Points International Ltd.
2002 Management Discussion and Analysis

The following discussion and analysis of the financial condition and results of Points International Ltd. (which is also referred to herein as "Points" or the "Corporation") should be read in conjunction with the Corporation's audited consolidated financial statements (including the notes thereon) for the year ended December 31, 2002.

This Management Discussion and Analysis ("MD&A") contains forward-looking statements about matters that involve risks and uncertainties, such as statements of the Corporation's plans, objectives, expectations and intentions, as well as financial trends. As a consequence, actual results might differ from results or forecasts suggested in these forward looking statements. The discussion also includes cautionary statements about these matters. Readers should consider the cautionary statements as being applicable to all forward-looking statements wherever they appear in this document. Factors that could cause or contribute to such differences include those discussed in "Risks and Uncertainties" as well as those discussed elsewhere herein.

Responsibility of Management

The preparation of the financial statements, including the accompanying notes, is the responsibility of management. Management has the responsibility for selecting the accounting policies used in preparing the financial statements. In addition, management's judgement is required in preparing estimates contained in the financial statements.

Management acknowledges their responsibility in their letter of representation to the Corporation's Auditors, and this responsibility is referred to in the audit opinion.

1. General

Financial Results and Highlights

The financial statements and discussion presented within this MD&A are the audited consolidated financial statements of the Corporation for the year ended December 31, 2002.

Financial results from minority holdings are not consolidated into the Corporation's consolidated financial statements, as the Corporation does not exercise control in these entities.

2002 Discussion – Summary

Overview

Points experienced substantial growth in revenues during 2002. Though public markets continued to be turbulent with negative pressures, particularly in the technology sector, the Corporation continued to make progress on key objectives: attracting new partners and expanding its portfolio of *Points Solutions*. The Corporation posted solid revenue growth through each quarter of the year, and achieved this while maintaining a stable cost base. Early in 2002, the Corporation was also able to raise additional capital through a private placement financing.

On April 11, 2003, Points announced that it closed a strategic investment transaction (the "USA Transaction") with USA Interactive (Nasdaq: USAI) ("USA"), pursuant to which USA (through an affiliate of USA created for the purpose of investing in the Corporation) made a Cdn$15.1 million investment in Points (for a 19.9% equity stake on an adjusted fully diluted basis), and obtained the right to acquire up to 55% of the common shares of Points (on an adjusted fully diluted basis) over the next three years. If USA fully exercises their right to acquire an additional 35.1% equity stake, they would make a further investment of approximately Cdn$74.9 million to Cdn$93.6 million, depending of the year of exercise. See "Subsequent Events – Investment by USA Interactive", below.

Key Performance Drivers

A key performance driver for the Corporation is the ability to continue building relationships with additional loyalty program partners. Attracting new participants to *pointsxchange* and expanding the number of other *Points Solutions* used by current and potential partners are key in supporting revenue growth for Points. Agreements with leading industry programs (*i.e.*, American Airlines' AAdvantage, Deutsche Lufthansa AG's Miles & More, InterContinental Hotels' Priority Club® Rewards) are particularly important. Management of the Corporation believes that, to remain competitive, other loyalty players will strive to offer their program members the benefits offered through participation in *pointsxchange* and through other *Points Solutions*.

Segmented Information

In fiscal 2002, the Corporation's business was carried on in the industry of loyalty program asset management.

In fiscal 2001, as part of a restructuring plan (the “Restructuring Plan”) (for further information, refer to the Corporation’s 2001 and 2002 Annual Information Forms) the Corporation discontinued all of its operations except those of Points. The consolidated balance sheet and consolidated statement of operations for 2002 and 2001 present the financial position and results of operations for the Points business. All other activities are presented as discontinued operations.

Income Statement Discussion

a) Decrease in Net Loss and Increase in Revenue

Changes in EBITDA

For the year ending December 31, 2002, the Corporation's earnings before interest, taxes, depreciation and amortization ("EBITDA") were negative $4,572,777, compared with negative $5,162,512 for 2001. The decrease in the loss was related to the growth of revenues, partially offset by a smaller increase in the management of general and administration expenses, each as discussed below.

