

POINTS INTERNATIONAL LTD

FORM 40-F (Annual Report (foreign private issuer))

Filed 03/09/17 for the Period Ending 12/31/16

| | |
|-----------|--|
| Telephone | 416-595-0000 |
| CIK | 0001204413 |
| Symbol | PCOM |
| SIC Code | 7389 - Business Services, Not Elsewhere Classified |
| Industry | Internet Services |
| Sector | Technology |

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 40-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended **December 31, 2016**

Commission File Number **0-51509**

POINTS INTERNATIONAL LTD.

(Exact name of Registrant as specified in its charter)

Canada

(Province or other jurisdiction of incorporation or organization)

7389

(Primary Standard Industrial Classification Code Number)

Not Applicable

(I.R.S. Employer Identification Number)

111 Richmond Street West, Suite 700

Toronto, Ontario, Canada M5H 2G4

Tel. (416) 595-0000

(Address and telephone number of Registrant's principal executive offices)

CT Corporation System

111 Eighth Avenue, 13th Floor

New York, NY 10011

Tel. (212) 894-8400

(Name, address (including zip code) and telephone number (including area code)
of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

Common Shares, no par value

Name of each exchange on which registered

NASDAQ Capital Market

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities registered or to be registered pursuant to Section 15(d) of the Act:

None
(Title of Class)

For annual reports, indicate by check mark the information filed with this Form:

Annual information form

Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 14,878,674 as of December 31, 2016.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes No

CERTIFICATIONS

See Exhibits 99.4 and 99.5 to this Annual Report on Form 40-F.

DISCLOSURE CONTROLS AND PROCEDURES

The conclusion of the Registrant's Chief Executive Officer and Chief Financial Officer regarding the effectiveness of the Registrant's disclosure controls and procedures is included in Management's Discussion and Analysis under the heading "Disclosure Controls and Procedures" and is filed herewith as Exhibit 99.3 and incorporated herein by reference.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in the Registrant's internal control over financial reporting that occurred during the period covered by this Form 40-F that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

**MANAGEMENT'S ANNUAL REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management's annual report on internal control over financial reporting is included in Management's Discussion and Analysis under the heading "Management's Report on Internal Control Over Financial Reporting" and is filed herewith as Exhibit 99.3 and incorporated herein by reference.

ATTESTATION REPORT OF THE REGISTERED PUBLIC ACCOUNTING FIRM

The attestation report of KPMG LLP with respect to the Registrant's internal control over financial reporting is included with the Audited Consolidated Financial Statements of the Registrant for the fiscal year ended December 31, 2016 filed herewith as Exhibit 99.2 and incorporated herein by reference.

NOTICES PURSUANT TO REGULATION BTR

None.

AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors of the Registrant has determined that Mr. Douglas Carty is (i) an audit committee financial expert (as such term is defined in paragraph 8(b) of General Instruction B to Form 40-F) and (ii) independent (as such term is defined in the rules of the NASDAQ Capital Market).

CODE OF ETHICS

The Registrant has adopted a code of ethics (as such term is defined in paragraph 9 of General Instruction B to Form 40-F) that applies to its employees, including its principal executive officer, principal financial officer and controller. The code of ethics is available at the Registrant's website at www.points.com and is available in print to any shareholder upon written request to the Secretary of the Registrant at the address listed on the first page of this Annual Report on Form 40-F.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The aggregate audit fees, audit-related fees, tax fees and all other fees (as such terms are defined in paragraph 10 of General Instruction B to Form 40-F) billed by the Registrant's external auditor in each of the last two fiscal years is disclosed in the Registrant's 2016 Annual Information Form under the heading "Audit Committee – External Auditor Service Fees" and is filed herewith as Exhibit 99.1 and incorporated herein by reference.

PRE-APPROVAL POLICIES AND PROCEDURES

A description of the audit committee's pre-approval policies and procedures is disclosed in the Registrant's 2016 Annual Information Form under the heading "Audit Committee – Audit Committee Pre-Approval Policies and Procedures" and is filed herewith as Exhibit 99.1 and incorporated herein by reference.

OFF-BALANCE SHEET ARRANGEMENTS

The Registrant has no off-balance sheet arrangements (as such term is defined in paragraph 11 of General Instruction B to Form 40-F) required to be disclosed in this Annual Report on Form 40-F.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The Registrant's contractual obligations as of December 31, 2016 are disclosed in the notes to the 2016 Audited Consolidated Financial Statements and in Management's Discussion and Analysis for the fiscal year ended December 31, 2016 under the heading "Liquidity and Capital Resources – Contractual Obligations and Commitments", each of which are filed herewith as Exhibits 99.2 and 99.3 respectively and incorporated herein by reference.

IDENTIFICATION OF AUDIT COMMITTEE

The Registrant has a separately standing audit committee established in accordance with 3(a)(58)(A) of the Exchange Act. The members of the audit committee as of the date of this filing are: Mr. Douglas Carty (Chair), Mr. David Adams, Mr. Bernay Box and Mr. John Thompson.

DISCLOSURE PURSUANT TO THE REQUIREMENTS OF THE NASDAQ STOCK MARKET

As a foreign private issuer under the Exchange Act, the Registrant is permitted under NASDAQ Rule 5615(a)(3) to follow its home country practice in lieu of certain NASDAQ corporate governance standards. In order to claim such exemption, the Registrant must disclose the NASDAQ corporate governance standards that it does not follow and describe the home country practice that it follows in lieu of such standards. A description of the significant ways in which the Registrant's governance practices differ from those followed by domestic companies follows:

- Rule 5620(c) of the NASDAQ Rules requires a quorum of no less than 33-1/3% of the outstanding shares of common stock at any meeting of the holders of common stock. Following Canadian practice, a quorum for meetings of the holders of the Registrant's common stock is no less than 15% of the total number of the issued shares of the Corporation entitled to vote at the meeting.
- Rule 5605(d)(1) of the NASDAQ Marketplace Rules requires that each listed company adopt a formal written compensation committee charter that specifies, among other things, the compensation committee's responsibilities and authority, as set forth in Listing Rule 5605(d)(3). The Registrant has adopted a formal written mandate setting out the duties and responsibilities of its Human Resources and Corporate Governance Committee (the "HRCGC"). Among other things, such mandate includes recommending for approval by the board the compensation of the chief executive officer, but not of all other executive officers. However, as a matter of practice the HRCGC recommends for approval by the board the compensation of all executive officers. The mandate also does not specify that the chief executive officer may not be present during voting or deliberations on his or her compensation, although, as a matter of practice, the HRCGC does not permit the chief executive officer to be present during such voting or deliberations. In addition, such mandate does not specify the specific compensation committee responsibilities and authority set forth in Rule 5605(d)(3). The Registrant's practices with regard to these requirements are permitted by Canadian law.

UNDERTAKING

Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this Annual Report on Form 40-F to be signed on its behalf by the undersigned, thereto duly authorized.

POINTS INTERNATIONAL LTD.

By: /s/ Robert MacLean
Name: Robert MacLean
Title: Chief Executive Officer
Date: March 8, 2017

EXHIBITS

The following exhibits are filed as part of this Annual Report on Form 40-F:

| <u>Number</u> | <u>Document</u> |
|----------------------|--|
| 99.1 | Annual Information Form of the Registrant for the fiscal year ended December 31, 2016 |
| 99.2 | Audited Consolidated Financial Statements for the fiscal year ended December 31, 2016 |
| 99.3 | Management's Discussion and Analysis for the fourth fiscal quarter and fiscal year ended December 31, 2016 |
| 99.4 | Chief Executive Officer and Chief Financial Officer certifications required by Rule 13a-14(a) |
| 99.5 | Chief Executive Officer and Chief Financial Officer certifications required by Rule 13a-14(b) |
| 99.6 | Consent of KPMG LLP |

POINTS INTERNATIONAL LTD.

Annual Information Form

March 8, 2017

Information presented herein is current as of March 8, 2017, unless otherwise indicated. All dollar amounts are in United States Dollars unless otherwise indicated.

Table of Contents

| | |
|---|----------------------|
| <u>CORPORATE STRUCTURE</u> | <u>- 1 -</u> |
| <u>GENERAL DEVELOPMENT OF THE BUSINESS</u> | <u>- 1 -</u> |
| <u>GENERAL DESCRIPTION OF THE BUSINESS</u> | <u>- 3 -</u> |
| <i>Summary</i> | <i>- 3 -</i> |
| <i>Method of Providing Services</i> | <i>- 4 -</i> |
| <i>Specialized Skill and Knowledge</i> | <i>- 4 -</i> |
| <i>Competitive Conditions</i> | <i>- 4 -</i> |
| <i>New Products</i> | <i>- 5 -</i> |
| <i>Intangible Property</i> | <i>- 5 -</i> |
| <i>Seasonality</i> | <i>- 5 -</i> |
| <i>Economic Dependence</i> | <i>- 6 -</i> |
| <i>Changes to Contracts</i> | <i>- 6 -</i> |
| <i>Employees</i> | <i>- 6 -</i> |
| <u>RISK FACTORS</u> | <u>- 6 -</u> |
| <u>DIVIDENDS</u> | <u>- 6 -</u> |
| <u>GENERAL DESCRIPTION OF CAPITAL STRUCTURE</u> | <u>- 6 -</u> |
| <u>MARKET FOR SECURITIES</u> | <u>- 7 -</u> |
| <u>DIRECTORS AND EXECUTIVE OFFICERS</u> | <u>- 7 -</u> |
| <i>Current Directors</i> | <i>- 7 -</i> |
| <i>Current Executive Officers</i> | <i>- 11 -</i> |
| <i>Security Holdings</i> | <i>- 12 -</i> |
| <i>Cease Trade Orders, Bankruptcies, Penalties or Sanctions</i> | <i>- 12 -</i> |
| <i>Conflicts of Interest</i> | <i>- 13 -</i> |
| <u>AUDIT COMMITTEE</u> | <u>- 13 -</u> |
| <i>Audit Committee Charter</i> | <i>- 13 -</i> |
| <i>Composition of the Audit Committee</i> | <i>- 13 -</i> |
| <i>Relevant Education and Experience</i> | <i>- 13 -</i> |
| <i>Audit Committee Pre-Approval Policies and Procedures</i> | <i>- 13 -</i> |
| <i>External Auditor Service Fees (By Category)</i> | <i>- 14 -</i> |
| <u>INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS</u> | <u>- 14 -</u> |
| <u>TRANSFER AGENT</u> | <u>- 14 -</u> |
| <u>INTEREST OF EXPERTS</u> | <u>- 14 -</u> |
| <u>ADDITIONAL INFORMATION</u> | <u>- 14 -</u> |

The following Annual Information Form (“ AIF ”) 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, 2016 (“ 2016 Audited Consolidated Financial Statements ”). Further information, including Points ’ Management Discussion and Analysis for the year ended December 31, 2016 (“ 2016 MD&A ”), may be accessed at www.sedar.com or www.sec.gov.

CORPORATE STRUCTURE

Points International Ltd. is a corporation continued under the *Canada Business Corporations Act* . The head and registered office of the Corporation is 111 Richmond Street West, Suite 700, Toronto, Ontario, M5H 2G4.

The Corporation has five wholly-owned direct subsidiaries: (a) Points.com Inc., a corporation amalgamated under the *Business Corporations Act* (Ontario), (b) Points International (UK) Limited, a company incorporated under the laws of the United Kingdom, (c) Points International (U.S.) Ltd., a corporation incorporated under the laws of the State of Delaware, (d) Points Development US Ltd. (formerly Accruity Inc.), a corporation incorporated under the laws of the State of Delaware and (e) Points Travel Inc., a corporation incorporated under the *Business Corporations Act* (Ontario).

GENERAL DEVELOPMENT OF THE BUSINESS

In 2014, the Corporation launched or announced 43 products and added nine new partners to its Loyalty Commerce Platform.

In April 2014, the Corporation purchased all of the common and preferred shares of Accruity Inc. (“Accruity”) for cash consideration of approximately \$2.0 million. Approximately \$375,000 of the purchase price was held back at the time of closing and was to be released to the sellers one year post-closing to the extent not used to satisfy any purchase price adjustments or indemnity claims. The held back amount was subsequently paid to the Accruity shareholders in accordance with the terms and conditions of the purchase agreement. Accruity was the San Francisco based start-up operator of the PointsHound loyalty-based hotel booking service. Following the completion of the acquisition, Accruity’s name was changed to Points Development US Ltd. The Corporation anticipates building on the new relationships gained in the acquisition, which will help the Corporation progress on its long term growth objectives. Further to these objectives, in October 2014, PointsHound and Asia Miles, Asia’s leading travel and lifestyle reward program, formed a partnership providing Asia Miles members greater benefits on hotel stays booked through PointsHound.com.

In December 2014, the Corporation entered into a new long-term principal relationship with United Airlines’ subsidiary MileagePlus to power its Buy, Gift and Transfer and Reinstate Miles, and several other ancillary products available to MileagePlus members. This agreement with United Airlines MileagePlus is the Corporation’s broadest and most comprehensive strategic relationship to date.

In conjunction with the United Airlines MileagePlus agreement, in December 2014, the Corporation acquired substantially all of the assets of Crew Marketing International, Inc. (“Crew Marketing”), a long-time United Airlines MileagePlus technology vendor. Pursuant to the purchase agreement for the acquisition (the “Crew Purchase Agreement”), the purchase price payable thereunder by the Corporation is \$14.75 million in cash and the issuance of 238,393 common shares of the Corporation. On closing, the Corporation paid \$14.5 million in cash and issued the 238,393 common shares. In accordance with the terms of the Crew Purchase Agreement, the balance of the cash consideration (\$250,000) was held back by the Corporation in support of certain obligations of Crew Marketing under the Crew Purchase Agreement. The held back amount was paid to Crew Marketing on January 29, 2015, in accordance with the terms and conditions of the Crew Purchase Agreement. The common shares were issued into escrow and released to Crew Marketing on June 22, 2016 in accordance with the terms and conditions of the Crew Purchase Agreement.

In March 2015, the Corporation noted that the previously announced consolidation of American Airlines AAdvantage and US Airways Dividend Miles programs had resulted in these programs representing a smaller portion of the Corporation's business.

In March 2015, the Corporation announced an issuer bid pursuant to which the Corporation had the ability to repurchase up to 782,504 of its common shares (the "2015 Repurchase"), representing approximately 5% of its issued and outstanding shares as at February 25, 2015. The 2015 Repurchase commenced on March 9, 2015, terminated on March 8, 2016 and was subject to the Corporation's normal trading blackout periods. Pursuant to the 2015 Repurchase, the Corporation purchased 446,894 common shares, all for cancellation. In March 2016 the Corporation announced an additional issuer bid pursuant to which the Corporation had the ability to repurchase up to 765,320 of its common shares (the "2016 Repurchase"), representing approximately 5% of its issued and outstanding common shares as of February 23, 2016. The 2016 Repurchase commenced on March 9, 2016, terminated on March 8, 2017 and was subject to the Corporation's normal trading blackout periods. Pursuant to the 2016 Repurchase, the Corporation purchased 428,228 common shares, all for cancellation.

In May 2015, the Corporation launched its partnership with Hainan Airlines Co. ("Hainan"), the largest privately owned air transport company, and fourth largest airline in terms of fleet size, in the People's Republic of China. The partnership with Hainan supports Points' expansion into the Chinese travel market. Also in May, 2015 PointsHound announced new strategic partnerships with several of Europe, the Middle East and Africa's leading frequent flyer programs including Alitalia MilleMiglia, Virgin Atlantic Flying Club, and Finnair Plus.

In September 2015, the Corporation announced a redesigned *Points.com*, now the *Points Loyalty Wallet*, which allows users to track, manage and access multiple loyalty rewards programs wherever they are. The *Points Loyalty Wallet* is a set of platform capabilities accessible via application program interfaces ("APIs") that allow loyalty programs, merchants and other interested businesses to embed balance tracking and loyalty commerce transactions into their product offerings whether on the web or in an app, and allow users to track, manage and access multiple loyalty rewards programs.

In November 2015, the Corporation launched *Points Travel*, the first private label travel e-commerce platform designed specifically for the loyalty industry. The *Points Travel* platform helps loyalty programs increase their revenues from hotel sales, while offering new value to loyalty program members. In conjunction with this announcement, the Corporation announced a new partnership with Miles & More, Europe's largest frequent flyer program and the loyalty program for Lufthansa and nine other European airlines. Miles & More became the first loyalty program partner to integrate their web and mobile properties with the *Points Travel* platform, allowing their members to earn award miles for hotel bookings.

In February 2016, the Corporation launched a hotel redemption program with La Quinta Inns & Suites, allowing La Quinta Returns members to redeem their loyalty points for bookings at thousands of luxury hotel locations across the globe. Built on the *Points Travel* platform, the redemption program provides participating members with even greater value and convenience.

In April 2016, the Corporation launched Flying Blue, Air France-KLM's frequent flyer program, on the *Points Travel* platform. Flying Blue's *Points Travel* integration allows members to both earn miles for hotel bookings or redeem their miles in a combination of miles and cash on hotel bookings. Also in April 2016, Points announced a partnership with Shangri-La Hotels and Resorts. Under the new partnership, members of Shangri-La's Golden Circle program will be able to Buy and Gift award points for themselves and others.

In May 2016, Points announced a partnership with App In the Air, the travel application that helps users navigate their entire flying process. Powered by the *Points Loyalty Wallet*, Points will power the loyalty section for App in the Air, which gives users the ability to register, track and transact their favourite travel loyalty programs.

In August 2016, the Corporation announced a new partnership with Canada's AIR MILES Reward

Program to launch AIR MILES Travel Hub. Built on the *Points Travel* platform, the Travel Hub allows AIR MILES collectors to book stays at hotels and all-inclusive resorts around the world. Also in August 2016, the Corporation announced the launch of Hawaiian Airlines on the *Points Travel* platform. Hawaiian Miles members will now be able to redeem their frequent flyer miles to pay for all or part of hotel bookings at hotel properties around the globe.

In November 2016, Points announced an expansion of its *Points Travel* partnership with Miles & More. Under this expansion, Miles & More members can now redeem their award miles to pay for all or part of their bookings at hotels and resorts around the globe. In December 2016, the Corporation expanded the functionality of *Points Travel* to include car rental booking functionality. The new service, launched with Miles & More, provides members the ability to book car rentals by using their miles, or a combination of miles and cash.

GENERAL DESCRIPTION OF THE BUSINESS

The Corporation operated in one segment in 2016.

Summary

The Corporation provides a range of e-commerce and technology services to loyalty program operators using a common proprietary infrastructure. These services are comprised of a wide range of white label or private branded e-commerce services (referred to by the Corporation as its “*Loyalty Currency Services*”) that enable the sale of loyalty currencies (such as frequent flyer miles, hotel points and credit card points), both retail and wholesale, and enhance loyalty program consumer offerings and their back end operations. The Corporation also offers the consumer focused *Points Loyalty Wallet* that allows users to track, manage and access multiple loyalty rewards programs via the “*Points.com*” website.

The core *Loyalty Currency Services* provided by the Corporation are: (a) the online sale of loyalty currency direct to program members in order for the members to top-up their accounts to reach a redemption threshold or as a gift for friends and family members; and (b) the online transfer of pre-existing loyalty currency from one member into another member's account, typically a family member or friend, as another means of enabling that other member to accumulate sufficient miles or points to reach a redemption threshold.

The *Points Loyalty Wallet* is a set of platform capabilities accessible via APIs that allow loyalty programs, merchants and other interested businesses to embed balance tracking and loyalty commerce transactions into their product offerings whether on the web or in an app, and allow users to track, manage and access multiple loyalty rewards programs. The *Points Loyalty Wallet* offers members of multiple loyalty programs the ability to track and manage their loyalty currencies much like their financial assets. Through this platform, users are able to use their loyalty currencies to conduct unique redemptions into retail goods or gift certificates, trade their loyalty currencies with other *Points Loyalty Wallet* users, and exchange their loyalty currencies into other participating loyalty programs. To facilitate these transactions, the Corporation has agreements with participating loyalty program operators.

The Corporation also operates the *PointsHound.com* website, a hotel booking engine and loyalty currency aggregator built specifically for frequent travelers. *PointsHound.com* enables loyalty program members to earn loyalty points for staying in their favorite hotels and also to earn bonus rewards in the form of airline miles. Members of the free-to-use site have access to over 150,000 hotels worldwide, including boutique and non-chain properties.

In late 2015 the Corporation launched *Points Travel*, the first private label travel e-commerce platform designed specifically for the loyalty industry. The *Points Travel* platform helps loyalty programs increase their revenues from hotel sales, while offering new value to loyalty program members by accelerating loyalty program earnings. In 2016, the Corporation added additional functionality to the *Points Travel* platform, allowing members of participating loyalty programs to redeem their award currency, or use a combination of award currency and cash, to book hotels and car rentals.

The majority of the Corporation's loyalty program partners operate in the United States. The Corporation also has a significant European customer base.

Method of Providing Services

The Corporation's services are generally delivered through web-enabled e-commerce solutions.

Specialized Skill and Knowledge

The Corporation currently employs six executive officers. The current executive team possesses many years of loyalty industry experience, and has managed large loyalty programs, sales forces, marketing departments and technology systems. The success of the Corporation is dependent upon the experience of such key personnel and loss of such personnel could adversely affect the Corporation's business, operations and prospects.

In addition, the Corporation's services are delivered using proprietary technology. As a result, the Corporation is also dependent upon its ability to retain talented and highly skilled information technology professionals to maintain, build and operate the technology infrastructure. The loss of these individuals and the inability to attract and retain highly qualified employees could have a material adverse effect on the Corporation's business, revenues, operating results and financial condition.

Competitive Conditions

With respect to the *Points Loyalty Wallet*, several indirect competitors are currently in the market with limited product offerings. Other Internet websites that offer financial and account aggregation and management are potential competitors. These indirect and potential competitors currently offer a product similar to the balance tracking features available through the *Points Loyalty Wallet*, but do not offer any of the transaction options available through the *Points Loyalty Wallet*, such as the ability to exchange currency from one program to another or trade currency with other users. Management believes that none of these competitors are actively partnering with loyalty programs to independently provide a service similar to the *Points Loyalty Wallet*. Rather, these indirect competitors are only able to retrieve and display member account information. However, it is possible that one or more of the indirect or potential competitors could, in the future, compete directly with the *Points Loyalty Wallet*.

PointsHound.com and the *Points Travel* platform also face direct and indirect competition from other hotel booking engines and hotel booking solutions. These indirect and potential competitors currently offer a product similar to the hotel booking features available through *PointsHound.com* and the *Points Travel* platform, but do not offer the same value proposition that the Corporation can leverage through its core *Loyalty Currency Services*.

The Corporation must compete with a wide range of companies that seek to provide business solutions technology, from small companies to large. 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 that the Corporation may not lose some or all of its arrangements with its loyalty program partners, including its key loyalty program partners, thereby decreasing its ability to compete and operate as a viable business.

Loyalty partners may have, or may develop, in-house business solutions departments that could take responsibility for work currently being done by the Corporation. The consolidation of American Airlines AAdvantage and US Airways Dividend Miles programs in 2015 resulted in the departure of their buy gift and transfer products. In 2016, the Corporation was able to more than offset the loss of revenue from this business with the addition of new partnerships and organic growth from existing partnerships. However, further development of in-house solutions could impact the Corporation in a negative way and reduce its ability to compete and operate as a viable business.

Any competition or adverse change in the business relationships described above could have a material adverse impact on the Corporation's business, operations and prospects.

New Products

In fiscal 2015, the Corporation announced a redesigned *Points.com*, now the *Points Loyalty Wallet*, which allows users to track, manage and access multiple loyalty rewards programs via the *Points.com* website. The *Points Loyalty Wallet* is a set of platform capabilities accessible via APIs that allow loyalty programs, merchants and other interested businesses to embed balance tracking and loyalty commerce transactions into their product offerings whether on the web or in an app.

The Corporation also launched *Points Travel*, the first private label travel e-commerce platform designed specifically for the loyalty industry. The *Points Travel* platform helps loyalty programs increase their revenues from hotel sales, while offering new value to loyalty program members by accelerating loyalty program earnings.

Management believes that there is a tremendous opportunity in offering fully-sanctioned loyalty program transactions to third parties, and anticipates that the *Points Loyalty Wallet* and the *Points Travel* products will significantly increase the addressable market opportunity for the Corporation. Through mobile wallets, mobile apps, online travel and retail services, or point of sale providers, facilitating the interaction between relevant channels and the loyalty industry will offer significant engagement and monetization opportunities for both Points and its partners. As a result, the Corporation intends to continue to invest in the optimization of these product offerings and the scale of the loyalty commerce platform to pursue longer term growth.

