FINANCIAL STATEMENTS

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Auditor's Report

To the Shareholders of Points International Ltd.

We have audited the consolidated balance sheets of Points International Ltd. as at December 31, 2006 and 2005 and the consolidated statements of operations, 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 audits.

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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Mintz + Partners LLP

Toronto, Ontario — *CHARTERED ACCOUNTANTS*

March 7, 2007

Financial Statements

POINTS INTERNATIONAL LTD.

CONSOLIDATED Balance Sheets

AS AT DECEMBER 31	2006	2005
ASSETS		
CURRENT		
Cash and cash equivalents (Note 3)	$ 24,689,040	$ 19,983,607
Short-term investments	–	2,348,418
Accounts receivable	2,310,253	2,739,224
Prepaid and sundry assets	2,124,925	1,893,605
	29,124,218	26,964,854
PROPERTY, PLAN T AND EQUIPMENT (Note 4)	2,934,238	3,606,840
GOODWILL AND INTANGIBLE ASSETS (Note 5)	6,837,155	7,602,503
DEFERRED COSTS (Note 6)	1,167,331	1,699,030
FUTURE INCOME TAXES RECOVERABLE (Note 16)	590,000	590,000
	11,528,724	13,498,372
	$ 40,652,942	**$ 40,463,226**

APPROVED ON BEHALF OF THE BOARD

Douglas Carty
Director

Robert MacLean
Director

POINTS INTERNATIONAL LTD.

CONSOLIDATED Balance Sheets

AS AT DECEMBER 31	2006	2005
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 3,342,868	$ 2,284,257
Deposits	21,159,193	15,810,853
Current portion of loan payable (Note 7)	33,515	33,515
Current portion of acquisition loan payable (Note 14)	–	390,166
	24,535,576	**18,518,791**
LOAN PAYABLE (Note 7)	5,289	35,107
CONVERTIBLE DEBENTURES (Note 8)	–	9,699,180
CONVERTIBLE PREFERRED SHARES (Note 9)	19,506,279	18,396,456
	$ 44,047,144	**$ 46,649,533**
SHAREHOLDERS' DEFICIENCY		
CAPITAL STOCK (Note10)	43,051,048	36,404,342
WARRANTS (Note 11)	186,688	2,758,688
CONTRIBUTED SURPLUS	8,703,517	2,079,423
DEFICIT	(55,335,455)	(47,428,760)
	(3,394,202)	(6,186,307)
	$ 40,652,924	**$ 40,463,226**

Financial Statements

POINTS INTERNATIONAL LTD.

CONSOLIDATED Statements of Operations & Deficit

FOR THE YEAR ENDED DECEMBER 31	2006	2005
REVENUES		
Points operations	$ 12,024,134	$ 9,429,253
Interest income	222,555	598,556
	12,246,689	10,027,809
GENERAL AND ADMINISTRATIVE EXPENSES	**15,678,821**	**14,321,370**
LOSS - Before interest, amortization and other items	(3,432,132)	(4,293,561)
Foreign exchange loss	(19,329)	514,625
Interest on convertible debentures	194,753	778,806
Interest on preferred shares	1,109,823	1,049,367
Interest, loss on short-term investment and capital tax	64,736	265,974
Amortization of property, plant and equipment, intangible assets and deferred costs	3,124,581	3,021,902
	4,474,563	5,630,674
NET LOSS	**$ (7,906,695)**	**$ (9,924,235)**
LOSS PER SHARE (Note 12)	**$ (0.07)**	**$ (0.11)**
DEFICIT - Beginning of year	**$ (47,428,760)**	**$ (37,504,525)**
NET LOSS	$ (7,906,695)	$ (9,924,235)
DEFICIT - End of year	**$ (55,335,455)**	**$ (47,428,760)**

POINTS INTERNATIONAL LTD.

CONSOLIDATED Statement of Cash Flows

FOR THE YEAR ENDED DECEMBER 31	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (7,906,695)	$ (9,924,235)
Items not affecting cash		
Amortization of property, plant and equipment	1,702,535	1,346,320
Amortization of deferred costs	531,699	531,699
Amortization of intangible assets	890,346	1,143,884
Deferred costs	–	12,139
Unrealized foreign exchange loss	2,187	3,431
Employee stock option expense (Note 11)	366,981	408,435
Cancellation of Warrants issued for services	–	(1,167)
Interest on Series Two and Four Preferred Shares	1,109,823	1,049,367
Interest accrued on convertible debentures	194,753	778,806
	(3,108,370)	(4,651,323)
Changes in non-cash balances related to operations (Note13(a))	6,111,276	2,390,259
CASH FLOWS PROVIDED BY (USED) IN OPERATING ACTIVITIES	3,002,906	(2,261,064)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,029,936)	(2,896,877)
Purchase of intangible assets	(115,164)	(125,191)
Purchase (purchase) of short-term investments	2,348,418	(2,348,418)
Payments for the acquisition of MilePoint, Inc.	(400,000)	(800,000)
Costs related to the acquisition of MilePoint, Inc. (Note 14)	–	(306,138)
CASH FLOWS PROVIDED BY (USED) IN INVESTING ACTIVITIES	803,318	(6,476,624)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Series Four Preferred Share (Note 9)	–	3,454,611
Repayment of loan payable (Note 7)	(29,818)	(28,425)
Issuance of capital stock, net of share issue costs (Note 10)	437,887	12,266,487
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	408,069	15,692,673
Effect of exchange rate changes on cash held in foreign currency	491,140	(726,197)
INCREASE IN CASH AND CASH EQUIVALENTS	4,705,433	6,228,789
CASH AND CASH EQUIVALENTS - Beginning of the year	**19,983,607**	**13,754,818**
CASH AND CASH EQUIVALENTS - End of the year	**$ 24,689,040**	**$ 19,983,607**

POINTS INTERNATIONAL LTD.