Decrease in Net Loss

The Corporation reported a net loss of $7,807,378 for 2002, compared with a net loss of $11,199,492 for 2001. In addition to the growth in revenue, the wind-down and divestment of certain Partner Companies in 2001 (in accordance with the Restructuring Plan) contributed to the decreased net loss for 2002. Points reported losses from discontinued operations of $3,833,859 for 2001 and $115,730 for 2002. The Corporation does not expect further losses from these discontinued operations.

Included in the 2002 net loss amount are non-cash expenses ($3,068,800) and discontinued operations and restructuring charges ($115,730), totalling $3,184,530 and accounting for approximately 40% of the net loss. Non-cash expenses contributing to the 2002 net loss included $2,408,800 of amortization and $660,000 of accrued interest on its outstanding Debenture (see "Balance Sheet Discussion – Convertible Debt" below) held by CIBC Capital Partners. CIBC Capital Partners has agreed to waive the repayment of interest on the Debenture in connection with repayment of the principal of the Debenture following a change in control of the Corporation resulting from the exercise of the Warrants issued in the USA Transaction (the exercise of such warrants would result in USA acquiring a majority interest in the Corporation) (see "Subsequent Events – Investment by USA Interactive" below). In connection with the USA Transaction, CIBC Capital Partners has also agreed to suspend the Debenture's conversion right under the Debenture for the duration of the term of the Warrants issued in the USA Transaction. If the conversion right is restored and the Debenture is converted, or the Debenture is automatically converted in certain circumstances, the accrued interest on any principal amount so converted ceases to be payable.

Increase in Revenue

The Corporation reported revenue of $2,368,292 for 2002, compared to revenue of $1,005,971 for 2001.

Almost all 2002 revenues were attributed to the provision of *Points Solutions* ($2,308,846). The growth in revenues was earned through contracts involving various *Points Solutions*. Management expects revenues to continue to grow in relation to the growth of customer contracts, strategic alliances and *pointsxchange* partners. In addition, the Corporation earned interest income of $59,446 for 2002, compared with $207,744 in 2001. Lower interest income for 2002 is related to a general reduction in interest rates.

Points has cash reserves, some of which are invested in short-term, liquid money market funds generating a return of approximately 1 - 2 % annually, or cashable GICs earning similar or slightly higher returns. As Points' business continues to grow, and as a result of the USA Transaction, it is expected that cash reserves and related interest income will also increase, although it is not expected to be a material portion of the Corporation's revenue going forward. Interest rates will continue to influence interest earnings.

In contrast, during 2001, revenue came from four primary sources (for more information, refer to the Corporation's 2001 Annual Information Form), including:

- revenues from Points' services during 2001 totalling $686,194. (As discussed above, this revenue has increased and is expected to continue to grow.);

- an accounting gain of $89,035 on dilution of investment in subsidiary Points.com Inc. (Due to the completion of the Restructuring Plan, the Corporation does not anticipate continuing activity of this kind.);

- interest from cash reserves totalling $207,744;

- fees received by the Corporation from its Partner Companies for business consulting services, technology services and payment for infrastructure and support, totalling $22,998. (Due to the completion of the Restructuring Plan, the Corporation does not anticipate continuing activity of this kind.)

Certain Revenue Recognition Policies

Revenue from *pointsxchange* services are recognized as follows:

- Revenues from transaction processing are recognized as the services are provided under the terms of related contracts.

- Membership dues received in advance for services are recognized over the term of service.

Revenues from custom services contracts for the sale of loyalty program points (*i.e.*, for *pointspurchase* solutions) are recorded net of costs. Gross proceeds received on the sale of loyalty program points, net of the commissions earned, are included in deposits and deferred revenue on the consolidated balance sheet until remitted.

Non-refundable partner sign-up fees with no fixed term and for which the Corporation is under no further obligations are recognized when the revenue is received.

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

Increase in Expenses

General and administration expenses grew from $6,168,483 in 2001 to $6,941,069 in 2002. This increase reflects the cost of expanding operations, including the launch of a number of new custom technology solutions. These expenses are expected to grow as operations and revenues expand, although the Corporation expects that general and administration expenses will continue to be managed prudently and will not grow as quickly as revenues.

