Management's Discussion & Analysis

The following management's discussion and analysis ("MD&A") of the performance, financial condition and future prospects of Points International Ltd. (which is also referred to herein as "Points International" 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, 2004 and with the Corporation's 2003 audited consolidated financial statements. Further information, including Points International Annual Information Form ("AIF") for the year ended December 31, 2004, may be accessed at www.sedar.com. All financial data herein has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and all dollar amounts herein are in Canadian dollars unless otherwise specified. This MD&A is dated as of March 8, 2005.

Forward-Looking Statements

Some of the statements contained or incorporated by reference in this MD&A, including those relating to Points International strategies and other statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expect", "anticipate", "intend", "plan", "believe", "estimate" or similar expressions, are forward-looking statements within the meaning of Canadian securities laws. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of Points International as set forth herein. These statements are not historical facts but instead represent only the Corporation's expectations, estimates and projections regarding future events.

The forward-looking statements contained or incorporated by reference in this MD&A are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. The future results and shareholder value of Points International may differ materially from those expressed in the forward-looking statements contained or incorporated by reference in this MD&A due to, among other factors, the risks and uncertainties discussed herein, the matters set forth under "Risk Factors" contained in the AIF filed with Canadian securities regulators and the factors detailed in the Corporation's other filings with Canadian securities regulators, including the factors detailed in the Corporation's annual and interim financial statements and the notes thereto. Points International does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this MD&A or to reflect the occurrence of unanticipated events, except as required by law.

Responsibility of Management

The preparation of the financial statements, including the accompanying notes, is the responsibility of management. Management has the responsibility of 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 its responsibility in its letter of representation to the Corporation's auditors, and this responsibility is referred to in the audit opinion.

Overview of Points International Business

Core Business – Points Solutions

Points International has developed a proprietary technology platform that allows it to offer a portfolio of solutions, referred to as the Points Solutions, to the loyalty program industry. The Points.com. technology platform was designed to create value for consumers and loyalty programs alike. The Points Solutions are comprised of Points.com (referred to as the Points Exchange in past disclosures) and a suite of Points.com Business Solutions (referred to as the Private Branded Solutions in past disclosures) available to loyalty program operators. The Corporation's business is primarily conducted over the Internet (other than functions such as customer support) allowing its two primary customers (loyalty program operators and loyalty programs' consumers) to be virtually anywhere in the world.

Points.com

The Corporation's cornerstone product is the proprietary Points.com Web site. Points.com is an online service allowing consumers who are members of participating loyalty programs to swap their loyalty program points and/or miles between the participating loyalty programs.

As at December 31, 2004, Points.com had attracted 45 loyalty program participants (as at the date hereof one additional partner is under contract but not yet launched and three partners have been launched), including the loyalty programs of leading airlines, hotels, online and retail businesses, and gift certificate programs.

Development Initiated for Points.com Version 3.0

At the beginning of the second quarter of 2005, the Corporation will begin making some important changes to the Points.com consumer Web site.

Currently, the Points.com Web site is a transactional Web site that allows consumers to swap miles and points between over 45 reward programs. While established as the world's only service of its kind, Points.com, in its current form, represents only a small part of the Corporation's opportunity to service consumers' total reward program experience.

The new Points.com Web site, referred to as "Points.com version 3.0", represents a major enhancement in the relationship with both reward program partners as well as the consumer. Today, the consumer interacts with a Web site that centres on a single feature, swap ("Swap"). Points.com version 3.0 will broaden the Web site's offerings, and present each consumer with a personalized view of its reward program universe.

Because of this personalized view of the consumer's reward program universe, Points.com will be able to help consumers release more value from their favourite programs and Get More Rewards, Faster™. This is accomplished by adding new mile and point management tools such as ways to purchase ("Buy") and earn ("Earn") more miles or points in their favourite programs. In addition, the system will be driven by the ATG Marketing Enterprise System that will use the consumer's unique program, reward goals and point mix to suggest ("Suggestion") ways to use the Join, Earn, Buy and Swap tools most effectively.

As a result of these changes, Points.com will become a "reward management portal," providing a more comprehensive and engaging consumer experience.

This functionality is expected to add new revenue streams to the Points.com business model. Most significantly, the loyalty management utility of the Web site is expected to allow Points.com to focus more on a subscription membership model as a core aspect of the business.

Management expects that Points.com version 3.0 will be phased in over the course of 2005, with monthly releases beginning in the second quarter. In April 2005, Points.com users will immediately notice a new look and feel that will reflect the more consumer-focused approach. Over the course of the spring and summer, Points.com will add or expand its Buy, Earn and Suggestion functionality.

In the second half of 2005, management will begin driving consumer traffic to the new Points.com Web site to leverage the Web site's ongoing evolution.

In accordance with Generally Accepted Accounting Principles ("GAAP") and Canadian Institute of Chartered Accountants

("CICA") handbook Sections 3061 and 3062, Web site development costs incurred in the Web site application and infrastructure development associated with Points.com version 3.0 will be capitalized. For additional information, see "General and Administrative Expenses" page 23, "Property, Plant and Equipment" page 30 and "Planned Capital Expenditures" page 36 of this MD&A.

Points.com Business Solutions

At December 31, 2004, the Corporation had 55 Points.com Business Solutions products in the marketplace. This suite of technologies includes:

Buy and **Gift** – facilitates the online sale and gift of miles, points and other loyalty program currencies.

Corporate – facilitates the sale of loyalty program currencies to corporate customers.

Transfer – facilitates the amalgamation or transfer of loyalty program currencies among multiple accounts.

Integrate – functions as a common platform to process transactions between third-party loyalty programs, to simplify and automate a complex and resource-intensive process with a single integration.

Elite – facilitates the online sale of tier status to members of loyalty programs.

Systems Design – custom applications developed for select large loyalty program partners. See page 6 "Status of New Products'" of the AIF for an example of the *redeemAAmiles* program, an application built for the American Airlines AAdvantage® program.

Significant Business Developments in 2004 and to the Date Hereof

1. Cendant Joins Points.com and also Adopts Points.com Business Solutions Products

The Cendant Hotel Group, a subsidiary of Cendant Corporation, entered into an agreement to join Points.com. The TripRewards® program with its large membership base and its diversified offering, is a significant addition to Points.com. In addition to the consumer offering, TripRewards will also be utilizing a number of Points.com Business Solutions products to enhance the program and its operations.

2. Membership Rewards® Program from American Express Joins Points.com

On March 4th, 2005, Points International entered into an agreement with American Express Travel Related Services Company Inc. The agreement enables the Membership Rewards program from American Express to participate in the Points.com portal. Additionally, the Membership Rewards program will use Points.com's Business Solutions to offer real-time point transfers for select partners. Public launch is expected during the second quarter of the year.

3. American Airlines Re-Launches Elite Program

Effective January 27, 2005, American Airlines began offering a special opportunity for certain members that did not requalify for their 2005 elite status. Eligible AAdvantage members will have the opportunity to participate in this offer provided they have flown at least one elite qualifying segment during 2004. The program is expected to run until April 2005.

4. Delta Air Lines Expands Relationship with Points.com

The Delta Air Lines SkyMiles® program has hired Points.com to power the online transfer of miles between SkyMiles program accounts. This Transfer product is the fifth product in the suite of Points Solutions purchased by Delta Air Lines. The relationship highlights the opportunity for Points.com to sell additional products to the MilePoint business solutions partners.

5. American Airlines Launches a Private Branded Exchange (Systems Design Solution)

With the September 17, 2004 launch of the redemption platform for American Airlines, AAdvantage® members may now redeem their miles online for hotel stays and hotel and other program points. Participating companies to date include Marriott, Diners Club, InterContinental Hotels Group and Hilton. The participant list will be expanded in 2005 to include other partner options. The *redeemAAmiles* program adds value to the AAdvantage® Program and its members by increasing the utility of miles earned, and facilitating an online process that reduces transaction processing time from weeks to days.

6. Frontier Airlines Becomes the First Low-Cost Airline to Join Points.com

EarlyReturns®, the award-winning loyalty program of Frontier Airlines, had its potential value significantly increase following a five-year agreement. *EarlyReturns* became a tradable loyalty currency on the Points.com Web site as of August 2004. Frontier Airlines is also using Points.com Business Solutions to support the airline's loyalty program, as well as enable partner and third-party organizations to purchase frequent-flyer miles.

7. Acquisition of MilePoint Strengthens Industry Leadership

In March 2004, Points International Ltd. acquired substantially all the assets of MilePoint, Inc., a loyalty program technology provider and operator. The acquisition added to Points.com's impressive partner base and the potential of both the Points.com Web site and the company's portfolio of Points.com Business Solutions. MilePoint's current clients include Northwest Airlines, Delta Air Lines, Continental Airlines and Starwood Hotels and Resorts. There are also significant benefits related to economies of scales that are being realized by this transaction.