NOTES to Consolidated Financial Statements

DECEMBER 31, 2006 AND 2005

1. BASIS OF PRESENTATION AND BUSINESS OF THE CORPORATION

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

The Corporation operates the Points.com Web site. Points.com is an online service allowing consumers to swap points and miles from one participating loyalty program to another to achieve the rewards they want faster than ever before. Points.com also serves as a central resource to help individuals track their account balances with a number of loyalty programs.

In addition, the Corporation develops technology solutions for the loyalty program industry. The Corporation’s portfolio of custom solutions facilitates the online sale, transfer 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, 2006 and 2005 and the revenues and expenses reported for the years then ended. Actual results may differ from those estimates.

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 Corporation 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 cash equivalents

Cash and cash equivalents include amounts on deposit at the Corporation's bank and amounts held for the Corporation by a third party credit card processor. Such amounts represent a reserve in respect of purchases of miles/points. Cash and cash equivalents also include investments in short and mid-term bonds maturing within 90 days.

d) Short-term investments

Short-term investments includes investments that have a duration of longer than 90 days. Short term investments are accounted for at the lower of cost and net realizable value.

e) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Rates and basis of amortization applied by the Corporation to write off the cost of the property, plant and equipment 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
Web site development and technology costs	straight-line over 3 years
Leasehold improvements	straight-line over 5 years

f) Goodwill and intangible assets

The Corporation follows Section 3062 ("Goodwill and Other Intangible Assets") of the C.I.C.A. Handbook, in accounting for the value of its public listing. Since the public listing has an indefinite life, no amortization is recorded. These public company listing costs were capitalized by the Corporation in the period prior to the implementation of the recommendation of Section 3061 and 3062 of the C.I.C.A. Handbook.

Patents will be amortized over the remaining life of the patent commencing when the patents have been granted. The remaining life of the patent is determined as 20 years less the time between the date of filing and the patent grant date. Registered trademarks have an indefinite life and will not be amortized unless it is determined that they have become impaired.

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. will be amortized on a straight line basis over a period of three years.

The acquisition of MilePoint, Inc. represents the fair value of contracts acquired by the Corporation as described in Note 14. The carrying value of these contracts is amortized on a straight line basis over the life of the contracts.

Goodwill represents the excess of the purchase price of acquired companies over the estimated fair value of the tangible and intangible net assets acquired. Goodwill is not amortized. The Corporation currently compares the carrying amount of the goodwill to the fair value, at least annually, and recognizes in net income any impairment in value.

If the Corporation 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.

g) Deferred costs

Costs incurred in respect of certain financings are deferred and charged to income over the term of financing. Deferred finance charges represent legal and other related fees incurred to obtain the financing described in Notes 9 and 10. Costs incurred on expanding relationships are amortized over the term of the extended relationships.

h) Capital leases

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

i) Costs of raising capital

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

j) 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 accounted for and disclosed separately and consequently are included in net earnings.

The results of foreign operations, which are financially and operationally integrated with the Corporation, are translated using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currencies have been translated into 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.

k) Income taxes

The Corporation 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.

l) 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.

m) Earnings per share

The Corporation uses Section 3500 ("Earnings per Share") of the C.I.C.A. Handbook, which directs that the treasury stock method be used to calculate diluted earnings per share.

Diluted earnings per share considers the dilutive impact of the exercise of outstanding stock options, warrants, conversion of preferred shares and the convertible debenture, as if the events had occurred at the beginning of the period or at a time of issuance, if later. When the effect of computing diluted loss per share is anti-dilutive, this information is not presented.

n) Stock-based compensation

Employees

For stock-based compensation issued to employees, the Corporation recognizes an expense. The Corporation accounts for its grants in accordance with the fair-value based method of accounting for stock-based compensation.

Non employees

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

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash held at the Corporation's bank and currently invested money market funds with the average yield rate of 3.85% for 2006 and cash held by the third party credit card processor. Cash and cash equivalents also include investments in short and mid-term investments maturing within 90 days. The investments could be liquidated at any time at the option of the Corporation with no loss in value

Cash and cash equivalents consists of:

	2006	2005
Cash	$ 19,175,348	$ 9,827,614
Cash equivalents	583,142	6,409,034
Cash held by credit card processor	4,930,550	3,746,959
	$ 24,689,040	**$ 19,983,607**

4. PROPERTY, PLANT AND EQUIPMENT

2006	Cost	Accumulated Amortization	Net Carrying Amount
Furniture and equipment	$ 509,524	$ 288,544	$ 220,980
Computer equipment	745,273	483,208	262,065
Software	1,324,763	848,515	476,248
Web site development & technology costs	7,625,535	5,987,101	1,638,434
Leasehold improvements	829,298	492,787	336,511
	$ 11,034,393	**$ 8,100,155**	**$ 2,934,238**