Increase in Amortization Expenses

The Corporation recorded amortization expenses of $2,408,800 in 2002, compared to $1,836,814 for 2001. The increase was attributed to the acquisition of technology related to the purchase of the minority interest in Points.com Inc. (in accordance with the

Restructuring Plan) and the acquisition of capital assets, specifically technology costs. The following table outlines Points' amortization schedule through 2005, based on assets owned at December 31, 2002:

	2003	2004	2005	Total
Deferred charges	$ 328,763	$ 82,191	–	$ 410,954
Intangible assets	756,201	756,201	$ 179,051	1,691,453
Capital assets	1,484,783	279,416	–	1,764,199
	$ 2,569,747	$ 1,117,808	$ 179,051	$ 3,866,606

Discontinued Operations

The Corporation had the following discontinued operations in 2002:

(a) during 2002, in accordance with the Restructuring Plan, the Corporation sold its 100% stake in ThinOffice Inc. (“ThinOffice”) for $2. The Corporation received an option to acquire 15% of the new parent company of ThinOffice. Section 3.2 of the Corporation’s 2002 Annual Information Form contains further details on the financial impact of this transaction;

(b) on February 25, 2002, also in accordance with the Restructuring Plan, the Corporation disposed of its interest in Bigtree.com Ltd (“Bigtree”). The Corporation received $19,500 to settle all loans receivable, $22,900 for reimbursed expenses and an option to earn a percentage of Bigtree's future earning for one year, up to $80,500. During the third quarter of 2002, Points determined this $80,500 to be unrecoverable. The disposition had minimal impact on the Corporation; and

(c) the Corporation has also wound down the operation of Exponential Entertainment Inc. (“ee”) and expects to dispose of this interest at the earliest opportunity. The Corporation expects to incur minimal costs related to winding down ee.

ee did not record any revenues for either 2002 or 2001, and ThinOffice did not result in revenues for the Corporation in 2002 and had revenues of $29,280 in 2001.

Points' loss from these discontinued operations amounted to $115,730 for 2002 and $2,163,602 for 2001. As the Corporation does not expect to have further discontinued operations as a result of the focus imposed by the Restructuring Plan, the Corporation does not expect to continue to incur similar losses going forward.

b) Earnings Per Share

The Corporation's basic earnings per share are calculated on the basis of the weighted average number of outstanding common shares for the year, which amounted to

51,656,033 shares at December 31, 2002, compared with 30,997,824 at December 31, 2001. The number of outstanding shares is the result of the issuances described in "Decreasing Shareholder Equity", below.

The Corporation reported a net loss of $0.15 per share for 2002, compared to a net loss of $0.36 for 2001**.** For 2001 and 2002, the number of fully-diluted shares outstanding has not been computed as the effect would be anti-dilutive (meaning that the loss per share would decrease on a fully diluted basis)**.** The fully diluted calculation for both fiscal 2001 and 2002 would have otherwise included issued and outstanding Series A preference shares, Series B warrants and the Employee Stock Option Plan options. Therefore, in accordance with Generally Accepted Accounting Principles, fully-diluted loss per share is deemed to be the same as basic earnings per share. The effect of the USA Transaction (refer to the following "Subsequent Events – Investment by USA Interactive" section for more information) would also be anti-dilutive.

Balance Sheet Discussion

a) 2002 Financing Activity

On February 15, 2002, the Corporation issued 12,000,000 common shares in a private placement for gross proceeds of $3,000,000. A commission of $230,500 was paid and 922,000 broker warrants were issued with an exercise price of $0.25 per share in connection with this private placement.

b) Increase in Cash and Short-Term Assets

At December 31, 2002, the Corporation had a consolidated cash position of $7,341,700, compared with $2,894,380 at December 31, 2001. Current assets at December 31, 2002 were $8,266,699 compared with $3,568,459 at December 31, 2001.

The increase in cash during 2002 was related to the growing operations of Points, including the number of new partners gained and *Points Solutions* contracted. Management expects to continue to generate growing amounts of cash through Points' operations in 2003, and notes that the April 2003 investment of $15.1 million by USA also increases the Corporation's cash.

c) Decrease in Total Long-Term Investments and Increase in Intangible Assets

The Corporation's long-term investments decreased from $171,129 at December 31, 2001 to $151,629 at December 31, 2002. The only remaining long-term investment is related to Points' minority interest in ThinApse Corporation ("ThinApse"). The decrease during 2002 was related to the disposition of investments in minority interests and Partner Companies.