8. Strategic Relationship with eBay

In 2003, Points International developed a significant relationship with online leader eBay Inc. ("eBay") Under this relationship, the eBay Anything *Points* ("EAP") program became an anchor Points.com partner, and Points International implemented a number of Points Solutions to power core elements of the EAP program, including Integrate. In addition, in August 2003, eBay selected Points International to develop and operate a Systems Design product, the "Offer Manager", for its EAP program. The Offer Manager allows eBay sellers to issue EAPs to buyers who purchase their goods and services on eBay.

In March 2004, Points International and eBay agreed to continue eBay's participation on Points.com through at least December 2005 and eBay made Points.com the exclusive swap vehicle for all airline, hotel, car rental and major online loyalty programs participating with eBay's EAP program.

9. Toronto Stock Exchange Listing

On February 24, 2004, Points International's Common Shares were listed for trading on the Toronto Stock Exchange under the symbol "PTS". The Corporation's Common Shares ceased to trade on the TSX Venture Exchange at the close of trading on February 23, 2004.

Revenue Recognition Policies

The revenue recognition policies for the suite of Points Solutions are as follows:

Points.com:

- Swap commissions are a percentage of the exchanged value and are recognized as the services provided under the terms of related contracts.
- Membership dues received in advance for services are recognized over the term of service. Membership dues are $29.95 annually for a Points*Plus* membership. The annual membership increased from $19.95 on September 30, 2004.

- One-time trading fees ($9.95 per trade) are recognized at the time of the trade (for non-Points*Plus* members). The one-time trading fee increased from $5.95 on September 30, 2004.
- Non-refundable partner sign-up fees, for which the Corporation is under no further obligations, are recognized when the program becomes available as an swap partner on the Points.com Web site.

Points.com Business Solutions:

- Revenues from the sale of loyalty program points are recorded net of costs.
- Hosting and management fees are recognized in the period of service.
- Non-refundable partner sign-up fees with no fixed term, and for which the Corporation is under no further obligations, are recognized as revenue when received.
- Technology design, development and maintenance revenues are recorded on a "percentage-of-completion" basis.

Key Business Drivers

Revenue growth has historically been, and will continue to be, generated by growth of membership in and use of the suite of Points Solutions (i.e., Points.com and Points.com Business Solutions).

Growth in the number of individual members using Points.com is driven by three factors that contribute to increased Web site traffic and the ease with which a consumer can join Points.com to conduct swap transactions. These factors are Web site usability and enhancements, marketing (awareness and brand) and partner activity. For additional information, see "Points.com Growth" on page 19 hereof.

Growth in Points.com Business Solutions will occur from growth of existing partner relationships, supplemented with new business relationships established throughout the year. For additional information, see "Points.com Business Solutions Growth" on page 19 hereof.

While the Corporation has no control over the growth of the loyalty program industry, management considers it an important factor in the Corporation's growth prospects. For additional information, see "Growth of Loyalty Program Industry" on page 22 hereof.

Results of Operations – Revenues

Overview

Revenue for the year ended December 31, 2004 was $7,791,591 representing a year-over-year increase of 33%. The provision of Points Solutions accounted for approximately 97% of the revenue (interest income accounted for the remaining 3%). Revenues from operations increased by 37% over 2003 due to growth in Points Solutions, the MilePoint Acquisition and offset by a weakening U.S. dollar. For additional information see "Revenue Growth" on page 18. Revenues from interest and other revenue declined by 35% due to a decrease in interest earned. See "Other Factors Contributing to Revenue Growth – Interest Income," on page 21 for additional information.

Revenues	2004	2003	2002
Points International Operations	$7,560,012	$ 5,502,744	$ 2,308,846
Interest and other revenue	231,579	355,960	59,446
TOTAL REVENUE	**$ 7,791,591**	**$5,858,704**	**$ 2,368,292**

A substantial portion of the Corporation's revenue is generated through the provision of Points.com Business Solutions for loyalty programs by way of fees for technology services and transaction fees or commissions paid to Points International by the operators of the loyalty programs.

The Corporation earns revenue from Points.com in three principal ways. First, Points International charges a commission on all swaps, based on a value of the loyalty currency tendered for swap by the loyalty program member. Through the Swap model, the participating loyalty program sets a value on the currency tendered for "sale". Based on this valuation, a percentage is remitted to Points International and the remaining balance is used to purchase the currency of another participating loyalty program. Second, loyalty program members pay Points International either a fee for each Swap transaction at Points.com or an annual fee for a membership that includes unlimited Swap transactions. Finally, the Corporation may earn a non-refundable partner sign-up fee when a partner joins Points.com.

Approximately 54% of the Corporation's revenues are from its three largest customers (the two largest customers represented 43% of revenues). In 2003, two customers represented 61% of the Corporation's revenues. In addition, 61% (2003 - 58%) of the Corporation's deposits are due to these three customers. As additional partner relationships are established and revenues grow, management expects the economic dependence on any specific customer to be reduced.

In 2004, approximately 95% of the Corporation's revenues were recurring revenues (e.g., revenues from monthly management fees, membership fees and transaction fees) and 5% were from non-recurring sources (e.g., one-time Web development and integration fees). In 2004, recurring revenues grew by 58% year-over-year, and non-recurring revenues shrank by 67%. Management of the Corporation believes that, in the long term, focusing on growing recurring revenues, which generate revenues for both the partners and Points.com, is in the best interests of the Corporation.

Revenues	2004	2003	2002
Recurring revenues	$ 7,400,243	$ 4,686,614	$ 1,868,631
Non-recurring revenues	391,348	1,172,090	499,661
TOTAL REVENUE	**$ 7,791,591**	**$5,858,704**	**$ 2,368,292**

Management recognizes that the Corporation must eventually achieve profitability through revenue growth and cost management. As significant resources have and will be allocated to the launch of Points.com version 3.0, management now expects that Points International's revenues will exceed its general and administrative costs in 2006.

Revenue Growth

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

Growth in Use of the Points Solutions

The suite of Points Solutions experiences revenue growth based on the number of loyalty program partners and consumer members who participate in the various programs.

Partner Summary – Total Number of Partners (1)

Number of Partners as at	2004	2003	2002
Points.com	45	35	25
Points.com Business Solutions (2)	21	12	6
Cumulative Points Transacted (000,000's)	7,944	3,027	873

Notes: (1) Partners may be included in both Points.com Business Solutions and Points.com.
(2) Includes seven additional partners acquired in the MilePoint Acquisition as at March 31, 2004.

Points.com Growth

The current Points.com business model is dependent on the number of consumer members paying for a Points.com Points*Plus* membership and/or completing a Swap transaction. The number of consumers that will conduct a transaction is driven by three factors: Web site usability and enhancements; marketing (awareness and brand); and partner activity. As the Corporation is preparing to launch the updated version of the Web site, Points.com version 3.0, there have been only moderate changes in the usability and marketing of the existing Web site in the past two quarters. However, progress has continued in expanding and improving Points.com's partner mix. The number of loyalty program partners added and their industry mix are two important elements in the growth of Points.com because they directly impact the consumer's value proposition. Said differently, the more loyalty programs that a consumer participates in that are also Points.com partners, the greater the opportunity for that consumer to maximize the value of his or her collective loyalty programs. The number of loyalty programs participating on Points.com has increased by 29% since December 31, 2003 and 80% since December 31, 2002. See page 18, "Growth in Use of Points Solutions" for a summary of growth in the number of partners. Management expects to continue to round out the partner industry mix and add new partners in 2005.

Management believes that the development and launch of Points.com version 3.0 will add a number of new features and improved functionality to the Web site. This functionality will incorporate new revenue streams into the Points.com business model by improving consumers' ability to manage and derive value from their loyalty program universe. The launch of Points.com version 3.0 is also an opportunity for the Corporation to begin to market and merchandise to its consumer base. Marketing programs are expected to begin testing in the second quarter of 2005 and ramp up during the course of the third and fourth quarters.

Points.com Business Solutions Growth

The Points.com Business Solutions have been designed with each partner's look and branding. As a result, the Corporation has little impact on driving traffic and transactions through its partners' Web sites. However, Points International has seen continuous growth in the products since each launch. Management expects this trend to continue for new and existing Points.com Business Solutions.

Points.com Business Solutions **metrics as at**	2004	2003	2002
Total Unique Partners (1)	21	12	6
Total *Points.com Business Solutions* (2)	55	30	17

Notes: (1) Includes seven additional partners acquired in the MilePoint Acquisition as at March 31, 2004.
(2) Includes 17 additional products acquired in the MilePoint Acquisition as at March 31, 2004.

Points.com Business Solutions (1)(2) Number of Products as at	2004	2003	2002
Buy	16	9	6
Gift	16	8	6
Transfer	5	2	1
Corporate	8	4	2
Elite	2	2	1
Systems Design	4	2	0
Integrate (3)(4)	4	3	1
TOTAL *POINTS.COM BUSINESS SOLUTIONS*	**55**	**30**	**17**

Notes: (1) Includes products sold to new and existing customers.
(2) Includes 17 additional products acquired in the MilePoint Acquisition as at March 31, 2004.
(3) Each *Integrate* partner will have third parties integrated into its technology platform.
(4) There are 24 existing partner integration add-ons among the four *Integrate* partners as at Dec. 31, 2004.

