

For Immediate Release: November 18, 2002

Source: Points International Ltd (TSX Venture Exchange: PTS)



## **Points International Ltd reports 2002 third quarter results** **Highlights include 71% quarterly revenue growth; expanding portfolio of solutions**

**Toronto, November 18, 2002** – Points International Ltd (TSX Venture Exchange: PTS) today announced results for the three-month period ended September 30, 2002.

Highlights of the results include:

- A 71% increase in revenue from the second quarter of 2002, achieved along with a 19% reduction in expenses.
- Continued success in expanding the portfolio of *Points Solutions*, with the launch of the first *pointstransfer™* and *pointscorporate™* solutions.

“The Points International team continues to develop the business at a steady pace. In addition to earning new partners, our recent performance demonstrates our success in expanding the portfolios of *Points Solutions* placed with our existing partners,” said CEO Rob MacLean. “We look forward to adding new contracts for *Points Solutions* in the coming weeks and months.”

Financial highlights:

- Points International reported revenue of \$729,467 for the third quarter of 2002, compared with revenue of \$427,534 for the second quarter of 2002, an increase of 71%.
- A majority of revenues are based on recurring transactions resulting from existing contracts for custom technology solutions. Revenue streams associated with launched solutions continue to deliver organic revenue growth, and management expects further progress as additional *Points Solutions* become operational.
- Points International reported \$4.42 million in cash at September 30, 2002, compared with \$4.99 million at June 30, 2002 and \$2.89 million at December 31, 2001. The company notes cash held at November 12, 2002 of \$5.92 million, and expects cash to grow as the number of contracts increases.
- General and administration expenses were \$1.66 million for the quarter, an improvement of 19% compared with \$2.04 million for the second quarter of 2002, and a similar result to the \$1.57 million reported for the third quarter of 2001.
- Earnings before interest, taxes, depreciation and amortization (EBITDA) were negative \$927,319 for the quarter, a 43% improvement over the 2002 second quarter result of negative \$1.62 million, and a 49% improvement over the 2001 third quarter result of negative \$1.83 million. Management expects to improve EBITDA further for the fourth quarter as revenues continue to grow and costs are managed prudently.
- Non-cash expenses accounted for \$788,450 of the third quarter net loss, including \$623,450 in amortization of assets and deferred financing costs and \$165,000 in interest on the convertible debenture held by CIBC Capital Partners. (This interest accrues during the duration of the term of the debenture. If converted, all of the principal plus accrued interest is convertible into a fixed number of common shares, with no cash payment of interest.)

Further highlights to date for 2002 include:

- The launch of Points International's first *pointstransfer* solution, powering American Airlines' industry-leading shareAAmiles<sup>SM</sup> program, which allows for the sharing of points between member accounts.
- Points International is also building a *pointstransfer* solution for Six Continents Hotels and is pursuing discussions with additional partners for this innovative new solution.
- The launch of the first *pointscorporate* solution, for US Airways, powering the sales of miles to corporate partners (for use as consumer and employee incentives).
- Additional *pointscorporate* solutions are expected to launch in the coming months for several partners, including Alaska Airlines and others in the retail and travel sectors.
- A number of new *pointspurchase*<sup>TM</sup> and *pointsgift*<sup>TM</sup> solutions were also launched in recent weeks, for partners including Alaska Airlines and Cathay Pacific.
- Expansion of *pointsexchange*<sup>TM</sup> in recent weeks to include new partners Cathay Pacific (the first Asia-based participant), Gift Certificate Center and ValuePoints. Management continues to be focused on adding partners to enhance the exchange mix.
- As Points International's expansion into international markets continues to gain momentum, the company is in an advanced stage of negotiation with a number of international partners in the retail and travel sectors. Integration of *Points Solutions* into the Sabre® Traverse® loyalty management system, along with a comprehensive sales training program, enables bundled marketing to Sabre's worldwide airline client roster.

Key business development metrics:

- *pointsexchange* has now attracted 29 participants, representing well over 100 million loyalty program accounts.
- Points International has launched 15 custom solutions, with an additional five under contract. Management is in an advanced stage of negotiation with a number of major loyalty players (including retail, car rental, airline and hotel programs) and looks forward to adding a number of additional contracts for *Points Solutions* in the near future.
- Points International has powered the online sale, transfer and exchange of over 750 million points and miles. The number of points transacted through custom solutions such as *pointspurchase* and *pointsgift* grew at a rate of over 20% during the third quarter of 2002, while the number of points transacted through *pointsexchange* grew at a rate of 65%.
- The number of *pointsplus* accounts doubled during the quarter, and the company looks forward to further membership growth resulting from an enhanced marketing program and a growing exchange mix.