The Corporation reported an increase in intangible assets during 2002, resulting from the acquisition of the minority interest of Points.com Inc. (in relation to the Restructuring Plan). In accordance with the Canadian Institute of Chartered Accountants (*"C.I.C.A.")*

Handbook Section 3062, management will review goodwill or other intangibles for impairment in value.

d) Decrease in Capital Assets and Deferred Finance Charges

The Corporation reported a decrease in capital assets to $1,764,199 at December 31, 2002, from $3,231,535 at December 31, 2001. The decrease was related to the amortization of capital assets during the year. Management expects the carrying amount of capital assets to continue to decrease through the amortization period. The Corporation had deferred finance charges of $410,954 net of amortization in 2002 ($739,717 for 2001). These charges resulted from the issuance of a convertible debenture during 2001, and will be amortized over three years.

e) Increase in Liabilities

Current liabilities at December 31, 2002 were $10,371,715, compared with $3,320,219 at December 31, 2001. The increase was related to increased deposits, deferred revenue, accounts payable and accrued liabilities.

Increased deposits are related to the growth of Points' custom technology solutions business during the year. The provision of custom technology services involves the collection of revenue derived from the sale of loyalty program currencies, a portion of which is remitted at a later date to the related loyalty program partner. As the custom technology business grows, management expects deposit levels to also increase, along with cash reserves. At December 31, 2002, Points had obligations of $1,017,956 related to accounts payable and accrued liabilities (compared to $486,605 in 2001), and $8,946,631 related to deposits (compared to $2,096,865 in 2001), which management expects to continue to grow, along with cash reserves, as the business grows. At December 31, 2002, the Corporation has no long-term obligations related to capital leases.

Total liabilities were $17,554,215 at December 31 2002, compared with $10,282,417 at December 31, 2001, with most of the increase resulting from increased current liabilities as discussed above.

f) Convertible Debt

On March 15, 2001, the Corporation issued to CIBC Capital Partners, a division of Canadian Imperial Bank of Commerce, ("CIBC Capital Partners") a senior secured convertible debenture (the "Debenture") in the amount of $6,000,000. $2,000,000 of the principal was due on March 15, 2003 and $4,000,000 was originally due on March 15, 2004. Interest on the Debenture accrues 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.

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 Corporation. As well, the Corporation wrote a call option on a portion of its shares of Points.com Inc. which would satisfy the remaining principal and accrued interest.

During 2002, as part of the Restructuring Plan, the terms of the Debenture were amended. The call option on Points.com Inc. shares was terminated and the Debenture holder now has the right to convert the entire principal amount into 18,908,070 common shares of the Corporation; accrued interest ceases to be payable on converted principal. 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 is included with the Debenture in long-term debt as a non-current liability in the consolidated balance sheet. At the election of the Debenture holder, the term may be extended by up to four one-year periods.

As consideration for restructuring the terms of the Debenture, the Corporation issued to CIBC Capital Partners 250,000 common shares valued at $62,500 and 595,667 warrants, valued at $37,825. As well, the Corporation issued to CIBC Capital Partners one Series One Preferred Share, the terms of which are summarized in Note 8 to the Corporation's 2002 audited financial statements.

In connection with the USA Transaction, CIBC Capital Partners has agreed to waive the repayment of interest on the Debenture in connection with repayment of the principal of the Debenture following a change in control of the Corporation resulting from the exercise of the Warrants issued in the USA Transaction (see "Subsequent Events – Investment by USA Interactive" below). In connection with the USA Transaction, CIBC Capital Partners has also agreed to suspend its conversion option; if the conversion option is restored and the Debenture is converted, or the Debenture is automatically converted in certain circumstances, the accrued interest on any principal amount so converted ceases to be payable.

The debenture is secured by a general security agreement.

g) Decreasing Shareholder Equity

The deficit in shareholder equity has increased from $1,861,265 at December 31, 2001 to $4,414,195 at December 31, 2002. The increased deficit was related to Points' operating loss during 2002. Management expects the deficit in shareholder equity to shrink as the Points business grows.