Sources of Revenue Growth

Approximately 97% of the Corporation's revenue in 2004 (94% in 2003) is generated through its Points Solutions, which have two primary sources for growth: growth and increased use of existing contracted Points Solutions; and the development of new contracted Points Solutions. The remaining 3% of revenues is interest income.

Percentage of Revenues by Source	2004	2003	2002
Existing *Points Solutions* (including growth of existing solutions)	70%	66%	63%
New contracted *Points Solutions* with new and existing partners (1)	30%	34%	37%

Note: (1) Includes 17 additional products acquired in the MilePoint Acquisition as at March 31, 2004.

Existing Points Solutions

The large majority of existing products that Points International operates, including those on behalf of partner loyalty programs, continue to grow through increased consumer awareness, consumer adoption and loyalty program growth. As Points International earns transaction fees or commissions on the majority of these products and as the products continue to grow, the Corporation expects to continue to derive significant revenues from its existing products.

Revenues from existing Points Solutions grew by 45% from $3.63 million in 2003 to $5.26 million in 2004 (i.e., 70% of the total Points Solutions revenue). Management expects this trend to continue as the base of existing products continues to grow.

New Contracted Points Solutions

Selling additional Points Solutions is an important source of new revenue. New Points Solutions sold to loyalty program partners grow the base of products being managed and therefore the existing revenue base and, in the case of sales to new loyalty program partners, provide an opportunity to place additional Points Solutions with the same partner. Revenues from new Points Solutions during the year grew from $1.87 million in 2003 to $2.30 million in 2004.

Points International has grown the number of products placed with partners from 30 to 55 as at December 31, 2004 from December 31, 2003. In addition, 24 third-party integrations have been implemented with four Integrate partners.

Management believes that the suite of Points Solutions is applicable to all large loyalty program partners and will continue to focus business development resources on both the sale of new products to current partners and on sales to new partners. Management is continuing to focus on expanding the Points.com partnership base in 2005 across various loyalty markets. In particular, Points International will continue to focus on new partnerships in the financial services, airline, hotel, retail, car rental, and online categories throughout 2005.

Projected revenues for 2005 attributed to the deployment of new Points Solutions are more difficult to project than growth in existing Points Solutions. Future revenue growth is still substantially dependent on generating new contracts for the suite of Points Solutions products. While management expects continued business development success, there is no certainty that Points.com will continue with its past success of acquiring new contracts with new or existing partners.

Other Factors Contributing to Revenue Growth

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

Interest Income

The Corporation earned interest income of $231,579 for the 2004 fiscal year, compared with $355,960 in 2003. The decrease in interest income year over year is largely a function of reduced cash reserves, the strengthening U.S./Canadian foreign exchange rate, the shorter duration of the investment portfolio and the subsequently lower average yield of the investments. Management expects the interest income to continue to decline in the short term as cash reserves are reduced as a consequence of the MilePoint Acquisition and growth of its operations. Interest income is a function of the Corporation's cash balances and the prevailing interest rates. Canadian cash reserves are invested in a combination of short-term liquid assets and short-term bonds. The bond and money market portfolio has a duration of less than two years. Foreign currency continues to be invested in short-term and money market instruments. Points International cash and short-term investments are valued quarterly at the lower of cost and market value. In the long term, as Points International business continues to grow, cash reserves and related interest income are also expected to increase, although this growth is not expected to be a material portion of the Corporation's revenue going forward. Interest rates will continue to influence interest earnings. The Corporation's bond portfolio is exposed to financial risk that arises from the credit quality of the underlying bond issuers. The Corporation seeks to mitigate the credit risk by diversifying its bond holdings and only investing in securities with a credit rating of "A" or higher. A summary of the Corporation's investments is as follows:

As at Dec. 31, 2004	Yield % (2)	Credit Rating	C$ Total	US$ Denominated	Other Denominated
Cash held at bank (1)	1.01	n/a	$ 13,209,873	$ 8,534,329	€ 1,113,558 GBP 318,990 CHF 12,029
Money market securities	2.28	R1-High	544,945	n/a	n/a
Bonds (3)	3.11	A - AAA		n/a	n/a
TOTAL			**$ 13,754,818**	**$ 8,534,329**	

Notes: (1) C$ Total represents total cash held at bank inclusive of all denominations; US$ Denominated and Other Denominated currencies are a subset of the C$ Total and are represented in their local currency amount.

(2) Yield as at December 31, 2004.

(3) Bond yield is calculated as the simple average of the portfolio's semi-annual yield to maturity.

Foreign Exchange Rates

The translation of the Corporation's revenues and expenses is, and will continue to be, sensitive to changes in the U.S./Canadian foreign exchange rates ("FX Rates"). Changes to FX Rates will have greater impact on the Corporation's revenues than on its expenses as approximately 92% of the Corporation's revenues are in U.S. dollars and the remaining 8% are split between Canadian dollars, Euros, British Pounds and Swiss Francs. Management expects that the percentage of U.S. dollar-based revenues will not decrease significantly in 2005. Approximately 69% of the Corporation's general and administrative expenses were in Canadian dollars, 28% were U.S. dollar-based and 3% were based in other foreign currencies. The Corporation does not have material foreign exchange risk with its cash expenses as it has sufficient foreign currency reserves to meet its foreign obligations.

The average FX Rate (the 12-month average rate) with which revenues and expenses are translated into Canadian dollars has declined relative to the fiscal year 2003 The FX rate differential was negative and resulted in 11% lower revenue growth, or approximately $905,500, offset by a 3.5% decrease in expense growth, or approximately $426,000.

U.S./Canadian FX Rates	2004	2003	2002
Period Start	1.297	1.573	1.592
Period End	1.205	1.295	1.577
Twelve Month Average	1.299	1.460	1.570

Growth of Loyalty Program Industry

The Economist reported on the growing importance of loyalty programs in an article from its May 2, 2002 issue, entitled "Fly me to the moon", noting that on an annual basis, airlines sold "roughly US$10 billion worth of miles to partners, such as credit card firms". In another article (entitled "Frequent-flyer economics", from the same issue), *The Economist* reported that "frequent-flyer miles started as a marketing gimmick, but they have become a lucrative business", and that "roughly half of all miles are now earned on the ground, not in the air". In an updated article, dated January 6, 2005, and titled "In Terminal Decline, The dollar has already been toppled as the world's leading currency", *The Economist* reported that by the end of 2004, "the world-wide stock of unredeemed frequent-flyer miles is almost 14 trillion miles. . . and the total global stock of frequent-flyer miles is worth over US$700 billion".

Management understands that members of loyalty programs are much more likely to utilize Points.com and the other products from the suite of Points Solutions when they are close to a level at which they can redeem an award. The redemption level for an award varies by type of award (for example, a business-class flight takes more miles than an economy-class flight) and by program type (the "cost" of a flight typically starts between 15,000 and 25,000 miles whereas a night in a hotel starts at 10,000 points). Therefore, growth in consumer loyalty program account balances will create demand for Points Solutions. Growth in program balances is a function of growth in the number of programs, the number of participating consumers and the number of consumers moving through a loyalty redemption (for example, receiving an award of some type).

Several respected periodicals estimate strong growth in the popularity of and participation in loyalty programs. For example, in addition to *The Economist*, cited above, according to the "frequent-flyer facts" section of the Web site of *InsideFlyer* magazine (www.webflyer.com), a leading publication for members of frequent traveler programs:

> loyalty programs grow at a rate of 11% per annum, with over 120 million members worldwide. While there are about 92 frequent-flyer/guest programs in the world, *American AAdvantage*, the largest frequent-flyer program in the world, began with 283,000 members in 1981 and has grown to more than 45 million members. [sic]

Results of Operations – General and Administrative Expenses

General and Administrative Expenses

General and administrative expenses increased by 52% relative to 2003. Material changes in expenses will be described in each section below.

General and Administrative Expenses	2004	2003	2002
Employment Costs (1)	$ 7,119,165	$ 5,186,899	$ 4,004,093
Technology Services (2)	931,804	803,222	1,042,427
Marketing and Communications	1,503,381	386,512	120,861
Sales Commission and Related Expenses	418,508	238,730	59,138
Other (3)	2,257,795	1,414,108	1,714,550
TOTAL	**$ 12,230,652**	**$ 8,029,471**	**$ 6,941,069**

Notes: (1) Wages and employment costs include salaries, employee stock option expense, contract labour charges, recruiting, benefits and government charges (CPP and EI).
(2) Technology expenses include online hosting and managed services, equipment rental, software licenses and capital lease expenses.
(3) Other expenses include foreign exchange losses (or gains), travel expenses, professional fees, insurance, office rent and expenses and regulatory expenses.