Intangible Property

The Corporation has built a significant brand and reputation around the "Points.com" name. The Corporation's operating subsidiary, Points.com Inc., maintains certain trademark registrations for POINTS.COM which provides it with certain exclusive rights. These registrations are renewable in perpetuity. The Corporation also maintains a portfolio covering certain other trademarks. Although management believes the trademark portfolio is valuable, the portfolio is not considered to be critical to the success of the Corporation's business.

As a technology supported business, the Corporation maintains a significant software base that is continually evolving. This software base is critical to the operation of the business.

The Corporation has two issued patents: US Patent No. 8,595,055 titled an "Apparatus and method of facilitating the exchange of points between selected entities", and US Patent No. 8,433,607 titled a "System and method for exchanging reward currency". Both patents relate to the Corporation's website at www.points.com and the exchange and trade functions available on that site. The Corporation also maintains a patent application portfolio covering certain other inventions. Although management believes the patent portfolio is valuable, the portfolio is not considered to be critical to the success of the Corporation's business.

Seasonality

The Corporation's operations are moderately influenced by seasonality. The Corporation experiences higher activity in November and December through the *Points Loyalty Wallet* and other ancillary redemption products as its members redeem their miles or points for gift certificates before the December holidays.

The Corporation's financial performance is also significantly impacted by the timing of promotions run by Points on behalf of its loyalty program partners in respect of its *Loyalty Currency Services* business.

Economic Dependence

The Corporation is dependent on the loyalty industry in general and is highly dependent on the viability of certain key loyalty program partners. For the year ended December 31, 2016, there were four loyalty program partners for which sales to their members individually represented more than 10% of the Corporation's total revenue. In aggregate these four partners represented 76% of the Corporation's total revenue. The loss of any one or more of the Corporation's key loyalty program partners could have a material adverse effect on the Corporation's business, revenues, operating results and financial condition. It should be noted that, in respect of the Corporation's Principal Revenue (as defined in the Corporation's consolidated financial statements) the Corporation transacts directly with loyalty program members and does not generate material revenue directly from loyalty partners.

Changes to Contracts

There can be no assurance that the Corporation will be successful in maintaining its existing contractual relationships with its loyalty program partners. The Corporation's loyalty program partners have in the past, and may in the future, negotiate arrangements that are short-term and subject to renewal, non-exclusive and/or terminable at the option of the partner on relatively short notice without penalty. Loyalty program partners that have not provided a long-term commitment or guarantee of exclusivity, or that have the ability to terminate on short notice, may exercise this flexibility to end their relationship with the Corporation or to negotiate from time to time more preferential financial and other terms than originally contracted for. The Corporation cannot ensure that such negotiations will not have an adverse effect on the financial condition or results of operations of the Corporation.

Employees

As at December 31, 2016, the Corporation had 212 full-time employees.

RISK FACTORS

Investing in Internet-based businesses can have a high degree of business risk. In addition to the other information contained in this AIF, investors should carefully consider the risk factors set out under the heading "Risks and Uncertainties" in the 2016 MD&A (which is incorporated into this AIF by reference) prior to making an investment decision with respect to the Corporation.

DIVIDENDS

The Corporation has not declared or paid any dividends to its shareholders. With the exception of any funds used by the Corporation to buy back its shares, the Corporation will retain earnings for general corporate purposes to promote future growth. As such, the board of directors of the Corporation does not anticipate paying any dividends for the foreseeable future. The board of directors may review this policy from time to time, having regard to the Corporation's financial condition, financing requirements and other relevant factors.

GENERAL DESCRIPTION OF CAPITAL STRUCTURE

The Corporation's share capital consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series, of which five series consisting of one share each have been authorized. As of the date of this AIF, 14,867,374 common shares were outstanding. The Corporation has no preferred shares outstanding.

The common shares carry one vote per share, are entitled to dividends if, as and when declared by the board of directors of the Corporation and participate equally on any liquidation, dissolution or winding up of the Corporation.

MARKET FOR SECURITIES

The Corporation's common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "PTS" and on the NASDAQ Capital Market under the symbol "PCOM". The following table shows the monthly price ranges and volumes for the common shares traded through the TSX in Canadian Dollars.

| Fiscal 2016 | High (\$) | Low (\$) | Close (\$) | Volume |
|-------------|-----------|----------|------------|---------|
| January | 13.09 | 10.00 | 10.85 | 44,782 |
| February | 10.90 | 9.20 | 10.02 | 100,230 |
| March | 11.50 | 9.21 | 11.20 | 109,850 |
| April | 12.95 | 11.20 | 12.22 | 52,994 |
| May | 12.75 | 11.00 | 12.19 | 57,732 |
| June | 12.72 | 11.65 | 11.65 | 176,490 |
| July | 12.24 | 11.11 | 12.10 | 95,341 |
| August | 12.85 | 9.65 | 10.47 | 82,130 |
| September | 11.90 | 10.49 | 11.76 | 173,905 |
| October | 11.96 | 10.35 | 11.11 | 69,505 |
| November | 11.30 | 8.90 | 9.20 | 289,367 |
| December | 10.85 | 8.75 | 10.27 | 127,434 |

DIRECTORS AND EXECUTIVE OFFICERS

Current Directors

The following table provides certain background information with respect to each director of the Corporation. The Corporation's directors will hold office for a term expiring at the conclusion of the next annual meeting of shareholders of the Corporation or until their successors are elected or appointed and will be eligible for re-election. Detailed biographies for each director are provided below.

| Name Place of Residence | Director Since | Current Principal Occupation | Common Shares Beneficially Owned |
|-------------------------------------|---|--|---|
| David Adams (Quebec) | May, 2016 | Corporate Director Former Chief Financial Officer, Aimia Inc. | 5,000 |
| Christopher Barnard (Ontario) | May, 2007 (and Feb. 2000 to April, 2005) | President, Points International Ltd. and Points.com Inc. | 189,546 |
| Michael Beckerman (Ontario) | May, 2010 | Corporate Director Former Chief Executive Officer, Ariad Communications and Bluespire Marketing | 11,454 |
| Bernay Box (Texas, U.S.A.) | May, 2009 | President of Bonanza Fund Management, Inc. and investment advisor for Bonanza Master Fund, Ltd. | 797,244 |

| | | | |
|-------------------------------------|----------------|--|---------|
| Douglas Carty (Illinois, U.S.A.) | February, 2002 | Corporate Director | 38,173 |
| Bruce Croxon (Ontario) | October, 2008 | Investor and Advisor | 27,642 |
| Robert MacLean (Ontario) | February, 2002 | Chief Executive Officer, Points International Ltd. and Points.com Inc. | 159,688 |
| Craig Miller (Ontario) | May, 2016 | Chief Product Officer, Shopify Inc. | Nil |
| John Thompson (Ontario) | February, 2002 | Corporate Director | 175,876 |

Director Biographies

David Adams

Mr. Adams was appointed as a director of the Corporation in May of 2016 and is currently a member of the Corporation's Audit Committee. He served as the Executive Vice President and Chief Financial Officer of Aimia Inc. from 2007 until his retirement in March, 2016. Aimia Inc. is a global data driven marketing and loyalty analytics company with close to 4,000 employees in 20 countries and owns and operates well known coalition loyalty programs such as Aeroplan in Canada and Nectar in the United Kingdom. He currently serves on the Board of Directors and is Chair of each of the Audit Committee and the Operating Committee of Cardlytics Inc., a private, transaction based marketing company headquartered in Atlanta and the Board of Directors and Audit and Human Resource Committees of Club Premier, AeroMexico's frequent flyer program. He is also on the Board of Directors of Plan Canada and the Board of Governors of the Stratford Festival.

Before joining Aimia, Mr. Adams was Senior Vice President and Chief Financial Officer at Photowatt Technologies Inc. Prior to Photowatt, he acted as Senior Vice President Finance and Chief Financial Officer of SR Telecom Inc. Mr. Adams has also previously held a variety of executive finance positions at CAE Inc., a global market leader in the production of flight simulators and control systems. Prior to these roles, Mr. Adams held a number of progressively senior roles with the Bank of Nova Scotia and Clarkson Gordon (Ernst & Young).

Mr. Adams is a CPA, CA and holds a Bachelor of Commerce and Finance Degree from the University of Toronto and has completed the Stanford Executive Program.

Christopher Barnard

Mr. Barnard is a founder of the Corporation. As President of Points and its subsidiary Points.com Inc., Mr. Barnard is currently responsible for corporate strategy, corporate development and investor relations. He has also held various interim operating positions at the Corporation including Chief Financial Officer, as well as being responsible for both product development and marketing.

Mr. Barnard has also been instrumental in developing significant commercial relationships and key strategic partnerships with various parties over the Corporation's history and in 2015 he was named as one of the 100 most influential leaders in Fintech globally. In his corporate development capacity, Mr. Barnard has been instrumental in raising capital for the Corporation, including multiple equity financings and a strategic investment from InterActive Corp/IAC, a New York based, NASDAQ 100 leading internet firm. He led Points' three corporate acquisitions, MilePoint, PointsHound and Crew Marketing.

In 1998, Mr. Barnard co-founded Canada's first internet business incubator, Exclamation International, from which the Corporation was created. Prior to Exclamation, Mr. Barnard was with HDL Capital, a Toronto boutique merchant bank. While at HDL he assisted a number of companies in entering the public markets, including Bid.com which was, at the time, one of Canada's most notable internet technology stories.

Mr. Barnard holds a Masters of Business Administration degree from the Richard Ivey School of Business in London, Ontario.

Michael Beckerman

Mr. Beckerman has served as a director of the Corporation since May of 2008 and is currently a member of the Corporation's Human Resources and Corporate Governance Committee.

Mr. Beckerman's sales and marketing career spans over twenty years, three continents and several industries. During this time he has worked on both the client and agency side of the business.

His experience has included senior roles in Canada, Europe and Asia, and culminated with responsibility for NIKE's key U.S. retailers. Based in Hong Kong, Mr. Beckerman was responsible for the marketing of the NIKE brand across Asia-Pacific with a specific emphasis on advertising, promotions and sponsorship. He also served as Marketing Director for NIKE Germany and Director of Advertising for Europe and was at the helm when NIKE was named Brand of the Year. He later took over responsibilities for NIKE's European retail efforts.

Following NIKE, Mr. Beckerman served as Vice President, Marketing for Canadian Airlines. He led a comprehensive rebranding effort that touched everything from employee engagement, market research, product development and brand identify systems prior to heading up Marketing and International expansion for e-commerce site MVP.com. This was a high profile company that had Michael Jordan, Wayne Gretzky and John Elway as lead investors. Mr. Beckerman and his team were some of the pioneers of on-line metrics around basket size, cost per acquisition and on-line customer experience metrics. The MVP.com brand and web-site design and development are still used as benchmarks in the industry.

In 2001, Mr. Beckerman took on the role of Chief Marketing Officer for Bank of Montreal. He was responsible for increasing the marketing orientation and customer focus throughout that organization. While there, reporting to the CEO, he led the development of new brand identities for both its Canadian and U.S. operations which involved more than 1,000 retail locations and over 30,000 employees.

Mr. Beckerman recently retired as CEO of Ariad Communications and Bluespire Marketing. Ariad enjoyed record growth during his tenure. Ariad is an agency specializing in branding and on-line communications. Ariad has won numerous domestic and International awards and was recently named as one of the Top Places to Work in Canada.

Mr. Beckerman is a sought after speaker on marketing trends, branding and consumer behaviour. He is a frequent judge for industry events and asked to sit on numerous industry panels. He also enjoys taking his marketing experience to help some charities and foundations sharpen their strategic focus, clearly articulate their cause and generate more funds for their charity.

Bernay Box

Mr. Box was elected as a director of the Corporation in May of 2009 and is currently the Chairman of the Board of Directors and a member of the Audit Committee and the Human Resources and Corporate Governance Committee.

Mr. Box is the President and Chief Executive Officer of Bonanza Fund Management, Inc. and the managing partner of Bonanza Capital, Ltd., a private investment partnership based in Dallas, Texas.

Mr. Box is a graduate of Baylor University.

Douglas Carty

Mr. Carty is a long serving director of the Corporation. He was Chairman of the Board of the Corporation from 2002 through 2007 and is currently Chairman of the Corporation's Audit Committee.

Mr. Carty is currently Chairman and Co-Founder of Switzer-Carty Transportation Inc., a Burlington, Ontario based provider of school bus services.

Mr. Carty is also a Director of Wajax Corporation where he serves on the Audit (Chair) and Governance Committees and YRC Worldwide Inc. where he serves on the Finance and Audit Committees.

Mr. Carty previously served at Laidlaw International Inc. as Chief Financial Officer and subsequently as President and Chief Executive Officer of its school bus subsidiary. Prior to Laidlaw, Mr. Carty served as Chief Financial Officer of Atlas Air Worldwide Holdings Inc. and Canadian Airlines Corporation.

Mr. Carty holds a Masters of Business Administration from the University of Western Ontario and a Bachelor of Arts (Honours) from Queens University.

Bruce Croxon

Mr. Croxon has served as a director of the Corporation since October of 2008 and is a member of the Corporation's Human Resources and Corporate Governance Committee.

Mr. Croxon was a founder of Lavalife, a category leader and internationally recognized brand in the online dating industry. He was instrumental in growing the company to just under \$100 million in revenue and was CEO when the company was sold to Vertrue, Inc. in 2004 and remained CEO until midway through 2006.

Mr. Croxon has since been active as both an investor and advisor in early stage companies in the technology and hospitality sectors. He is currently the Managing Partner of Round13 Capital, a fund that invests in early stage digital businesses in Canada. He is also active in a number of charities, including acting as a National Spokesperson for Anaphylaxis Canada.

Robert MacLean

Mr. MacLean is a founder of the Corporation and has served as Chief Executive Officer of the Corporation since February 2000. As CEO, Mr. MacLean champions the vision for the Corporation and directs an exceptional team of executives. Mr. MacLean has led his team to deliver a suite of innovative technology solutions, earning a growing number of partnerships with the world's leading loyalty programs.

Prior to founding the Corporation, Mr. MacLean recorded an impressive list of leadership roles and achievements during 12 years in the airline and loyalty industry. As Vice President, Sales with Canadian Airlines, Mr. MacLean led a team of over 250 employees throughout North America, delivering over \$2 billion in annual revenue. Mr. MacLean was also responsible for the airline's award-winning Canadian Plus loyalty program. Mr. MacLean also served as Canadian Airline's senior representative on the Oneworld™ Alliance's Customer Loyalty Steering Committee.

Mr. MacLean is an active member of the global loyalty community and speaks frequently at industry events worldwide.

Mr. MacLean is a member of the board of directors of Prodigy Ventures, a TSXV listed technology company, and is a past member of the board of directors of Hope Air. Hope Air is a national charity that helps Canadians get to medical treatment when they cannot afford the flight costs.

Mr. MacLean is a graduate of Acadia University.

Craig Miller

Mr. Miller was elected as a director of the Corporation in May of 2016. Mr. Miller is currently the Chief Product Officer at Shopify Inc., a leading cloud-based, multi-channel commerce platform designed for small and medium-sized businesses. He joined Shopify in 2011 and grew it from a venture-funded startup used by 15,000 businesses to a public company used by over 325,000 businesses in about 150 countries. He is based in Toronto where he also manages the company's largest remote office.

Prior to Shopify, Mr. Miller had spent five years at Kijiji Canada, an eBay company, where he led the marketing and later the product and development teams. He joined Kijiji Canada in 2006 when the group was just three employees and was pivotal in growing the site to being the most popular classifieds site in the country, used by nearly half of all online Canadians.

Mr. Miller is a graduate of McGill University, where he studied Electrical Engineering with a specialization in Computer Systems Technology.

John Thompson

Mr. Thompson is a long serving director of the Corporation. He is currently Chairman of the Human Resources and Corporate Governance Committee and a member of the Audit Committee.

Mr. Thompson has 28 years of executive experience with a range of private and public companies.

From 1999 to 2003, Mr. Thompson was a managing director of Kensington Capital Partners, the investment and advisory firm that did the first fund raise for Points in September 2000. At that time Mr. Thompson made his first investment in Points and has held it since.

Prior to joining Kensington, Mr. Thompson spent more than twenty years with Loblaw Companies Limited, Canada's leading grocery chain, last serving as Executive Vice President and prior to that as Senior Vice President, Finance and Administration. Mr. Thompson's responsibilities at Loblaws included, amongst other things, responsibility for human resources and President's Choice, one of the largest, most recognized and most profitable brands in Canada.

Mr. Thompson is currently a member of the Governing Council of the Sunnybrook Foundation, the fundraising foundation for Sunnybrook Hospital, a premier academic health sciences centre in Canada, that is fully affiliated with the University of Toronto. He is a past member of the Board of Governors and Chairman of the Finance Committee of The Corporation of Roy Thomson Hall and Massey Hall, two of Canada's finest concert venues.

Mr. Thompson holds an Honours Business Administration degree from the Richard Ivey School of Business at the University of Western Ontario. Mr. Thompson is also a CPA, CA.

Current Executive Officers

The following table sets forth the name, province of residence, and current and five-year historic occupations of the executive officers of the Corporation.

| Name Title | Province of Residence | Principal Occupation within the Preceding Five Years (current and for past five years unless otherwise noted) |
|---|----------------------------------|--|
| Robert MacLean Chief Executive Officer | Ontario | Chief Executive Officer, Points International Ltd. and Points.com Inc. |
| Christopher Barnard President | Ontario | President, Points International Ltd. and Points.com Inc. |
| Michael D'Amico | Ontario | Chief Financial Officer, Points International Ltd. and Points.com Inc. |

| | | |
|---|---------|---|
| Chief Financial Officer | | (Nov. 2015 to present) Chief Financial Officer, Romios Gold Resources Inc. (Feb. 2011 to Dec. 2015) Chief Financial Officer, Appia Energy Corp. (Dec. 2012 to Dec 2015) |
| Peter Lockhard Chief Operating Officer | Ontario | Chief Operating Officer and other previous roles, Points International Ltd. and Points.com Inc. |
| Inez Murdoch Chief People Officer | Ontario | Chief People Officer and other previous roles, Points International Ltd. and Points.com Inc. |
| Owen Tran Chief Technology Officer | Ontario | Chief Technology Officer and other previous roles, Points International Ltd. and Points.com Inc. (April 2014 to present) Chief Technology Officer, Switchfly Inc. (Sept. 2007 to April 2014) |

Security Holdings

As of the date of this AIF, as a group, the directors and executive officers of the Corporation beneficially owned, directly or indirectly, or exercised control or direction over, an aggregate of 1,446,454 common shares representing approximately 9.7% of the issued and outstanding common shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of the Corporation, no director or executive officer of the Corporation is, as at the date of this AIF, or within the last 10 years before the date of this AIF has been, a director, chief executive officer or chief financial officer of any company that: (a) while that person was acting in that capacity, was the subject of a cease trade order or similar order or an order that denied the company access to any exemption under securities legislation for a period of more than 30 consecutive days, or (b) was subject to a cease trade order or similar order or an order that denied the company access to any exemption under securities legislation, for a period of more than 30 consecutive days, that was issued after that person ceased to be a director, chief executive officer or chief financial officer, but which resulted from an event that occurred while that person was acting in that capacity.

To the knowledge of the Corporation, no director or executive officer of the Corporation is, as at the date of this AIF, or within the last ten years before the date of this AIF has been, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

To the knowledge of the Corporation, no director or executive officer of the Corporation has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

To the knowledge of the Corporation, no director or executive officer of the Corporation has, within the last 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his or her assets.

Conflicts of Interest

To the knowledge of the Corporation, no director or executive officer of the Corporation has an existing or potential material conflict of interest with Points.

AUDIT COMMITTEE

Audit Committee Charter

A copy of the Audit Committee's mandate is attached hereto as Appendix A.

Composition of the Audit Committee

The Audit Committee is currently comprised of Douglas Carty (Chair), David Adams, Bernay Box and John Thompson. Each member of the Audit Committee is independent and has represented to the Corporation that he is financially literate within the meaning of NI 52-110.

Relevant Education and Experience

Mr. Carty (Chair) holds a Master of Business Administration from the University of Western Ontario (subsequently renamed the Ivey School of Business) and a Bachelor of Arts (Honours) from Queen's University. As described in the section above on "Directors and Executive Officers", Mr. Carty has held several senior executive positions of public companies that are directly relevant to his performance as Chair of the Audit Committee.

Mr. Adams holds a Bachelor of Commerce and Finance degree from the University of Toronto and is also a CPA, CA. As described in the section above on "Directors and Executive Officers", Mr. Adams has held several senior executive positions that are directly relevant to his role on the Audit Committee, including most recently serving as the Executive Vice President and Chief Financial Officer of Aimia Inc. from 2007 until March, 2016.

Mr. Box is the President and CEO of Bonanza Fund Management, Inc. and the managing partner of Bonanza Capital, Ltd., a private investment partnership based in Dallas, Texas. Mr. Box has over 20 years of investment experience. Mr. Box holds a Bachelor of Business Administration degree specializing in Finance and Economics from Baylor University.

Mr. Thompson holds an Honours Business Administration degree from the Ivey School of Business at the University of Western Ontario. Mr. Thompson is also a CPA, CA. Mr. Thompson has 28 years of executive experience.

Audit Committee Pre-Approval Policies and Procedures

The Audit Committee is required to pre-approve all audit and non-audit services performed by the Corporation's external auditor in order to ensure these services do not impair the external auditor's independence.

In accordance with applicable Canadian and U.S. securities rules and regulations, services provided by the Corporation's external auditor are categorized as audit services, audit-related services, tax services and all other services.

The Audit Committee reviews and pre-approves the terms and fees of the external auditor's annual audit services engagement, which includes, the external auditor's attestation report on the effectiveness of the Corporation's internal control over financial reporting.

Certain identified audit services, audit-related services and tax services are pre-approved by the Audit Committee up to a prescribed limit in fees per fiscal year. Management and the external auditor ensure that details of any services performed pursuant to such pre-approval are reported to the Audit Committee on a quarterly basis.

The Chairman of the Audit Committee has authority to pre-approve any non-audit services, including audit-related and tax services, up to a prescribed limit in fees per fiscal year. The details of all such pre-approved services are reported to the Audit Committee on a quarterly basis.

External Auditor Service Fees (By Category)

The aggregate fees billed by the Corporation's external auditor in the last two fiscal years are as follows:

| Auditor Fees | 2016 (CAD\$) | 2015 (CAD\$) |
|---------------------|---------------------|---------------------|
| Audit Fees | 368,742 | 438,400 |
| Tax Fees | Nil | Nil |
| Total | 368,742 | 438,400 |

In the table above, Audit Fees include fees for the annual audit of our consolidated financial statements, interim reviews of our quarterly condensed consolidated financial statements and statutory audits of our wholly-owned subsidiaries by our external auditor. Tax Fees are fees relating to general tax matters.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of the Corporation, no director or executive officer of Points or a person or company that beneficially owns or controls or directs, directly or indirectly, more than 10% of any class or series of the Corporation's outstanding voting securities, or an associate or affiliate thereof, had any material interest, direct or indirect, in any transaction within the three most recently completed fiscal years or during the current fiscal year that has materially affected or is reasonably expected to materially affect the Corporation.

TRANSFER AGENT

Computershare Trust Company of Canada
100 University Ave., 9th Floor
Toronto, ON M5J 2Y1
Canada

INTEREST OF EXPERTS

KPMG LLP, the external auditor of the Corporation, reported on the 2016 Audited Consolidated Financial Statements. KPMG LLP have confirmed that they are independent with respect to the Corporation within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations, and also that they are independent accountants with respect to the Corporation under all relevant US professional and regulatory standards.

ADDITIONAL INFORMATION

Additional information about the Corporation can be found at www.sedar.com or www.sec.gov.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities, options to purchase securities and interests of insiders in material transactions, if applicable, is contained in the Corporation's most recent Management Information Circular.

Additional financial information can also be found in the Corporation's 2016 Audited Consolidated Financial Statements and the 2016 MD&A.

APPENDIX A

AUDIT COMMITTEE MANDATE

1. ESTABLISHMENT OF COMMITTEE

1.1 Establishment of the Audit Committee Confirmed

The establishment of the audit committee of the board of directors of Points International Ltd., is hereby confirmed with the purpose, constitutions and responsibilities herein set forth.

1.2 Certain Definitions

In this mandate:

- (a) "Board" means the board of directors of Points International;
- (b) "Chair" means the chair of the Committee;
- (c) "Committee" means the audit committee of the Board;
- (d) "Director" means a member of the Board;
- (e) "External Auditor" means the person occupying the office of auditor of the Corporation in accordance with the *Canada Business Corporations Act* ;
- (f) "Mandate" means this written mandate of the Committee and any such mandate for the Committee which the Board resolves from time to time shall be the mandate of the Committee; and
- (g) "Points International" or the "Corporation" means Points International Ltd.