2005	Cost	Accumulated Amortization	Net Carrying Amount
Furniture and equipment	$ 495,056	$ 235,333	$ 259,723
Computer equipment	668,581	387,143	281,438
Software	1,244,700	545,017	699,684
Web site development & technology costs	6,797,363	4,864,840	1,932,523
Leasehold improvements	798,759	365,287	433,472
	$ 10,004,459	**$ 6,397,393**	**$ 3,606,840**

5. GOODWILL AND INTANGIBLE ASSETS

2006	Cost	Accumulated Amortization	Net Carrying Amount
Public listing	$ 150,000	$ 100,000	$ 50,000
MilePoint, Inc. acquisition (Note 14)	8,580,888	2,497,955	6,082,933
Patents and trademarks	704,222	–	704,222
Acquired technology	2,258,603	2,258,603	–
	$ 11,693,713	**$ 4,856,558**	**$ 6,837,155**

2005	Cost	Accumulated Amortization	Net Carrying Amount
Public listing	$ 150,000	$ 100,000	$ 50,000
MilePoint, Inc. acquisition (Note 14)	8,580,888	1,617,443	6,963,445
Patents and trademarks	589,058	–	589,058
Acquired technology	2,258,603	2,258,603	–
	$ 11,578,549	**$ 3,976,046**	**$ 7,602,503**

6. DEFERRED COSTS

Deferred costs include finance charges as well as costs incurred in connection with commercial contract arrangements. Deferred finance charges represent legal, accounting and other related fees incurred to obtain the financings.

2006	Cost	Accumulated Amortization	Net Carrying Amount
Series Two Preferred Share and Warrants	$ 717,050	$ 348,894	$ 368,156
Technology Costs of Partner Relationships & Other	135,529	83,203	52,326
Share Issuance to Partner	2,112,568	1,365,719	746,849
	$ 2,965,147	**$ 1,797,816**	**$ 1,167,331**

2005	Cost	Accumulated Amortization	Net Carrying Amount
Convertible Debenture	$ 986,289	$ 986,289	$ –
Series Two Preferred Share and Warrants	717,050	197,189	519,861
Technology Costs of Partner Relationships & Other	135,529	58,524	77,005
Share Issuance to Partner	2,112,563	1,010,404	1,102,164
	$ 3,951,436	**$ 2,252,406**	**$ 1,699,030**

$123,390 of Points.com Solutions technology costs incurred have been deferred over the expected lifetime of certain partner relationships. The technology costs will be amortized over a 30 month period.

7. LOAN PAYABLE

In August of 2004, the Corporation entered into an agreement with the landlord, whereby the landlord loaned the Corporation $107,000 in respect of amounts that the Corporation had spent on leasehold improvements. The loan is repayable over 43 months and bears an interest rate of 10%. There are 14 months remaining as at December 31, 2006.

8. CONVERTIBLE DEBENTURES

On April 11, 2006, the common share purchase warrant held by an affiliate of IAC/InterActiveCorp which was exercisable to acquire approximately 103 million common shares expired unexercised. As a result, the Corporation's 8% unsecured convertible debentures ("Debentures") were automatically converted into approximately 18.9 million common shares and the $9.9M of principal and accrued interest on the Debentures has been converted to equity. The conversion price of the Debentures was determined to be $6.0 million based on the agreed upon conversion price of $0.3173 per common share as specified in the Debenture agreements.

The impact on the financial statements of the expiry of the IAC/InterActiveCorp warrant was to increase contributed surplus and to decrease warrants for $2,572,000 (the fair value of the warrant). The expiry has no impact on shareholder's equity. As at April 12th, 2006, the Debentures converted to equity. The impact is a reduction of $9.9M in long term liabilities and the $6.0 million value (as determined by the agreed upon conversion price) assigned to the 18.9 million common shares issued, has been recorded as an increase to share capital. The difference between the Debentures amount of $9.9 million and the $6.0 million recorded as share capital has been credited to contributed surplus.

9. PREFERRED SHARES

a) Series One Preferred Share

On April 11, 2006, the common share purchase warrant held by an affiliate of IAC/InterActiveCorp which was exercisable to acquire approximately 103 million common shares expired unexercised. As a result, the Corporation's Series One Preferred Share automatically converted into one common share, eliminating the significant dividend entitlement that would have been payable to the holders of the Series One Preferred Share in certain events, including a change of control of the Corporation

b) Series Two Preferred Share

The Series Two Preferred Share was created by Articles of Amendment dated April 10, 2003 and was issued on April 11, 2003. It is a voting, convertible share and ranks equally with the Series One Preferred Share, the Series Three Preferred Share, the Series Four Preferred Share and the Series Five Preferred Share, and in priority to the Common Shares. The Series Two Preferred Share is convertible until 5:00 p.m. on March 31, 2013 (Toronto time), for no additional consideration, into 24,028,016 Common Shares (as at December 31, 2006), subject to adjustment in accordance with its anti-dilution protection provisions (the "Underlying Shares"). In addition to anti-dilution adjustments for stock splits, consolidations, etc., the number of Common Shares issuable on the conversion of the Series Two Preferred Shares is subject to adjustment in connection with any issuance of Common Shares to extinguish rights to acquire securities in the Corporation's subsidiaries.