As the Corporation is still in the process of increasing loyalty program participation in and sales of the Points Solutions, significant resources continue to be required. While management has made controlling costs a priority, costs and/or capital expenditures will continue to increase in 2005. Management expects the general and administrative expenses in 2005 to be higher than in 2004. The Corporation will continue to scale its infrastructure, add new partners to its suite of products and move from trial/test marketing to a more comprehensive marketing and branding program.

The Corporation still expects that a series of significant marketing and branding programs will begin in mid 2005 to support the launch of Points.com version 3.0. The actual expense incurred will be a function of the types of marketing media employed and incentives offered, as well as the timing of the programs' launch dates. If actual revenue growth projected from the marketing plan does not meet expectations, the expenditures can either be reduced or reallocated to more successful programs.

Employment Costs

Employment costs increased by 37% in 2004 versus 2003. A large portion of the increase in 2004 (19%) is from a change in accounting policy resulting in $362,343 of expenses relating to employee stock options. Effective January 1, 2004, the CICA handbook, Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" was amended to require expense treatment of all stock-based compensation and payments for options granted beginning on or after January 1, 2002. 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. As permitted by this standard, this change in accounting policy has been applied retroactively without restatement of the prior years' financial statements; amounts charged to opening retained earnings for costs relating to 2002 and 2003 are $63,148 and $126,206, respectively.

	2004	2003	2002
Employee Stock Option Expense	$ 362,343	$ 126,206 (1)	$ 63,148 (1)

Note: (1) 2002 and 2003 Employee Stock Option Expense represents the pro-forma impact to the general and administrative expenses.

As at December 31, 2004, the Corporation had 79 full-time employees (including three contractors replacing employees on temporary leaves of absence) and three short-term contractors.

Headcount (1) by Department as at	2004	2003	2002
Technology	43	41	26
Finance and Administration	13	10	2
Business Development	8	8	7
Marketing and Customer Service	15	5	2
TOTAL (2)	**79**	**64**	**37**

Notes: (1) Headcount includes active employees and contractors covering a leave of absence for full-time positions within the departments.
(2) In addition to the full-time positions employed, the Corporation had three short-term contractors on staff at December 31, 2004.

During 2004, 15 employees joined the Corporation. Twelve of the 15 new hires, and several existing employees, are directly dedicated to the Points.com version 3.0 technology development and ongoing maintenance. Employment costs increased as a result of a 42% increase in average number of employees in 2004 (72 versus 51 in 2003).

Total employment costs in 2005 will grow as the Corporation maintains its existing employee base throughout the year. The Corporation expects there will be minimal growth in headcount throughout 2005.

Technology Services

Technology Services expenses increase in increments based on business growth and product performance. As Technology Services costs are a function of the number of partners and Points Solutions products, these costs grow as revenue grows. In general, as loyalty program partners and products are added to the infrastructure and transactional volume increases, additional servers, processors, bandwidth, memory, etc., are required to provide a secure and robust production environment. The year 2004 saw an increase of $128,581 (16%) as additional services were required for new products associated with the MilePoint Acquisition and the expansion of other Points Solutions. Management expects these costs to grow marginally in 2005 with the continued expansion of Points Solutions. Products launched and loyalty program partners acquired are the key drivers of Technology Services expenses.

Marketing and Communications

Marketing costs increased by $1,116,869 (289%) relative to 2003 as more promotions were in the market during the year. New marketing initiatives were launched in the latter half of the second quarter and ramped up in the third and fourth quarters to begin testing and refining the sensitivities of customer click-through rates, the cost to acquire registered users and the cost to convert registered users to paid members at Points.com. The major drivers of this increase are an increase in the use of promotional and bonus miles for paid memberships, promotional miles to generate transactional activity, public relations expenditures, and increased partner marketing initiatives to test and measure marketing responsiveness.

The Corporation expects to increase its marketing expenditures at the beginning of the second quarter in 2005, to support the launch of Points.com version 3.0. The marketing and branding foundation built in 2004 has made it possible to expand audience reach and effectively execute large-scale, multi-channel promotions. Advertising expenditures will continue to be focused on partner media, as well as online media. This approach dovetails with business development strategies and is the most cost-effective means of reaching the Corporation's target audience. It is anticipated that marketing and communication expenses could increase substantially if the programs are successful at customer acquisition and retention. If the programs do not meet management's expectations in driving revenue growth, marketing expenses can be eliminated or reallocated in the short term.

Management expects that the results of the carefully planned marketing strategy will accelerate Points.com activity.

Sales Commissions and Expenses

Sales commissions and expenses have increased by $179,778 (75%) over 2003. Sales commissions will continue to vary according to partners contracted and the growth of existing products. The increase in 2004 relates primarily to the additional products acquired through the MilePoint Acquisition and growth in existing Points Solutions.

Other Operating Expenses

Other operating expenses include office overhead, travel expenses, professional fees and foreign exchange gain and/or loss. Other operating expenses increased by $843,687 (60%) in 2004 relative to 2003. Approximately 5% of the increase relates to the foreign exchange loss from re-valuing certain balance sheet accounts (e.g., U.S. dollar-denominated cash and U.S. dollar-denominated deposits). Each quarter, certain balance sheet accounts are re-valued in accordance with the period-ending FX Rate. To the extent that the foreign denominated assets and liabilities are not equal, the net effect after translating the balance sheet accounts at the period-ending FX Rate is accounted for as a foreign exchange gain or loss on the income statement. Management has no control over the foreign exchange gain or loss from one period to the next.

Excluding the foreign exchange gain and loss, other operating expenses increased by almost $750,000 compared to 2003. The following items represent the major variances: relocation to larger facilities resulted in $255,000 in additional rent and other related expenses; legal and securities fees associated with the move from the TSX Venture Exchange to the TSX amounted to approximately $150,000 in additional expenses; legal fees associated with international contracts amounted to $150,000; and other expenses related to an increase in employees were $165,000 of the increase. Management expects other operating expenses (excluding foreign exchange gain and loss) to remain stable in 2005.

Other Operating Expenses	2004	2003	2002
Foreign Exchange Gain/Loss [1]	$ 74,901	$ 30,216	$ 25,450
Other Operating Expenses	2,182,894	1,383,892	1,689,100
TOTAL	**$ 2,257,795**	**$ 1,414,108**	**$ 1,714,550**

Note: (1) See definition on page 25, "Other Operating Expenses."

Results of Operations – Non-Cash Expenses

Forward-looking statements contained in this section with respect to future expenses of the Corporation are not guarantees of such future expenses and involve certain risks and uncertainties that are difficult to predict. Any changes in the Corporation's amortizing assets will subsequently change the Corporation's amortizing expenses.

Amortization Expenses

The Corporation recorded amortization expenses of $2,322,749 in 2004 compared to $2,877,321 for the year ending December 31, 2003. The decrease was attributed to the charges outlined in the following table:

Amortization Expenses	2004	2003	2002
Deferred Costs	$ 601,319	$ 531,914	$ 328,760
Intangible Assets	1,408,813	756,201	567,150
Property, Plant and Equipment	312,617	1,589,206	1,512,890
TOTAL	**$ 2,322,749**	**$ 2,877,321**	**$ 2,408,800**

Amortization of Deferred Costs

Deferred Costs	2004	2003	2002
Amortization	$ 601,319	$ 531,914	$ 328,760

Charges incurred in respect of certain financings are deferred and charged to income on a straight-line basis over an applicable time period. Deferred finance charges represent legal, accounting and other related fees incurred to obtain the financings. Points International has incurred deferred costs in connection with the following financial transactions:

a. In prior quarters, Points International reported deferred financing charges in connection with the 11% $6,000,000 senior secured convertible debenture (the "Debenture") issued to CIBC Capital Partners. The first quarter of 2004 was the final amortization period for the deferred costs associated with the Debenture.

b. The Corporation reports deferred financing charges in connection with the Series Two Preferred Share issued pursuant to the IAC Investment, as this financial instrument is also classified as debt. The Series Two Preferred Share has 33 amortization quarters remaining.

c. In consideration of the value to the Corporation of the Alignment Agreement with American Airlines, the Corporation issued 2,196,635 Common Shares to American Airlines valued at $2,240,568. The Common Shares have been classified as deferred costs and will be amortized over a five-year period. There are 15 amortization quarters remaining.

d. Selected Points.com Business Solutions technology costs incurred ($123,390) have been deferred over the expected lifetime of certain partner relationships. The two relationships have eight and nine amortization quarters remaining.

Amortization of Intangible Assets

The excess of the cost over the value attributed to the underlying net assets of the shares of Points.com acquired in 2002 is amortized on a straight-line basis over a period of three years. The increase in the amortization expense of intangible assets which started in the second quarter is related to the intangible assets (i.e., partner contracts) acquired through the MilePoint Acquisition (see "Commitments Related to MilePoint Acquisition" on page 34 for additional information). Goodwill related to the acquisition will not be amortized. If the assets are deemed to have become impaired, the goodwill will be written off in the appropriate period.