2. PURPOSE AND OBJECTIVE

2.1 Purpose

The Committee's purpose is to assist the Board in the discharge of its obligations in connection with:

- (a) the integrity of the Corporation's financial statements, and accounting and financial reporting systems (including those used in connection with the preparation of its financial statements, budgets and forecasts);
 - (b) the Corporation's compliance with legal and regulatory requirements;
 - (c) the External Auditor's qualifications and independence;
 - (d) the performance of the External Auditor and the performance of the Corporation's internal audit function; and
 - (e) the adequacy and integrity of the Corporation's internal controls over financial reporting and disclosure controls and procedures.
-

2.2 Discharge of Responsibilities

The Audit Committee will primarily fulfill its responsibilities by carrying out the activities enumerated in Section 8 of this Mandate.

3. AUTHORITY AND OUTSIDE ADVISERS

3.1 Information from Employees

The Board authorizes the Committee, within the scope of its responsibilities, to seek information it requires from any employee.

3.2 Outside Advisors

The Committee shall also have the authority to retain (and terminate) such outside legal, accounting or other advisors as it may consider appropriate and shall not be required to obtain the approval of the Board in order to retain or compensate such advisors. The Committee shall have sole authority to approve related fees and retention terms.

4. COMMITTEE MEMBERSHIP

4.1 Number of Members

The Committee shall consist of not fewer than three Directors.

4.2 Independence of Members

The members of the Committee shall be independent directors as defined in NI 52-110, the NASDAQ Listing Rules and Rule 10A-3(b)(1) under the Securities Exchange Act of 1934.

4.3 Financial Literacy

- (a) Requirement - Each member of the Committee shall be financially literate or must become financially literate within a reasonable period of time after his or her appointment to the Committee.
- (b) Definition - "Financially literate" shall mean that the Director has the ability to read and understand a set of financial statements that present the breadth and complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

4.4 Financial Expert

Unless approved by the Board, the Committee shall have at least one financial expert as defined under Item 407 of Regulation S-K under the Securities Exchange Act of 1934.

4.5 Annual Appointment of Members

The members of the Committee shall be appointed by the Board. The appointment of members of the Committee shall take place annually at the first meeting of the Board after a meeting of the shareholders at which Directors are elected, provided that if the appointment of members of the Committee is not so made, the Directors who are then serving as members of the Committee shall continue as members of the Committee until their successors are appointed.

4.6 Vacancy

The Board may appoint a member to fill a vacancy which occurs in the Committee between annual elections of Directors.

5. COMMITTEE CHAIR

5.1 Board to Appoint Chair

The Board shall appoint the Chair from the members of the Committee (or if it fails to do so, the members of the Committee shall appoint the Chair from among its members). If, at any meeting, the Chair is not in attendance, then the directors present shall be responsible for choosing one of their number to be chair of the meeting and for delivering a casting vote, as necessary.

5.2 Chair to be Appointed Annually

The designation of its Chair shall take place annually at the first meeting of the Board after a meeting of the members at which Directors are elected, provided that if the designation of Chair is not so made, the Director who is then serving as Chair shall continue as Chair until his or her successor is appointed.

5.3 Casting Vote

In case of an equality of votes, the Chair in addition to his original vote shall have a second or casting vote.

6. COMMITTEE MEETINGS

6.1 Quorum

A quorum of the Committee shall be a majority of its members. No business shall be transacted by the Committee except at a meeting at which a quorum of the Committee is present.

6.2 Secretary

The Secretary of the Committee will be the Secretary of the Board, unless otherwise appointed by the Chair. The Secretary may, but need not, be a member of the Committee.

6.3 Time and Place of Meetings

The time and place of the meetings of the Committee and the calling of meetings and the procedure in all things at such meetings shall be determined by the Committee; provided, however, the Committee shall meet at least quarterly. In addition, meetings may be called by any member of the Committee or by the External Auditor on two days notice (exclusive of the day on which notice is sent but inclusive of the day for which notice is given).

6.4 Right to Vote

Each member of the Committee shall have the right to vote on matters that come before the Committee.

6.5 Invitees

The External Auditor, the Chief Executive Officer and the Chief Financial Officer of Points International shall be entitled to receive notice of and to be heard at each meeting of the Committee, as non-voting observers. The Committee may additionally invite Directors, officers and employees of Points International or any other person to attend meetings of the Committee to assist in the discussion and examination of the matters under consideration by the Committee.

6.6 In Camera Sessions with External Auditor

As part of each meeting of the Committee at which the Committee recommends that the Board approve the annual audited financial statements or at which the Committee reviews the interim financial statements, the Committee shall meet separately with each of:

- (a) the Chief Financial Officer; and
- (b) the External Auditor.

No minutes of the in camera sessions will be taken unless the Chair of the meeting requests in writing that the discussion be added to the meeting minutes.

7. **REMUNERATION OF COMMITTEE MEMBERS**

7.1 Director Fees Only

No member of the Committee may earn fees from Points International or any of its subsidiaries other than directors' fees (which fees may include cash and/or shares or options or other in-kind consideration ordinarily available to Directors, as well as all of the regular benefits that other Directors receive).

7.2 Other Payments

For greater certainty, no member of the Committee shall accept any consulting, advisory or other compensatory fee from Points International and its affiliates.

8. **DUTIES AND RESPONSIBILITIES OF THE COMMITTEE**

8.1 Financial and Related Information

- (a) *Financial Reporting* - The Committee shall only review annual and interim financial reports and related financial documents for release to the public after the External Auditor has reviewed such material (if applicable) and the Chief Financial Officer has completed and signed a disclosure checklist regarding key areas affecting Directors' liability. The Committee must be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements and must periodically assess the adequacy of those procedures.
 - (b) *Financial Statements* - The Committee shall review and discuss with management and the External Auditor, Points International's annual and interim financial statements and related MD&A and report thereon to the Board before the Board approves those statements.
 - (c) *Accounting Treatment* - The Committee shall review and discuss with management and the External Auditor on a timely basis:
-

- i. major issues regarding accounting policies, principles and financial statement presentations, including any significant changes in Points International's selection or application of accounting principles and major issues as to the adequacy of Points International's internal controls and any special audit steps adopted in light of material control deficiencies;
 - ii. analyses prepared by management and the External Auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analysis of the effects of alternative accounting methods on the financial statements;
 - iii. the effect on the financial statements of Points International of regulatory and accounting initiatives and issues, as well as off-balance sheet transactions, structures, obligations (including contingent obligations) and other relationships of Points International with unconsolidated entities or other persons that have a material current or future effect on the financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves or significant components of revenues or expenses of Points International;
 - iv. the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented;
 - v. any financial information or financial statements in prospectuses and other offering documents;
 - vi. the management certifications of the financial statements as may be required by applicable securities laws in Canada or otherwise, and all certifications and reports of any disclosure committee established by management from time to time; and
 - vii. any other relevant reports or financial information submitted by Points International to any governmental body, or the public.
- (d) *Discussion of Accounting Treatments* - The Committee shall have direct communication channels with the External Auditor to discuss and review specific issues as appropriate.
- (e) *Disclosure of Other Financial Information* - The Committee shall discuss with management and the External Auditor:
- i. financial information to be disclosed in the press releases discussing the annual and interim profits or losses of the Corporation, paying particular attention to any use of "pro forma" or "adjusted" financial information;
 - ii. financial information to be disclosed in any other press releases issued by the Corporation; and
 - iii. financial information and earnings guidance (if any) provided to analysts and rating agencies.
-

- (f) *Review of Communications* - The Committee shall review with the External Auditor all material written communication between the External Auditor and management including, but not limited to, the management letter and schedule of unadjusted differences.

8.2 External Auditor

- (a) *Authority with Respect to External Auditor* . The Committee shall be responsible for the selection, compensation, retention and oversight of the work of the External Auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation. In discharging its responsibilities, the Committee shall:
- i. recommend to the Board the accounting firm to be proposed to the shareholders for appointment as the External Auditor;
 - ii. recommend to the Board the compensation of the External Auditor;
 - iii. determine, at any time, whether the Board should recommend to the shareholders that the incumbent External Auditor be removed from office;
 - iv. review the terms of the External Auditor's engagement and discuss the audit fees with the External Auditor, as necessary; and
 - v. require the External Auditor report directly to the Committee.
- (b) *Independence of External Auditor* . The Committee shall satisfy itself as to the independence of the External Auditor. As part of this process, the Committee shall:
- i. assure the regular rotation of the lead audit partner as required by applicable laws and consider whether, in order to ensure continuing independence of the External Auditor, the Corporation should periodically rotate the accounting firm that serves as External Auditor;
 - ii. require the External Auditor to submit at least annually to the Committee a formal written statement delineating all relationships between the External Auditor and the Corporation, engage in a dialogue with the External Auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the External Auditor, and recommend to the Board the appropriate actions to be taken in response to the External Auditor's report to satisfy itself of the External Auditor's independence;
 - iii. unless the Committee adopts pre-approval policies and procedures, it must pre-approve any non-audit services provided by the External Auditor to the Corporation or its subsidiaries; provided, however, that the Committee may delegate such pre-approval authority to one or more of its members, who shall report to the Committee concerning their exercise of such delegated authority at or prior to the next scheduled meeting of the Committee; and
-

- iv. establish, approve and periodically review the Corporation's hiring policy regarding partners, employees and former partners and employees of the External Auditor and any accounting firm that used to serve as External Auditor.
- (c) *Issues Between External Auditor and Management* . The Committee shall satisfy itself that any disagreement between management and the External Auditor regarding the Corporation's financial reporting is resolved. As part of this process, the Committee shall:
- i. review any problems experienced by the External Auditor in conducting the audit, including any restrictions on the scope of the External Auditor's activities or on its access to requested information;
 - ii. act as an intermediary with a view of resolving any significant disagreements that may arise between management of the Corporation and the External Auditor;
 - iii. review with the External Auditor:
 - (A) any accounting adjustments that were noted or proposed by the External Auditor, but were ultimately not made;
 - (B) any auditing or accounting issues presented by the engagement;
 - (C) any internal control issues or weaknesses identified by the External Auditor; and
 - (D) the responsibilities, budget and staffing of the Corporation's internal audit function.
- (d) *Evaluation of External Auditor* . The Committee shall evaluate the External Auditor each year and present its conclusions to the Board. In connection with this evaluation, the Committee shall:
- i. obtain and review a report prepared by the External Auditor describing:
 - (A) the External Auditor's quality-control procedures;
 - (B) any material issues raised by the most recent internal quality- control review, or peer review, of the External Auditor or by any inquiry, review, inspection or investigation involving the External Auditor by governmental or professional authorities, within the preceding five years, in respect of one or more independent audits carried out by the External Auditor, and any steps taken to deal with any such issues; and
-

- (C) all relationships between the External Auditor and the Corporation;
- ii. review and evaluate the performance of the lead partner of the External Auditor; and
- iii. obtain the feedback from the relevant members of management of the Corporation and the Internal Auditor on the performance of the External Auditor.

8.3 Management Response

The Committee shall obtain management's response to significant remarks or findings of the External Auditor and shall follow-up as required on the status of the implementation of corrective measures.

8.4 Related Party Transactions

The Committee shall review and approve all related party transactions in which Points International is involved or which Points International proposes to enter into.

8.5 Risk Assessment, Risk Management and Internal Control

- (a) The Committee shall gain an understanding of Points International's business and shall discuss Points International's major financial risk exposures and the steps management has taken to monitor and control such exposures.
- (b) The Committee shall assess and evaluate management's internal control plan.
- (c) The Committee shall obtain regular updates from management and legal counsel regarding compliance matters.

8.6 Other Matters

The Committee shall perform any other activities consistent with this Mandate, Points International's by-laws and governing law, as the Committee or the Board deems necessary or appropriate.

9. **WHISTLE BLOWING**

9.1 Procedure

The Committee shall be responsible for reviewing and evaluating the Corporation's procedures for:

- (a) the receipt, retention and treatment of complaints received by the issuer regarding accounting, internal accounting controls or auditing matters; and
 - (b) the confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.
-

10. HIRING PRACTICES

10.1 Hiring Policies

The Committee shall review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Corporation.

11. REPORTING TO THE BOARD

11.1 Regular Reporting

The Committee shall report to the Board following each meeting of the Committee and at such other times as the Chair may determine to be appropriate (provided that the Committee shall report to the Board at least four times per year) and shall ensure that the Board is made aware of matters that may significantly affect the financial condition or affairs of Points International.

12. EVALUATION OF COMMITTEE PERFORMANCE AND MANDATE REVIEW

12.1 Establish Process

The Board may establish a process for committees of the Board for assessing the performance of such committees on a regular basis and, if established, the Committee shall follow such process in assessing its performance.

12.2 Amendments to Mandate

The Committee shall review and assess the adequacy of this Mandate annually and recommend to the Board any changes it deems appropriate.

Consolidated Financial Statements

Points International Ltd.

December 31, 2016



KPMG LLP
333 Bay Street
Suite 4600
Toronto, ON
M5H 2S5

Telephone (416) 777-8500
Fax (416) 777-8818
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Points International Ltd.:

We have audited the accompanying consolidated financial statements of Points International Ltd., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, the consolidated statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Canadian limited liability partnership and a member of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP



Page 2

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Points International Ltd. as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board .

Other Matter

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Points International Ltd.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our audit report dated March 8, 2017 expressed an unqualified (unmodified) opinion on the effectiveness of Points International Ltd.'s internal control over financial reporting.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 8, 2017
Toronto, Canada



KPMG LLP
333 Bay Street
Suite 4600
Toronto, ON
M5H 2S5

Telephone (416) 777-8500
Fax (416) 777-8818
www.kpmg.ca

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Points International Ltd.:

We have audited Points International Ltd.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Points International Ltd.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in management's Report on Internal Control over Financial Reporting in Management's Discussion and Analysis for the year ended December 31, 2016. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of

KPMG LLP is a Canadian limited liability partnership and a member of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP



Page 2

changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Points International Ltd. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of Points International Ltd. as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income (loss), changes in shareholders' equity, and cash flows for the years ended December 31, 2016 and 2015, and our report dated March 8, 2017 expressed an unmodified (unqualified) opinion on those consolidated financial statements.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants, Licensed Public Accountants

March 8, 2017
Toronto, Canada

Points International Ltd.
Consolidated Statements of Financial Position

Expressed in thousands of United States dollars

| As at December 31 | Note | 2016 | 2015 |
|---|------|-------------------|------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 46,492 | \$ 51,364 |
| Short-term investments | 23 | 10,033 | - |
| Restricted cash | 4 | 500 | 1,000 |
| Funds receivable from payment processors | | 10,461 | 6,588 |
| Accounts receivable | 5 | 4,057 | 2,988 |
| Prepaid expenses and other assets | 6 | 1,475 | 1,256 |
| Total current assets | | 73,018 | 63,196 |
| Non-current assets | | | |
| Property and equipment | 7 | 1,750 | 1,466 |
| Intangible assets | 8 | 16,896 | 18,616 |
| Goodwill | 9 | 7,130 | 7,130 |
| Deferred tax assets | 10 | 1,725 | 1,755 |
| Long-term investment | 22 | - | 5,000 |
| Other assets | 6 | 2,715 | 2,765 |
| Total non-current assets | | 30,216 | 36,732 |
| Total assets | | \$ 103,234 | \$ 99,928 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | \$ 6,335 | \$ 5,530 |
| Income taxes payable | | 1,638 | 278 |
| Payable to loyalty program partners | | 53,242 | 49,526 |
| Current portion of other liabilities | 11 | 771 | 1,852 |
| Total current liabilities | | 61,986 | 57,186 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 10 | 211 | 425 |
| Other liabilities | 11 | 719 | 122 |
| Total non-current liabilities | | 930 | 547 |
| Total liabilities | | \$ 62,916 | \$ 57,733 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 12 | 58,412 | 59,293 |
| Contributed surplus | | 9,881 | 9,859 |
| Accumulated other comprehensive loss | | (127) | (624) |
| Accumulated deficit | | (27,848) | (26,333) |
| Total shareholders' equity | | \$ 40,318 | \$ 42,195 |
| Total liabilities and shareholders' equity | | \$ 103,234 | \$ 99,928 |
| <i>Guarantees and Commitments</i> | 17 | | |
| <i>Credit Facilities</i> | 24 | | |

The accompanying notes are an integral part of these consolidated financial statements.

APPROVED ON BEHALF OF THE BOARD:

/s/ Bernay Box
/s/ Robert MacLean

Chairman
Director and Chief Executive Officer

Points International Ltd.
Consolidated Statements of Comprehensive Income (Loss)

Expressed in thousands of United States dollars, except per share amounts

| For the year ended December 31 | Note | 2016 | 2015 |
|---|------|-------------------|-------------------|
| REVENUE | | | |
| Principal | | \$ 308,964 | \$ 283,409 |
| Other partner revenue | | 12,648 | 12,871 |
| Interest | | 209 | 96 |
| Total Revenue | 20 | 321,821 | 296,376 |
| EXPENSES | | | |
| Direct cost of principal revenue | | 278,483 | 253,710 |
| Employment costs | | 23,220 | 22,699 |
| Marketing and communications | | 2,220 | 1,704 |
| Technology services | | 1,691 | 1,343 |
| Depreciation and amortization | | 4,529 | 3,546 |
| Foreign exchange (gain) loss | | 230 | (131) |
| Operating expenses | 15 | 6,418 | 5,866 |
| Impairment of long-term investment | 22 | 5,000 | - |
| Total Expenses | | \$ 321,791 | \$ 288,737 |
| INCOME BEFORE INCOME TAXES | | 30 | 7,639 |
| Income tax expense | 10 | 1,545 | 2,474 |
| NET INCOME (LOSS) | | \$ (1,515) | \$ 5,165 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| Items that will subsequently be reclassified to profit or loss: | | | |
| Unrealized gain (loss) on foreign exchange derivatives designated as cash flow hedges | | 401 | (1,796) |
| Income tax effect | | (106) | 476 |
| Reclassification to net income of loss on foreign exchange derivatives designated as cash flow hedges | | 269 | 1,428 |
| Income tax effect | | (67) | (378) |
| Other comprehensive income (loss) for the year, net of income tax | | 497 | (270) |
| TOTAL COMPREHENSIVE INCOME (LOSS) | | \$ (1,018) | \$ 4,895 |
| EARNINGS (LOSS) PER SHARE | | | |
| Basic earnings (loss) per share | 13 | \$ (0.10) | \$ 0.33 |
| Diluted earnings (loss) per share | 13 | \$ (0.10) | \$ 0.33 |

The accompanying notes are an integral part of these consolidated financial statements.

Points International Ltd.
Consolidated Statements of Changes in Shareholders' Equity

Attributable to equity holders of the Company
Accumulated

Expressed in thousands of United States dollars except number of shares

| | Note | Share Capital Number of Shares | Amount | Contributed Surplus | other comprehensive loss | Accumulated deficit | Total shareholders' equity |
|--|------|--------------------------------------|------------------|------------------------|--------------------------------|------------------------|----------------------------------|
| Balance at December 31, 2015 | | 15,306,402 | \$ 59,293 | \$ 9,859 | \$ (624) | \$ (26,333) | \$ 42,195 |
| Net loss | | - | - | - | - | (1,515) | (1,515) |
| Other comprehensive income | | - | - | - | 497 | - | 497 |
| Total comprehensive loss | | - | - | - | 497 | (1,515) | (1,018) |
| Effect of share option compensation plan | 14 | - | - | 540 | - | - | 540 |
| Effect of RSU compensation plan | 14 | - | - | 1,777 | - | - | 1,777 |
| Share issuances – share options | | 500 | 7 | (2) | - | - | 5 |
| Share issuances – RSUs | | - | 791 | (791) | - | - | - |
| Shares repurchased | 12 | (428,228) | (1,679) | (1,502) | - | - | (3,181) |
| Balance at December 31, 2016 | | 14,878,674 | \$ 58,412 | \$ 9,881 | \$ (127) | \$ (27,848) | \$ 40,318 |
| Balance at December 31, 2014 | | 15,649,085 | \$ 61,084 | \$ 11,985 | \$ (354) | \$ (31,498) | \$ 41,217 |
| Net income | | - | - | - | - | 5,165 | 5,165 |
| Other comprehensive loss | | - | - | - | (270) | - | (270) |
| Total comprehensive income | | - | - | - | (270) | 5,165 | 4,895 |
| Effect of share option compensation plan | 14 | - | - | 934 | - | - | 934 |
| Effect of RSU and PSU compensation plan | 14 | - | - | 654 | - | - | 654 |
| Share issuances – share options | | 96,411 | 615 | (338) | - | - | 277 |
| Share issuances – RSUs | | - | 513 | (513) | - | - | - |
| Share capital held in trust | 14 | - | (1,215) | - | - | - | (1,215) |
| Shares repurchased | 12 | (439,094) | (1,704) | (2,863) | - | - | (4,567) |
| Balance at December 31, 2015 | | 15,306,402 | \$ 59,293 | \$ 9,859 | \$ (624) | \$ (26,333) | \$ 42,195 |

The accompanying notes are an integral part of these consolidated financial statements.

Points International Ltd.
Consolidated Statements of Cash Flows
For the year ended December 31

Expressed in thousands of United States dollars

| | Note | 2016 | 2015 |
|--|------|--------------------|-------------------|
| Cash flows from operating activities | | | |
| Net income (loss) for the year | | \$ (1,515) | \$ 5,165 |
| Adjustments for: | | | |
| Depreciation of property and equipment | | 1,127 | 1,037 |
| Amortization of intangible assets | | 3,402 | 2,509 |
| Unrealized foreign exchange loss (gain) | | (1,088) | (949) |
| Equity-settled share-based payment transactions | 14 | 2,317 | 1,588 |
| Impairment of long-term investment | 22 | 5,000 | - |
| Deferred income tax expense (recovery) | 10 | (345) | 2,261 |
| Net (gain) loss on derivative contracts designated as cash flow hedges | | 670 | (368) |
| Changes in non-cash balances related to operations | 19 | 286 | 10,689 |
| Net cash provided by operating activities | | \$ 9,854 | \$ 21,932 |
| Cash flows from investing activities | | | |
| Acquisition of property and equipment | | (1,411) | (647) |
| Additions to intangible assets | | (1,682) | (2,805) |
| Changes in short-term investments | | (10,033) | - |
| Changes in restricted cash | | 500 | 530 |
| Net cash used in investing activities | | \$ (12,626) | \$ (2,922) |
| Cash flows from financing activities | | | |
| Proceeds from exercise of share options | | 5 | 277 |
| Shares repurchased | 12 | (3,181) | (4,567) |
| Purchases of share capital held in trust | | - | (1,215) |
| Net cash used in financing activities | | \$ (3,176) | \$ (5,505) |
| Net increase in cash and cash equivalents | | \$ (5,948) | \$ 13,505 |
| Cash and cash equivalents at beginning of the year | | 51,364 | 36,868 |
| Effect of exchange rate fluctuations on cash held | | 1,076 | 991 |
| Cash and cash equivalents at end of the year | | \$ 46,492 | \$ 51,364 |
| Interest Received | | \$ 153 | \$ 89 |
| Interest Paid | | \$ - | \$ - |
| Taxes Received | | \$ - | \$ 31 |
| Taxes Paid | | \$ (542) | \$ (435) |

Amounts paid and received for interest were reflected as operating cash flows in the consolidated statements of cash flows.

The accompanying notes are an integral part of these consolidated financial statements.

POINTS INTERNATIONAL LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

1. REPORTING ENTITY

Points International Ltd. (the "Corporation") is a company domiciled in Canada. The address of the Corporation's registered office is 111 Richmond Street, Suite 700, Toronto, ON, Canada M5H 2G4. The consolidated financial statements of the Corporation as at and for the year ended December 31, 2016 comprise the Corporation and its wholly-owned subsidiaries, Points International (US) Ltd., Points International (UK) Ltd., Points.com Inc., Points Travel Inc., and Points Development (US) Ltd. The Corporation's shares are publicly traded on the Toronto Stock Exchange ("TSX") as PTS and on the NASDAQ Capital Market ("NASDAQ") as PCOM.

The Corporation operates in one segment, providing web-based solutions to the loyalty program industry. The range of ecommerce services include the retailing and wholesaling of loyalty program currencies, a range of additional ecommerce products that enhance either the loyalty program's consumer offerings or its back-end operations, and management of an online consumer-focused loyalty points management web-portal. The Corporation's operations can be influenced by seasonality. Historically, revenues are highest in the fourth quarter in each year as redemption volumes and promotional activity typically peak at this time.