The Corporation is not entitled to declare or pay any dividend on the Common Shares unless it concurrently declares and pays a dividend on the Series Two Preferred Share in an amount equal to the product of the number of Common Shares comprising the Underlying Shares and the dividend declared or paid per Common Share. Any such dividend is to be paid to the holder of the Series Two Preferred Share in the same form as it is paid to the holders of the Common Shares.

The Series Two Preferred Share will automatically convert into one Series Three Preferred Share on the earlier of the date that (i) the Series Two Preferred Share is directly or indirectly transferred to a person that is not an affiliate of IAC/InterActiveCorp, and (ii) the holder of the Series Two Preferred Share ceases to be an affiliate of IAC/InterActiveCorp.

If not converted, the Series Two Preferred Share will be redeemed upon March 31, 2013. The Series Two Preferred Share will be redeemed by the Corporation for the greater of $12,400,000 plus 7% per annum calculated on a daily basis from the date of issue of the Series Two Preferred Share to the date on which the Series Two Preferred Share is redeemed and the market value of the Common Shares into which the Series Two Preferred Share then could be converted.

In the event of the liquidation, dissolution or winding-up of the Corporation or other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs, the holder of the Series Two Preferred Share will be entitled to receive from the assets of the Corporation an amount equal to the greater of (i) $12,400,000 plus 7% per annum calculated on a daily basis from the date of issue of the Series Two Preferred Share to the date on which the liquidation event occurred and (ii) the product of the number of Underlying Shares and the per share amount to be distributed to the holders of the Common Shares upon the liquidation event after giving effect to any payments to be paid on the Series Two Preferred Share and any other shares (other than the Series Two Preferred Share) ranking prior to the Common Shares upon the liquidation event.

The Series Two Preferred Share entitles the holder to the right to vote with the holders of Common Shares on an "as converted" basis to a maximum of 19.9% of the votes that may be cast), vote separately as a series with respect to certain material transactions and certain other matters involving the Corporation, and elect two members to the board of directors of the Corporation and have one member sit on each committee of the board of directors.

c) Series Four Preferred Share

In 2005, the Corporation issued one Series Four Preferred Share for aggregate cash consideration of $3,454,611.

The Series Four Preferred Share is a voting, convertible share and ranks equally with the Series One Preferred Share, the Series Two Preferred Share, the Series Three Preferred Share and the Series Five Preferred Share, and in priority to the Common Shares. The Series Four Preferred Share is convertible until March 31, 2013, for no additional consideration, into 4,504,069 Common Shares (as at the date hereof), subject to adjustment in accordance with its anti-dilution protection provisions. In all material respects, including anti-dilution protection, the terms of the Series Four Preferred Share are identical to the Series Two Preferred Share.

If not converted, the Series Four Preferred Share will be redeemed by the Corporation on March 31, 2013 for the greater of $3,454,611 plus 7% per annum calculated on a daily basis from the date of issue of the Series Four Preferred Share and the market value of the Common Shares into which the Series Four Preferred Share then could be converted.

In the event of the liquidation, dissolution or winding-up of the Corporation, the holder of the Series Four Preferred Share will be entitled to receive an amount equal to the greater of $3,454,611 plus 7% per annum from the date of issuance and the product of the number of Common Shares into which it could then be converted and the per share amount to be distributed to the holders of the Common Shares after giving effect to any payments to be paid on shares ranking prior to the Common Shares. The Series Four Preferred Share entitles the holder to various rights, including to receive dividends with the holders of Common Shares on an "as converted" basis, vote with the holders of Common Shares on an "as converted" basis (in certain circumstances, to a maximum of 19.9% of the votes that may be cast including the votes cast by the holder of the Series Two Preferred Share), vote separately as a series with respect to certain material transactions and certain other matters involving the Corporation, and elect one member to the board of directors of the Corporation. If the Series Four Preferred Share ceases to be held by an IAC/InterActiveCorp or an affiliate of IAC/InterActiveCorp, it will automatically convert into a Series Five Preferred Share.

10. CAPITAL STOCK

Authorized

Unlimited Common Shares

Series One Preferred share, non voting, convertible into one common share

1 Series Two Preferred Share
1 Series Three Preferred Share
1 Series Four Preferred Share
1 Series Five Preferred Share Issued

Issued

The balance of capital stock is summarized as follows:

	2006	2005
Common Shares	$ 43,051,046	$ 36,404,339
Series One Preferred Share	–	1
Series Two Preferred Share	1	1
Series Four Preferred Share	1	1
	$ 43,051,048	**$ 36,404,342**

Common Shares	Number	Amounts
Balance January 1, 2005	71,057,850	$ 23,730,991
Issued on exercise of warrants (ii)	458,667	37,825
Issued on exercise of stock options(ii)	2,102,227	1,025,318
Issued on exchange for property (shares in subsidiary) (i)	1,964,664	555,870
Issued to private placement (v)	18,134,300	12,385,405
	93,717,708	37,735,409
Less: share issue costs	–	1,331,070
Balance December 31, 2005	**93,717,708**	**$ 36,404,339**
Issued on exercise of stock options (v)	890,840	450,720
Issued on exchange for property (shares in subsidiary) (vi)	687,570	195,987
Other common shares (vii)	18,908,071	6,000,000
Balance December 31, 2006	**114,204,189**	**$ 43,051,046**

(i) 458,667 common share purchase warrants (valued at $37,825), issued in connection with restructuring and acquisition of the interest in Points.com Inc. that the Corporation did not already own, were exercised for nil consideration.