Intangible Assets	2004	2003	2002
Amortization	$ 1,408,813	$ 756,201	$ 567,150

Amortization of Property, Plant and Equipment

The decrease in the amortization expenses in 2004 reflects the fact that certain assets have been amortized to a zero cost base.

Property, Plant and Equipment	2004	2003	2002
Amortization	$ 312,617	$ 1,589,206	$ 1,512,890

Other Non-Cash Expenses

Interest on Convertible Debenture

Accrued interest on any principal amount of the Debenture that is converted into Common Shares ceases to be payable. In addition, in the event that an exercise of the Warrants (as defined in "IAC Investment" on page 28 herein) results in a change of control of Points International, accrued interest on the Debenture will be waived and the principal amount of the Debenture will be repayable within 30 days. See "Commitments Related to the Terms of Certain Financing Arrangements" on page 32 herein.

Interest on Convertible Debenture	2008	2007	2006	2005	2004	2003	2002	2001
Accrued Interest ($000's)	257	1,209	1,089	981	884	854	660	522
Debenture Value ($000's)	12,456	12,200	10,990	9,902	8,920	8,036	7,183	6,522

Interest on the outstanding principal amount of the Debenture accrues at a rate of 11% per annum. Interest compounds on an annual basis on the day immediately prior to each anniversary of the original issue date, being March 15, 2001. Thereafter, interest accrues on such compounds at the rate of 11% per annum.

Interest on the Series Two Preferred Share

Interest on Series Two Preferred Share	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Accrued Interest ($000's)	244	868	868	868	868	868	868	868	868	868	624
Series Two Preferred Share Value ($000,000's)	21.1	20.8	19.9	19.1	18.2	17.3	16.5	15.6	14.7	13.9	13.0

Results of Operations – Earnings and Shareholder Equity

Loss

The Corporation reported a net loss of $8,808,284 for the fiscal year 2004, compared with a net loss of $6,536,191 for the fiscal year 2003.

Shareholder Equity

The deficit in shareholder equity increased from $5,222,809 at December 31, 2003 to $8,935,826 at December 31, 2004. The increase was a result of the net loss for the period of $8,808,284, offset by an increase in capital stock issued during 2004.

Loss Per Share

The Corporation's loss per share is calculated on the basis of the weighted average number of outstanding Common Shares for the period, which amounted to 67,744,345 shares at December 31, 2004, compared with 58,823,652 shares at December 31, 2003.

The Corporation reported a net loss of $0.13 per share for the year ending December 31, 2004, compared with a net loss of $0.11 per share for the year ending December 31, 2003. For 2004 and 2003, the impact on the loss per share of the 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). Therefore, in accordance with GAAP, fully diluted loss per share is not provided. The fully diluted calculation for both 2004 and 2003 would have otherwise included Common Shares underlying outstanding securities, such as options, warrants and preferred shares convertible or exercisable to acquire Common Shares.

Liquidity

Overview of Liquidity

Management views liquidity as the Corporation's ability to generate sufficient cash (or cash equivalents) to meet its obligations as they become due. Balance sheet liquidity indicators provide management with a test of the Corporation's current liquidity. Balance sheet indicators of liquidity include cash, accounts receivable and accounts payable. Earnings (loss) before interest, amortization and other deductions ("EBITDA") are the key indicators of the change in the liquidity of Points International operations over a defined period of time. As the Corporation continues to add contracts to its portfolio of Points.com Business Solutions and to Points.com, revenues are expected to grow, resulting in increased liquidity.

EBITDA

Management believes that EBITDA is an important internal measure and financial benchmark for its shareholders because it is a recognizable and understandable measure of the Corporation's cash burn or growth, and is a standard often scrutinized by investors in small to mid-capitalization companies. For example, the Corporation has incurred large non-cash expenses (depreciation and amortization) over the past several fiscal years that distort the financial and strategic gains the Corporation has made. Primarily as a result of the Points.com version 3.0 related expenditures, including those costs that are not capitalized, management expects that the Corporation's revenues will exceed its general and administrative costs in 2006.

For the year ending December 31, 2004, the Corporation's EBITDA was ($4,439,061). This compares with EBITDA of ($2,170,767) for the year ending December 31, 2003.

IAC Investment

The following is a general summary of the terms of the IAC Investment. More comprehensive disclosure of the IAC Investment is contained in Points International's Material Change Report dated March 21, 2003, which is incorporated by reference herein. See also "Commitments Related to the Terms of Certain Financing Arrangements" on page 32 below.

Under the IAC Investment, Points International issued one convertible preferred share (the "Series Two Preferred Share") and Common Share purchase warrants (the "Warrants") for aggregate cash consideration of $12.4 million and $2.7 million, respectively. Based on the Corporation's capitalization as at the date hereof, the Series Two Preferred Share is convertible, for no additional consideration, into 19,999,105 Common Shares. The Warrants are exercisable for three years from their date of issue (April 11, 2003) to acquire up to 55% of the Common Shares of Points International (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 the Corporation's current capitalization, the Warrants are exercisable to acquire 83,532,599 Common Shares at an effective price per Common Share of $1.03 between April 11, 2004 and April 10, 2005 and $1.15 between April 11, 2005 and April 10, 2006 (resulting in an additional investment by IAC in Points International, if exercised in full and depending on the year of exercise, of up to approximately $86.2 million or $95.7 million). Each of the Series Two Preferred Share and the Warrants contain anti-dilution protection provisions.

Cash and Current Assets

The Corporation had consolidated cash and cash equivalents of $13,754,818 at December 31, 2004, compared to $20,274,836 at December 31, 2003, and $7,341,700 at December 31, 2002.

As at	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2002
Cash and Cash Equivalents	$ 13,754,818	$ 20,274,836	$ 7,341,700
Accounts Receivable	2,024,342	1,004,370	267,632
Prepaids and Sundry Assets	1,229,091	825,221	657,367
TOTAL CURRENT ASSETS	**$ 17,008,251**	**$ 22,104,427**	**$8,266,699**

Cash and cash equivalents decreased by $6,520,019 from December 31, 2003. The primary reasons for the decrease in cash relative to 2003 were related to the operating loss for the year, expenditures on capitalized costs directly attributable to Points.com version 3.0, expenditures on capital assets and the MilePoint Acquisition.

Cash from Exercise of Certain Warrants and Options

Certain "in-the-money" warrants and options are due to expire within 12 months. Assuming that the market price of the Common Shares remains above the exercise price of these securities, management expects the securities to be exercised. If exercised in full, the proceeds from the exercise of these securities would increase cash by approximately $1.1 million. Assuming the exercise in full of these securities, issued and outstanding Common Shares would increase by over 8.6 million shares.

Securities with Near-Term Expiry Dates – Outstanding Amounts as at December 31, 2004

Security Type	Expiry Date	Number	Strike Price	Proceeds
Warrants	7/18/2005	166,667	$ 0.25	$ 41,667
Points International Ltd. Options	2/14/2005	1,752,000	0.50	876,000
Points International Ltd. Options	3/14/2005	201,400	0.50	100,700
Points International Ltd. Options	8/22/2005	25,000	0.69	17,250
Options in subsidiary with liquidity put	2/17/2005	627,479	Fair Market Value	13,783
Options in subsidiary with liquidity put	3/31/2005	4,500,321	Fair Market Value	72,272
Options in subsidiary with liquidity put (1)	7/9/2005	802,433	Fair Market Value	8,892
Options in subsidiary with liquidity put (1)	8/13/2005	355,803	Fair Market Value	7,816
Options in subsidiary with liquidity put (1)	8/20/2005	200,312	Fair Market Value	4,400
TOTAL		**8,606,415**		**$ 1,130,280**

Note: (1) The Corporation currently intends to seek regulatory and shareholder approval for a two-year extension of the expiry date of certain options held in the subsidiary with a liquidity put right.

Subsequent to quarter end, and as at March 8, 2005, the following securities have been exercised or expired:

Security Type	Expiry Date	Number	Strike Price	Proceeds
Points International Ltd. Options - expired	2/14/2005	25,000	$ 0.50	$ –
Points International Ltd. Options - exercised	2/14/2005	1,727,000	0.50	863,500
Points International Ltd. Options - exercised	3/14/2006	25,000	0.50	12,500
Points International Ltd. Options - exercised	5/7/2006	13,750	0.56	7,700
Points International Ltd. Options - exercised	2/8/2007	3,000	0.27	810
Points International Ltd. Options - exercised	6/26/2007	80,000	0.25	20,000
Options in subsidiary with liquidity put - exercised (1)	2/17/2005	439,686	0.02	30,283
Points International Ltd. Options - exercised	3/31/2005	751,170	0.02	16,500
TOTAL		**3,064,606**		**$ 951,293**

Note: (1) Excludes a conditional exercise of 1,050,684 options to acquire shares in Points.com Inc. which have been conditionally exchanged for 2,630,808 shares of the Corporation. The exercise is conditional on the Corporation not receiving shareholder and regulatory approval to extend the expiry dates of the options (see "PCI Option Resolution", in the Corporation's Management Information Circular for additional information).