The consolidated financial statements of the Corporation as at and for the year ended December 31, 2016 are available at www.sedar.com or www.sec.gov.

2. BASIS OF PREPARATION**(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on March 8, 2017.

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for certain assets and liabilities initially recognized in connection with business combinations, and certain financial instruments, which are measured at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in U.S. dollars ("USD"). The functional currency of the Corporation and each of the Corporation's wholly-owned subsidiaries is also USD, except for Points Travel Inc. which uses the Canadian dollar ("CAD") as its functional currency. Items included in the financial statements of each subsidiary are measured using their respective functional currencies. All financial information has been rounded to the nearest thousands, except when otherwise indicated.

(d) Basis of consolidation*Subsidiaries*

Subsidiaries are entities the Corporation controls. Entities over which the Corporation has control are fully consolidated from the date that control commences until the date that control ceases. All intercompany transactions and balances between subsidiaries are eliminated on consolidation.

(e) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Significant changes in these assumptions, including those related to our future business plans and cash flows, could materially change the amounts we record. Actual results may differ from these estimates.

POINTS INTERNATIONAL LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

On an ongoing basis, the Corporation has applied judgments in the following areas:

- determining whether revenue and direct costs of revenue should be appropriately presented on a gross or net basis;
- determining cash generating units (“CGUs”) and the allocation of goodwill for the purpose of impairment testing;
- choosing methods for depreciating and amortizing our property and equipment and intangible assets that represent most accurately the consumption of benefits derived from those assets. In making this determination the Corporation has considered assumptions that are most representative of the economic substance of the intended use of the underlying assets. These same assumptions were used when deciding to designate certain intangible assets as assets with indefinite useful lives as the Corporation believes that there is no limit to the period that these assets are expected to generate net cash inflows;
- determining whether certain hedging relationships and financial instruments qualify for hedge accounting; and
- interpreting tax rules and regulations

The Corporation also uses significant estimates in the following areas:

- capitalizing direct labor and overhead costs to intangible assets
- determining the recoverable amount of financial and non-financial assets when testing for impairment; and
- determining the fair value of share based payments and derivative instruments.

Estimates are based on historical experience adjusted as appropriate for current circumstances and other assumptions that management believes to be reasonable. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The application of the estimates and judgments noted above are discussed in Note 3.

3. SIGNIFICANT ACCOUNTING POLICIES**(a) New accounting pronouncements adopted in 2016**

The accounting policies set out below have been applied consistently by the Corporation and its subsidiaries to all years presented in these consolidated financial statements. In addition, the Corporation adopted the following accounting pronouncements in 2016:

- Amendments to IAS 1 Disclosure Initiative – The amendments to IAS 1, Presentation of Financial Statements (“IAS 1”), clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:
 - The materiality requirements in IAS 1
 - That specific line items in the statements of comprehensive income and the statement of financial position may be disaggregated
 - That entities have flexibility as to the order in which they present the notes to consolidated financial statements
 - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statements of financial position and the consolidated statements of comprehensive income. These amendments did not have a material impact on the consolidated financial statements.

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

- Amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets - The IASB issued amendments to these standards to introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. These amendments did not have a material impact on the consolidated financial statements.
- Clarification of IAS 12, Income Taxes (“IAS 12”) – In November 2016, the IFRS Interpretations Committee issued clarifications that provide guidance on the application of tax rates related to the expected method of recovery of an indefinite-life intangible asset for the purposes of measuring deferred tax. These clarifications did not have a material impact on the consolidated financial statements.

(b) Revenue recognition

The Corporation’s revenue is categorized as principal, other partner revenue, and interest revenue and is generated through the sale of loyalty currencies and through the technology and marketing services provided to loyalty program partners and their customers. Revenue is measured at the fair value of the consideration received or receivable.

Revenue from the sale of loyalty currencies is recognized when the following criteria are met:

- The risks and rewards of ownership, including managerial involvement, have transferred to the buyer;
- The amount of revenue can be measured reliably;
- The receipt of economic benefits is probable; and
- Costs incurred or to be incurred are identifiable and can be measured reliably.

Revenue from the rendering of services is recognized when the following criteria are met:

- The amount of revenue can be measured reliably;
- The stage of completion can be measured reliably;
- The receipt of economic benefits is probable; and
- Costs incurred and to be incurred are identifiable and can be measured reliably.

The Corporation’s revenue has been categorized as follows:

Principal Revenue

Principal revenue groups together several streams of revenue that the Corporation realizes in delivering services to various loyalty programs. The following is a list of revenue streams and the related revenue recognition policy.

- (i) Reseller revenue is a type of transactional revenue that is realized when the Corporation takes a principal role in the retailing, wholesaling and/or transferring of loyalty currencies for loyalty program partners. The Corporation’s role as the principal in the transaction is determined by the contractual arrangement in place with the loyalty program partner. In this instance, the Corporation has a substantive level of responsibility with respect to operations, marketing, pricing and commercial transaction support and is the primary obligor in the arrangement. In addition, the Corporation may assume substantive credit and/or inventory risk with each transaction processed with the loyalty program’s members. Revenue earned as reseller revenue is recorded on a gross basis. Related costs are recorded as direct costs of principal revenue.
 - (ii) Technical design and development work is performed at the commencement of a business relationship with a loyalty program partner. The majority of the technical design and development fees relate to up-front revenues to cover the Corporation’s cost of setting up the loyalty program web interface and customizing the look and feel of the site to that of the loyalty program partner. Once the loyalty program partner website is functional, end consumers are able to transact on the site which gives rise to transactional revenues for the Company for the term of the contract. These technical design and development fees are recorded as multiple element arrangements. Management believes that the technical design and development work does not have stand-alone value to the program partner absent the corresponding arrangement to provide the loyalty currency transaction platform to program members and as such, this revenue is deferred, along with direct related costs to the extent there is deferred revenue, and recognized over the term of the contract, which approximates the period of expected benefit.
-

POINTS INTERNATIONAL LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

- (iii) Customized technical design service fees are also charged to loyalty program partners who require custom programming or web-design work that is not tied to an ongoing stream of revenue. This revenue is distinct from any other existing agreement and the delivered product has stand-alone value to the loyalty program partner. This revenue is recognized based on percentage-of-completion at the end of each reporting period. In using the percentage-of-completion method, revenues are generally recorded based on the total hours incurred to date on a contract relative to the total estimated hours.

Other Partner Revenue

Other partner revenue is primarily a type of transactional revenue that is realized when the Corporation takes an agency role in the retailing, wholesaling and/or transferring of loyalty currency for loyalty program partners. The Corporation's role as an agent in the transaction is determined by the contractual arrangement in place with the loyalty program partner. In this instance, the Corporation has a minimal level of responsibility with respect to operations, marketing, pricing and commercial transaction support. As well, the Corporation assumes minimal credit and inventory risk with each transaction processed. Revenue generated when the Corporation takes an agency role is recorded on a net basis. Other partner revenue also includes revenue received from partners which are not transactional in nature but have been earned in the period, such as management fees charged to loyalty program partners who require custom marketing or non-technical solutions that are not covered by any other agreements with the Corporation.

Interest Revenue

Interest revenue is earned on funds invested in accordance with the Corporation's Board approved investment policy. Interest revenue is recognized when earned.

When deciding the most appropriate basis for presenting revenue on either a gross or net basis, both the legal form and substance of the agreement between the Corporation and its business partners are reviewed to determine each party's respective role in the transaction. Where the Corporation's role in a transaction is that of a principal, revenue is recognized on a gross basis. Where the Corporation's role in a transaction is that of an agent, revenue is recognized on a net basis with revenue approximating the margin earned.

This determination requires the exercise of judgment. In making this assessment, management considers whether the Corporation:

- has primary responsibility for providing the goods and services to the customer or for fulfilling the orders;
- has inventory risk before or after the customer order;
- has discretion in establishing prices (directly or indirectly);
- bears the customer's credit risk for the amount receivable from the customer;
- modifies the product or performs part of the services;
- has discretion in selecting the supplier used to fulfill an order; and/or
- is involved in determining product or service specifications.

(c) Foreign currency translation**(i) Foreign currency transactions**

Transactions in currencies other than the Corporation's or its subsidiaries' respective functional currency are recognized at the average exchange rates in effect on the transaction date. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rates prevailing at that date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are retranslated to the functional currency at the exchange rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

POINTS INTERNATIONAL LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

Foreign exchange gains and losses on monetary items are recognized in profit or loss; except for foreign currency derivatives designated as qualifying cash flow hedges, the fair values of which are deferred in accumulated other comprehensive income in shareholders' equity until such time that the hedged transaction affects profit or loss; refer to Notes 3(d)(iv) and 16.

(ii) Foreign operations

The assets and liabilities of non-USD functional currency subsidiaries, including goodwill and fair value adjustments arising on acquisition, are translated to U.S. dollars at exchange rates at the reporting date. The income and expenses of these subsidiaries are translated to U.S. dollars using average exchange rates for the month during which the transactions occurred. Foreign currency differences resulting from translation are recognized in other comprehensive income within the cumulative translation account.

(d) Financial instruments

All financial assets and financial liabilities are recognized on the Corporation's consolidated balance sheets when the Corporation becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are incremental and directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities measured at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities measured at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets and liabilities are offset and the net amount presented in the consolidated balance sheets when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(i) Non-derivative financial assets

Non-derivative financial assets are comprised of the following: held to maturity financial assets, loans and receivables and available-for-sale financial assets. All financial instruments are initially measured at fair value. Measurement in periods subsequent to initial recognition depends on the classification of the financial instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. An interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

Held-to-maturity

Held-to-maturity financial assets includes short-term investments, such as interest bearing bearer deposit notes, held by the Corporation to generate interest income. Held-to-maturity financial assets are recorded at amortized cost using the effective interest rate method.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (accounts receivable), but also incorporate other types of contractual monetary assets. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are assets that are not classified in any of the other categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented within equity. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(ii) Non-derivative financial liabilities

Financial liabilities are recognized initially on the date on which the Corporation becomes a party to the contractual provisions of the instrument. The Corporation derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Corporation has the following non-derivative financial liabilities: accounts payable and accrued liabilities and payable to loyalty program partners. These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The Corporation's non-derivative financial assets and liabilities are classified and measured as follows:

| Asset/Liability | Category | Measurement |
|--|-------------------------------------|--------------------|
| Funds receivable from payment processors | Loans and receivables | Amortized cost |
| Accounts receivable | Loans and receivables | Amortized cost |
| Short-term investments | Held to maturity | Amortized cost |
| Long-term investment | Available-for-sale financial assets | Fair value |
| Accounts payable and accrued liabilities | Financial liabilities | Amortized cost |
| Payable to loyalty program partners | Financial liabilities | Amortized cost |

(iii) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(iv) Derivative financial instruments, including hedge accounting

The Corporation holds derivative financial instruments to hedge its foreign currency risk exposures. These derivatives are designated in accounting hedge relationships and the Corporation applies cash flow hedge accounting. On initial designation of the hedge, the Corporation formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Corporation makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

The Corporation enters into foreign exchange forward contracts to reduce the foreign exchange risk with respect to the Canadian dollar denominated expenses. The changes in fair value of derivatives designated as cash flow hedges are recognized in other comprehensive income, except for any ineffective portion, which is recognized immediately in profit or loss. Gains and losses in accumulated other comprehensive income are reclassified to profit or loss in the same period as the corresponding hedged items affect profit or loss. The carrying amount of hedging derivatives designated as cash flow hedges that mature within one year is included in prepaid expenses and other assets and/or current portion of other liabilities.

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in unrealized gains/losses on cash flow hedges in equity remains there until the forecasted transaction affects profit or loss. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

(e) Cash and cash equivalents

Cash equivalents include highly liquid investments (term deposits) with maturities of three months or less at the date of purchase that are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash equivalents are carried at amortized cost which approximates their fair value because of the short-term nature of the instruments.

(f) Funds receivable from payment processors

Funds receivable from payment processors represent amounts collected from customers on behalf of the Corporation and are typically deposited directly to the Corporation's bank account within three business days from the date of sale.

(g) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost consists of the purchase price, and any costs directly attributable to bringing the asset to the location and condition for its intended use.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized within other income in profit or loss.

(ii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value.

Depreciation is recognized in profit or loss based on the estimated useful lives of the assets using the following methods and annual rates:

- | | |
|--------------------------|---|
| • Furniture and fixtures | Straight-line over 5 years |
| • Computer hardware | Straight-line over 3 years |
| • Computer software | Straight-line over 3 years |
| • Leasehold improvements | Straight-line over shorter of useful life or the lease term |
-

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(h) Goodwill & Intangible assets

(i) Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of the tangible and intangible net assets acquired. Goodwill is not amortized. The Corporation tests goodwill for impairment annually, at each year end, to determine whether the carrying value exceeds the recoverable amount, as discussed in Note 3(i).

Business combinations

Acquisitions of subsidiaries are accounted for using the acquisition method of accounting. Fair value of the consideration paid is calculated as the sum of the fair value at the date of acquisition of:

- assets given; plus
- equity instruments issued; less
- liabilities incurred or assumed.

Goodwill is measured as the fair value of consideration transferred less the net recognized amount of the identifiable assets acquired and liabilities assumed, all of which are measured at fair value as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Corporation uses estimates and judgments to determine the fair value of assets acquired and liabilities assumed at the acquisition date using the best available information, including information from financial markets. The estimates and judgments include key assumptions such as discount rates, attrition rates, and terminal growth rates for performing discounted cash flow analyses. The transaction costs associated with the acquisitions are expensed as incurred.

(ii) Internal use software development costs

Certain costs incurred in connection with the development of software to be used internally or for providing services to customers are capitalized once a project has progressed beyond a conceptual, preliminary stage to that of application development. Development costs that are directly attributable to the design and testing of identifiable software products controlled by the Corporation are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Development costs that qualify for capitalization include both internal and external costs, but are limited to those that are directly related to the specific product. The capitalized development costs are measured at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including costs incurred in the planning stage and operating stage and expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

Indefinite useful lives

Certain intangible assets with indefinite lives, being domain names, patents and trademarks, are not amortized because there is no foreseeable limit to the period that these assets are expected to generate net cash inflows. The Corporation uses judgment to designate these assets as indefinite useful life assets, analyzing all relevant factors, including the expected usage of the asset, the typical life cycle of the asset and anticipated changes in the market demand for the products and services that the asset helps generate.

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

Finite useful lives

Intangible assets with finite useful lives are amortized into depreciation and amortization in the consolidated statements of comprehensive income on a straight-line basis over their estimated useful lives as noted in the table below. Useful lives, residual values and the amortization methods are reviewed at least once a year. Amortization periods and methods are outlined below:

- | | |
|--------------------------|---------------------------------|
| • Customer Relationships | Straight-line over 10 years |
| • Technology | Straight-line over 3 to 5 years |

(i) Impairment

Financial Assets

In accordance with IAS 39, *Financial Instruments: Recognition & Measurement*, the Corporation makes an assessment at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset that has a detrimental impact on the estimated future cash flows associated with the financial asset or group of financial assets.

Available-for-sale financial assets

If the fair value of an available-for-sale financial asset declines below the carrying amount, qualitative and quantitative assessments of whether the impairment is either significant or prolonged are undertaken. When an available-for-sale asset is assessed to be impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss, or charged directly to profit or loss. Impairment reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss until realized.

Non-Financial Assets with Finite Useful Lives

In accordance with IAS 36, *Impairment of Assets*, the Corporation evaluates the carrying value of non-financial assets with finite lives, being property equipment and certain intangible assets, whenever events or changes in circumstances indicate that a potential impairment has occurred. An impairment loss is considered to have occurred if the carrying value of an asset is not recoverable.

Goodwill & Indefinite Life Intangibles

Goodwill and intangible assets that are not amortized are subject to an annual impairment assessment, and the recoverable amount is estimated each year at the same time. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets that do not generate independent cash inflows are grouped at the lowest level for which there are separately identifiable cash inflows, into cash generating units ("CGUs"). CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to the cash generating unit ("CGU") or group of CGUs that are expected to benefit from the synergies of the combination.

POINTS INTERNATIONAL LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

If the recoverable amount of the CGU or group of CGUs to which goodwill has been allocated is less than the carrying amount of the CGU or group of CGUs, including goodwill, an impairment loss is recorded in the consolidated statements of comprehensive income. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

The Corporation evaluates impairment losses for potential reversals, other than goodwill impairment, when events or changes in circumstances warrant such consideration. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(j) Share-based payment transactions*Employees*

The Corporation has two share-based compensation plans for its employees: a share option plan and a share unit plan.

The share option plan allows directors, officers and employees to acquire shares of the Corporation through the exercise of share options granted by the Corporation. Options generally vest over a period of three years. The maximum term of an option is five years from the date of grant. For options with graded vesting, each tranche in an award is considered a separate grant with a different vesting date, expected life and fair value. The fair value of each tranche is recognized in profit or loss over its respective vesting period with a corresponding increase in contributed surplus. The fair value of each tranche is estimated at the date of grant using the Black-Scholes option pricing model incorporating assumptions regarding risk-free interest rates, dividend yield, expected volatility of the Corporation's stock, and a weighted average expected life of the options. Any consideration paid on the exercise of share options is added to share capital along with the related portion previously added to contributed surplus when the compensation costs were charged to profit or loss.

Under the share unit plan, the Corporation grants Restricted Share Units ("RSUs") and Performance Share Units ("PSUs") to its employees. The RSUs vest either over a period of up to three years or in full on the third anniversary of the grant date. The fair value of a Restricted Share Unit ("RSU"), defined as the volume weighted average trading price per share on the stock exchange during the immediately preceding five trading days, is recognized over the RSU's vesting period and charged to profit or loss with a corresponding increase in contributed surplus. Under the share unit plan, share units can be settled in cash or shares at the Corporation's discretion. The Corporation intends to settle all share units in equity at the end of the vesting period.

For PSUs, the estimated fair value of the share-based awards that are ultimately expected to vest based on future performance-related conditions is recorded over each award's vesting period and charged to profit or loss with a corresponding increase in contributed surplus.

In determining the number of awards that are expected to vest, the Corporation takes into account voluntary termination behaviour as well as trends of actual forfeitures.

Non-employees

For share-based compensation issued to non-employees, the Corporation recognizes an asset or expense based on the fair value of the good or service received from non-employees.

POINTS INTERNATIONAL LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

(k) Deferred costs

In relation to the Corporation's technology design and development revenue (see Note 3(b)(ii)), the Corporation incurs direct upfront contract initiation costs associated with the website application design and development work. Deferred costs relating to the revenue streams are deferred to the extent of the deferred revenue which does not exceed the minimum guaranteed contractual revenues. These costs are deferred and amortized over the expected life of the agreement. The current portion of deferred costs is included in prepaid expenses and other assets whereas the non-current portion of deferred costs is included in other assets in the consolidated statement of financial position.

(l) Payable to loyalty program partners

Payable to loyalty program partners includes amounts owing to these partners for loyalty currency purchased by the Corporation as a principal or as an agent collected through ecommerce services for retailing, wholesaling and other loyalty currency services transactions with end users.

(m) Deferred revenue

Deferred revenue includes proceeds received in advance for technology design and development work and is deferred and recognized over the expected life of the partner agreement (see Note 3(b)(ii)). Deferred revenue also includes proceeds received by the Corporation for the sale of mileage codes that can be redeemed for multiple loyalty program currencies at a later date. Revenue from the sale of these mileage codes is recognized upon redemption. Deferred revenue is included in other liabilities.

(n) Lease inducements

On signing its office lease, the Corporation received lease inducements from the landlord including a rent-free period and a tenant improvement allowance based on square footage of rentable area of the premises. Lease inducements are amortized to rent expense on a straight-line basis over the term of the lease. Lease inducements are included in other liabilities.

(o) Income taxes

Income tax expenses comprise current and deferred taxes. Current taxes and deferred taxes are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

Current taxes are the expected taxes payable or receivable on the taxable income or loss for the period, using tax rates substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been substantively enacted by the reporting date.

POINTS INTERNATIONAL LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

In determining the amount of current and deferred tax, the Corporation takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Corporation believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information that may become available that causes the Corporation to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(p) Earnings per share (“EPS”)

The Corporation presents basic and diluted earnings per share data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

(q) Segment reporting

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation’s other segments. All operating segments’ operating results are reviewed regularly to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Corporation operates in a single reportable operating segment – the portfolio of technology solutions to the loyalty program industry.

(r) New standards and interpretations not yet adopted

The IASB has issued the following new standards and amendments to existing standards:

- IFRS 15, Revenue from Contracts with Customers (“IFRS 15”) - In May 2014, the IASB issued IFRS 15 which supersedes existing standards and interpretations including IAS 18, Revenue and IFRIC 13, Customer Loyalty Programmes.

IFRS 15 introduces a single model for recognizing revenue from contracts with customers with the exception of certain contracts under other IFRSs such as IAS 17, Leases. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the expected consideration receivable in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
 2. Identify the performance obligations in the contract;
 3. Determine the transaction price;
 4. Allocate the transaction price to the performance obligations in the contract; and
 5. Recognize revenue when (or as) the entity satisfies a performance obligation.
-

POINTS INTERNATIONAL LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs. The standard is mandatorily effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation has a plan to ensure compliance with IFRS 15 by the required adoption date, which includes identifying differences between existing policies and IFRS 15, ensuring the data collection process is sufficient and appropriate, and communicating the upcoming changes with various stakeholders. The Corporation is currently executing on its adoption plan and continues to assess the impact of this standard on the consolidated financial statements.

- Amendments to IAS 12, Income Taxes – In January 2016, the IASB issued *Recognition of Deferred Tax Assets for Unrealized Losses* clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The Company will adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The Company does not expect the amendments to have a material impact on the consolidated financial statements.
 - IFRS 16, Leases (“IFRS 16”) – In January 2016, the IASB issued IFRS 16 which specifies how a company will recognize, measure, present, and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. The standard is mandatorily effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Corporation is assessing the impact of this standard on its consolidated financial statements. The extent of the impact has not yet been determined.
 - Amendments to IAS 7, Statement of Cash Flows (“IAS 7”) – In January 2016, the IASB issued amendments that require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The Company will adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The Company does not expect the amendments to have a material impact on the consolidated financial statements.
 - Amendments to IFRS 2, Share-based Payment (“IFRS 2”) – In June 2016, the IASB issued amendments that provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The Company does not expect the amendments to have a material impact on the consolidated financial statements.
 - IFRS 9, Financial Instruments (“IFRS 9”) - In July 2014, the IASB issued IFRS 9 (2014) that will eventually supersede the current IAS 39 Financial Instruments standard. This standard establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows. This new standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The standard is mandatorily effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Corporation is assessing the impact of this standard on its consolidated financial statements. The Company does not expect the standard to have a material impact on the consolidated financial statements.
 - IFRIC Interpretation 22, Foreign Currency Transactions and Advance Consideration – In December 2016, the IASB issued interpretation which clarifies the date that should be used for translation when a foreign currency transaction involves an advance payment or receipt. The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the Interpretation has not yet been determined.
-

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted***4. RESTRICTED CASH**

Restricted cash of \$500 (2015 – \$1,000) is held as collateral for forward contracts entered into during the normal course of business.

5. ACCOUNTS RECEIVABLE

The Corporation's accounts receivable are comprised mainly of amounts owing to the Corporation by loyalty program partners for transactions carried out on the Points.com website, amounts owing to the Corporation by companies that perform loyalty program transactions where the Corporation is a partner in facilitating such transactions, and amounts charged with respect to loyalty program technical design and development fees. The amount is presented net of an allowance for doubtful accounts. Accounts receivable are comprised of:

| | 2016 | 2015 |
|--|-----------------|-----------------|
| Accounts receivable before allowance for doubtful accounts | \$ 4,220 | \$ 3,034 |
| Allowance for doubtful accounts | (163) | (46) |
| Accounts receivable | <u>\$ 4,057</u> | <u>\$ 2,988</u> |

The Corporation's exposure to credit and currency risks related to accounts receivable is disclosed in Note 16.