(ii) 2,102,227 options previously issued to employees, directors, advisors and consultants were exercised at prices ranging from $0.20 to $0.50 per share.

(iii) 784,641 options previously issued to Points.com Inc. founders, employees, directors and advisors were exercised in Points.com Inc. and put to the Corporation at fair market value for 1,964,664 of the Corporation's common shares.

(iv) On April 4, 2005, the corporation issued 18,134,300 common shares at $0.683 per share in a Private Placement.

(v) 890,840 options previously issued to employees, directors, advisors and consultants were exercised at prices ranging from $0.20 to $0.60 per share.

(vi) 274,600 options previously issued to Points.com Inc. founders, employees, directors and advisors were exercised in Points.com Inc. and put to the Corporation at fair market value for 687,570 of the Corporation's common shares.

(vii) On April 11, 2006 Convertible Debentures were automatically converted to 18,908,070 common shares and the series one preferred shares converted to 1 common share.

11. OPTIONS AND WARRANTS

a) Stock option plan

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

	2006	2005
Options Authorized by Shareholders	14,058,406	10,206,948
Less: Options Exercised	(5,375,379)	(4,484,539)
Net Options Authorized	8,683,027	5,722,409
Less: Options Granted	(4,113,085)	(4,866,913)
Options Available to Grant	**4,569,942**	**855,496**

b) Stock options

Stock-based compensation plan

At December 31, 2006, the Corporation had one stock-based compensation plan, which is described in Note 11 (a). The Corporation accounts for stock options granted in this plan in accordance with the fair-value based method of accounting for stock-based compensation. The compensation cost that has been charged against income for this plan is $366,981 for 2006.

Fair Value

The fair value of each option grant is estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2003, 2004, 2005 and 2006, respectively: dividend yield of nil for all four years; expected volatility of 73, 46 and 30%, risk-free interest rate has been from 3.6% to 4.0% and 3.6% with expected life of 3.0 years.

A summary of the status of the Corporation's stock option plan as of December 31, 2006 and 2005, and changes during the years ending on those dates is presented below.

	2006		2005	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning of Year	4,866,913	$ 0.83	6,184,558	$ 0.71
Granted	1,377,500	0.82	1,162,836	0.84
Exercised	(890,840)	0.47	(2,102,227)	0.47
Forfeited	(1,240,488)	0.97	(378,254)	0.83
End of year	**4,113,085**	**$ 0.86**	**4,866,913**	**$ 0.83**
Exercisable at end of year	**2,778,181**	**$ 0.84**	**2,429,095**	**$ 0.69**
Weighted average fair value of options granted	**$ 0.43**		**$ 0.20**	

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number of Options	Weighted Average Remaining Contractual	Weighted Average	Number of Options	Weighted Average Exercise Price
$0.01 to $0.49	655,170	0.30	$ 0.26	655,170	$ 0.26
$0.50 to $0.99	1,766,814	3.88	$ 0.79	416,026	$ 0.85
$1.00 and over	1,691,101	2.58	$ 1.17	1,217,740	$ 1.20

Subsequent to year-end, as described in Note 21, 503,000 options were exercised, 2,707,334 options were granted and 126,667 cancelled.

c) Stock options of Points.com Inc.

In addition to the stock options described above, Points.com Inc., the Corporation's indirect wholly owned subsidiary has one stock compensation plan. No further Points.com Inc. common shares are authorized for issuance under this plan. Under this plan, Points.com Inc. founders, employees, directors and advisors were previously issued and, therefore, have outstanding stock options. No options were granted in this plan since 2000. The options outstanding are as follows:

	2006		2005	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted average Exercise Price
Beginning of Year	1,805,857	$ 0.04	2,590,498	$ 0.04
Granted	–	–	–	–
Exercised	(274,600)	0.06	(784,641)	0.05
Forfeited	–	–	–-	–
End of year	**1,531,257**	**$ 0.03**	**1,805,857**	**$ 0.04**
Exercisable at end of year	**1,531,257**	**$ 0.03**	**1,805,857**	**$ 0.04**

	Options Outstanding			Options Exercisable	
Range of Exercise Price	**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	1,531,257	0.13	$ 0.04	1,531,257	$ 0.04

The holders of 1,531,257 options (all with strike prices at or below $0.055 per share) have the right to put to the Corporation the common shares of Points.com Inc. acquired on the exercise of such options for common shares in the Corporation. The Corporation has used a ratio of 2.5039 common shares per Points.com Inc. common share (equivalent to 3,834,114 common shares) for this purpose. In 2006, 274,600 options were exercised and all of the Points.com Inc. common shares received were put to the Corporation for 687,570 common shares of the Corporation. Subsequent to year end, 413,473 Points.com Inc. common shares were put to the Corporation for 1,035,297 common shares of the Corporation. All remaining Points.com options and Put Rights expire in 2007.

d) Warrants

On April 11, 2006, the common share purchase warrant held by an affiliate of IAC/InterActiveCorp which was exercisable to acquire approximately 103 million common shares expired unexercised. As a result, the Corporation's 8% unsecured convertible debentures (“Debentures”) were automatically converted into approximately 18.9 million common shares and the $9.9 million of principal and accrued interest on the Debentures has been converted to equity. The conversion price of the Debentures was determined to be $6.0 million based on the agreed upon conversion price of $0.3173 per common share as specified in the Debenture agreements.