Accounts Receivable

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

Ability to Fund Future Growth

In 2004, the Corporation had cash flows used in operating activities of ($2,352,995) after changes in non-cash balances related to operations. Management is confident that the Corporation's cash position is adequate to cover operating expenses in the short term, even if revenue growth is slower than planned, and expects that the revenue from Points Solutions will generate sufficient cash to maintain capacity in the short term and grow capacity and resources in the long term. However, the Corporation is currently not generating an operating profit (revenues minus general and administrative expenses) and cannot be assured that revenue growth will be sufficient to meet its current liabilities, including the repayment of the Debenture, as they come due.

See also "Maturity of the CIBC Capital Partners' Debenture" on page 33 for additional information.

Long-Term Investment

The Corporation's investment in ThinApse Corporation was written off in 2004, resulting in an expense of $161,629. For more information, refer to Note 5 of the Corporation's Audited Consolidated Financial Statements for the year ended December 31, 2004.

Property, Plant and Equipment

The Corporation reported an increase in property, plant and equipment in 2004 due to the capitalized costs of Points.com *version 3.0* and an increase in office computer equipment and leasehold improvements related to the corporate move to new facilities. Refer to "Planned Capital Expenditures" on page 36 for additional information. Existing technology costs under capital lease are depreciated on a straight-line basis over three years. Management continues to make controlling the Corporation's technology costs a priority and has initiated a number of prudent cost containment initiatives in 2004.

Additional leasehold improvements at the Corporation's new facility will increase property, plant and equipment and the corresponding amortization in 2004 and beyond.

As at	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2002
Furniture and equipment	$ 294,615	$ 124,868	$ 139,523
Computer equipment	308,003	206,494	98,013
Software	70,612	105,762	134,300
Technology costs	10,164	23,782	1,307,260
Points.com Version 3.0 Direct Development Costs	860,286	-	-
Leasehold improvements	515,602	52,817	85,104
TOTAL PLANT, PROPERTY AND EQUIPMENT	**$ 2,056,282**	**$ 513,723**	**$ 1,764,188**

Goodwill and Intangible Assets

The MilePoint Acquisition resulted in $3,740,000 allocated to amortizing intangible assets and $3,910,000 ($3,710,000 from goodwill and $200,000 for other costs and deductions) to goodwill. In accordance with CICA handbook, Section 3062, goodwill will not be expensed unless it is deemed to have become impaired. In accordance with GAAP, management has selected March 31, 2005, as the anniversary date of the transaction and will therefore test the acquisition goodwill for impairment at that time.

In the year 2004, $584,585 of charges relating to incremental transition services and additional direct costs related to the MilePoint Acquisition were incurred and charged to goodwill.

Current Liabilities

Current liabilities at December 31, 2004 were $24,775,900, compared with $11,643,244 at December 31, 2003. The increase was primarily related to the reclassification of the Debenture from long-term liabilities to current liabilities, the increase in deposits and accounts payable related to the growth in the operations, and the liability relating to the MilePoint Acquisition. See page 33, "Maturity of the CIBC Capital Partners' Debenture" for additional information regarding the solvency risks associated with repayment.

Through arrangements with partner loyalty programs such as those for Buy and Corporate products, the Corporation 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 sale of loyalty program points, net of the commissions earned, are included in deposits and deferred revenue in the attached consolidated balance sheets until ultimately remitted. The level of deposits is influenced by partner activity and trends in the overall loyalty industry. As activity increases, the Corporation's deposits increase. The Corporation expects deposits to increase as it experiences growth with existing partners, establishes new partner relationships and integrates the assets from the MilePoint Acquisition. The three key customers, measured by revenue, represented approximately 61% (December 31, 2003 – 58%) of the Corporation's deposits.

Current Liabilities as at	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2002
Accounts payable and accrued liabilities	$ 1,894,599	$ 1,187,598	$ 1,017,955
Deposits	13,153,623	10,455,646	8,946,631
Current portion of obligation under capital lease	-	-	407,128
Current portion of loan payable	29,860	-	-
Current portion of acquisition loan payable	777,443	-	-
Debenture	8,920,373		
TOTAL CURRENT LIABILITIES	**$ 24,755,900**	**$ 11,643,244**	**$ 10,371,715**

The December 31, 2004 accounts payable and accrued liabilities include 2004 employee bonus accruals to be paid in March 2005, and other accrued charges. The Corporation has sufficient foreign currency reserves to meet its foreign currency obligations and, as such, does not utilize any hedging or other strategies involving interest rate or currency derivatives.

Working Capital

Working capital (defined as current assets minus current liabilities) has declined from $10,461,182 in 2003 to ($7,767,648). See pages 28 through 31 for additional information regarding the Corporation's current assets and current liabilities. As the Corporation increases the rate of expenditures to successfully launch Points.com version 3.0, it is highly likely that working capital will remain negative in 2005. The Corporation believes that it can fund its operations while it is in a negative working capital position in 2005. Management expects that, through growth of its products, working capital will improve in 2006. See page 8 "Risk Factors" of the Corporation's AIF, for additional information.

Long-Term Liabilities and Commitments

Future Obligations (000,000's)	Payments due by period (aggregate amount for multi-periods)					
	Total [1]	2009+	2008	2007	2006	2005
Long-Term Debt [2] (non-cash until repayment)	$ 9.41	$ -	$ -	$ -	$ -	$ 9.41
Series Two Preferred Share (non-cash until repayment)	21.08	16.12	0.87	0.87	0.87	0.87
Loan Payable	0.11	-	0.01	0.03	0.03	0.03
Operating Leases [3]	1.61	0.01	0.10	0.36	0.39	0.75
Partner Purchase Commitments [4]	4.16	0.33	0.43	1.36	1.08	0.96
MilePoint Acquisition [5]	1.48	-	-	-	0.40	1.08
Total Contractual Obligations	**$ 37.85**	**$ 16.46**	**$ 1.40**	**$ 2.62**	**$ 2.77**	**$ 13.10**

Notes: (1) Represents the aggregate amount for the full duration of the contractual obligations (including years post 2009 and prior to 2005).

(2) The Debenture is due on July 4, 2005. The holder of the Debenture has the right to extend the term, in increments, to March 15, 2008. See page 27 "Interest on Convertible Debenture" for a summary of payments to be made with respect to the Debenture.

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

(4) Includes mileage purchase and co-marketing commitments, see page 34 "Partner Purchase Commitments."

(5) Cash commitments related to the MilePoint Acquisition include the payments relating to the acquisition and anticipated transition costs of $285,000.

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

Commitments Related to the Terms of Certain Financing Arrangements

Background

On March 15, 2001, Points International issued to CIBC Capital Partners, a division of Canadian Imperial Bank of Commerce ("CIBC Capital Partners"), the 11% $6,000,000 Debenture, which was amended and restated on February 8, 2002 and April 11, 2003 and further amended on December 9, 2004. The full principal amount of the Debenture was set to mature on March 15, 2004. However, in December 2004, CIBC Capital Partners exercised its right to extend the maturity date until July 4, 2005. CIBC Capital Partners has the option, exercisable by March 31, 2005, to extend the maturity date through March 15, 2006 and thereafter, has the right to extend the maturity of the Debenture for up to two additional one-year periods. Accrued interest on the Debenture as of December 31, 2004 is $2,920,373 and is included with the Debenture as a current liability in the consolidated balance sheet.

In certain circumstances, the $6,000,000 principal amount of the Debenture is convertible at the option of CIBC Capital Partners into up to 18,908,070 Common Shares. Accrued interest on any principal amount as converted ceases to be payable. The Debenture will also automatically convert in full into Common Shares immediately preceding certain liquidity events. The Debenture contains certain negative covenants in favour of CIBC Capital Partners.

As part of the reorganization of Points International completed on February 8, 2002, the Corporation issued to CIBC Capital Partners one preference share (the "Series One Preferred Share"). The holder of the Series One Preference Share is entitled to a dividend (the "Dividend") in the event that, prior to an automatic conversion of the Debenture, (i) there is a merger or consolidation of Points International (or a subsidiary of Points International which owns all or substantially all of the assets of Points International) with another corporation where, following such event, the shareholders of Points International will not hold at least a majority of the voting power of the surviving/acquiring corporation, (ii) any person (other than CIBC Capital Partners) or persons acting jointly or in concert acquire 50% voting control or 50% of the equity of Points International (a "Change of Control"), or (iii) there is a sale of all or substantially all of the assets of Points International. The Dividend is approximately equal to $4,000,000 plus an amount calculated on the basis of a notional dissolution of the Corporation where the holder of the Series One Preference Share is entitled to share pro-rata (on the basis that the Series One Preference Share represents that number of Common Shares into which the Debenture is then convertible) with the holders of all other participating shares in distributions from the assets of Points International and assuming, for this purpose, that the value of the assets of Points International available for distribution on this notional dissolution is the value attributable to the equity of Points International implied by the transaction giving rise to the dividend event, as adjusted for the value of non-Common Share equity not valued in the transaction giving rise to the Dividend. In no event may the Dividend exceed $24,000,000. Where an event occurs giving rise to the Dividend, CIBC Capital Partners is entitled to accelerate all amounts owing under the Debenture.