6. PREPAID EXPENSES AND OTHER ASSETS

| | 2016 | 2015 |
|---|-----------------|-----------------|
| Prepaid expenses | \$ 1,008 | \$ 710 |
| Foreign exchange forward contracts designated as cash flow hedges | 84 | 20 |
| Loyalty reward currencies | 162 | 218 |
| Income tax receivable | 176 | 160 |
| Current portion of deferred costs | 45 | 148 |
| Prepaid expenses and current portion of other assets | <u>\$ 1,475</u> | <u>\$ 1,256</u> |
| Non-current portion of deferred costs | 3 | 47 |
| Non-current portion of loyalty reward currencies | 2,712 | 2,718 |
| Other assets | <u>\$ 2,715</u> | <u>\$ 2,765</u> |

Other assets include the non-current portion of certain loyalty reward currencies held by the Corporation that are used in Points.com Inc.'s retail and promotional activities and the non-current portion of deferred costs.

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted***7. PROPERTY AND EQUIPMENT**

| | Computer Hardware | | Computer Software | | Furniture & Fixtures | | Leasehold Improvements | | Total |
|---|------------------------------|--------------|------------------------------|--------------|-------------------------------------|--------------|-----------------------------------|--------------|-----------------|
| Cost | | | | | | | | | |
| Balance at January 1, 2015 | \$ | 2,378 | \$ | 1,566 | \$ | 846 | \$ | 1,396 | \$ 6,186 |
| Additions | | 227 | | 193 | | 157 | | 70 | 647 |
| Disposals / Write-Offs | | (37) | | - | | (5) | | - | (42) |
| Balance at December 31, 2015 | \$ | 2,568 | \$ | 1,759 | \$ | 998 | \$ | 1,466 | \$ 6,791 |
| Additions | | 190 | | 431 | | 96 | | 694 | 1,411 |
| Disposals / Write-Offs | | (149) | | - | | (50) | | (1,454) | (1,653) |
| Balance at December 31, 2016 | \$ | 2,609 | \$ | 2,190 | \$ | 1,044 | \$ | 706 | \$ 6,549 |
| Depreciation and impairment losses | | | | | | | | | |
| Balance at January 1, 2015 | \$ | 1,631 | \$ | 1,318 | \$ | 595 | \$ | 786 | \$ 4,330 |
| Depreciation for the year | | 433 | | 243 | | 111 | | 250 | 1,037 |
| Disposals / Write-Offs | | (37) | | - | | (5) | | - | (42) |
| Balance at December 31, 2015 | \$ | 2,027 | \$ | 1,561 | \$ | 701 | \$ | 1,036 | \$ 5,325 |
| Depreciation for the year | | 347 | | 190 | | 117 | | 473 | 1,127 |
| Disposals / Write-Offs | | (149) | | - | | (50) | | (1,454) | (1,653) |
| Balance at December 31, 2016 | \$ | 2,225 | \$ | 1,751 | \$ | 768 | \$ | 55 | \$ 4,799 |
| Carrying amounts | | | | | | | | | |
| At December 31, 2015 | \$ | 541 | \$ | 198 | \$ | 297 | \$ | 430 | \$ 1,466 |
| At December 31, 2016 | \$ | 384 | \$ | 439 | \$ | 276 | \$ | 651 | \$ 1,750 |

POINTS INTERNATIONAL LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

8. INTANGIBLE ASSETS

| | Customer relationships | | Domain Names ⁽¹⁾ | | Technology ⁽²⁾ | | Other ⁽¹⁾ | | Total |
|---|------------------------|--------------|-----------------------------|--------------|---------------------------|---------------|----------------------|------------|------------------|
| Cost | | | | | | | | | |
| Balance at January 1, 2015 | \$ | 8,500 | \$ | 4,300 | \$ | 14,002 | \$ | 198 | \$ 27,000 |
| Additions | | - | | - | | 2,799 | | 6 | 2,805 |
| Impairments / Write-offs | | - | | - | | (29) | | - | (29) |
| Balance at December 31, 2015 | \$ | 8,500 | \$ | 4,300 | \$ | 16,772 | \$ | 204 | \$ 29,776 |
| Additions | | - | | - | | 1,681 | | 1 | 1,682 |
| Impairments / Write-offs | | - | | - | | - | | - | - |
| Balance at December 31, 2016 | \$ | 8,500 | \$ | 4,300 | \$ | 18,453 | \$ | 205 | \$ 31,458 |
| Amortization and impairment losses | | | | | | | | | |
| Balance at January 1, 2015 | \$ | 74 | \$ | - | \$ | 8,606 | \$ | - | \$ 8,680 |
| Amortization for the year | | 847 | | - | | 1,662 | | - | 2,509 |
| Impairments / Write-offs | | - | | - | | (29) | | - | (29) |
| Balance at December 31, 2015 | \$ | 921 | \$ | - | \$ | 10,239 | \$ | - | \$ 11,160 |
| Amortization for the year | | 850 | | - | | 2,552 | | - | 3,402 |
| Impairments / Write-offs | | - | | - | | - | | - | - |
| Balance at December 31, 2016 | \$ | 1,771 | \$ | - | \$ | 12,791 | \$ | - | \$ 14,562 |
| Carrying amounts | | | | | | | | | |
| At December 31, 2015 | \$ | 7,579 | \$ | 4,300 | \$ | 6,533 | \$ | 204 | \$ 18,616 |
| At December 31, 2016 | \$ | 6,729 | \$ | 4,300 | \$ | 5,662 | \$ | 205 | \$ 16,896 |

- (1) Domain names and Other which includes Patents and Trademarks are deemed to have indefinite useful lives and are therefore not amortized. The Company's classification of certain intangible assets with indefinite useful lives is based on the expectation that these assets will continue to contribute to the Company's net cash inflows on an indefinite basis. The determination of these assets as having indefinite useful lives is based on judgment that includes an analysis of all relevant factors, including the expected usage of the asset, anticipated renewal of the licenses, the typical life cycle of the asset and anticipated changes in the market demand for the products and services that the asset helps generate.
- (2) Technology includes technological assets acquired through acquisitions and internal use software development costs.

During the year ended December 31, 2016, an amount of \$2,257 was recognized as research and development expenses (2015 - \$1,122).

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

9. GOODWILL

| Cost | |
|-------------------------------------|-----------------|
| Balance at January 1, 2015 | \$ 7,130 |
| Additions | - |
| Impairments | - |
| Balance at December 31, 2015 | \$ 7,130 |
| Additions | - |
| Impairments | - |
| Balance at December 31, 2016 | \$ 7,130 |

Impairment testing for cash-generating units containing goodwill as at December 31, 2016

The Corporation tests CGUs or groups of CGUs with indefinite life intangible assets and/or allocated goodwill for impairment as at December 31 of each calendar year. For the purposes of the 2016 and 2015 annual impairment test, management has determined that the Corporation has a single CGU, Points International Ltd. Goodwill and indefinite life intangible assets are tested as part of the Points International Ltd. CGU.

When assessing whether or not there is impairment, the Corporation determines the recoverable amount of a CGU based on the greater of its value in use or its fair value less costs to sell. Value in use is estimated by discounting estimated future cash flows to their present value. We estimate the discounted future cash flows for periods of up to five years and a terminal value. The future cash flows are based on our estimates and expected future operating results of the CGU after considering economic conditions and a general outlook for the CGU's industry. Discount rates consider market rates of return, debt to equity ratios and certain risk premiums, among other things. The terminal value is the value attributed to the CGU's operations beyond the projected time period of the cash flows using a perpetuity rate based on expected economic conditions and a general outlook for the industry.

We have made certain assumptions for the discount and terminal growth rates to reflect variations in expected future cash flows. These assumptions may differ or change quickly depending on economic conditions or other events. It is therefore possible that future changes in assumptions may negatively affect future valuations of CGUs and goodwill, which could result in impairment losses.

The table below is an overview of the methods and assumptions we used to determine recoverable amounts for the CGU with indefinite life intangible assets and goodwill.

(In thousands of dollars, except years and percentages)

| | Carrying value of goodwill | Carrying value of indefinite-life intangible assets | Recoverable amount method | Period used (years) | Terminal growth rate % | Pre-tax discount rate % |
|---------------------------|----------------------------|---|---------------------------|---------------------|------------------------|-------------------------|
| Points International Ltd. | \$ 7,130 | \$ 4,505 | Value in Use | 5 | 2.5% | 20.9% |

Impairment losses

We did not record an impairment charge to goodwill in 2016 or 2015.

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

10. INCOME TAXES

| | 2016 | 2015 |
|--|-----------------|-----------------|
| Current Tax Expense | | |
| Current year | \$ 1,845 | \$ 213 |
| Prior year | 45 | - |
| | <u>\$ 1,890</u> | <u>\$ 213</u> |
| Deferred Tax Expense (recovery) | | |
| Current year movement in recognized temporary differences and losses | (345) | 2,261 |
| | <u>\$ (345)</u> | <u>\$ 2,261</u> |
| Total income tax expense | <u>\$ 1,545</u> | <u>\$ 2,474</u> |

Reconciliation of effective tax rate

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

| | 2016 | 2015 |
|--|-----------------|-----------------|
| Income tax expense at statutory rate of 26.5% (2015 – 26.5%) | \$ 8 | \$ 2,024 |
| Increase (decrease) in taxes resulting from: | | |
| Tax cost of non-deductible items | 854 | 296 |
| Losses not benefitted | 663 | - |
| Other differences | 20 | 154 |
| Income tax expense | <u>\$ 1,545</u> | <u>\$ 2,474</u> |

Recognized deferred tax assets

Deferred tax assets are attributable to the following:

| | 2016 | 2015 |
|---------------------------------|-----------------|-----------------|
| Deferred tax assets | | |
| Forward exchange contracts | 46 | 209 |
| Intangible assets | 980 | 760 |
| Reserves | 73 | 2 |
| RSUs | 672 | 314 |
| Tax losses | 89 | 401 |
| | <u>\$ 1,860</u> | <u>\$ 1,686</u> |
| Deferred tax liabilities | | |
| Property and equipment | \$ 346 | \$ 356 |
| | <u>\$ 346</u> | <u>\$ 356</u> |
| Net deferred tax assets | <u>\$ 1,514</u> | <u>\$ 1,330</u> |

The Corporation has capital losses of \$10,456 (2015 – \$5,456) which can be carried forward indefinitely and are not included as part of the recognized deferred tax assets.

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

The Corporation has non-capital loss carry-forwards in Canada for income tax purposes in the amount of approximately \$338. The losses may be used to reduce future years' taxable income and expire approximately as follows:

| | Total | |
|-------|--------------|-----|
| 2032 | \$ | 338 |
| Total | \$ | 338 |

Management has concluded the deferred tax asset meets the relevant recognition criteria under IFRS. Management's conclusion is supported by management's forecasts and the future reversal of existing taxable temporary differences which are expected to produce sufficient taxable income to realize the deferred tax assets.

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

| | 2016 | | 2015 | |
|----------------|-------------|-------|-------------|-----|
| Capital losses | \$ | 1,385 | \$ | 723 |

Current Tax Receivable

The Corporation has recognized a current tax receivable of \$176 (2015 – \$160) within the prepaid expenses and other assets balance presented on the balance sheet.

Temporary Differences Associated with Points International Limited Investments

The temporary difference associated with the investments in the Corporation's subsidiaries is \$1,468. A deferred tax liability associated with these investments has not been recognized as the Corporation controls the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

At December 31, 2016 and 2015, no deferred tax liability was recognized for taxes that would be payable on the unremitted earnings of certain subsidiaries of Points International Limited as the Corporation has determined that the undistributed profits of its subsidiaries will not be distributed in the foreseeable future.

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted***11. OTHER LIABILITIES**

| | 2016 | 2015 |
|---|---------------|-----------------|
| Foreign exchange forward contracts designated as cash flow hedges | \$ 258 | \$ 845 |
| Current portion of lease inducements | 17 | 152 |
| Current portion of deferred revenue | 496 | 855 |
| Current portion of other liabilities | \$ 771 | \$ 1,852 |
| Non-current portion of lease inducements | 596 | 76 |
| Non-current portion of deferred revenue | 123 | 46 |
| Other liabilities | \$ 719 | \$ 122 |

12. CAPITAL AND OTHER COMPONENTS OF EQUITYAuthorized with no Par Value

Unlimited common shares Unlimited preferred shares

Issued

At December 31, 2016 all issued shares are fully paid. The holders of common shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share. There were no dividends declared in 2016 (2015 – nil).

Accumulated other comprehensive income

Accumulated other comprehensive income is comprised of the unrealized gains/losses on cash flow hedges and the cumulative translation adjustment for the translation of subsidiaries' accounts where non-USD functional currency balances are translated to the functional currency of the parent. The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Normal Course Issuer Bid ("NCIB")

On March 2, 2016, the Board of Directors of the Corporation approved a plan to repurchase the Corporation's common shares. The TSX approved the Corporation's Notice of Intention to make a Normal Course Issuer Bid to repurchase up to 764,930 of its common shares (the "Repurchase"), representing approximately 5% of its 15,298,602 common shares issued and outstanding as of February 24, 2016.

The primary purpose of the Repurchase is for cancellation. Repurchases will be made from time-to-time at the Corporation's discretion, based on ongoing assessments of the Corporation's capital needs, the market price of its common shares, general market conditions and other factors. Repurchases may be effected through the facilities of the TSX, the NASDAQ or other alternative trading systems in the United States and Canada.

The Company repurchased an aggregate of 428,228 (2015 - 439,094) common shares, at an aggregate purchase price of \$3,181 (2015 - \$4,567), for the year ended December 31, 2016, all of which were canceled, resulting in a reduction to stated capital and contributed surplus of \$1,679 and \$1,502 (2015 - \$1,704 and \$2,863), respectively. All of these shares were repurchased for cancellation pursuant to private agreements between the Company and arm's-length third party sellers. These purchases were made under issuer bid exemption orders issued by the Ontario Securities Commission and are included in calculating the number of common shares that the Company may purchase pursuant to the NCIB.

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

Capital management

The Corporation's financial strategy is designed and formulated to maintain a flexible capital structure to allow the Corporation the ability to respond to changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Corporation may issue debt. The Corporation's financing and refinancing decisions are made on a specific transaction basis and depend on such things as the Corporation's needs, and market and economic conditions at the time of the transaction. The Corporation may invest in longer or shorter term investments depending on eventual liquidity requirements. The Corporation does not have any externally imposed capital compliance requirements other than restricted cash and those required to maintain the credit facilities. There were no changes in the Corporation's approach to capital management during the year.

13. EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

| | 2016 | 2015 |
|---|------------|------------|
| Net income (loss) available to common shareholders for basic and diluted earnings per share | \$ (1,515) | \$ 5,165 |
| Weighted average number of common shares outstanding – basic | 15,219,283 | 15,547,595 |
| Effect of dilutive securities – share-based payments | - | 53,575 |
| Weighted average number of common shares outstanding – diluted | 15,219,283 | 15,601,170 |
| Earnings (loss) per share - reported | | |
| Basic | \$ (0.10) | \$ 0.33 |
| Diluted | \$ (0.10) | \$ 0.33 |

a) Basic earnings per share

Earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the year.

b) Diluted earnings per share

Diluted earnings per share represents the net income per share if instruments convertible into common shares had been converted at the beginning of the period, or at the time of issuance, if later. In determining diluted earnings per share, the average number of common shares outstanding is increased by the number of shares that would have been issued if all share options with an issue price below the average share price for the period had been exercised at the beginning of the period, or at the time of issuance, if later. The average number of common shares outstanding is also decreased by the number of common shares that could have been repurchased on the open market at the average share price for the year by using the proceeds from the exercise of share options. Share options with a strike price above the average share price for the period are not adjusted because including them would be anti-dilutive.

At December 31, 2016, 723,995 options (2015 - 618,880) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Corporation's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

14. SHARE-BASED PAYMENTS

As at December 31, 2016, the Corporation had two share-based compensation plans for its employees: a share option plan and a share unit plan.

Share option plan

Under the share option plan, employees, directors and consultants are periodically granted share options to purchase common shares at prices not less than the market price of the common shares on the day prior to the date of grant. The options generally vest over a three-year period and expire at the end of five years from the grant date. Under the plan, share options can only be settled in equity. On May 5, 2016, the shareholders of the Corporation approved a new share option plan which increased the number of options available for grant as described in the Management Information Circular dated March 2, 2016. The new share option plan changed the number of net options authorized for grant to be determined based on 10% of the larger of the outstanding shares as at March 2, 2016 or any time thereafter. The options available for grant as at December 31, 2016 is shown in the table below:

| | December 31, 2016 |
|--|--------------------------|
| Shares outstanding as at March 2, 2016 | 15,298,602 |
| Percentage of shares outstanding | 10% |
| Net options authorized | 1,529,860 |
| Less: options issued & outstanding | (723,995) |
| Options available for grant | 805,865 |

As at December 31, 2015, the options available for grant were determined using the legacy plan, as shown by the table below:

| | December 31, 2015 |
|------------------------------------|-------------------|
| Options authorized by shareholders | 2,250,000 |
| Less: options exercised | (1,380,111) |
| Net options authorized | 869,889 |
| Less: options issued & outstanding | (760,774) |
| Options available for grant | 109,115 |

Fair value

The fair value of each option grant is estimated at the date of grant using the Black-Scholes option pricing model. Expected volatility is determined by the amount the Corporation's daily share price fluctuated over the expected life of the options. The fair value of options granted in 2016 and 2015 were calculated using the following weighted assumptions:

| | 2016 | 2015 |
|--|------------------------|-------------|
| Dividend yield | NIL | NIL |
| Risk free rate | 0.56% - 0.60% | 0.51% |
| Expected volatility | 46.49% - 46.87% | 40.39% |
| Expected life of options in years | 4.20 | 4.20 |
| Weighted average fair value of options granted | \$4.26 | \$3.85 |

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

A summary of the status of the Corporation's share option plan as of December 31, 2016 and 2015, and changes during the years ended on those dates is presented below.

| | 2016 | | 2015 | |
|----------------------------|-------------------|--|-------------------|--|
| | Number of Options | Weighted Average Exercise Price (in CAD\$) | Number of Options | Weighted Average Exercise Price (in CAD\$) |
| Beginning of year | 760,774 | \$ 15.59 | 547,289 | \$ 15.34 |
| Granted | 71,494 | \$ 10.65 | 375,906 | \$ 12.34 |
| Exercised | (500) | \$ 9.17 | (135,398) | \$ 6.24 |
| Expired and forfeited | (107,773) | \$ 14.66 | (27,023) | \$ 12.19 |
| End of year | 723,995 | \$ 15.25 | 760,774 | \$ 15.59 |
| Exercisable at end of year | 416,753 | \$ 16.08 | 314,105 | \$ 15.11 |

For the year ended December 31, 2016:

| Range of Exercise Prices (in CAD\$) | Options outstanding | | | Options exercisable | |
|-------------------------------------|---------------------|---|--|---------------------|--|
| | Number of options | Weighted average remaining contractual life (years) | Weighted average exercise price (in CAD\$) | Number of options | Weighted average exercise price (in CAD\$) |
| \$5.00 to \$9.99 | 124,618 | 1.47 | \$ 9.79 | 85,217 | \$ 9.74 |
| \$10.00 to \$14.99 | 367,764 | 3.29 | \$ 12.26 | 136,148 | \$ 12.30 |
| \$15.00 to \$19.99 | 123,233 | 1.23 | \$ 15.98 | 122,843 | \$ 15.96 |
| \$20.00 and over | 108,380 | 2.21 | \$ 30.84 | 72,545 | \$ 30.84 |
| | 723,995 | | | 416,753 | |

For the year ended December 31, 2015:

| Range of Exercise Prices (in CAD\$) | Options outstanding | | | Options exercisable | |
|-------------------------------------|---------------------|---|--|---------------------|--|
| | Number of options | Weighted average remaining contractual life (years) | Weighted average exercise price (in CAD\$) | Number of options | Weighted average exercise price (in CAD\$) |
| \$5.00 to \$9.99 | 87,745 | 1.20 | \$ 9.73 | 87,745 | \$ 9.73 |
| \$10.00 to \$14.99 | 407,684 | 3.69 | \$ 12.17 | 84,035 | \$ 11.50 |
| \$15.00 to \$19.99 | 143,553 | 2.23 | \$ 15.97 | 98,348 | \$ 15.96 |
| \$20.00 and over | 121,792 | 3.21 | \$ 30.84 | 43,977 | \$ 30.84 |
| | 760,774 | | | 314,105 | |

Share unit plan

On March 7, 2012 the Corporation implemented an employee share unit plan (the "Share Unit Plan") under which employees are periodically granted RSUs and PSUs. The RSUs vest either over a period of up to three years or in full on the third anniversary of the grant date. During 2016, 332,483 RSUs have been granted (2015 - 242,860) and there were no PSUs issued (2015 - nil). As at December 31, 2016, 480,302 RSUs and no PSUs were outstanding (2015 - 301,841 RSUs and no PSUs outstanding). All outstanding PSUs were forfeited during the year ended December 31, 2015.

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

| | Number of RSUs | Weighted Average Fair Value (in CAD\$) |
|------------------------------|----------------|--|
| Balance at January 1, 2016 | 301,841 | \$ 15.38 |
| Granted | 332,483 | \$ 10.10 |
| Vested | (69,620) | \$ 14.97 |
| Forfeited | (84,402) | \$ 13.19 |
| Balance at December 31, 2016 | 480,302 | \$ 12.17 |

| | Number of RSUs and PSUs | Weighted Average Fair Value (in CAD\$) |
|------------------------------|-------------------------|--|
| Balance at January 1, 2015 | 228,035 | \$ 20.38 |
| Granted | 242,860 | \$ 12.92 |
| Vested | (64,119) | \$ 12.51 |
| Forfeited | (104,935) | \$ 22.30 |
| Balance at December 31, 2015 | 301,841 | \$ 15.38 |

The fair value of each RSU, determined at the date of grant using the volume weighted average trading price per share on the TSX during the immediately preceding five trading days, is recognized over the RSU's vesting period and charged to profit or loss with a corresponding increase in contributed surplus.

Under the Share Unit Plan, share units can be settled in cash or shares at the Corporation's discretion. The Corporation intends to settle all share units in equity at the end of the vesting period. To fulfill this obligation, the Corporation has appointed a trustee to administer the program and will purchase shares from the open market through a share purchase trust on a periodic basis. The Corporation did not make any purchases of share capital held in trust during the year ended December 31, 2016 (2015 - the Corporation made two purchases of the Corporation's common shares for a total of 97,360 shares for \$1,215). As at December 31, 2016, 83,833 of the Corporation's common shares were held in trust (December 31, 2015 - 153,453).

The Corporation accounts for the share-based awards granted under both plans in accordance with the fair value based method of accounting for equity settled share-based compensation arrangements per IFRS 2, *Share-based Payment*. The estimated fair value of the awards that are ultimately expected to vest is recorded over the vesting period as part of employment costs. The compensation cost for all share-based awards that has been charged against profit or loss and included in employment costs is \$2,317 for the year ended December 31, 2016 (2015 - \$1,588).

15. OPERATING EXPENSES

| | 2016 | 2015 |
|-------------------------------------|-----------------|-----------------|
| Office expenses | \$ 1,720 | \$ 1,227 |
| Travel and personnel expenses | 1,949 | 1,725 |
| Professional fees | 1,519 | 1,482 |
| Insurance, bad debts and governance | 1,230 | 1,432 |
| Operating expenses | \$ 6,418 | \$ 5,866 |

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

16. FINANCIAL INSTRUMENTS

The Corporation has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. The Corporation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Corporation's Audit Committee oversees how management monitors compliance with the Corporation's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Corporation.

Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables from customers.

The Corporation's cash and cash equivalents, restricted cash held as collateral and short-term investments also subject the Corporation to credit risk. The Corporation has term deposits, consistent with its practice of protecting its capital rather than maximizing investment yield. The Corporation manages credit risk by investing in cash equivalents and term deposits rated at A or R1 or above.

The Corporation, in the normal course of business, is exposed to credit risk from its customers and the accounts receivable are subject to normal industry risks. The Corporation usually provides various loyalty currency services to loyalty program operators which normally results in an amount payable to the loyalty program operator in excess of the amount held in accounts receivable. The Corporation also manages and analyzes its accounts receivable on an ongoing basis and hence the Corporation's exposure to bad debts has not been significant.

The aging of accounts receivable is as follows:

| | December 31, 2016 | December 31, 2015 |
|--------------------------------------|--------------------------|--------------------------|
| Current | \$ 2,876 | \$ 2,217 |
| Past due 31–60 days | 637 | 77 |
| Past due 61–90 days | 223 | 261 |
| Past due 91–120 days | 134 | 112 |
| Past due over 120 days | 350 | 367 |
| Trade accounts receivable | 4,220 | 3,034 |
| Less allowance for doubtful accounts | (163) | (46) |
| | \$ 4,057 | \$ 2,988 |

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

The following table provides the change in allowance for doubtful accounts for trade accounts receivable:

| | 2016 | | 2015 | |
|--|------|------|------|------|
| Balance, beginning of year | \$ | 46 | \$ | 36 |
| Provision for doubtful accounts | | 156 | | 61 |
| Bad debts written off, net of recoveries | | (39) | | (51) |
| Balance, end of year | \$ | 163 | \$ | 46 |

The provision for doubtful accounts has been included in operating expenses in the consolidated statements of comprehensive income, and is net of any recoveries of amounts that were provided for in a prior period. The carrying amount of the Corporation's current financial assets represent its maximum exposure to credit risk.