The Corporation's Series One Preferred Share automatically converted into one common share, eliminating the significant dividend entitlement that would have been payable to the holders of the Series One Preferred Share in certain events, including a change of control of the Corporation.

The impact on the financial statements of the expiry of the IAC/InterActiveCorp warrant was to increase contributed surplus and to decrease warrants for $2,572,000 (the fair value of the warrant). The expiry has no impact on shareholder's equity. As at April 12th, 2006, the Debentures converted to equity. The impact is a reduction of $9.9 million in long term liabilities and the $6.0 million value (as determined by the agreed upon conversion price) assigned to the 18.9 million common shares issued, has been recorded as an increase to share capital. The difference between the Debentures amount of $9.9 million and the $6.0 million recorded as share capital has been credited to contributed surplus.

	2006		2005	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Beginning of Year	103,529,530	$ 0.93	84,160,489	$ 1.03
Granted	–	–	906,248	0.83
Issued - Anti-Dilution Provision	–	–	19,225,127	0.01
Exercised	–	–	(458,667)	0.25
Forfeited	(102,623,282)	0.25	(303,667)	0.25
End of year	**906,248**	**$ 0.93**	**103,529,530**	**$ 0.93**
Exercisable at end of year	**906,248**	**$ 0.93**	**103,529,530**	**$ 0.93**

In connection with the Private Placement, 906,248 broker warrants valued at $186,687 were issued.

	Warrants outstanding			Warrants exercisable	
Range of Exercise Price	Number of of Options	Weighted Average Remaining Contractual	Weighted Average	Number of Warrants	Weighted Average Exercise Price
$0.01 to $0.49	–	–	$ –	–	$ –
$0.50 to $0.99	906,248	1.16	$ 0.83	103,529,530	$ 0.83
$1.00 and over	–	–	$ –	–	$ –

e) Warrants of Points.com Inc.

Points.com Inc., has issued or committed to issue 2,848,050 warrants to airline partners that expire on 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 Corporation's interest in Points.com Inc. by 10.3%.

f) Fair Value

906,248 warrants were granted during 2005 and no warrants were granted in 2006. The weighted average grant date fair value of warrants granted during 2005 has been estimated at $0.21 using the Black Scholes option pricing model. The pricing model assumes a weighted average risk free interest rates of 3.8%, weighted average expected dividend yields of nil, weighted average expected common stock price volatility of 30% and a weighted average expected life of 3 years.

12. LOSS PER SHARE

a) Loss per share

Loss per share is calculated on the basis of the weighted average number of common shares outstanding for the year that amounted to 108,258,453 shares (2005 – 88,093,523).

b) Fully-diluted loss per share

The fully-diluted loss per share has not been computed, as the effect would be anti-dilutive.

13. STATEMENT OF CASH FLOWS

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

	2006	2005
(Increase) in accounts receivable	$ 489,817	$ (818,592)
(Increase) in prepaids and sundry assets	(218,064)	(720.497)
(Increase) in deferred costs	–	–
Increase in accounts payable and accrued liabilities	1,018,764	422,914
Increase in deposits	4,820,759	3,506,434
	$ 6,111,276	**$ 2,390,259**

b) Supplemental information

Interest, taxes and loss on short-term investments

Interest of $20,341 (2005 – $15,054) was paid during the year. In addition to this, the Corporation incurred $7,282 (2005 - $150,158) in losses on short-term investments and capital taxes of $37,113 (2005 - $100,517) were paid in 2005. Interest revenue of $218,667 (2005 – $420,229) was received during the year.

Non cash transactions in 2006 were as follows:

(i) 274,600 options previously issued to Points.com Inc. founders, employees, directors and advisors were exercised in Points.com Inc. and put to the Corporation at a fair market value of $687,570 of the Corporation's common shares. (Note 10 (vi)).

(ii) $17,008 of revenue earned for hosting services provided was paid in loyalty currency which was comprised of partner miles. The currency was valued at the purchase price of the miles and the amount is included in prepaid and sundry assets. The expense will be recognized as the currency is used.

(iii) $146,322 of revenue earned for membership fees provided was paid in one-week accommodation certificates. The certificates are valued at their average cost and are included in prepaid and sundry assets. The expense will be recognized as the accommodation certificates are used.

(iv) The Corporation received $184,552 of loyalty currency from a partner as reimbursement of a portion of the partner's direct expenses for the services provided by the Corporation. This amount is included in prepaid and sundry assets and will be expensed as the currency is used.

(v) Interest of $194,753 was accrued on the convertible debenture (Note 8).

(vi) Interest on $1,109,823 was accrued on the Series Two Preferred Share (Note 9 (b)) and Series Four Preferred Share (Note 9 (c)).

(vii) 1,377,500 options were issued to employees and 1,240,488 options previously granted were cancelled (Note 11 b).

Non cash transactions in 2005 were as follows:

(viii) 784,641 options previously issued to Points.com Inc. founders, employees, directors and advisors were exercised in Points.com Inc. and put to the Corporation at a fair market value of 1,964,664 of the Corporation's common shares. (Note 10 (vii)).