In connection with the IAC Investment, the Debenture was amended such that (i) the Debenture is repayable (without accrued interest, the repayment of which is waived) by Points International within 30 days of a Change of Control of Points International resulting from the exercise of the Warrants and (ii) the Debenture is not convertible for so long as the Warrants are outstanding and will not be convertible after the Warrants are exercised if the Debenture is repaid within 30 days of the Change in Control resulting from the exercise of the Warrants. Points International and CIBC Capital Partners also acknowledged, in connection with the IAC Investment, that in the event of the exercise of the Warrants resulting in a Change of Control, the application of the terms of the Series One Preference Share in that situation results in the Dividend equalling the lesser of (i) $24,000,000 and (ii) $4,000,000 plus the number of Common Shares into which the Debenture is then convertible, multiplied by the exercise price paid per Common Share on the exercise of the Warrants. Points International has agreed that, within 30 days of the exercise of the Warrants in full, it will pay all amounts owing under the Debenture and the Series One Preference Share. Except in connection with the exercise of the Warrants by IAC, Points International is not entitled to pre-pay the Debenture.

Subsequent to year end, on January 31, 2005, CIBC Capital Partners waived the prohibitions on prepayment of the Debenture and acknowledged that Points International may at any time prepay the principal amount together with all accrued and unpaid interest and other amounts payable under the Debenture. Pursuant to this waiver, any prepayment would consist of an amount of cash equal in value to the unpaid principal amount and an amount in common shares of the Corporation equal in value to the amount of accrued but unpaid interest. This waiver is in effect until March 31, 2005.

Maturity of the CIBC Capital Partners' Debenture

When the Debenture matures on July 4, 2005, the Corporation will be required to repay $6,000,000 of principal and $3,413,118 of accrued interest to CIBC Capital Partners. The repayment of $9,413,118 of principal and accrued interest will cause the Corporation to be in a negative working capital position, may materially threaten its solvency and/or may severely restrict the ability to grow its business. There is no certainty that the Corporation would have sufficient cash at such time to make the repayment. However, CIBC Capital Partners has the option, exercisable prior to March 31, 2005, to extend the maturity date to March 15, 2006 and thereafter the right to extend the maturity of the Debenture for up to two additional one-year periods.

Exercise of IAC Warrants

If the Warrants are exercised resulting in a Change of Control prior to the maturity of the Debenture, as at the date hereof and based on the Corporation's current share capitalization, the Corporation would receive between $86.2 million and $95.7 million, depending on the year of exercise. On the exercise of the Warrants resulting in a Change of Control, the Corporation would be required to repay the $6,000,000 principal amount of the Debenture and pay the Dividend, which would then be payable on the Series One Preference Share (up to a maximum of $24,000,000). In this situation, management expects that the Corporation would have sufficient cash to make such payments.

Redemption Rights of Series Two Preferred Share Holder

Unless the Series Two Preferred Share has been converted at the option of the holder, Points International will be required to redeem the Series Two Preferred Share upon the earlier of (i) March 31, 2013, and (ii) a person (other than the holder of the Series Two Preferred Share) acquiring shares of Points International sufficient to elect a majority of the board of directors of Points International (a "Series Two Share Change of Control").

In the event of redemption of the Series Two Preferred Share on a Series Two Share Change of Control, the redemption amount payable will be equal to the greater of (i) 125% of the amount equal to (A) the subscription price of the Series Two Preferred Share plus (B) a return on that subscription price equal to 7% per annum, calculated from the date of issue of the Series Two Preferred Share to the date on which the Series Two Preferred Share is redeemed and (ii) the greater of (A) the value of the Common Shares into which the Series Two Preferred Share then could be converted on the day immediately prior to public announcement of the Series Two Share Change of Control and (B) the product of the Common Shares into which the Series Two Preferred Share then could be converted and the fair market value of the consideration paid per Common Share in the transaction resulting in the Series Two Share Change of Control.

Other Change of Control Event

Upon the occurrence of an event that is a Change of Control and a Series Two Share Change of Control, and is unrelated to the exercise of the Warrants by IAC, Points International may not have sufficient cash to pay the Dividend, the amounts due under the Debenture and/or the redemption amount on the Series Two Preferred Share. As such, it is unlikely that management would consider a transaction that triggered the above payments unless the transaction provided for payment of the outstanding obligations.

Partner Purchase Commitments

Asset related to mileage purchases as at	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2002
Prepaid Mileage	$ 639,644	$ 516,651	$ 313,454
Sundry assets and other prepaid expenses	589,447	308,570	343,913
TOTAL	**$ 1,229,091**	**$ 825,221**	**$ 657,367**

As part of the contractual requirements of certain commercial agreements, Points International has committed to purchase miles and points from partners at predetermined rates. When purchased, the points are recorded as an asset (i.e., prepaid expense) until expensed as marketing expenditures in the period of use.

A large portion of the current prepaids and sundry assets of the Corporation include prepaid mileage commitments purchased from the Corporation's partners. While prepaid points may remain the same or lower as an overall percentage of prepaids and sundry assets, management expects the prepaid points account to increase as a result of the mileage purchase commitments from various partners.

Commitments Related to MilePoint Acquisition

On March 31, 2004, Points International completed the MilePoint Acquisition. The purchase price for the assets of MilePoint was $7.5 million and was satisfied through a combination of $3.5 million in cash ("Acquisition Payable") and four million Common Shares (worth approximately $4 million at the time of the transaction). An initial $1.9 million was paid in cash on closing, with the balance payable semi-annually over two years. The four million shares were issued into escrow on closing and will be released to MilePoint in four unequal tranches over two years. To date, professional fees of approximately $420,000 and payments for transition services of $365,515 have been incurred in the transaction and have been capitalized and allocated to goodwill. A portion of the Acquisition Payable (short-term and long-term) are interest-free and discounted at the appropriate current market rate. The total discount of $50,000 will be charged to interest expense over the life of the Acquisition Payable.

Points International business objective in acquiring the assets of MilePoint was to increase its volume of business at minimal additional costs outside of the purchase price and transition costs. Management expects that the acquisition will continue to increase revenues and, including all amortizations, continue to be accretive to net income through 2005. It is expected that the revenue/cash flow from the acquired assets will be sufficient to pay the cash portion of the purchase price over the 24-month period following the acquisition.

Management believes that the Corporation's established facilities and existing employees, working in conjunction with MilePoint resources retained during the transition period, will be sufficient to sustain the additional volume of business from the acquired assets.

The impact of the acquisition to Points International balance sheet in 2004 was an increase to intangible assets by $3,740,000 and goodwill by $3,910,000. The amortization of the assets is based on the estimated life of the acquired assets (i.e., the partner contracts).

The amortization and the balance of the purchased intangible assets are approximately as follows:

Amount in ($000's)	Dec. 31, 2004
Accumulated Amortization	$ 656
Intangible Asset – Closing Balance	3,092
Goodwill	4,495

In addition to the existing revenue streams acquired from MilePoint, offering Points Solutions to the partners acquired from MilePoint represents a potentially valuable stream of revenue.

As with any acquisition, the smooth transition into the Corporation's operations poses challenges. Transition risks include difficulties in integrating MilePoint's business into the Corporation and the possibility of human resources capacity limits to launch additional new partners during the transition.

The payment of the purchase price under the terms of the MilePoint Acquisition is as follows:

Payout (000's)	Months from Closing							
	0	4	6	12	18	24	Shares	Cash
Cash	$ 1,900	$ -	$ 400	$ 400	$ 400	$ 400		$ 3,500
Shares	-	1,300	-	700	1,500	500	4,000	
Share Value (1)	-	1,300	-	700	1,500	500		4,000
TOTAL							**4,000**	**$ 7,500**

Note: (1) Based on the simple 20-day weighted average Common Share price of $1.00 per share at signing.

In 2004, the Corporation paid $1.9 million on April 1 and $400,000 on October 1 in cash in partial satisfaction of the purchase price for MilePoint's business. In addition, MilePoint and the Corporation are party to a Transition Services Agreement ("TSA") whereby MilePoint employees and resources continued to support the products and partner relationships. Under the TSA, the Corporation has agreed to reimburse MilePoint for expenses incurred in providing transition services, to a maximum of US$417,000 (of which $312,819 or US$235,000 has been paid to date). Points International has also entered into a consulting agreement with MilePoint and one of its senior business development principals. The consultant will be focused on supporting existing relationships and selling Points Solutions to existing and new partners.

Management of Points International continues to expect that the cash cost of the MilePoint Acquisition will largely be recaptured through the new revenue provided by the purchased assets over the 24-month period following March 31, 2004.