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation actively maintains access to adequate funding sources to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost. The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities as at December 31, 2016 and 2015:

Contractual Cash Flow Maturities

| | Carrying Amount | Total | Within 1 year | 1 year to 3 years | 3 years and beyond |
|---|-----------------|-----------|---------------|-------------------|--------------------|
| As at December 31, 2016 | | | | | |
| Accounts payable and accrued liabilities | \$ 6,335 | \$ 6,335 | \$ 6,335 | \$ - | \$ - |
| Foreign exchange forward contracts designated as cash flow hedges | 258 | 258 | 258 | - | - |
| Income taxes payable | 1,638 | 1,638 | 1,638 | - | - |
| Payable to loyalty program partners | 53,242 | 53,242 | 53,242 | - | - |
| | \$ 61,473 | \$ 61,473 | \$ 61,473 | \$ - | \$ - |

| | Carrying Amount | Contractual Cash Flow Maturities | | | |
|---|-----------------|----------------------------------|---------------|-------------------|--------------------|
| | | Total | Within 1 year | 1 year to 3 years | 3 years and beyond |
| As at December 31, 2015 | | | | | |
| Accounts payable and accrued liabilities | \$ 5,530 | \$ 5,530 | \$ 5,530 | \$ - | \$ - |
| Foreign exchange forward contracts designated as cash flow hedges | 845 | 845 | 845 | - | - |
| Income taxes payable | 278 | 278 | 278 | - | - |
| Payable to loyalty program partners | 49,526 | 49,526 | 49,526 | - | - |
| | \$ 56,179 | \$ 56,179 | \$ 56,179 | \$ - | \$ - |

Management believes that cash on hand, future cash flows generated from operations and availability of current and future funding will be adequate to repay these financial liabilities when they become due.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Corporation's cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

Currency risk

The Corporation has customers and suppliers that transact in currencies other than the US dollar which gives rise to a risk that earnings and cash flows may be adversely affected by fluctuations in foreign currency exchange rates. The Corporation is primarily exposed to the Canadian dollar, the EURO and the British Pound. The Corporation has entered into foreign exchange forward contracts to reduce the foreign exchange risk with respect to Canadian dollar denominated disbursements and revenue which are denominated in the EURO. Revenues earned from the Corporation's partners based in Canada are contracted in and paid in Canadian dollars. The Corporation uses these funds to fund the Canadian operating expenses thereby reducing its exposure to foreign currency fluctuations.

As at December 31, 2016, forward contracts with a notional value of \$16,470, and in a net liability position of \$174 (2015 – \$825 in liability position), with settlement dates extending to December 2017, have been designated as cash flow hedges for hedge accounting treatment under IAS 39, *Financial Instruments: Recognition and Measurement*. These contracts are intended to reduce the foreign exchange risk with respect to anticipated Canadian dollar denominated expenses.

The change in fair value of derivatives designated as cash flow hedges is recognized in other comprehensive income, except for any ineffective portion, which is recognized immediately in the foreign exchange gain or loss. As at December 31, 2016 and 2015, all hedges were considered effective. Realized gains and losses in accumulated other comprehensive income are reclassified to profit or loss in the same period as the corresponding hedged items are recognized in income. In 2016, total realized losses of \$273 were reclassified to employment costs (2015 - \$1,784 total realized losses) for Canadian dollar currency hedges and realized gains of \$4 (2015 - \$356 total realized gains) were reclassified to principal revenue for EURO currency hedges. The carrying amount of hedging derivatives designated in cash flow hedges that mature within one year is included in prepaid expenses and other assets and/or current portion of other liabilities.

The Corporation holds balances in foreign currencies that give rise to exposure to foreign exchange risk. In general and strictly relating to the foreign exchange ("FX") gain or loss of translating certain non-US dollars balance sheet accounts, a strengthening US dollar will lead to an FX loss on assets and gain on liabilities and vice versa. Sensitivity to a +/- 10% movement in all currencies held by the Corporation versus the US dollar would affect the Corporation's net income by \$42 (2015 - \$56) excluding the effect of hedging. Significant balances denominated in foreign currencies that are considered financial instruments are as follows:

| As at December 31, 2016 | USD Total | CAD | GBP | EUR |
|--|------------------|---------------|---------------|---------------|
| FX Rates used to translate to USD | | 0.7437 | 1.2336 | 1.0516 |
| Financial assets | | | | |
| Cash and cash equivalents | \$ 46,492 | 1,906 | 4,826 | 5,815 |
| Short-term investments | 10,033 | - | - | - |
| Restricted cash | 500 | - | - | - |
| Funds receivable from payment processors | 10,461 | 569 | 303 | 1,612 |
| Accounts receivable | 4,057 | 261 | 1,160 | 398 |
| | \$ 71,543 | 2,736 | 6,289 | 7,825 |
| Financial liabilities | | | | |
| Accounts payable and accrued liabilities | \$ 6,335 | 3,393 | 1,342 | 517 |
| Income taxes payable | 1,638 | - | - | - |
| Payable to loyalty program partners | 53,242 | 1,267 | 4,526 | 6,400 |
| | \$ 61,215 | 4,660 | 5,868 | 6,917 |

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

| As at December 31, 2015 | USD Total | CAD | GBP | EUR |
|--|-----------|--------|--------|--------|
| FX Rates used to translate to USD | | 0.7209 | 1.4802 | 1.0906 |
| Financial assets | | | | |
| Cash and cash equivalents | \$ 51,364 | 2,848 | 2,529 | 3,207 |
| Restricted cash | 1,000 | - | - | - |
| Funds receivable from payment processors | 6,588 | - | 457 | 576 |
| Accounts receivable | 2,988 | 586 | 476 | 51 |
| | \$ 61,940 | 3,434 | 3,462 | 3,834 |
| Financial liabilities | | | | |
| Accounts payable and accrued liabilities | \$ 5,530 | 4,294 | 597 | 55 |
| Income taxes payable | 278 | | | |
| Payable to loyalty program partners | 49,526 | - | 2,846 | 3,786 |
| | \$ 55,334 | 4,294 | 3,443 | 3,841 |

Interest rate risk

The Corporation does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates, relative to interest rates on the investments, owing to the short-term nature of the investments.

Determination of fair value

For financial assets and liabilities that are valued at other than fair value on the consolidated statement of financial position (funds receivable from payment processors, short-term investments, security deposits, accounts receivable, accounts payable and accrued liabilities and payable to loyalty program partners), fair value approximates the carrying value at December 31, 2016 and 2015 due to their short-term maturities.

Fair value hierarchy

The Corporation has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies, as disclosed below. However, considerable judgment is required to develop certain of these estimates. Accordingly, these estimated values are not necessarily indicative of the amounts the Corporation could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of each class of financial instruments are discussed below.

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Quoted market prices for an identical asset or liability represent a Level 1 valuation. When quoted market prices are not available, the Corporation maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the use of significant unobservable inputs are considered Level 3. The fair value of financial assets and financial liabilities measured at fair value in the consolidated balance sheet as at December 31, 2016 and 2015 are as follows:

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

| 2016 | Carrying Value | | Level 2 | | Level 3 |
|---|----------------|-------|---------|-------|----------|
| Assets: | | | | | |
| Foreign exchange forward contracts designated as cash flow hedges (i) | \$ | 84 | \$ | 84 | \$ - |
| Investment in China Rewards (ii) | | - | | - | - |
| Liabilities: | | | | | |
| Foreign exchange forward contracts designated as cash flow hedges (i) | | (258) | | (258) | - |
| | \$ | (174) | \$ | (174) | \$ - |
| <hr/> | | | | | |
| 2015 | Carrying Value | | Level 2 | | Level 3 |
| Assets: | | | | | |
| Foreign exchange forward contracts designated as cash flow hedges (i) | \$ | 20 | \$ | 20 | \$ - |
| Investment in China Rewards (ii) | | 5,000 | | - | 5,000 |
| Liabilities: | | | | | |
| Foreign exchange forward contracts designated as cash flow hedges (i) | | (845) | | (845) | - |
| | \$ | 4,175 | \$ | (825) | \$ 5,000 |

- (i) The carrying values of the Corporation's foreign exchange forward contracts are included in prepaid expenses and other assets and current portion of other liabilities in the consolidated statements of financial position.
- (ii) The valuation technique used by the Corporation for the Investment in China Rewards was a discounted cash flow approach. Please refer to Note 22 for details.

There were no material financial instruments categorized in Level 1 as at December 31, 2016 and December 31, 2015 and there were no transfers of fair value measurement between Levels 2 and 3 of the fair value hierarchy in the respective periods. An impairment loss of \$5,000 was recognized in net income related to the Corporation's investment in China Rewards (a level 3 financial instrument) during the year ended December 31, 2016 (None in 2015). Please refer to Note 22 for details.

17. GUARANTEES AND COMMITMENTS

| | Total | Year 1 (3) | Year 2 | Year 3 | Year 4 | Year 5+ |
|-----------------------|------------|------------|------------|------------|----------|----------|
| Operating leases (1) | \$ 7,096 | \$ 1,201 | \$ 1,327 | \$ 1,242 | \$ 1,117 | \$ 2,209 |
| Principal revenue (2) | 478,906 | 166,563 | 174,219 | 138,050 | 37 | 37 |
| | \$ 486,002 | \$ 167,764 | \$ 175,546 | \$ 139,292 | \$ 1,154 | \$ 2,246 |

- (1) The Corporation is obligated under various non-cancellable operating leases for premises and equipment and service agreements for web hosting services.
- (2) For certain loyalty partners, the Corporation guarantees a minimum level of purchase of points/miles, for each contract year, over the duration of the contract term between the Corporation and loyalty program partner. Management evaluates each guarantee at each reporting date and at the end of each contract year, to determine if the guarantee was met for that respective contract year.
- (3) The guarantees and commitments schedule is prepared on a rolling 12-month basis.

The Corporation leases office premises, equipment and services under operating leases. The leases typically run for a period of 1 to 7 years, with an option to renew the lease after that date. During the year ended December 31, 2016 an amount of \$1,129 was recognized as an expense in profit or loss in respect of operating leases (2015 - \$730).

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted***18. DETERMINATION OF FAIR VALUES**

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Intangible assets

The fair value of the intangible assets, including customer relationships, acquired technology, domain names, trademark, patents, and internally use software development costs, is based on the present value of expected future cash flows, or using other judgments and estimates, expected to be derived from the use and eventual sale of the assets.

(ii) Goodwill

The fair value of the CGU is based on the discounted cash flows that are expected to be derived from product offerings and partner relationships.

(iii) Derivatives

The fair value of forward exchange contracts is based on valuations received from the derivative counterparty, which management evaluates for reasonability. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Corporation and the derivative counterparty when appropriate.

(iv) Long-term investment

The fair value of the investment in China Rewards was historically based on a discounted cash flow approach.

19. SUPPLEMENTAL CASH FLOW INFORMATION

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

| | 2016 | | 2015 |
|---|------------|----|---------|
| Decrease (increase) in funds receivable from payment processors | \$ (3,873) | \$ | 103 |
| Increase in accounts receivable | (1,069) | | (683) |
| Increase in prepaid expenses and other assets | (219) | | (122) |
| Decrease (Increase) in other assets | 50 | | (2,073) |
| (Decrease) increase in accounts payable and accrued liabilities | 805 | | (421) |
| (Decrease) increase in income taxes payable | 1,360 | | (31) |
| Increase (decrease) in other liabilities | (484) | | 420 |
| Increase in payable to loyalty program partners | 3,716 | | 13,496 |
| | \$ 286 | \$ | 10,689 |

20. OPERATING SEGMENT

The Corporation provides technology solutions to the loyalty program industry and is organized and managed as a single operating segment with its operating results reviewed by the Corporation's chief executive officer, the chief operating decision maker.

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

Enterprise-wide disclosures - Geographic information

| | 2016 | | | 2015 | | |
|------------------|------|---------|------|------|---------|------|
| Revenue | | | | | | |
| United States | \$ | 282,824 | 88% | \$ | 258,448 | 87% |
| Europe | | 28,754 | 9% | | 28,126 | 10% |
| Canada and other | | 10,243 | 3% | | 9,802 | 3% |
| | \$ | 321,821 | 100% | \$ | 296,376 | 100% |

Revenues earned by the Corporation are generated from sales to loyalty program partners directly or from sales directly to members of loyalty programs with which the Corporation partners. Revenue by geographic region are shown above and are based on the country of residence of each of the Corporation's loyalty partners. At December 31, 2016 and 2015, substantially all of the Corporation's assets were in Canada.

Dependence on loyalty program partners

For the year ended December 31, 2016, there were four (2015 – three) loyalty program partners for which sales to their members individually represented more than 10% of the Corporation's total revenue. In aggregate these four partners represented 76% (2015 – 67% represented by three partners) of the Corporation's total revenue.

21. RELATED PARTIES**Transactions with key management personnel***Transactions*

Certain members of the Board of Directors, or their related parties, hold positions in other companies that result in them having control or significant influence over those companies. Two of these companies transacted with the Corporation during the year. The terms and conditions of these transactions are consistent with those conducted with third parties at arm's length. The amounts owing are unsecured, interest-free and due for payment under normal payment terms from the date of the transaction. The following table summarizes related party activity:

| | Transaction values for the year ended December 31, | | | Balances outstanding as at December 31, | | | | |
|------------------------------|--|------|----|---|------|---|----|---|
| | 2016 | 2015 | | 2016 | 2015 | | | |
| Marketing expenses | \$ | 89 | \$ | 89 | \$ | 7 | \$ | 8 |
| Technology services expenses | \$ | 7 | \$ | - | \$ | - | \$ | - |

The Corporation has an investment in China Rewards and participated as a member of China Rewards' Board of Directors. As at December 31, 2016, the Corporation had a receivable of \$93 from China Rewards. The Corporation has recorded an allowance for the full amount of the receivable from China Rewards. The transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Please refer to Note 22 for details.

Compensation

In addition to their salaries, the Corporation also provides non-cash benefits to directors and executive officers. Directors and executive officers participate in the Corporation's share-based compensation plans (see Note 14).

POINTS INTERNATIONAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of U.S. dollars, except per share figures, unless otherwise noted

Key management personnel compensation comprised the following:

| <i>In thousands of Canadian dollars</i> | | 2016 | | 2015 |
|---|-----------|--------------|-----------|--------------|
| Short-term employee salaries and benefits | \$ | 2,206 | \$ | 2,402 |
| Share-based payments | | 1,425 | | 1,904 |
| Total compensation | \$ | 3,631 | \$ | 4,306 |

22. LONG-TERM INVESTMENT

In 2013, the Corporation entered into a binding agreement to make a minority investment in China Rewards, a domestic Chinese retail coalition loyalty program start-up based in Shanghai, People's Republic of China. The investment of \$5,000 was agreed to be made in a series of tranches which were paid in 2013 and 2014.

In 2016, the Corporation recorded an impairment of \$5,000 related to its investment in China Rewards as a result of changes in the expected recoverability of the cost of the investment. Specifically, due to certain loss events occurring during the period, there are no future cash flows associated with the available-for-sale investment expected to accrue to the Corporation.

23. SHORT-TERM INVESTMENT

The Corporation purchased an interest bearing, unsecured discount bearer deposit note issued by the Royal Bank of Canada with a term of 360 days maturing on October 20, 2017. The financial instrument is classified as held-to-maturity and measured at amortized cost.

24. CREDIT FACILITIES

On June 23, 2016, the Corporation amended its bank credit facility agreement with Royal Bank of Canada. The following two facilities are available to the Corporation as of December 31, 2016:

- Revolving operating facility ("Facility #1") of \$8,500 available until May 31, 2017. The interest rate charged on borrowings from Facility #1 ranges from 0.35% to 0.75% per annum over the bank base rate.
- Term loan facility ("Facility #2") of \$5,000 to be utilized solely for the purposes of financing the cash consideration relating to acquisitions made by the Corporation. This facility is available until May 31, 2017. The interest rate charged on borrowings from Facility #2 ranges from 0.40% to 0.80% per annum over the bank base rate.

There have been no borrowings to date under these facilities. The term loan facility of \$7,000 to fund repurchases of the Corporation's common shares expired unutilized on March 8, 2016 and was not renewed. The Corporation is required to comply with certain financial and non-financial covenants under the agreement. The Corporation is in compliance with all applicable covenants on its facilities during the year ended December 31, 2016.

**POINTS INTERNATIONAL LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS**

INTRODUCTION

The following management's discussion and analysis ("MD&A") of the performance and financial condition of Points International Ltd. and its subsidiaries (which are 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 thereto) for the years ended December 31, 2016 and 2015. Further information, including the Annual Information Form ("AIF") and Form 40-F for the year ended December 31, 2016, may be accessed at www.sedar.com or www.sec.gov.

All financial data herein has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and all dollar amounts herein are in thousands of United States dollars unless otherwise specified. This MD&A is dated as of March 8, 2017 and was reviewed by the Audit Committee and approved by the Corporation's Board of Directors.

FORWARD-LOOKING STATEMENTS

This MD&A contains or incorporates forward-looking statements within the meaning of United States securities legislation and forward-looking information within the meaning of Canadian securities legislation (collectively, "forward-looking statements"). These forward-looking statements relate to, among other things, revenue, earnings, changes in costs and expenses, capital expenditures and other objectives, strategic plans and business development goals, and may also include other statements that are predictive in nature, or that depend upon or refer to future events or conditions, and can generally be identified by words such as "may", "will", "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These statements are not historical facts but instead represent only the Corporation's expectations, estimates and projections regarding future events.

Certain significant forward-looking statements included in this MD&A include statements regarding: revenue growth, the shift in the internal mix of revenue sources and the impact thereof on sustained profitability; the maximization of gross profit and the accretive nature of new deals and products on profitability; enhancing the capabilities of the Corporation's loyalty commerce platform and its consumer product innovations; development of growth opportunities for the Corporation through access to growing loyalty membership databases; the Corporation's ability to generate positive returns on its historical and ongoing investments in its loyalty commerce platform and its expansion of new product offerings; the Corporation's ability to generate cash through normal course operations to fund capital expenditure needs and current operating and working capital requirements, including under current operating leases; and the financial obligations with respect to revenue guarantees.

Although the Corporation believes the expectations reflected in such forward-looking statements are reasonable, such statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. Undue reliance should not be placed on such statements. Certain material assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements. Known and unknown factors could cause actual results to differ materially from those expressed or implied in the forward-looking statements. In particular, the financial outlooks herein assume the Corporation will be able to maintain its existing contractual relationships and products, that such products continue to perform in a manner consistent with the Corporation's past experience, that the Corporation will be able to generate new business from its pipeline at expected margins, in-market and newly launched products and services will perform in a manner consistent with the Corporation's past experience and the Corporation will be able to contain costs. The Corporation's ability to convert its pipeline of prospective partners and product launches is subject to significant risk and there can be no assurance that the Corporation will launch new partners or new products with existing partners as expected or planned nor can there be any assurance that the Corporation will be successful in maintaining its existing contractual relationships or maintaining existing products with existing partners. Other important assumptions, factors, risks and uncertainties are included in the press release announcing the Corporation's fourth quarter and 2016 financial results, and those described in Points' other filings with applicable securities regulators, including Points' AIF, Form 40-F, annual and interim MD&A, and annual consolidated financial statements and interim condensed consolidated financial statements and the notes thereto. These documents are available at www.sedar.com and www.sec.gov.

The forward-looking statements contained in this MD&A are made as at the date of this MD&A and, accordingly, are subject to change after such date. Except as required by law, Points does not undertake any obligation to update or revise any forward-looking statements made or incorporated in this MD&A, whether as a result of new information, future events or otherwise.

USE OF NON-GAAP MEASURES

The Corporation's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). Management uses certain non-GAAP measures, which are defined in the appropriate sections in the body of this MD&A, to better assess the Corporation's underlying performance. These measures are reviewed regularly by management and the Corporation's Board of Directors in assessing the Corporation's performance and in making decisions about ongoing operations. These measures are also used by investors as an indicator of the Corporation's operating performance. Readers are cautioned that these terms are not recognized GAAP measures and do not have a standardized GAAP meaning under IFRS and should not be construed as alternatives to IFRS terms, such as net income.

BUSINESS OVERVIEW

Points International Ltd.

Points International Ltd. is the global leader in powering loyalty commerce. The Corporation's products and services help the world's leading loyalty programs enhance loyalty member engagement and participation and leverage their online presence in innovative ways. The Corporation delivers e-commerce solutions to loyalty programs on both a privately branded and Points' branded basis. In addition, the Corporation operates the Points.com website, where millions of members manage their loyalty memberships, learn about new promotions, and exchange points and miles between programs.

Loyalty programs generate substantial economic benefits and are increasingly seen as strategic marketing and business assets. The Corporation provides products and services which help make loyalty programs more valuable and engaging. Points does not directly compete with loyalty rewards programs and as such operates as a business partner of the loyalty program. Consequently, Points products and services are available to numerous loyalty partners simultaneously through the Loyalty Commerce Platform ("LCP"), which is the backbone of Points' product and service offerings. The LCP has been designed as an Application Program Interface ("API") driven transactional platform that provides internal and external product developers easier access to the direct integrations into the Corporation's technological infrastructure. This approach facilitates loyalty commerce transactions and encourages incremental participation resulting in greater value to a loyalty program partner and their membership base. The LCP offers a consistent interface for developers that is self-serve capable, providing broad access to loyalty transaction capabilities based on the Corporation's direct integrations with its loyalty program partners. The LCP supports not only the Corporation's core Buy, Gift and Transfer ("BGT") products, but also additional loyalty products offered by Points directly or by third party product providers. Additionally, the LCP facilitates the broad distribution of loyalty currencies and loyalty commerce transactions through multiple channels, including third party integrations, via the newly developed Points Loyalty Wallet. Furthermore, the Corporation leveraged the technologies acquired from its purchase of Accruity Inc. in 2014, to develop Points Travel, the leading white-label travel booking solution for the loyalty industry. This innovation allows a loyalty program to provide a seamless travel booking experience and allows the program members to earn and / or redeem loyalty currency while making hotel and car bookings.

The Corporation's business relationships with its Loyalty Partners enable the products and services it offers to be exposed to the vast memberships of these Loyalty Partners. Access to these growing loyalty membership databases provides growth opportunities for the Corporation by increasing the overall level of member engagement with the Corporation's products in a very cost effective manner. In addition, offering new and innovative products to expand the suite of product offerings on the LCP to existing and new loyalty programs presents an additional growth opportunity for the Corporation. Securing additional Loyalty Partners to utilize our LCP, products and services provides a further growth opportunity for Points. With direct integrations into more than 50 of the world's leading loyalty programs and access to over 700 million loyalty members, the LCP uniquely positions the Corporation to connect third party channels with highly engaged loyalty program members and the broader loyalty market.

The Corporation's e-commerce solutions are utilized by over 50 of the world's leading loyalty programs, including:

- United Airlines MileagePlus
- Southwest Airlines Rapid Rewards
- British Airways Executive Club
- Virgin Atlantic Flying Club
- AF-KLM Flying Blue
- Starwood Preferred Guest
- Hyatt Gold Passport
- JetBlue TrueBlue
- La Quinta Returns
- InterContinental Hotels Group
- Amtrak Guest Rewards
- Hilton HHonors
- Alaska Airlines Mileage Plan
- Saudi Arabian Airlines Alfursan
- Delta Air Lines SkyMiles
- American Airlines AAdvantage
- Lanpass
- Miles&More

In 2016, Points delivered over \$400 million annually in additional revenue for partners whose loyalty program members number over 700 million. The Corporation's headquarters are located in Toronto, Canada and its shares are dually listed on the Toronto Stock Exchange ("TSX") as PTS and on the NASDAQ Capital Market ("NASDAQ") as PCOM.

The Corporation's revenue is primarily generated by transacting points and miles online. Revenue is principally derived from the sale or transfer of loyalty currencies directly to loyalty program members. The Corporation categorizes its revenue in three ways: principal revenue, other partner revenue and interest income.