(ix) $36,348 of revenue earned for hosting services provided was paid in loyalty currency which was comprised of partner miles. The currency was valued at the purchase price of the miles and the amount is included in prepaid and sundry assets. The expense will be recognized as the currency is used.

(x) $156,498 of revenue earned for membership fees provided was paid in one-week accommodation certificates. The certificates are valued at their average cost and are included in prepaid and sundry assets. The expense will be recognized as the accommodation certificates are used.

(xi) The Corporation received $137,972 of loyalty currency from a partner as reimbursement of a portion of the partner's direct expenses for the services provided by the Corporation. This amount is included in prepaid and sundry assets and will be expensed as the currency is used.

(xii) Interest of $2,499 was accrued on the acquisition of MilePoint, Inc.

(xiii) Interest of $778,806 was accrued on the convertible debenture (Note 8).

(xiv) Interest on $1,049,367 was accrued on the Series Two Preferred Share (Note 9 (b)) and Series Four Preferred Share (Note 9 (c)).

(xv) 906,248 broker warrants valued at $186,687 were issued in connection with the Private Placement Transaction (Note 11 (d)). This amount has been recorded as an increase to warrants with the offset as share issue costs charged against share capital.

(xvi) 1,162,836 options were issued to employees and 378,254 options previously granted were cancelled (Note 11 b).

(xvii) 458,667 broker warrants were exercised for nil consideration (see Note 10 (i).

14. MILEPOINT INC. ACQUISITION

On March 31, 2004, the Corporation acquired substantially all of the assets of MilePoint, Inc., a loyalty program technology provider and operator. The purchase price of $7.5 million was satisfied through a combination of $3.5 million in cash payable, without interest, over two years and four million common shares. The loan payable, which had a face value of $3,500,000, was discounted to its fair value as it is non-interest bearing and due over two years.

The cost of the acquisition and the fair values assigned are as follows:

Intangibles	$	225,000
Contracts with Partners		3,555,166
Goodwill		4,800,722
	$	**8,580,888**
Consideration:		
Cost of Transaction	$	1,090,722
Capital Stock Issued		4,000,000
Acquisition Loan Payable		3,490,166
	$	**8,580,888**

The acquired contracts with partners are being amortized over the life of the contracts. The goodwill and other intangibles will not be amortized; goodwill and other intangibles was reviewed as at December 31, 2006 and was found not to have any impairment. Goodwill and other intangibles will be reviewed annually and any permanent impairment will be recorded and charged to income in the year that the impairment occurred.

During 2005, the Corporation incurred $306,138 of additional incremental costs in connection with the acquisition. These costs have been added to goodwill.

15. FINANCIAL INSTRUMENTS

The Corporation's significant financial assets and liabilities are cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued liabilities, and deposits, which are substantially stated at fair value. Interest rates, maturities and security affecting the currency, interest and credit risk of the Corporation's financial assets and liabilities have been disclosed in Notes 3 and 8.

The Corporation is not exposed to financial risk that arises from fluctuations in interest rates as all of its interest bearing obligations are fixed rate. As well, the Corporation has sufficient foreign currency to satisfy its foreign currency-based obligations.

a) Fair-Value

In accordance with the disclosure requirements of the CICA Handbook Section 3860 (paragraphs 3860.78, .101), the Corporation is required to disclose certain information concerning its "financial instruments," defined as a contractual right to receive or deliver cash or another financial asset. The fair value of the majority of the Corporation's financial assets and liabilities approximate their recorded values at December 31, 2006. In these circumstances, the fair value of the assets or liabilities is determined to be the lower of cost and market value.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

b) Summary of Significant Financial Instruments

The significant financial instruments of the Corporation, their carrying values and exposure to U.S. dollar denominated monetary assets and liabilities, are as follows:

As of December 31, 2006	C$ Total	U.S.$ Denominated	Other Denominated	
Cash and cash equivalents	$ 24,689,040	U.S.$ 15,936,780	€	1,551,162
			GBP	1,109,543
			CHF	19,359
Accounts receivable	$ 2,310,252	U.S.$ 1,798,008	€	25,231
Accounts payable and accrued liabilities	$ 3,342,868	U.S.$ 1,887,802	GBP	5,665
Deposits	$ 21,159,193	U.S.$ 14,099,557	€	1,353,708
			GBP	986,503
			CHF	8,225

16. 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:

	2006	2005
Income tax recovery at statutory rate	$ (2,856,000)	$ (3,584,000)
Non deductible items for which there is no tax effect	12,000	11,000
Temporary differences	1,070,000	1,008,000
Losses for which no benefit has been recorded	1,774,000	2,565,000
Net income tax recovery	**$ –**	**$ –**

The Corporation has non capital losses carry forward for income tax purposes in the amount of approximately $36,630,000 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:

2007	$ 2,767,000
2008	$ 6,976,000
2009	$ 5,977,000
2010	$ 3,760.000
2014	$ 5,814,000
2015	$ 6,424,000
2016	$ 4,912,000

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:	2006	2005
Losses carried forward	$ 13,230,000	$ 11,808,000
Property, plant and equipment	2,647,000	2,045,000
Share issue costs	1,156,000	393,000
	17,033,000	14,246,000
Valuation allowance	(16,443,000)	(13,656,000)
Net future income tax asset	**$ 590,000**	**$ 590,000**

17. RELATED PARTY TRANSACTIONS

The following are the transactions and balances with related parties:

In fiscal 2006, certain officers and directors exercised stock options in the Corporation and the Corporation's subsidiary Points.com Inc. (Note 10 (vi) and Note 10 (vii)).