Commitments Related to Lease Financing Arrangements

While the Corporation has completed its capital lease obligations in 2003, several operating leases for hardware and premises remain outstanding.

In the second quarter, the Corporation signed a 45-month sublease agreement in a larger facility. In exchange for a 27-month lease extension, the landlord advanced the Corporation $107,000 for leasehold improvements (see "Loan Payable" in table below). The Loan Payable is to be repaid over the term of the original sub-lease. Each payment is approximately $2,600 and there are 38 monthly payment periods remaining. The Corporation's lease at its former premises expired in February 2005.

In 2004, the Corporation paid approximately $226,000 for its former office facilities (approximately 8,050 square feet) and $190,000 for its new office facilities (approximately 18,000 square feet). Property lease costs are outlined in the table below. Beginning June 1, 2004, the Corporation was able to complete a sublet arrangement for a portion of the former premises. The sublet covered approximately 25% of the cost of the premises and expired in February 2005.

The projected figures do not include leasehold improvement amounts for Points International's new facilities. Leasehold improvements for the new facilities are included in 2004 capital expenditures (see "Planned Capital Expenditures" below). The operating leases primarily relate to specific office technology and technology service commitments.

Annual Amounts in ($000's)	2009	2008	2007	2006	2005
Operating Leases					
Property lease	$ -	$ 88	$ 351	$ 355	$ 430
Technology services commitment	11	11	11	33	319
Operating Leases Total	**11**	**$ 99**	**$ 363**	**$ 388**	**$ 749**
LOAN PAYABLE	**$ -**	**$ 5**	**$ 30**	**$ 30**	**$ 30**

Capital Resources

Planned Capital Expenditures

In 2004, the Corporation incurred significant leasehold improvement costs in connection with its move to new facilities (see table below). The project is complete and management does not expect to incur any additional material expenditures related to the leasehold improvements.

Capital Expenditures as at	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2002
Leasehold Improvements	$ 554,843	$ 20,793	$ 1,973
Points.com Version 3.0 Technology	860,286	-	-
Computer Hardware, Software and Other	440,048	317,936	43,578
TOTAL	**$ 1,855,177**	**$ 338,730**	**$ 45,551**

The Corporation expects to increase its capital expenditures related to computer software, hardware and other to approximately $1,000,000, with the majority of the expenses relating to software in support of Points.com version 3.0 and approximately $250,000 relating to protecting the Corporation's intellectual/intangible property (filing of patents and trademarks, etc.). Management believes that the hardware and software capital expenditures are necessary to keep the development of the Corporation's primary technology assets in line with industry standards.

The Corporation expects to incur significant capital expenditures related to the development of Points.com version 3.0. In accordance with CICA handbook, Sections 3061 and 3062, and GAAP, Web site development costs incurred in the Web site application and infrastructure development will be capitalized and subsequently amortized in accordance with the Corporation's accounting policies. The Corporation will begin amortizing the capital asset when Points.com version 3.0 is launched (expected to be on or around April 2005). Direct new technology developed subsequent to the launch of Points.com version 3.0 will be capitalized in accordance with the Corporation's accounting policies. Costs to maintain Points.com version 3.0 will be expensed in the period the costs are incurred.

Web site development costs incurred to date and capitalized to the Web site under property, plant and equipment consist of employment related costs of $728,122 and other direct costs of $132,163.

The capitalized costs in 2005 will likely be greater than the costs incurred in 2004. The expected increase in the capitalized costs will be affected by whether management decides to contract any of the development to third-parties and by annualizing the costs of employees hired during the third and fourth quarter. Estimates are provided for the capitalized expenses for the fiscal year 2005 in the table below.

Web site Development Costs	Q1 2005	Q2 2005	Q3 2005	Q4 2005
Employment related costs	$ 490,555	$ 309,980	$ 234,904	$ 102,306
Other direct costs	15,000	15,000	15,000	15,000
TOTAL	**$ 505,555**	**$ 324,980**	**$ 249,904**	**$ 117,306**

Management will continue to fund 2005 capital expenditures from its working capital and/or cash flow from operations.

Unplanned Securities Issuances

Pursuant to the terms of the Debenture, the Investor's Rights Agreement dated April 11, 2003 between IAC, Points International and an affiliate of IAC and the terms of the Series Two Preferred Share, IAC and CIBC Capital Partners have significant control over the Corporation's ability to raise capital whether by way of an equity issuance or the incurrence of debt. However, in the event the Corporation requires additional capital, it does not expect that any required consents would be unreasonably withheld.

Outstanding Share Data

As at the date hereof, the Corporation has 74,072,456 Common Shares outstanding, one Series One Preference Share and one Series Two Preferred Share. The Series One Preference Share is convertible into one Common Share in certain circumstances. Subject to anti-dilution adjustment, based on the Corporation's current capitalization, the Series Two Preferred Share is convertible into 19,999,105 Common Shares.

The Corporation has outstanding options exercisable to acquire up to 4,445,808 Common Shares. The options have exercise prices ranging from $0.22 to $1.37 with a weighted average exercise price of $0.80. The expiration dates of the options range from March 14, 2005 to January 24, 2010.

The Corporation's subsidiary, Points.com, has outstanding options exercisable to acquire up to 2,114,899 common shares of

Points.com. The holders of these options have been granted the right to put the shares acquired on the exercise thereof to the Corporation in return for Common Shares with a fair market value equal to the fair market value so put. The Corporation has used a ratio of 2.5039 Common Shares to one Points.com share for this purpose and has authorized the issuance of up to a maximum of 5,295,492 Common Shares in this regard. The Points.com options have exercise prices ranging from $0.005 to $0.055 with a weighted average exercise price of $0.04. The expiration dates of the options range from March 31, 2005 to August 20, 2005.

The Corporation has outstanding warrants exercisable to acquire up to 84,294,933 Common Shares. The warrants have exercise prices ranging from $0.25 to $1.03 with a weighted average exercise price of $1.03. The expiration dates of the options range from July 18, 2005 to April 11, 2006.

The Corporation has outstanding an 11% $6,000,000 senior secured convertible Debenture which is convertible into 18,908,070 Common Shares. The Debenture is not convertible into Common Shares at the option of the holder as long as the Warrants are outstanding. At the option of the Debenture holder, exercisable prior to March 31, 2005, the maturity of the Debenture is extendible to March 15, 2006 and thereafter the holder has the right to extend the maturity of the Debenture for up to two additional one-year periods.

Selected Financial Results and Highlights

Income Statement for the year ended	2004	2003	2002
Total Revenue	$ 7,791,591	$ 5,858,704	$ 2,368,262
General and administrative expenses	12,230,652	8,029,471	6,941,069
Loss before interest, amortization and other deductions	(4,439,061)	(2,170,767)	(4,572,777)
Net income (loss)	(8,808,284)	(6,536,191)	(7,807,378)
Net income (loss) per share (1) (2)			
- basic	($0.13)	($0.11)	($0.15)
- fully diluted	n/a	n/a	n/a

Notes: (1) The fully diluted loss per share has not been computed, as the effect would be anti-dilutive.

(2) In 2004, the Corporation's loss per share was increased by approximately $0.01 as a result of the requirement to expense stock options granted in 2004 (Section 3870, "Stock-Based Compensation and Other Stock-Based Payments" of the CICA handbook) combined with the write-down of the ThinApse investment. See page 50 of the Corporation's Audited Consolidated Financial Statements Note 3, for additional information on the accounting policy change relating to stock options.

Balance Sheet as at	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2002
Cash and cash equivalents	$ 13,754,818	$ 20,274,836	$ 7,341,700
Total assets (1)	30,179,854	27,481,286	13,140,020
Total liabilities	14,339,782	21,060,850	7,182,500
CASH DIVIDENDS DECLARED PER SHARE	-	-	-
SHAREHOLDERS EQUITY			
- warrants	2,610,992	2,785,737	425,588
- capital stock and contributed surplus	23,187,826	17,791,609	14,361,033
- deficit	(34,734,644)	(25,800,155)	(19,200,816)
TOTAL	**$ (8,935,827)**	**$ (5,222,809)**	**$ (4,414,195)**

Note: (1) 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.

Points International LTD.
Summary of Quarterly Results (Unaudited)

Quarter Ended	Revenues	Net Loss	Loss per share [1]
December 31, 2004	$2,162,948	($2,751,857)	($0.04)
September 30, 2004	$1,978,942	($2,001,764)	($0.03)
June 30, 2004	$2,032,136	($2,153,069)	($0.03)
March 31, 2004	$1,617,565	($1,901,594)	($0.03)
December 31, 2003	$1,449,378	($2,605,974)	($0.04)
September 30, 2003	$1,647,566	($1,628,391)	($0.03)
June 30, 2003	$1,457,568	($1,283,337)	($0.02)
March 31, 2003	$1,304,192	($1,018,489)	($0.02)

Note: (1) The fully diluted loss per share has not been computed as the effect would be anti-dilutive.