"Points International is delivering exciting results with a dynamic business model," noted MacLean. "As we enhance our suite of products and build on the *pointsexchange* foundation, we look forward to delivering further revenue growth."

## **More about Points International Ltd and *Points Solutions***

Points International offers innovative solutions to enhance the loyalty experience. Through a portfolio of *Points Solutions*, based on our proprietary technology platform, we're forging rewarding partnerships with the world's leading loyalty players to deliver compelling value propositions.

The cornerstone of our unique loyalty program asset management system is *pointsexchange™* - the world's first loyalty program currency exchange that allows consumers to earn rewards faster by making all of their points count. Our growing portfolio of custom solutions also includes the innovative *pointspurchase™* and *pointsgift™* solutions, which power the online sale of miles and points to members of leading loyalty programs including American Airlines, Air Canada, America West Airlines, Alaska Airlines, Cathay Pacific Airways and US Airways. Points International is also developing these solutions for Six Continents Hotels.

The portfolio of *Points Solutions* also includes:

- *Pointscorporate™*, powering the sale of points to corporate partners (for consumer and employee incentives, donations and employee recognition);
- *Pointstransfer™*, powering the transfer of points between member accounts within a loyalty program;
- *pointsdonate*, allowing loyalty program members to donate points to sponsored charities;
- *pointsintegrate*, custom technology solutions that facilitate integration between loyalty programs and their partners; and
- other custom solutions that power private label exchanges.

*Points Solutions*, built on leading edge technology developed and managed in-house, are internationally marketed to travel providers and loyalty programs through a distribution alliance with Sabre, the leading provider of technology, distribution and marketing services for the travel industry.

Based in Toronto, Points International's shares trade on the TSX Venture Exchange under the stock symbol PTS. Points.com Inc. is a wholly owned subsidiary of Points International Ltd. For more information, please visit us at [www.points.com](http://www.points.com).

-30-

For more information, please contact:

Moira Wright  
Points International Ltd  
416-596-3257  
[moira.wright@points.com](mailto:moira.wright@points.com)

THE TSX VENTURE EXCHANGE HAS NOT REVIEWED AND DOES NOT ACCEPT  
RESPONSIBILITY FOR THE ADEQUACY OR ACCURACY OF THIS RELEASE

**ATTACHMENT:  
POINTS INTERNATIONAL LTD  
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2002**

# Points International Ltd

## unaudited interim consolidated balance sheets

**as at**

---

<u>assets</u>	<b>September 30, 2002</b>	<b>December 31, 2001</b>
<b>CURRENT</b>		
Cash and short-term deposits	\$ 4,424,308	\$ 2,894,380
Accounts receivable	162,597	102,203
Prepaid and sundry assets	<u>703,252</u>	<u>571,875</u>
	5,290,157	3,568,458
<b>LONG-TERM INVESTMENTS</b>	151,629	171,129
<b>FUTURE INCOME TAXES RECOVERABLE</b>	590,000	590,000
<b>CAPITAL ASSETS</b>	2,170,036	3,231,535
<b>INTANGIBLE ASSETS (Note 3)</b>	2,169,201	120,312
<b>DEFERRED FINANCE CHARGES</b>	<u>493,147</u>	<u>739,717</u>
<b>TOTAL ASSETS</b>	<u>\$ 10,864,170</u>	<u>\$ 8,421,151</u>
 <u>liabilities</u>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 899,473	\$ 486,603
Deposits	5,052,175	2,096,865
Current portion of obligation under capital leases	<u>546,165</u>	<u>736,749</u>
	6,497,813	3,320,217
<b>OBLIGATION UNDER CAPITAL LEASES</b>	-	305,174
<b>LONG-TERM CONVERTIBLE DEBT</b>	7,017,500	6,522,500
<b>NON-CONTROLLING INTEREST</b>	<u>-</u>	<u>134,524</u>
	<u>13,515,313</u>	<u>10,282,415</u>
 <u>shareholders' equity</u>		
<b>CAPITAL STOCK</b>	14,362,084	9,532,173
<b>WARRANTS</b>	425,588	
<b>RETAINED EARNINGS</b>	<u>(17,438,815)</u>	<u>(11,393,437)</u>
	<u>(2,651,143)</u>	<u>(1,861,264)</u>
	<u>\$ 10,864,170</u>	<u>\$ 8,421,151</u>