The Corporation issued common shares during the fiscal year ended December 31, 2002. A breakdown of the issuance of common shares is as follows:

- 7,286,160 common shares were issued pursuant to an exempt take-over bid, in exchange for the minority interest in the shares of Points.com Inc. that the Corporation did not own;

- 250,000 common shares were issued to the Debenture holder as payment for restructuring its terms;

- 1,187,290 common shares were issued in exchange for consulting services provided by a director of the Corporation. (This consulting contract expired during 2002.);

- 12,000,000 common shares were issued in a private placement;

- 99,155 common shares were issued at fair market value in exchange for common shares in Points.com Inc. under the exercise of a liquidity put right;

- 250,000 common shares and 1,000,000 common share purchase warrants were issued, at an exercise price of $0.25 per share, to be issued in tranches, pursuant to a strategic affiliation and linking agreement dated February 26, 2002 with an arm's-length party.

- 580,000 common shares were issued in a private placement in consideration of services; and

- 31,000 common shares were issued in a private placement in consideration of property.

Subsequent Events

The following events have occurred since December 31, 2002:

a) Agreement with eBay Inc.

On February 21, 2003, Points announced that it had entered into a formal agreement with eBay Inc ("eBay"). The agreement engages Points to develop a number of solutions for eBay. The new relationship involves *Points Solutions* including *pointscorporate* and *pointsintegrate*. The contract has a term until December 2005, subject to certain exceptions. Points and eBay will announce further information as the solutions launch, expected during the second quarter of 2003.

b) Investment by USA Interactive

On April 11, 2003, Points closed the USA Transaction pursuant to which USA Interactive (through an affiliate of USA created for this purpose) made a Cdn$15.1 million investment in Points.

USA engages worldwide in the business of interactivity via the Internet, the television and the telephone. USA's multiple brands are organized across three areas: Electronic Retailing, Information & Services and Travel Services. Electronic Retailing is comprised of HSN, America's Store, HSN.com, and Home Shopping Europe and Euvía in Germany. Information & Services includes Ticketmaster, Match.com, uDate, Citysearch, Evite, Entertainment Publications and Precision Response Corporation. Travel Services consists of Expedia (Nasdaq: EXPE), Hotels.com (Nasdaq: ROOM), Interval International, TV Travel Group and USA's forthcoming U.S. cable travel network.

USA has built a number of successful interactive properties, and the Corporation believes USA will be a key strategic partner to help deliver growth for Points.

The following is a general summary of the terms of the USA Transaction, although more comprehensive disclosure is contained in the material change report of the Corporation dated March 21, 2003, all of which is hereby incorporated by reference.

Under the USA Transaction, Points issued one convertible Series Two Preferred Share and common share purchase warrants (the "Warrants") for aggregate cash consideration of $15.1 million. The Series Two Preferred Share is convertible, for no additional consideration, into 18,432,427 common shares (19.9% of the common shares of Points (calculated on an adjusted fully-diluted basis)). Of the total investment, $12.4 million has been allocated to the purchase price of the Series Two Preferred Share resulting in an effective price per underlying common share of $0.67 and $2.7 million has been allocated to the purchase price of the Warrants. The Warrants are exercisable over three years to acquire up to 55% of the common shares of Points (calculated on an adjusted fully diluted basis) less the number of common shares issued or issuable on conversion of the Series Two Preferred Share. As at the date hereof and based on Points current capitalization, the Warrants are exercisable to acquire 72,247,700 common shares at an effective price per common share of $1.04 in year one, $1.17 in year two and $1.30 in year three (resulting in an additional investment by USA in Points, depending on the year of exercise, of up to approximately $74.9 million if fully exercised in year one, $84.2 million if fully exercised in year two or $93.6 million if fully exercised in year three). Each of the Series Two Preferred Share and the Warrants contain anti-dilution protection provisions.

If not previously converted by the holder thereof, the Series Two Preferred Share will be automatically redeemed by Points on March 31, 2013 for an amount (the "Redemption Amount") equal to the greater of $12.4 million plus 7% per annum and the market value of the common shares into which the Series Two Preferred Share then could be converted. The Series Two Preferred Share also is to be redeemed if there is a change of control of Points before the expiry of the Warrants for an amount equal to the greater of (i) 125% of the Redemption Amount and (ii) the greater of the value at the time of the change of control of the common shares into which the Series Two Preferred Share then could be converted and the value on the day prior to public announcement of the change of control transaction of the common shares into which the Series Two Preferred Share then could be converted. Additionally, the Series Two 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 (and, until exercise of the Warrants, to a maximum of 19.9% of the votes that may be cast);

- vote separately as a series with respect to certain material transactions involving Points, and

- elect two members to the Board of Directors of Points and to have one member sit on each committee of the Board of Directors.