Principal Revenue:

Principal revenue includes all principal revenue derived from reseller sales, technology design, development and maintenance revenue, and hosting fees. Under a reseller arrangement, the Corporation takes on a principal role whereby it purchases points and miles from loyalty program partners at wholesale rates and resells them directly to consumers. The Corporation has a substantial level of responsibility with respect to operations, marketing, pricing and commercial transaction support. In addition, the Corporation does assume additional responsibility when assuming a principal role, such as credit and/or inventory risk.

Other Partner Revenue:

Other partner revenue includes transactional revenue that is realized when the Corporation assumes an agency role in the retailing and wholesaling of loyalty currencies for loyalty program partners and other revenue received from partners which is not transactional in nature.

Interest Income:

Lastly, as part of its operating economics, the Corporation earns interest income on the cash flows generated by its products and services.

The Loyalty Market

Year-over-year, loyalty programs continue to generate a significant source of ancillary revenue and cash flows for program operators. According to the Colloquy group, a leading consulting and research firm focused on the loyalty industry, the number of loyalty memberships in the U.S. increased from 2.6 billion in 2012 to 3.3 billion in 2014, representing an increase of 27%. In addition, the average U.S. household belonged to 29 loyalty programs as of 2014, versus 22 loyalty programs in 2012 (source: 2015 Colloquy Loyalty Census, February 2015). As the number of loyalty memberships continues to increase, the level of diversification in the loyalty landscape is evolving. While the airline, specialty retail, and financial services industries continue to be dominant in loyalty programs in the U.S., smaller verticals, including the restaurant and drug store industries are beginning to see larger growth in their membership base. Further, newer loyalty concepts, such as large e-commerce programs, daily deals, and online travel agencies, are becoming more prevalent. As a result of this changing landscape, loyalty programs must continue to provide innovative value propositions in order to drive activity in their programs.

In light of this environment, the Corporation continues to advance the functionality of its LCP which provides external product developers easy access to direct integrations with the Corporation's loyalty program partners. The LCP provides a medium to more easily facilitate transactions and provide greater value to a loyalty program's membership base. The Corporation continues to focus on innovation and be highly engaged in a quickly developing loyalty industry. As the Corporation continues to advance the platform's capabilities, management believes the addressable market opportunity for the Corporation will continue to increase.

OPERATING HIGHLIGHTS AND DEVELOPMENTS

Financial results for the year ended December 31, 2016, reflected the strength of the Corporation's core business combined with continued investment in the Corporation's Points Travel product and the expansion of the Loyalty Commerce Platform. Revenue grew 9% on a year over year basis, largely from organic growth from the Corporation's existing loyalty partnerships. Gross profit increased 2% on a year over year basis, to \$43,338. Gross profit year over year growth from existing partnerships was partially offset by the impact of the US Airways BGT program departure which occurred at the end of the first quarter of 2015.

From a profitability perspective, Adjusted EBITDA in 2016 decreased by \$536 or 4% from the prior year to \$12,106, largely due to the impact of the US Airways departure and increased operating expenses during the year. Marketing initiatives related to the Corporation's Points Travel product and increased rent expense from the Corporation's new head office lease were the primary drivers of the operating expense increase. The Corporation recorded a net loss of \$1,515 in 2016 compared to net income of \$5,165 in 2015. The net loss in 2016 resulted from a \$5,000 write-down of the Corporation's investment in China Rewards.

In 2016, the Corporation continued to leverage the strength of its core business to fund investments in longer term growth areas. Specifically, these investment areas were the Corporation's Points Travel product and additional features to the Loyalty Commerce Platform.

Points Travel investments increased during the year to better position the Corporation to capture a significant market opportunity by connecting loyalty with the online travel vertical. Throughout the year, the Points Travel product consistently demonstrated its strong value proposition and market fit in the loyalty space, with several successful launches across Europe and North America. In 2016, Points operationalized five loyalty program partners onto its Points Travel platform. In Europe, the Corporation launched Points Travel products with Miles&More and Air France-KLM's Flying Blue program, two leading frequent flyer programs. In North America, the Corporation launched the Air Miles Travel Hub with Canada's most popular coalition loyalty program, and hotel redemption programs with Hawaiian Airlines hotel booking redemption program and La Quinta Inns & Suites. Lastly, just after the end of 2016, the Corporation announced a new partnership with All Nippon Airlines, Japan's largest airline, to offer their loyalty members with the ability to earn or redeem their miles when transacting for hotel bookings, car rental bookings, and online shopping malls. These new product launches represent a distinct product offering to the world's loyalty programs, further increasing the addressable market opportunity for the Corporation by connecting loyalty with the online travel vertical.

Increased investment levels on Points Travel in 2016 were focused on both ongoing product development and marketing efforts towards the five loyalty programs in market. From a development perspective, the Corporation developed and brought to market hotel redemption functionality and car rental booking features in 2016, enabling consumers the ability to book hotel rooms or car rentals using their miles, or a combination of miles and cash. Marketing investments incurred by the Corporation were largely in the fourth quarter of 2016, and focused on enhancing customer acquisition and awareness amongst the multiple partner installations.

With respect to the Loyalty Commerce Platform, development efforts were focused on enhancing the distribution capabilities of the LCP, leveraged by the Corporation's Loyalty Wallet, a new product offering which management views as a longer-term growth opportunity for the Corporation. The Loyalty Wallet facilitates the broad distribution of loyalty currencies, making it easier for loyalty members to earn and use loyalty currencies in their preferred channels with relevant transactions. During the year, the Corporation announced a new Loyalty Wallet partnership with App in the Air, the travel app helping users navigate the entire flying process, which will enable its users the ability to register, track, and transact between their favorite travel loyalty programs. In addition, both Choice Hotels and Alaska Airlines started leveraging the Loyalty Wallet service in 2016 to better manage exchanges on their own loyalty program site. These new partnerships demonstrate the product's market fit in both loyalty program channels and non-loyalty program channels.

The Corporation's core loyalty currency retailing business remains strong with a solid base of long-term partnerships and a pipeline of global opportunities. In the first quarter of 2016, the Corporation announced multi-year partnership extensions with two of its larger principal partners, Southwest Airlines Rapid Rewards and Air France-KLM's Flying Blue programs. In addition, in the second quarter of 2016, the Corporation launched a new principal partnership with Shangri-La hotels, a premier hotel network that operates hotels across North America, Europe, Australia, China, and the Middle East. Furthermore, just after 2016, the Corporation expanded its global footprint in Latin America and the Caribbean with a new partnership with Copa Airline's ConnectMiles program, offering ConnectMiles Members to buy, gift and transfer reward miles. Through these new contracts and contract extensions, Points will continue to power the BGT and business incentive programs for these loyalty program partners.

Lastly, Points reinitiated its Normal Course Issuer Bid ("NCIB") during the first quarter of 2016 to repurchase and cancel up to 764,930 of its common shares as part of its commitment to creating shareholder value. The Corporation's balanced capital allocation strategy leverages its strong balance sheet to invest in growth opportunities while returning value to shareholders.

2016 KEY FINANCIAL MEASURES

Highlights of operating results for the year ended December 31, 2016 include:

- Record revenue of \$321,821 an increase of \$25,445 or 9% from the prior year;
- Gross profit of \$43,338, an increase of \$672 or 2% from the prior year (please refer to 'Revenue, Direct Costs and Gross Profit' on page 8 for definition and explanation);
- Net loss of \$1,515, a decrease of \$6,680 from the prior year;
- Earnings before taxes, depreciation, amortization, share-based compensation, impairment of long-term investments and foreign exchange ("Adjusted EBITDA") of \$12,106, lower by \$536 or 4% from the prior year (please refer to 'Adjusted EBITDA' on page 12 for definition and explanation); and,
- As at December 31, 2016, the Corporation had cash and cash equivalents of \$46,492 and no debt.

SELECTED FINANCIAL INFORMATION

The following information is provided to give a context for the broader comments elsewhere in this report.

(In thousands of US dollars, except share and per share amounts)

| | 2016 | 2015 | 2014 |
|--------------------------------------|------------|------------|------------|
| Revenue | \$ 321,821 | \$ 296,376 | \$ 254,989 |
| Gross profit ¹ | 43,338 | 42,666 | 39,656 |
| Ongoing operating costs ² | 33,549 | 31,612 | 30,601 |
| Adjusted EBITDA ³ | 12,106 | 12,642 | 10,876 |
| Net income (loss) | \$ (1,515) | \$ 5,165 | \$ 4,684 |
| Earnings (loss) per share | | | |
| Basic | \$ (0.10) | \$ 0.33 | \$ 0.30 |
| Diluted | \$ (0.10) | \$ 0.33 | \$ 0.30 |
| Weighted average shares outstanding | | | |
| Basic | 15,219,283 | 15,547,595 | 15,402,258 |
| Diluted | 15,219,283 | 15,601,170 | 15,627,059 |
| Total assets | \$ 103,234 | \$ 99,928 | \$ 85,061 |
| Total liabilities | \$ 62,916 | \$ 57,733 | \$ 43,844 |
| Shareholders' equity | \$ 40,318 | \$ 42,195 | \$ 41,217 |

¹ Gross profit is a non-GAAP financial measure. Refer to page 8 for definition and explanation.

² Ongoing operating costs is a non-GAAP financial measure. Refer to page 10 for definition and explanation.

³ Adjusted EBITDA is a non-GAAP financial measure. Refer to page 12 for definition and explanation.

RESULTS OF OPERATIONS

REVENUE, DIRECT COSTS AND GROSS PROFIT

Gross profit, defined by management as total revenues less direct costs of principal revenue, is a non-GAAP financial measure which does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. Gross profit is viewed by management to be an integral measure of financial performance as it represents an internal measure of ongoing growth and the amount of revenues retained by the Corporation that are available to fund ongoing operating expenses, including incremental spending that is in line with the long term investment strategy of the Corporation. Management continues to drive a shift in the Corporation's revenue mix toward reseller relationships (with higher partner engagement) that are expected to lead to sustained profitability for the Corporation. In general, the Corporation seeks to maximize the gross profit dollars generated from each loyalty partner relationship. For this reason, these new deals and products are expected to be accretive to overall profitability.

Direct cost of principal revenue consists of variable direct costs incurred to generate principal revenues earned under the reseller model, which include the wholesale cost of loyalty currency paid to partners for the purchase of such currency, and credit card processing fees.

(In thousands of US dollars)

| | 2016 | | 2015 | Variance |
|----------------------------------|----------------|----|---------|-----------|
| Principal revenue | \$ 308,964 | \$ | 283,409 | \$ 25,555 |
| Other partner revenue | 12,648 | | 12,871 | (223) |
| Interest revenue | 209 | | 96 | 113 |
| Total Revenue | \$ 321,821 | \$ | 296,376 | \$ 25,445 |
| Direct cost of principal revenue | 278,483 | | 253,710 | 24,773 |
| Gross profit ¹ | \$ 43,338 | \$ | 42,666 | \$ 672 |
| Gross margin ² | 13% | | 14% | (1%) |

¹ Gross profit is a non-GAAP financial measure and is defined as Total revenue less Direct cost of principal revenue.

² Gross margin is a non-GAAP financial measure and is defined as Gross profit as a percentage of Total revenue.

The Corporation generated record revenue of \$321,821 for the year ended December 31, 2016, an increase of \$25,445 or 9% over 2015. The increase in revenues over the prior year is primarily attributable to promotional activities which generated approximately 9% organic growth from existing partnerships in the Corporation's core retailing business. In particular, the Corporation saw significant revenue growth with its principal partners in the hospitality and the airline industry. Lastly, the increase is partially due to the full year recognition of the United Airlines MileagePlus as a principal partner in 2016, whereas in 2015, revenues from the United Airlines MileagePlus were recognized on a net basis until it was migrated on to the Corporation's Loyalty Commerce Platform during the first half of 2015.

Principal revenue for 2016 was \$308,964, an increase of \$25,555 or 9% over 2016. The increase in principal revenues was primarily driven from organic growth with existing loyalty partnerships in both the hospitality industry and the airline industry. Further, the Corporation experienced increased revenue with certain loyalty partnerships that made changes to their loyalty programs. Fluctuations in the Corporation's principal revenues are driven by many factors, including the timing and richness of promotional offers, the growth in a partner's membership base, the effectiveness of online channel distribution and merchandising, retail pricing, and changes to the terms and utility of loyalty currencies.

Other partner revenue for 2016 was \$12,648, a decrease of \$223, or 2%, from 2015. The year-over-year decrease was largely due to the departure of the US Airways BGT program whereby revenues were recorded on a net basis as other partner revenue in the first quarter of 2015 prior to their departure. Further, the decrease was due to a change in revenue recognition for the United Airlines MileagePlus from commission revenue to principal revenue after United Airlines MileagePlus was migrated onto the Loyalty Commerce Platform in the first half of 2015. These decreases to other partner revenue were largely offset by strong organic growth from existing commission partnerships, and to a lesser extent, incremental revenues from the Points Travel product.

Gross profit for 2016 was \$43,338, an increase of \$672 or 2% from the prior year. The increase in gross profit is due to organic revenue growth across the Corporation's portfolio of loyalty partners, partially offset by the departure of US Airways which was recognized as a commission partner in the first quarter of 2015. Gross margin decreased from 14% in 2015 to 13% in 2016. The lower margin profile can be attributed to the departure of the US Airways BGT program in the first quarter of 2015. Revenues from this partnership were recorded on a net basis in other partner revenue. Further, revenues from the United Airlines MileagePlus program were recognized on a gross basis throughout all of 2016, whereas, the revenues from the program were recognized on a net basis in the first quarter of 2015.

ONGOING OPERATING COSTS

Ongoing operating costs is a non-GAAP financial measure, which is defined as Total Expenses as presented in the consolidated financial statements before direct cost of principal revenue, depreciation and amortization, foreign exchange gains and losses, and impairment of long term investment.

| <i>(In thousands of US dollars)</i> | 2016 | | 2015 | | Variance |
|--------------------------------------|-----------|---------------|-----------|---------------|-----------------|
| Employment costs | \$ | 23,220 | \$ | 22,699 | \$ 521 |
| Marketing and communications | | 2,220 | | 1,704 | 516 |
| Technology services | | 1,691 | | 1,343 | 348 |
| Operating expenses | | 6,418 | | 5,866 | 552 |
| Total ongoing operating costs | \$ | 33,549 | \$ | 31,612 | \$ 1,937 |

Ongoing operating costs are predominantly cash based expenditures and include employment costs, marketing and communications expenditures, technology services costs and operating expenses. Ongoing operating costs are predominantly incurred in Canadian dollars, exposing the Corporation to foreign exchange risk. To mitigate this exposure, management enters into foreign exchange forward contracts for the majority of its predictable Canadian dollar expenditures on a rolling 12-month basis to mitigate the impact of foreign exchange volatility.

Ongoing operating costs for 2016 were \$33,549, an increase of \$1,937, or 6%, from 2015. The increase in ongoing operating costs over the prior year was primarily attributable to increased headcount, incremental marketing expenses, and higher office lease expense, largely offset by foreign exchange benefits as the Canadian dollar weakened against the US dollar during the year.

Employment Costs

Employment costs, including salaries and bonuses, employee share-based compensation expenses, contract labour charges, recruiting fees, benefits and other related taxes, are predominantly incurred in Canadian dollars. Employment costs of \$23,220 in 2016 were relatively stable compared to 2015, increasing \$521, or 2% year over year.

The Corporation added a number of new technology, product, and marketing driven resources to the business in 2016. Average full time equivalents (“FTEs”) increased from 193 in 2015 to 212 in 2016. FTEs in 2016 included contract and short term roles of 21 compared to 23 in 2015. The incremental payroll costs associated with increased resourcing levels in 2016 were largely offset by foreign exchange savings from the Corporation’s hedging program and the weaker Canadian dollar in 2016. New resource additions in 2016 were made to the Corporation’s San Francisco office and select hires in the Toronto head office, the majority of which were focused on the Points Travel and Loyalty Wallet products.

Included in the 2016 employment cost expense is stock-based compensation expense of \$2,317 compared to \$1,588 in 2015.

Marketing and Communications

Marketing and communications expenditures consist of loyalty program marketing initiatives, placements on contracted loyalty program websites, customer acquisition costs, public relations costs, and other online marketing and promotional activities. Marketing and communications costs for 2016 were \$2,220, increasing \$516 or 30% from 2015. The increase from the prior year was largely driven by increased customer acquisition costs related to Corporation’s Points Travel product.

Technology Services

Technology services include online hosting and managed services, equipment rental and software license fees. Technology service costs for 2016 were \$1,691, increasing \$348 or 26% from 2015. The increase from the prior year was the result of spending towards Cloud-based services, marketing related data tools, and additional server capacity.

Operating Expenses

Operating expenses include office overhead, travel expenses, professional fees and other costs associated with operations. Operating expenses for 2016 were \$6,418, an increase of \$552, or 9% from 2015. The increase from the prior year was mainly attributable to the Toronto head office move and the new office lease agreement which reflects higher current market rates.

NET INCOME (LOSS) AND EARNINGS (LOSS) PER SHARE

(In thousands of US dollars, except per share amounts)

| | 2016 | 2015 | Variance |
|----------------------------------|-------------------|----------|------------|
| Net Income (loss) | \$ (1,515) | \$ 5,165 | \$ (6,680) |
| Earnings (loss) per share | | | |
| Basic | \$ (0.10) | \$ 0.33 | \$ (0.43) |
| Diluted | \$ (0.10) | \$ 0.33 | \$ (0.43) |

The Corporation reported net loss of \$1,515 for the year ended December 31, 2016 compared with net income of \$ 5,165 for the year ended December 31, 2015. The decrease from the prior year was largely driven by the write-off of the Corporation's investment in China Rewards of \$5,000, higher depreciation and amortization, and a decrease in Adjusted EBITDA.

The Corporation's basic earnings per share is calculated on the basis of the weighted average number of outstanding common shares for the period, which amounted to 15,219,283 common shares for the year ended December 31, 2016, compared with 15,547,595 common shares for the year ended December 31, 2015. The Corporation reported basic and diluted loss per share of \$0.10 for the year ended December 31, 2016, a decrease from basic and diluted earnings per share of \$0.33 for the year ended December 31, 2015.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure, which is defined as earnings before taxes, depreciation, amortization, share-based compensation, impairment of long-term investment and foreign exchange. Management excludes these items because they could potentially distort the analysis of trends in business performance.

Management believes that Adjusted EBITDA is an important indicator of the Corporation's ability to generate liquidity through operating cash flow to fund future working capital needs and fund future capital expenditures and uses the metric for this purpose. Adjusted EBITDA is also used by investors and analysts for the purpose of valuing an issuer. The presentation of Adjusted EBITDA is to provide additional useful information to investors and analysts and the measure does not have any standardized meaning under IFRS. Adjusted EBITDA should therefore not be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS. Other issuers may calculate Adjusted EBITDA differently.

Reconciliation of Net Income to Adjusted EBITDA

(In thousands of US dollars)

| | 2016 | 2015 | Variance |
|--|------------|-----------|------------|
| Net income | \$ (1,515) | \$ 5,165 | \$ (6,680) |
| Stock-based compensation | 2,317 | 1,588 | 729 |
| Income tax expense | 1,545 | 2,474 | (929) |
| Depreciation and amortization | 4,529 | 3,546 | 983 |
| Foreign exchange loss (gain) | 230 | (131) | 361 |
| Impairment of long-term investment | 5,000 | - | 5,000 |
| Adjusted EBITDA ¹ | \$ 12,106 | \$ 12,642 | \$ (536) |
| Gross Profit ² | \$ 43,338 | \$ 42,666 | \$ 672 |
| Adjusted EBITDA ¹ as a % of Gross Profit ² | 28% | 30% | (2%) |

¹ Adjusted EBITDA is a non-GAAP financial measure. See above for definition and explanation.

² Gross profit is a non-GAAP financial measure and is defined as Total revenue less direct cost of principal revenue. Refer to page 8 for definition and explanation.

For the year ended December 31, 2016, the Corporation's Adjusted EBITDA was \$12,106, a decrease of \$536 or 4% from 2015. The decrease in Adjusted EBITDA was largely the result of the growth in ongoing operating costs outpacing the growth in gross profit in 2016, which was adversely impacted by the departure of the US Airways BGT program at the end of the first quarter of 2015.

In line with management's view that gross profit is an integral measure of financial performance, Adjusted EBITDA as a percentage of gross profit is viewed by Management as a key internal measure of operating efficiency. This measure demonstrates the Corporation's ability to generate profitability after it has funded ongoing operating costs and made investments in key strategic areas.

For the year ended December 31, 2016, Adjusted EBITDA as a percentage of gross profit was 28%, a decrease of 2% over the prior year period. The decrease was primarily attributed to the percentage growth in ongoing operating costs outpacing the year over year growth in gross profit.

DEPRECIATION, AMORTIZATION, INCOME TAX & OTHER EXPENSES

(In thousands of US dollars)

| | 2016 | 2015 | Variance |
|-------------------------------------|-----------|----------|----------|
| Depreciation and amortization | \$ 4,529 | \$ 3,546 | \$ 983 |
| Foreign exchange loss (gain) | 230 | (131) | 361 |
| Impairment of long-term investments | 5,000 | - | 5,000 |
| Income tax expense | 1,545 | 2,474 | (929) |
| Total | \$ 11,304 | \$ 5,889 | \$ 5,415 |

Depreciation and Amortization Expense

Depreciation and amortization expense in 2016 increased \$983, or 28%, from 2015. The increase in expense from the prior year is due to additional amortization incurred from internally developed intangible assets which became available for use throughout 2016, including the Loyalty Commerce Platform and the Points Travel product. To a lesser extent, the increase was also from the accelerated amortization of leasehold improvements due to the revised termination date of the previous head office premises lease.

Foreign Exchange ("FX") Gain / Loss

US / Canadian FX

| Rates | 2016 | 2015 | 2014 |
|----------------|---------------|--------|--------|
| Period Start | 0.7209 | 0.8599 | 0.9351 |
| Period End | 0.7437 | 0.7209 | 0.8599 |
| Period Average | 0.7550 | 0.7837 | 0.9059 |

US / EURO FX Rates

| | 2016 | 2015 | 2014 |
|----------------|---------------|--------|--------|
| Period Start | 1.0906 | 1.2155 | 1.3768 |
| Period End | 1.0516 | 1.0906 | 1.2155 |
| Period Average | 1.1068 | 1.1105 | 1.3292 |

The Corporation has customers and suppliers that transact in currencies other than the US dollar which gives rise to a risk that earnings and cash flows may be adversely affected by fluctuations in foreign currency exchange rates. Foreign exchange gains and losses arise from the translation of the Corporation's balance sheet, revenues, and expenses. The Corporation holds balances in foreign currencies (e.g. non-US dollar denominated cash, accounts payables and accrued liabilities) that give rise to exposure to foreign exchange risk. At period end, non-US dollar monetary balance sheet accounts are translated in accordance with the period-end FX rate. To the extent that the foreign denominated monetary assets and liabilities are not equal, the net effect after translating the balance sheet accounts is recorded in the consolidated statement of comprehensive income for the period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The majority of the Corporation's revenues in 2016 were transacted in US dollars and EUROS. The direct cost of principal revenue is denominated in the same currency as the revenue earned, minimizing the FX exposure related to the EURO. Ongoing operating costs are predominantly incurred in Canadian dollars, exposing the Corporation to foreign exchange risk arising from fluctuations in the value of the Canadian dollar relative to the US dollar.

As part of the risk management strategy of the Corporation, management enters into foreign exchange forward contracts extending out as much as one year to reduce the foreign exchange risk with respect to the Canadian dollar. These contracts have been designated as cash flow hedges. The Corporation does not use derivative instruments for speculative purposes.

For a derivative instrument designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income and is subsequently recognized in income when the hedged exposure affects income. Any ineffective portion of the derivative's gain or loss is recognized in net income. For the year ended December 31, 2016, the Corporation reclassified a loss of \$202, net of tax, from other comprehensive income into net income. The cash flow hedges were effective for accounting purposes at December 31, 2016. Realized gains from the Corporation's hedging activities, in 2016, were driven by favourable hedging contract foreign exchange rates.

For the year ended December 31, 2016, the Corporation recorded a foreign exchange loss of \$230 compared with a foreign exchange gain of \$131 in 2015.

Impairment of Long-term Investment

The Corporation recorded an impairment of \$5,000 related to its investment in China Rewards as a result of changes in the expected recoverability of the cost of the investment in the fourth quarter of 2016. Specifically, due to certain loss events occurring during the fourth quarter of 2016, there are no future cash flows associated with the available-for-sale investment expected to accrue to the Corporation.

Income Tax Expense

The Corporation is subject to tax in multiple jurisdictions and assesses its taxable income to ensure eligible tax deductions are fully utilized. The Corporation recorded an income tax expense of \$1,545 in 2016 compared to an income tax expense of \$2,474 in 2015 as the Corporation generated less taxable income in the current year.