# Points International Ltd

## unaudited interim consolidated statements of operations and deficit

**for the periods ended September 30**

	<b>9 Month Period Jan-Sept 30/02</b>	<b>9 Month Period Jan- Sept 30/01</b>	<b>3 Month Period July-Sept 30/02</b>	<b>3 Month Period July-Sept 30/01</b>
REVENUE				
Points.com	\$1,412,088	\$323,015	\$707,546	\$242,829
Interest Income	44,264	229,476	21,921	38,991
Consulting and other	-	51,931	-	20,189
Appreciation of dilution of investment	<u>-</u>	<u>89,035</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE	1,456,352	693,457	729,467	302,009
GENERAL AND ADMINISTRATION	<u>5,168,636</u>	<u>4,724,085</u>	<u>1,656,786</u>	<u>1,565,117</u>
OPERATING LOSS – before interest, amortization and other deductions	<u>(3,712,284)</u>	<u>(4,030,628)</u>	<u>(927,319)</u>	<u>(1,263,108)</u>
Other interest expenses	38,138	135,475	9,303	74,513
Interest on convertible debt	495,000	357,500	165,000	165,000
Amortization of capital assets, intangible assets and deferred financing costs	<u>1,684,011</u>	<u>884,670</u>	<u>623,450</u>	<u>322,542</u>
	<u>2,217,149</u>	<u>1,377,645</u>	<u>797,753</u>	<u>562,055</u>
LOSS – From continuing operations	(5,929,433)	(5,408,273)	(1,725,072)	(1,825,163)
DISCONTINUED OPERATIONS				
Loss from discontinued operations	(115,945)	(1,594,638)	-	(652,709)
Share of loss of disposed significantly influenced investments	<u>-</u>	<u>(358,740)</u>	<u>-</u>	<u>(93,712)</u>
NET LOSS	(6,045,378)	(7,361,651)	(1,725,072)	(2,571,584)
DEFICIT – Beginning of period	<u>(11,393,437)</u>	<u>(193,947)</u>	<u>(15,713,743)</u>	<u>(4,984,014)</u>
DEFICIT – End of period	<u>\$(17,438,815)</u>	<u>\$(7,555,598)</u>	<u>\$(17,438,815)</u>	<u>\$(7,555,598)</u>
LOSS PER SHARE – From continuing operations	<u>\$(0.11)</u>	<u>\$(0.17)</u>	<u>\$(0.03)</u>	<u>\$(0.06)</u>
NET LOSS PER SHARE	<u>\$(0.12)</u>	<u>\$(0.24)</u>	<u>\$(0.03)</u>	<u>\$(0.08)</u>

## Points International Ltd

### unaudited interim consolidated statements of cash flows

#### for the periods ended September 30

	<b>9 Month Period Jan-Sept 30/02</b>	<b>9 Month Period Jan- Sept 30/01</b>	<b>3 Month Period July-Sept 30/02</b>	<b>3 Month Period July-Sept 30/01</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss from continuing operations	\$(5,929,433)	\$(5,408,273)	\$(1,725,072)	\$(1,825,163)
Items not affecting cash				
Amortization – capital assets	1,122,563	1,158,761	383,821	493,645
Amortization – goodwill	-	37,500	-	12,500
Amortization – deferred financing costs	246,570	162,714	82,190	81,357
Amortization – acquired technology	314,878	-	157,439	-
Appreciation on dilution of investment	-	(89,035)	-	-
Shares issued in exchange for services	366,379	-	215,000	-
Warrants issued in exchange for Services	2,775	-	2,775	-
Interest on convertible debenture	<u>495,000</u>	<u>357,500</u>	<u>165,000</u>	<u>165,000</u>
	(3,381,268)	(3,780,833)	(718,847)	(1,072,661)
Changes in non-cash balances related to operations	<u>3,176,409</u>	<u>547,201</u>	<u>416,993</u>	<u>356,623</u>
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>(204,859)</u>	<u>(3,233,632)</u>	<u>(301,854)</u>	<u>(716,038)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Repayment of loans receivable	19,500	20,077	-	(6,589)
Acquisition of intangible assets	(105,164)	-	(101,654)	-
Purchase of capital assets, net of proceeds	(61,064)	(2,005,227)	(1,500)	(232,145)
Fees paid on the acquisition of Points.com Inc. (Note 3)	<u>(139,750)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<u>(286,478)</u>	<u>(1,985,150)</u>	<u>(103,154)</u>	<u>(238,734)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Issuance of capital stock, net of issue costs	2,632,968	966,250	(13,126)	375,000
Issuance of capital stock of Points.com	-	345,413	-	-
Repayment of obligations under capital lease	(495,758)	278,743	(142,945)	(177,147)
Issuance of convertible debenture	-	6,000,000	-	-
Deferred financing charges	<u>-</u>	<u>(976,290)</u>	<u>-</u>	<u>-</u>
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>	<u>2,137,210</u>	<u>6,614,116</u>	<u>(156,071)</u>	<u>197,853</u>
<b>INCREASE (DECREASE) IN CASH FROM CONTINUING OPERATIONS</b>	1,645,873	1,395,334	(561,079)	(756,919)
<b>CASH FLOWS USED IN DISCONTINUED OPERATIONS</b>	<u>(115,945)</u>	<u>(1,318,882)</u>	<u>-</u>	<u>(560,389)</u>
<b>INCREASE IN CASH FROM ALL ACTIVITIES</b>	1,529,928	76,452	(561,079)	(1,317,308)
<b>CASH AND SHORT-TERM INVESTMENTS – Beginning of period</b>	<u>2,894,380</u>	<u>4,506,685</u>	<u>4,985,387</u>	<u>5,900,445</u>
<b>CASH AND SHORT-TERM INVESTMENTS – End of period</b>	<u>\$4,424,308</u>	<u>\$4,583,137</u>	<u>\$4,424,308</u>	<u>\$4,583,137</u>