Under an investor rights agreement entered into on the closing of the transaction, USA and its affiliates have various rights, including prospectus qualification rights, pre-emptive rights in connection with further issuance of shares, matching rights for change of control transactions, approval rights over certain material transactions and rights to board and board committee representation.

On March 21, 2003 and in connection with the USA Transaction, the Corporation, USA and CIBC Capital Partners entered into a consent and amendment agreement (the "Consent Agreement"). Under the Consent Agreement Points and CIBC Capital Partners agreed that, effective on the closing of the USA Transaction, the Debenture was amended such that (i) the Debenture is repayable (without accrued interest, the repayment of which is waived) by Points within 30 days of a change in control of Points resulting from the exercise of the Warrants and (ii) the Debenture will not be convertible so long as the Warrants are outstanding and will not be convertible after the Warrants cease to be outstanding if the CIBC Debenture is repaid within 30 days of the change of control referred to in (i). As a result of the creation of the Series Two Preferred Share as a voting share, the terms of the Series One Preferred Share in the capital of the Corporation are required to be amended to preserve CIBC Capital Partners' rights with respect to the payment of a dividend on the Series One Preferred Share on an acquisition by a third party of voting control of Points. Points has agreed in the Consent Agreement that it will propose this amendment to the terms of the Series One Preferred Share at its next annual shareholders' meeting. Points has also agreed in the Consent Agreement to pay to CIBC Capital Partners an amount equal to the dividend on the Series One Preferred Share in the event that there is a change in voting control of Points and no dividend is payable under the Series One Preferred Share.

The USA Transaction will result in an increase in cash that will be equal to the increase in preferred shares and equity. (The Series One Preferred Share represents $12.4 million in preferred share liability, and the Warrant represents $2.7 million in equity.) For accounting purposes, the preferred share will be presented as a liability and the annual 7% charge will be recorded as a non-cash expense on the income statement.

The impact on earnings per share would be further anti-dilutive (refer to “Income Statement Discussion”, (b) “Earnings Per Share” for further explanation).

c) Options issued to employees during 2003

To date during 2003, the Corporation has granted options to acquire 341,500 common shares of the Corporation to employees as part of its employee stock option program.

Risks and Uncertainties

Risk Management

Investing in early-stage Internet-based businesses has a high degree of business risk. In addition to the other information contained in this MD&A, investors should carefully consider the risk factors set out below, and review the trends noted in Section 3.3 of the Corporation's 2002 Annual Information Form, before making an investment decision with respect to the Corporation.

High Dependence on Key Customers

For the year ended December 31, 2002, two key customers represented approximately 76% of the Corporation's gross revenues and three key customers represented approximately 96% of the Corporation's deposits. The inability of the Corporation to maintain and/or renew these relationships, or a material change in a key customers' business, could have a material adverse impact on the Corporation's business, operations and prospects.

Competition

The Corporation must compete with a wide range of companies that seek to provide custom technology services, from small companies to large companies. Many existing and potential competitors do or could have greater technical or financial resources than the Corporation. The financial performance of the Corporation may be adversely affected by such competition. In particular, no assurances can be given that additional direct competitors to the Corporation may not be formed or the Corporation may not lose some or all of its arrangements with its loyalty program partners, including its key loyalty program partners, decreasing its ability to be competitive and operate as a viable business. The Internet-based market is highly competitive and the failure of the Corporation to be competitive could have a material adverse impact on its business, operations and prospects.

Growth-Related Risks

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

Dependence upon Key Personnel

The success of the Corporation is substantially dependent on the services of key members of the management team. Despite the fact that the Corporation maintains "key man" insurance on certain of its officers, the success of the Corporation is dependent upon such key personnel and loss of such management or personnel could adversely affect the Corporation's business, operations and prospects.

Limited Financial Resources

The financial resources of Points are limited, although improved as a result of the USA Transaction, pursuant to which USA made a Cdn$15.1 million investment in the Corporation.