18. COMMITMENTS

The Corporation is obligated under various operating leases for premises, purchase commitments and equipment and service agreements for Web hosting services expiring through 2011 to aggregate annual rentals as follows:

2007	$	888,858
2008	$	505,658
2009	$	447,415
2010	$	194,613
2011	$	7,307

19. SEGMENTED INFORMATION

a) Reportable segments

The Corporation has only one operating segment, the portfolio of technology solutions to the loyalty program industry (refer to the Management Discussion and Analysis for a description of Points Solutions), in each of 2006 and 2005 whose operating results were regularly reviewed by the Corporation's chief operating decision maker and for which complete and discrete financial information is available.

b) Enterprise-wide disclosures - Geographic information

$10,852,656 (2005 $9,274,067) representing 89% of the Corporation's revenues were generated in the U.S., $476,561 (2005 -$248,330) representing 4%, were generated in Canada and the remaining revenues generated outside North America.

At December 31, 2006 and 2005, substantially all of the Corporation's assets were in Canada.

20. MAJOR CUSTOMERS

Approximately 58% of the Corporation's revenues are from its three largest customers. In 2005, three customers represented 47% of the Corporation's revenues. In addition, 65% (2005 - 71%) of the Corporation's deposits are due to these three customers.

21. SUBSEQUENT EVENTS

Subsequent to year end, 503,000 options in the Corporation were exercised at a weighted average exercise price of $0.27 per share (Note 11(b)). 1,207,334 options were granted to employees and 1,500,000 options were granted to a director of the Company.

22. COMPARATIVE FIGURES

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

23. U.S. GAAP RECONCILIATION

Canadian and United States Accounting Policy Differences

The consolidated financial statements of the Corporation have been prepared in accordance with Canadian GAAP. The significant differences between Canadian and U.S. GAAP, and their effect on the consolidated financial statements of the Corporation, are described below.

Consolidated statements of operations:

The following table reconciles net loss as reported in the accompanying consolidated statements of loss to net loss that would have been reported had the financial statements been prepared in accordance with U.S. GAAP:

	Years ended December 31	
	2005	**2006**
Net loss in accordance with Canadian GAAP	$ (9,924,235)	$ (7,906,695)
Web site development amortization (a)	73,896	98,528
Net Loss in accordance with U.S. GAAP	$ (9,850,339)	$ (7,808,167)
Loss per share	**$ (0.11)**	**$ (0.07)**

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

	As at December 31	
	2005	**2006**
Shareholders deficiency in accordance with Canadian GAAP	$ (6,186,307)	$ (3,394,202)
Web site development (a)	(819,400)	(819,400)
Web site development amortization (a)	597,711	696,239
Public Status (b)	(50,000)	(50,000)
Shareholders deficiency in accordance with U.S. GAAP	**$ (6,457,996)**	**$ (3,567,362)**

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

	As at December 31	
	2005	**2006**
Assets in accordance with Canadian GAAP	$ 40,463,226	$ 40,652,942
Web site development costs (a)	(819,400)	(819,400)
Web site development amortization (a)	597,711	696,239
Public Status (b)	(50,000)	(50,000)
Assets in accordance with U.S. GAAP	**$ 40,191,537**	**$ 40,479,782**

Effect of these adjustments on the consolidated statement of cash flows is as follows:

	Years ended December 31	
	2005	**2006**
Cash Flows used in Operating Activities		
Cash flows provided by (used in) operating activities in accordance with Canadian GAAP	$ (2,261,064)	$ 3,002,906
Cash flows provided by (used in) operating activities in accordance with U.S. GAAP	$ (2,261,064)	$ 3,002,906

Cash Flows used in Investing Activities

Cash flows provided by (used in) investing activities in accordance with Canadian GAAP	$ (6,476,624)	$ 803,318
Cash flows provided by (used in) investing activities in accordance with U.S. GAAP	$ (6,476,624)	$ 803,318

(a) Canadian GAAP allows the capitalization and amortization of Web site development costs incurred, subject to there being reasonable assurance that future benefits will be realized. Under United States GAAP, American Institute of Certified Public Accountants, Statement of Position "SOP" 98-1 provides specific guidance on when capitalization may commence, and what direct costs may be capitalized. For United States GAAP purposes, costs incurred in the preliminary project phase have been expensed at the time the costs were incurred and the amortization recorded under Canadian GAAP would have been reversed.

(b) In accordance with Canadian GAAP- EIC 10, the Corporation capitalized $150,000 of its going public costs incurred prior to March 2003, $100,000 of these costs were subsequently amortized. Effective fiscal 2002, in accordance with the CICA Handbook Section 3061 and 3062, the Corporation ceased amortization of these costs as the balance of intangible assets was not subject to amortization.

United States GAAP requires costs related to public status to be charged to shareholder' equity when incurred. As a result, share capital prior to 2002 would be decreased by $150,000, intangible assets would be decreased by $50,000 and the deficit would be reduced by $100,000.