**POINTS INTERNATIONAL LTD**  
**NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2002**

1. Accounting policies

The company's interim financial statements have been prepared using accounting policies consistent with those used for the preparation of its annual financial statements, except that C.I.C.A. Handbook section 3062 has been applied effective January 1, 2002. The effect of this is to reclassify \$50,000 of goodwill, representing the value of the public listing, to intangible assets with an indefinite life. These interim financial statements should be read in conjunction with its financial statements for the 12 month period ended December 31, 2001. They contain all adjustments which management believes necessary for fair presentation of the financial position, results of operations and cash flows.

2. 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. As such, the statements of operations present the results of these entities separate from the continuing operations of the company.

3. Acquisition of non-controlling interest in Points.com Inc.

On February 8, 2002, the company received regulatory approval to proceed with a restructuring in which it acquired the minority interests in Points.com Inc. The company issued 7,286,160 common shares in exchange for the 5.9% interest in the shares of Points.com Inc. that it did not own. The company issued 250,000 common shares to the convertible debenture holder as payment for restructuring the terms and paid approximately \$140,000 in legal fees.

The purchase value of \$2,393,127 was allocated to non-controlling interest (\$134,524) and the remainder (\$2,258,603) to intangible assets, representing the value of the technology acquired. The technology will be written off on a straight-line basis over a period of 3 years, commencing in the second quarter of 2002.

4. Segmented information

Reportable segments: The company has only one operating segment whose operating results are regularly reviewed by the company's chief operating decision maker and for which complete and discrete financial information is available. The company's business is carried on in the industry of loyalty program asset management. The attached consolidated balance sheets as at September 30, 2002 and December 31, 2001 present the financial position of this segment. The continuing operations reflected on the attached consolidated statements of operations are those of this operating segment. The discontinued operations relate to the company's previous segment of Internet business generation discontinued in 2001, as described in Note 2 above.

Enterprise-wide disclosures: \$1,319,997 (September 30, 2001 – \$314,564) of the company's revenues were generated in the U.S., with the remaining revenues generated in Canada. All of the company's assets are located in Canada.

5. Economic Dependence

For the nine-month period ended September 30, 2002, approximately 77% of the company's revenues are from its two largest customers. (For the nine-month period ended September 30, 2001, the largest customer represented 39% of the company's consolidated revenues). In addition, as at September 30, 2002, 96% of the company's deposits are due to these two customers (68% as at December 31, 2001).

6. Comparative figures

Certain accounts of the fiscal 2001 comparative figures have been reclassified to conform with the current period's presentation.

## 7. Stock-based compensation

Effective January 1, 2002 the Company adopted CICA 3870 Stock-based Compensation and Other Stock-based payments. As permitted by CICA 3870 the Company has applied this change prospectively for new awards granted on or after January 1, 2002. 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. In periods prior to January 1, 2002, the Company recognized no compensation when stock or stock options were issued to employees. Supplementary pro forma information regarding net income is required by CICA 3870 as if the Company had accounted for its employee stock options granted after December 31, 2001 under the fair value method.

The fair value for these options was estimated at the date of granting using a Black-Scholes Option Pricing Model with the following assumptions for 2002: weighted-average risk-free interest rates of 4.5%; dividend yields of nil; weighted-average volatility factors of the expected market price of the Company's common shares of 12.88%; and a weighted-average expected life of the options of 5 years. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. The Company's pro forma net income under Canadian GAAP would be reduced by \$4,000 for the three months ended September 30, 2002. Basic earnings-per-share figures would not have changed. The weighted average fair value of stock options granted during the three months ended September 30, 2002 was \$nil.