the company. The loan bears interest at the prescribed rate. $25,000 of the loan, plus accrued interest, was forgiven in the current year with the remainder, including accrued interest, to be forgiven evenly over the next two years.

c) Revenues include $nil (2001 - $29,180) of consulting fees and interest earned from companies in which the company has a significant influence investment made in the normal course of operations, accounted for at normal trade terms and valued based on negotiations between the company and the investees.

d) In fiscal 2001, certain directors exercised stock options at $0.20 per share (Note 9(iii)).

e) Consulting fees paid under an agreement expiring in 2002 of $151,379 were paid to a director and shareholder of the company and settled by the issuance of 1,187,290 common shares of the company (Note 9(viii)). This has been accounted for at normal trade terms and valued based on the fair value of the shares given up.

f) As described in Note 20, the company sold its shares of Exclamation Europe S.A. to a shareholder and director of the company for $2.

17. COMMITMENTS

The company is obligated under various operating leases for premises, equipment and service agreements for web hosting services expiring through 2005 to aggregate annual rentals as follows:

2003	$ 874,000
2004	$ 910,000
2005	$ 413,000

18. SEGMENTED INFORMATION

a) Reportable segments

In fiscal 2001, the company discontinued all of its operations except those of Points.com Inc. The company's business, therefore, is carried on in the industry of loyalty program asset management. The attached consolidated balance sheet as at December 31, 2002 and 2001 and consolidated statement of operations for the years then ended present the financial position and results of operations of this segment. All other activities are presented as discontinued operations.

Accordingly, the company had only one operating segment in each of 2002 and 2001 whose operating results were regularly reviewed by the company's chief operating decision maker and for which complete and discrete financial information is available.

b) Enterprise-wide disclosures - Geographic information

$1,931,723 (2001 - $649,255) of the company's revenues were generated in the U.S., with the remaining revenues generated in Canada.

At December 31, 2002 and 2001, all of the company's assets were in Canada.

19. APPRECIATION ON DILUTION OF INVESTMENT

The company has recognized the following gains:	2002	2001
Points.com Inc.	$ -	$ 89,035

In fiscal 2001, Points.com Inc. issued 34,343 common shares and 64,910 convertible Class C shares from treasury in a private placement for net proceeds of $345,413. The company's ownership interest in Points.com Inc. was diluted from 94.3% to 94.1%. Accordingly, the company recorded an accounting gain arising from this dilution of $89,035.

Non-controlling interest consisted of:	2002	2001
Issuance of Points.com Inc. shares to third parties	$ -	$ 449,502
Share of loss of Points.com Inc.	-	(314,978)
	$ -	$ 134,524

In 2002, as described in Note 13, the company acquired the remaining shares of Points.com Inc. and allocated $134,524 of the purchase price to the non-controlling interest.

20. DISCONTINUED OPERATIONS

During the fourth quarter of the year ended December 31, 2001, the company adopted a formal plan of disposal of Exclamation Europe S.A., ThinOffice Inc. and Exponential Entertainment Inc. On February 25, 2002, as part of the restructuring, the company signed an agreement to dispose of its interest in Bigtree.com Ltd.

Prior to December 31, 2001, the company sold its entire interest in Exclamation Europe S.A. to a shareholder and director of the company for $2.

In 2002, the company sold its entire interest in ThinOffice Inc. to an employee of ThinOffice Inc. for $2 and an option to acquire 15% of ThinOffice Inc. No value has been assigned to this option.

The company still owns the shares of Exponential Entertainment Inc. but the entity has ceased all operations.

None of the above entities recorded any revenues for either fiscal 2002 or fiscal 2001, with the exception of ThinOffice Inc., which recorded revenues of $29,280 in fiscal 2001.

The loss from discontinued operations is comprised as follows:

	2002	2001
Net loss from Thinoffice Inc.	$ 110,730	$ 1,214,167
Net loss from Exponential Entertainment Inc.	5,000	349,695
Net loss from Exclamation Europe S.A.	-	323,414
Amortization of goodwill related to Exponential Entertainment Inc.	-	207,284
Amortization of goodwill related to Bigtree.com Ltd.	-	69,042
	$ 115,730	$ 2,163,602

The loss on disposal of discontinued operations is comprised as follows:

	2002	2001
Net assets of ThinOffice Inc., including $111,067 of goodwill (Note 6)	$ -	$ 663,991
Net assets of Exponential Entertainment Inc.	-	36,231
Net assets of Exclamation Europe S.A.	-	958
Goodwill related to Exponential Entertainment Inc. (Note 6)	-	310,863
	$ -	$ 1,012,043

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21. ECONOMIC DEPENDENCE

Approximately 77% (2001 - 73%) of the company's revenues are from its two largest customers. In addition, 91% (2001 - 95%) of the company's deposits are due to these two customers.

22. SUBSEQUENT EVENTS

a) On February 17, 2003, 306,000 options were granted under the company's stock option plan to purchase shares at an exercise price of $0.22. On February 28, 2003, 10,000 options were granted under the company's stock option plan to purchase shares at an exercise price of $0.28. These options vest over a three-year period and expire five years from the grant date.

   Also, subsequent to year-end, 143,200 options in Points.com Inc. were exercised at a weighted average exercise price of $0.02 per share and put to the company for 2.5039 common shares per Points.com Inc. common share (Note 10(c)).

b) Subsequent to year end, the company entered into an agreement, subject to regulatory and other approvals, with USA Interactive. In connection with this agreement, the company, in return for an investment of $15,100,000, has agreed to create and issue one convertible preferred share with a value of $12,400,000 and common share purchase warrants with a value of $2,700,000.

   The preferred share is convertible for no additional consideration into 18,432,427 common shares. The effective price per underlying common share is approximately $0.67 subject to an anti-dilution adjustment.

   The warrants are exercisable over three years to acquire up to 55% of the common shares of the company (on an adjusted fully diluted basis) less the number of common shares issuable or issued on conversion of the preferred share. The effective price per common share (assuming no changes in the share capital of the company but after giving effect to the issuance of the preferred share and the warrants) is $1.04 in year one, $1.17 in year two and $1.30 in year three.

   The preferred share is redeemable by the company on March 31, 2013 for an amount equal to the greater of $12,400,000 plus 7% per annum and the market value of the common shares into which the preferred share could then be converted. The preferred share will also be redeemed if there is a change of control before the expiry of the warrants for an amount equal to the greater of:
   (i) 125% of $12,400,000 ($15,500,000) plus 7% per annum, and;
   (ii) the greater of the value of the common shares into which the preferred share then could be converted at the time of the change of control and the value on the day prior to public announcement of the change of control transaction of the common shares into which the preferred share then could be converted.

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22. SUBSEQUENT EVENTS - Continued

The preferred share also entitles the holder to receive dividends with the holders of the common shares on an "as converted" basis, vote with the holders of the common shares on an "as converted" basis, vote separately as a series with respect to certain material transactions and elect two members to the board of directors and have one member sit on each committee of the board of directors.

In connection with the finalization of the agreement, the debenture holder has agreed to amend the terms of the convertible debenture as described in Note 8.

23. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified in accordance with the current year's presentation.