For 2002, Points reported $2,876,504 of cash flows provided by operating activities and deposits held of $8,946,631. Points' ability to pay its liabilities, exploit its opportunities and fund growth could in future be dependent upon its ability to obtain additional financing either by debt, equity or other means.

The ability of the Corporation to arrange such additional financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Corporation. There can be no assurance that the Corporation will be successful in its efforts to arrange additional financing on terms satisfactory to the Corporation. The nature of the relationship with USA (including the ability of USA to acquire control of the Corporation, to exercise pre-emptive rights and the right to match third party offers for the Corporation), as discussed herein, may result in difficulties for the Corporation to find new third parties willing to make debt or equity investments in the Corporation.

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

Impediments to Material Transactions

Under the investor's rights agreement entered into by the Corporation and USA in connection with the USA Transaction, in the event there is an offer to effect any transaction that could result in any person (or group of persons) other than USA acquiring (a) assets of Points and/or its subsidiaries that are, individually or in the aggregate, material to Points or any of its subsidiaries, or (b) 20% or more the equity of, or voting rights in respect of, Points or any of its subsidiaries, USA is entitled to notice of such transaction and the right to propose a matching transaction. The existence of this matching right in favour of USA will significantly reduce the probability that a third party would propose a transaction in the nature described above and that could otherwise have been beneficial to the Corporation and its shareholders.

Liabilities of Points

As at December 31, 2002, Points had outstanding consolidated current liabilities of $10,371,715 and consolidated total liabilities of $17,554,215, including the Debenture (plus accrued interest of $1,182,500) amended as per "Subsequent Events – Investment by USA Interactive", above and the Series One Preferred Share. There is no assurance that the Corporation will be able to repay such amounts when and if they are due, as any such repayment will be dependent upon generating sufficient cash reserves and may also be dependent upon securing additional financing.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers will be subject with respect to the operations of the Corporation. As a result of the Corporation's efforts to engage people who have experience in the Corporation's area of business, some of the directors and officers have been and will continue to be engaged in other businesses and situations may arise where the directors and officers will be in direct competition or have an interest in parties that conflict with the Corporation. Any such conflicts will be subject to and governed by the law applicable to directors' and officers' conflict of interest, including the procedures prescribed by the *Business Corporations Act* (Ontario).

Limited Operating History

Points has a brief financial history and has very recently changed its operating objectives by implementing the Restructuring Plan. The Corporation's future success is reliant almost exclusively on its ability to develop new contract for *Points Solutions*. There can be no assurance that the Corporation will be successful in developing Points into a profitable corporation.

The Growth and Development of the Internet

The development of the Internet, the level of usage of the Internet, the introduction of new products and services by Points or its competitors may materially affect the Corporation's business, operations and prospects.

Limited Customers

There can be no assurance that Points will be successful in marketing its products to potential retail customers and loyalty program operating partners. Competitors of Points may have long-standing relationships with their customers. As a result, it may be difficult for Points to penetrate certain markets to gain new customers or loyalty program partners. In addition, it is possible that the Corporation will not be able to maintain its existing relationships with retail customers and loyalty program partners.

Revenues

Operating revenues are derived from contracts for *Points Solutions*. This includes revenue from custom technology services business, in the form of development fees, maintenance fees and commissions, and revenue from *pointsxchange* in the form of fees and commissions. Revenue growth is dependent on attracting new partners and customers for the Points business, and in securing continued contracts for its customs services business. Competition or other business factors may have a material adverse effect on the Corporation's business.

Financial Information of Minority Holdings

Financial information for ThinApse contained herein has been obtained from this company and is based on internal financial information provided by ThinApse. No separate review or audit process on this information has been undertaken by the Corporation's auditors. Therefore, the financial information with respect to such minority positions may, once or if audited by the Corporation, vary materially from the information contained herein.

2. Quarterly Information

Points Selected Quarterly Information (Consolidated)
(Prior years restated to reflect the Restructuring Plan)

2002	**Q1**	**Q2**	**Q3**	**Q4**
Revenue	$ 299,351	$ 427,534	$ 729,467	$911,940
Net income (loss) – continuing operations	(1,814,507)	(2,390,069)	(1,725,072)	(1,762,000)
Net income (loss)	(1,930,237)	(2,390,069)	(1,725,072)	(1,762,000)
Net income (loss) per share - continuing operations	(0.04)	(0.05)	(0.03)	(0.03)
Net income (loss) per share	(0.04)	(0.05)	(0.03)	(0.03)

2001	**Q1**	**Q2**	**Q3**	**Q4**
Revenue	$ 46,384	$ 345,064	$ 302,009	$312,515
Net income (loss) – continuing operations	(1,007,987)	(2,575,123)	(1,825,163)	(1,957,359)
Net income (loss)	(1,502,541)	(3,287,526)	(2,571,584)	(3,837,840)
Net income (loss) per share - continuing operations	(0.03)	(0.08)	(0.07)	(0.06)
Net income (loss) per share	(0.05)	(0.11)	(0.08)	(0.12)

3. Liquidity and Capital Resources

Ability to Generate Cash

Points business is expected to generate growing cash flows through the growth of the number of contracts for *Points Solutions*. In addition, on the closing of the USA Transaction (see Section 6.1, "General - Subsequent Events" for more information), the Corporation received $15.1 million in cash.

Over the longer term, the Corporation expects continued growth in its custom technology services business, and higher rates of growth for its *pointsxchange* service, although the growth from these services will require some growth in expenses.

The Corporation cannot be assured that revenues generated will be sufficient to meet liabilities as they come due. The Corporation reported positive cash flows provided by operating activities for 2002, and also reported deposits at December 31, 2002 of $8.9 million. In the longer term, if the Corporation is not able to achieve profitability, the failure to obtain additional financing could prevent the Corporation from having sufficient cash flow to fund its ongoing operations.

Liquidity

Revenue is the key indicator of liquidity for Points' operations. Balance sheet indicators of liquidity include cash, accounts receivable and accounts payable. As the Corporation continues to gain contracts for its portfolio of *Points Solutions*, revenues are expected to grow, resulting in increased cash.

The custom technology solutions activity in particular generates a positive flow of cash. Through arrangements with partner loyalty programs, such as those for *pointspurchase* and *pointscorporate* solutions, Points processes transactions involving the online sale of loyalty currencies, and collects the funds on behalf of the loyalty program partner. Gross proceeds received on the resale of loyalty program points, net of the commissions earned, are included in deposits and deferred revenue until ultimately remitted.

Points' cash may not be sufficient to fund operations to profitability, and the Corporation may need to continue to explore options to increase liquidity.

Capital Resources

At December 31, 2002, Points was committed under various capital lease agreements for technology under development whereby it is required to make monthly blended payments of principal and interest of approximately $65,000. At December 31, 2002, the current portion of obligations under capital leases was $407,128.

Other commitments include $1,182,500 related to accrued interest on the $6 million debenture of CIBC, the $6 million debenture, and $9,964,587 related to deposits, deferred revenue, accounts payable and other accrued liabilities. In connection with the USA Transaction, CIBC Capital Partners has agreed to accept repayment without interest within 30 days of any change in control as a result of the exercise of the USA warrants and to waive its conversion right to long as the warrants issued are outstanding and within 30 days thereafter if the Debenture is repaid.

If the Warrants issued in the USA Transaction are exercised in full, as at the date hereof and based on the Corporation's current share capitalization, the Corporation would receive between approximately $74.9 million and $93.6 million, depending on the year of exercise. If a change of control occurred on the exercise of the Warrants, the Corporation would be required to repay the $6 million principal amount of the Debenture, plus pay out any dividend then payable on the Series One Preferred Share (to a maximum of $24 million). In this situation, the Corporation would have sufficient cash to make such payments.

If the Warrants issued in the USA Transaction are not exercised prior to the maturity of the Debenture (and the Debenture is not converted into equity), the Corporation would then be required to repay the $6 million principal amount plus all accrued interest on the Debenture. (Interest accrues at $55,000 per month, and totalled $1,182,500 at December 31, 2002. At May 1, 2006, an additional $2,200,000 in interest will have accrued.) There is no certainty that the Corporation would have sufficient cash at such time to make such payments.

Trends and Uncertainties

Points has identified trends that could have a material impact on its business. More information is available in the Corporation's 2002 Annual Information Form, available by request of the Corporation, or at www.sedar.com, the website of the Canadian Securities Administrators ("CSA") System for Electronic Document Analysis and Retrieval ("SEDAR").