BALANCE SHEET VARIANCES

Consolidated Balance Sheet Data as at

(In thousands of US dollars)

| | December 31, | December 31, |
|--|---------------------|------------------|
| | 2016 | 2015 |
| Cash and cash equivalents | \$ 46,492 | \$ 51,364 |
| Short-term investments | 10,033 | - |
| Restricted cash | 500 | 1,000 |
| Funds receivable from payment processors | 10,461 | 6,588 |
| Accounts receivable | 4,057 | 2,988 |
| Prepaid expenses and other assets | 1,475 | 1,256 |
| Total current assets | \$ 73,018 | \$ 63,196 |
| Property and equipment | 1,750 | 1,466 |
| Intangible assets | 16,896 | 18,616 |
| Goodwill | 7,130 | 7,130 |
| Deferred tax assets | 1,725 | 1,755 |
| Long-term investment | - | 5,000 |
| Other assets | 2,715 | 2,765 |
| Total non-current assets | \$ 30,216 | \$ 36,732 |
| Accounts payable and accrued liabilities | \$ 6,335 | \$ 5,530 |
| Income taxes payable | 1,638 | 278 |
| Payable to loyalty program partners | 53,242 | 49,526 |
| Current portion of other liabilities | 771 | 1,852 |
| Total current liabilities | \$ 61,986 | \$ 57,186 |
| Deferred tax liabilities | 211 | 425 |
| Other liabilities | 719 | 122 |
| Total non-current liabilities | \$ 930 | \$ 547 |
| Total shareholders' equity | \$ 40,318 | \$ 42,195 |

Cash and cash equivalents

The Corporation's cash and cash equivalents balance decreased \$4,872 compared to the end of 2015. The decrease in cash and cash equivalents was primarily due to the Corporation allocating cash of \$10,033 towards short-term investments. The Corporation's cash and cash equivalents balance is also impacted by the timing of loyalty partner transactions that can vary from period to period.

Short-Term Investments

The Corporation's short-term investments balance increased by \$10,033 during the year due to the purchase of an interest bearing, unsecured discount bearer deposit note issued by the Royal Bank of Canada with a term of 360 days maturing on October 20, 2017. The financial instrument is classified as held-to-maturity and measured at amortized cost.

Funds receivable from payment processors

The Corporation's funds receivable from payment processors balance increased \$3,873 compared to the end of 2016, which is attributable to the timing of promotional activities. In general, the Corporation will experience a higher balance when promotions are timed towards the end of the period, and when the receivable balances have not been settled in cash by payment processors for the increased credit card transaction activity at period end.

Prepaid expenses and other assets

The Corporation's prepaid expenses and other assets balance increased \$219 compared to the end of 2016. This increase was primarily the result of incremental software licenses, a deposit for the lease on the new head office premises and favourable mark-to-market movements on the Corporation's foreign exchange forward contracts.

Income taxes payable

The Corporation's income taxes payable balance increased \$1,360 compared to the end of 2015, and is primarily due to the timing of payments to income tax authorities.

Payable to loyalty program partners

The Corporation's payable to loyalty program partners balance increased \$3,716 compared to the end of 2015, which is primarily attributable to the timing of payments made to loyalty partners. The Corporation will typically remit funds to loyalty program partners approximately 30 days after the month of loyalty currency sales.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

(In thousands of US dollars)

| | 2016 | 2015 | Variance |
|-------------------------------------|------------|-----------|-------------|
| Operating activities | \$ 9,854 | \$ 21,932 | \$ (12,078) |
| Investing activities | (12,626) | (2,922) | (9,074) |
| Financing activities | (3,176) | (5,505) | 2,329 |
| Effects of exchange rates | 1,076 | 991 | 85 |
| Change in cash and cash equivalents | \$ (4,872) | \$ 14,496 | \$ (19,368) |

Operating Activities

Cash flows from operating activities are primarily generated from funds collected from miles and points transacted from the various products and services offered by the Corporation and are reduced by cash payments to loyalty partners and payment of operating expenses. Cash flows from operating activities can fluctuate depending on the timing of promotional activity and partner payments. The Corporation experienced a decrease in cash from operating activities compared to the prior year primarily due to the timing of receipts from payment processors.

Investing Activities

Cash used in investing activities during the current year included investments in short-term bearer deposit notes issued by the Royal Bank of Canada, additions to internally developed intangible assets, and leasehold improvements and capital assets additions related to the new office premises. Development efforts in the year included additional development features to enable the technological scalability of the LCP and the advancement of the Loyalty Wallet and Points Travel products.

Financing Activities

Cash flows used in financing activities for year ended December 31, 2016 were primarily related to the NCIB share repurchases which was reinitiated in March 2016.

| Consolidated Balance Sheet Data as at <i>(In thousands of US dollars)</i> | December 31, | | December 31, |
|---|---------------------|---------------|--------------|
| | 2016 | | 2015 |
| Cash and cash equivalents | \$ | 46,492 | \$ 51,364 |
| Restricted cash | | 500 | 1,000 |
| Short-term investments | | 10,003 | - |
| Funds receivable from payment processors | | 10,461 | 6,588 |
| Total funds available | | 67,486 | 58,952 |
| Payable to loyalty program partners | | 53,242 | 49,526 |
| Net Operating Cash ¹ | \$ | 14,244 | \$ 9,426 |
| Total current assets | \$ | 73,018 | \$ 63,196 |
| Total current liabilities | | 61,986 | 57,186 |
| Working Capital ² | \$ | 11,032 | \$ 6,010 |

¹ Management defines “Net Operating Cash” as ‘Total Funds Available’ (Cash and cash equivalents, Restricted cash, Short-term investments and Funds receivable from payment processors) less amounts Payable to loyalty program partners. Management believes that this non-GAAP financial measure provides a useful measure of the Corporation’s liquidity. Other companies may include other items in their definition of ‘Net Operating Cash’. Therefore it is unlikely to be comparable to similar measures presented by other companies.

² Management defines “Working Capital” as ‘Total current assets’ less ‘Total current liabilities’.

The Corporation’s financial strength is reflected in its balance sheet. As at December 31, 2016, the Corporation continues to remain debt free with \$14,244 of net operating cash. Net operating cash increased \$4,818 from December 31, 2016. The increase is primarily due to Adjusted EBITDA of \$12,106 generated in the year ended December 31, 2016, partially offset by capital and intangible asset additions in the amount of \$3,093, cash used for NCIB share repurchases in the amount of \$3,181 the deposit of \$325 for the new head office lease, and changes in other working capital balances.

The Corporation’s working capital (defined as current assets minus current liabilities) was \$11,032 at December 31, 2016 compared to working capital of \$6,010 as at December 31, 2015. Working capital increased primarily due to Adjusted EBITDA generated year ended December 31, 2016, partially offset by investing and financing activities during the period. Management believes the Corporation is able to generate sufficient cash through normal course operations to fund anticipated capital expenditure needs and current operating and working capital requirements, including the payment of amounts due under current operating leases.

On June 23, 2016, the Corporation amended its bank credit facility agreement with Royal Bank of Canada. As at December 31, 2016, the following two facilities are available until May 31, 2017. The first facility is a revolving operating facility in the amount of \$8,500. The second facility is a term loan facility of \$5,000 to be used solely for the purposes of financing the cash consideration relating to acquisitions made by the Corporation. The term loan facility of \$7,000 to fund repurchases of the Corporation’s common shares expired unutilized on March 8, 2016 and was not renewed. No amounts have been drawn to date under these facilities.

Contractual Obligations and Commitments

| | Total | Year 1 ⁽³⁾ | Year 2 | Year 3 | Year 4 | Year 5+ |
|----------------------------------|------------|-----------------------|------------|------------|----------|----------|
| Operating leases ⁽¹⁾ | \$ 7,096 | \$ 1,201 | \$ 1,327 | \$ 1,242 | \$ 1,117 | \$ 2,209 |
| Principal revenue ⁽²⁾ | 478,906 | 166,563 | 174,219 | 138,050 | 37 | 37 |
| | \$ 486,002 | \$ 167,764 | \$ 175,546 | \$ 139,292 | \$ 1,154 | \$ 2,246 |

(1) The Corporation is obligated under various non-cancellable operating leases for premises and equipment and service agreements for web hosting services.

(2) For certain loyalty partners, the Corporation guarantees a minimum level purchase of points/miles, for each contract year, over the duration of the contract term between the Corporation and Loyalty Partner. Management evaluates each guarantee at each reporting date and at the end of each contract year, to determine if the guarantee will be met for that respective contract year.

(3) The guarantees and commitments schedule is prepared on a rolling 12-month basis. Principal revenue contract guarantees are excluded from the commitments table once the minimum threshold is surpassed as the Corporation's contractual commitment is satisfied.

Operating lease and principal revenue obligations will continue to be funded through working capital. The Corporation has made contractual commitments on the minimum value of transactions processed over the term of its agreements with certain loyalty program partners. Under this type of guarantee, in the event that the sales of loyalty program currencies are less than the guaranteed amounts, the Corporation would be obligated to purchase mileage from the loyalty program partner equal to the value of the revenue commitment shortfall. The Corporation has a balance in prepaid and other assets of \$2,874 on the consolidated balance sheet representing mileage reward currencies held for future resale.

Transactions with Related Parties

Certain members of the Board of Directors, or their related parties, hold positions in other companies that result in them having control or significant influence within those companies. Two of these companies transacted with the Corporation during the year. The terms and conditions of these transactions are consistent with those conducted with third parties at arm's length. The amounts owing are unsecured, interest-free and due for payment under normal payment terms from the date of the transaction.

The Corporation incurred the following amounts relating to these transactions as follows:

| | Transaction values for the year ended December 31, | | Balance outstanding as at December 31, | |
|------------------------------|---|-------|---|------|
| | 2016 | 2015 | 2016 | 2015 |
| Marketing expenses | \$ 89 | \$ 89 | \$ 7 | \$ 8 |
| Technology services expenses | \$ 7 | \$ - | \$ - | \$ - |

The Corporation had an investment in China Rewards and participated as a member of China Rewards' Board of Directors. As at December 31, 2016, the Corporation had a receivable of \$93 from China Rewards (December 31, 2015: \$93). The Corporation has recorded an allowance for the full amount of the receivable from China Rewards. The transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Cash from Exercise of Options

Certain options are due to expire within 12 months from the date of this MD&A. If exercised in fully issued and outstanding common shares will increase by 89,188 shares.

Securities with Near-Term Expiry Dates – Outstanding Amounts as at March 8, 2017 (figures in CAD\$).

| Security Type | Expiry date | Number | Exercise Price |
|---------------|--------------------|---------------|----------------|
| Option | March 19, 2017 | 85,217 | 9.74 |
| Option | August 17, 2017 | 607 | 12.27 |
| Option | September 28, 2017 | 1,878 | 11.00 |
| Option | December 6, 2017 | 1,486 | 10.64 |
| Total | | 89,188 | |

OUTSTANDING SHARE DATA

As of March 8, 2017, the Corporation has 14,869,374 common shares outstanding.

As of the date hereof, the Corporation has outstanding options to acquire up to 720,772 common shares. The options have exercise prices ranging from \$9.74 to \$30.84 with a weighted average exercise price of \$15.24. The expiration dates of the options range from March 19, 2017 to August 22, 2021.

The following table lists the common shares issued and outstanding as at March 8, 2017 and the securities that are currently convertible into common shares along with the maximum number of common shares issuable on conversion or exercise.

| | Common Shares | Proceeds |
|---|---------------|------------------|
| Common Shares Issued & Outstanding | 14,869,374 | |
| Convertible Securities: Share options | 720,722 | CAD\$ 10,986,086 |
| Common Shares Issued & Potentially Issuable | 15,590,096 | CAD\$ 10,986,086 |
| Securities Excluded from Calculation: | | |
| Options Available to grant from ESOP (1) | 809,138 | |

(1) "ESOP" is defined as the Employee Stock Option Plan. The number of options available to grant is calculated as the total share option pool less the number outstanding share options.

FOURTH QUARTER RESULTS

| <i>(In thousands of US dollars, except per share amounts)</i> | For the three months ended | | |
|---|----------------------------|-------------------|------------------|
| | Dec. 31, 2016 | Sept. 30, 2016 | Dec. 31, 2015 |
| Revenue | \$ 81,955 | \$ 82,442 | \$ 80,228 |
| Gross profit ¹ | 11,921 | 10,062 | 9,964 |
| Ongoing operating expenses | 8,828 | 8,201 | 7,774 |
| Adjusted EBITDA ² | 3,663 | 2,250 | 2,196 |
| Net income (loss) | \$ (3,674) | \$ 335 | \$ 961 |
| Earnings (loss) per share | | | |
| Basic | \$ (0.24) | \$ 0.02 | \$ 0.06 |
| Diluted | \$ (0.24) | \$ 0.02 | \$ 0.06 |
| Weighted average shares outstanding | | | |
| Basic | 15,092,158 | 15,222,256 | 15,383,635 |
| Diluted | 15,092,158 | 15,234,597 | 15,567,440 |
| Total assets | \$ 103,234 | \$ 97,943 | \$ 99,928 |
| Total liabilities | \$ 62,916 | \$ 52,204 | \$ 57,733 |
| Shareholders' equity | \$ 40,318 | \$ 45,739 | \$ 42,195 |

¹ Gross profit is a non-GAAP financial measure and is defined as Total revenue less Direct cost of principal revenue. Refer to page 8 for definition and explanation.

² Adjusted EBITDA is a non-GAAP financial measure. Refer to page 12 for definition and explanation.

REVENUE, DIRECT COSTS AND GROSS PROFIT

| <i>(In thousands of US dollars)</i> | For the three months ended | | |
|-------------------------------------|----------------------------|-------------------|------------------|
| | Dec. 31, 2016 | Sept. 30, 2016 | Dec. 31, 2015 |
| Principal revenue | \$ 78,023 | \$ 79,671 | \$ 77,045 |
| Other partner revenue | 3,862 | 2,725 | 3,143 |
| Interest revenue | 70 | 46 | 40 |
| Total Revenue | \$ 81,955 | \$ 82,442 | \$ 80,228 |
| Direct cost of principal revenue | 70,034 | 72,380 | 70,264 |
| Gross profit ¹ | \$ 11,921 | \$ 10,062 | \$ 9,964 |
| Gross margin ² | 15% | 12% | 12% |

¹ Gross profit is a non-GAAP financial measure and is defined as Total revenue less Direct cost of principal revenue.

² Gross margin is a non-GAAP financial measure and is defined as Gross profit as a percentage of Total revenue.

Compared to prior periods, the Corporation generated relatively stable revenue combined with strong gross profit growth. Revenue generated during the fourth quarter of 2016 was \$81,955, decrease of 1% over the third quarter of 2016 and an increase of 2% from the prior year fourth quarter. Conversely, gross profit of \$11,921 for the fourth quarter of 2016 increased 18% over the third quarter of 2016 and increased 20% from the fourth quarter of 2015. While gross profit and revenue will typically increase or decrease in line with each other, the higher gross profit growth experienced in the fourth quarter of 2016 was primarily the result of stronger promotional activity on higher margin principal partnerships and commission partnerships.

ONGOING OPERATING COSTS

| <i>(In thousands of US dollars)</i> | For the three months ended | | |
|-------------------------------------|----------------------------|-------------------|------------------|
| | Dec. 31, 2016 | Sept. 30, 2016 | Dec. 31, 2015 |
| Employment costs | \$ 5,646 | \$ 5,457 | \$ 5,220 |
| Marketing and communications | 973 | 460 | 531 |
| Technology services | 455 | 446 | 355 |
| Operating expenses | 1,754 | 1,838 | 1,668 |
| Total | \$ 8,828 | \$ 8,201 | \$ 7,774 |

Ongoing operating costs increased \$627 or 8% over the third quarter of 2016 and increased \$1,054 or 14% over the fourth quarter of 2015. These increases are largely due to incremental marketing spend related to the Corporation's Points Travel product.

DEPRECIATION, AMORTIZATION, INTEREST AND OTHER EXPENSES

| <i>(In thousands of US dollars)</i> | For the three months ended | | |
|-------------------------------------|----------------------------|-------------------|------------------|
| | Dec. 31, 2016 | Sept. 30, 2016 | Dec. 31, 2015 |
| Depreciation and amortization | \$ 1,078 | \$ 1,224 | \$ 895 |
| Foreign exchange (gain) loss | 61 | 1 | (117) |
| Impairment of long-term investments | 5,000 | - | - |
| Income tax expense | 628 | 301 | 451 |
| Total | \$ 6,767 | \$ 1,526 | \$ 1,229 |

Depreciation and amortization expenses decreased by \$146 or 12% compared to the third quarter of 2016. The decrease is due to the accelerated amortization of leasehold improvements due to the revised termination date of the previous head office premises lease in July 2016. On the other hand, depreciation and amortization expenses increased by \$183 or 20% over the fourth quarter of 2015 due to additional internally developed intangible assets that became ready for use throughout 2016.

Foreign exchange (gains) losses are a result of transactions in currencies other than the Corporation's functional currency, the US dollar. At period end, non-US dollar monetary balance sheet accounts are translated in accordance with the period-end FX rate. An appreciation of the US dollar will result in foreign exchange losses in non-USD monetary balances, and a depreciation of the US dollar will result in foreign exchange gains in non-USD monetary balances.

The Corporation recorded an impairment of \$5,000 related to its investment in China Rewards as a result of changes in the expected recoverability of the cost of the investment in the fourth quarter of 2016. Specifically, due to certain loss events occurring during the fourth quarter of 2016, there are no future cash flows associated with the available-for-sale investment expected to accrue to the Corporation.

Income tax expense is a result of the taxable income generated by the Corporation in each period. The Corporation assesses its taxable income to ensure eligible tax deductions are fully utilized.

Adjusted EBITDA

Reconciliation of Net Income (Loss) to Adjusted EBITDA

(In thousands of US dollars)

| | For the three months ended | | |
|--|----------------------------|-------------------|------------------|
| | Dec. 31, 2016 | Sept. 30, 2016 | Dec. 31, 2015 |
| Net income (loss) | \$ (3,674) | \$ 335 | \$ 961 |
| Share-based compensation | 570 | 389 | 6 |
| Income tax expense | 628 | 301 | 451 |
| Depreciation and amortization | 1,078 | 1,224 | 895 |
| Foreign exchange (gain) loss | 61 | 1 | (117) |
| Impairment of long-term investments | 5,000 | - | - |
| Adjusted EBITDA ¹ | \$ 3,663 | \$ 2,250 | \$ 2,196 |
| Gross Profit ² | \$ 11,921 | \$ 10,062 | \$ 9,964 |
| Adjusted EBITDA as a % of Gross Profit | 31% | 22% | 22% |

¹ Adjusted EBITDA is a non-GAAP financial measure. Refer to page 12 for definition and explanation.

² Gross profit is a non-GAAP financial measure and is defined as Total revenue less Direct cost of principal revenue. Refer to page 8 for definition and explanation.

Adjusted EBITDA of \$3,663 increased \$1,413 or 63% from the third quarter of 2016 and increased \$1,467 or 67% from the fourth quarter of 2015. The increase in Adjusted EBITDA relative to the comparable periods was primarily due to higher gross profit generated during the quarter, partially offset by increased marketing expenses related to the Points Travel product.

SUMMARY OF QUARTERLY RESULTS

(in thousands of US dollars, except per share amounts)

| Three month period ended | Total Revenue | Net income (loss) | Basic earnings (loss) per share | Diluted earnings (loss) per share |
|--------------------------|---------------|-------------------|---------------------------------|-----------------------------------|
| December 31, 2016 | \$ 81,955 | \$ (3,674) | \$ (0.24) | \$ (0.24) |
| September 30, 2016 | 82,442 | 335 | 0.02 | 0.02 |
| June 30, 2016 | 83,864 | 931 | 0.06 | 0.06 |
| March 31, 2016 | 73,560 | 893 | 0.06 | 0.06 |
| December 31, 2015 | 80,228 | 961 | 0.06 | 0.06 |
| September 30, 2015 | 81,133 | 768 | 0.05 | 0.05 |
| June 30, 2015 | 67,898 | 1,721 | 0.11 | 0.11 |
| March 31, 2015 | 67,117 | 1,715 | 0.11 | 0.11 |

Through years of successfully building and expanding partnerships with loyalty programs around the world, and deepening its understanding of loyalty program membership bases, the Corporation has built a reputation of being a leading provider of e-commerce solutions for the global loyalty rewards industry. Since inception, the Corporation has worked to gain the trust of loyalty rewards programs of leading businesses in many industries. In its earlier years, the Corporation focused its attention on developing relationships with companies in the airline industry in the US and in Europe. In more recent years, the Corporation has focused on diversifying its loyalty program partnership base, and has placed attention on other industries which are growing and include the hotel loyalty industry, financial services industry, and the specialty retail sector. Through the addition of new partnerships year after year, the Corporation has been able to generate increased revenues on a consistent basis. In addition to this, the Corporation has been able to grow revenues with existing partnerships year over year, as it increases its understanding of loyalty program members through the use of direct marketing techniques and effective consumer analytics. In addition, revenue growth has come from the ability to sell additional loyalty products and services to existing partners. Generally, increases in transaction levels, revenues and gross profit will drive higher overall profitability. The Corporation's revenues are primarily impacted by retention of existing partnerships and products, new partnerships and products launched during the year, and the level and type of promotional activity offered to loyalty program members during the year. In the absence of any new partner or products launched, quarterly revenues will be impacted by the level of marketing and promotional activity carried out with loyalty program members which will vary quarter over quarter. Historically, revenues are highest in the fourth quarter in each year as redemption volumes and promotional activity typically peak at this time, however this is dependent on changes in the Corporation's partnership base and effectiveness of promotional activity.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Revenue Recognition and Presentation

Presentation: gross versus net

When deciding the most appropriate basis for presenting revenue and direct costs of revenue, both the legal form and substance of the agreement between the Corporation and its business partners are reviewed to determine each party's respective role in the transaction. This determination requires the exercise of judgment and management usually considers whether:

- The Corporation has primary responsibility for providing the goods and services to the customer or for fulfilling the orders;
- The Corporation has inventory risk before or after the customer order, during shipping or on return;
- The Corporation has discretion in establishing prices (directly or indirectly);
- The Corporation bears the customer's credit risk for the amount receivable from the customer;
- The Corporation modifies the product or performs part of the services;
- The Corporation has discretion in selecting the supplier used to fulfill an order; or
- The Corporation is involved in determining product or service specifications.

Where the Corporation's role in a transaction is that of a principal, revenue is recognized on a gross basis. Under the principal revenue model, the gross value of the transaction billed to the customer is recognized as revenue by the Corporation and the costs incurred to purchase the points or miles sold in this transaction are recognized separately as direct cost of principal revenue.

Where the Corporation's role in a transaction is that of an agent, revenue is recognized on a net basis with revenue representing the margin earned.

Evaluation of Goodwill

The amount of goodwill initially recognized as a result of a business combination is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgment and estimates that use inputs that may not be readily observable.

Allocation of the purchase price affects the results of the Corporation as finite lived intangible assets are amortized, whereas indefinite lived intangible assets, including goodwill, are not amortized and could result in differing amortization charges based on the allocation to indefinite lived and finite lived intangible assets.

The Corporation tests goodwill for impairment annually to determine whether the carrying value exceeds the recoverable amount. In calculating the value in use of a cash generating unit (“CGU”) or group of CGUs, i.e. the net present value of the future cash flows associated with the CGU or group of CGUs, certain assumptions are required to be made by management in respect of highly uncertain matters which require judgment. These include the anticipated cash flows from the specific partner relationships, the likelihood that these partners will renew existing contracts and enter into new product arrangements with the Corporation in the future, annual growth assumptions, and the selection of an appropriate discount rate. Management prepares forecasts that assess the specific risks related to each individual partner relationship separately and are used in determining the value in use of the CGU or group of CGUs to which goodwill has been allocated.

Estimation of useful life

Finite lived intangible assets

Finite lived intangible assets consist of the Corporation’s aggregate amounts spent on internal use software development costs as well as acquired technology and customer relationships. The relative size of the Corporation’s intangible assets, excluding goodwill, makes the judgments surrounding the estimated useful lives critical to the Corporation’s financial position and performance.

The useful life used to amortize internal use software development costs relates to the future performance of the assets and management’s judgment of the period over which economic benefit will be derived from the assets. The useful life is determined by management and is regularly reviewed for appropriateness. The life is based on historical experience with similar development costs as well as anticipation of future events which may impact their life such as changes in technology. Historically, changes in useful lives have not resulted in material changes to the Corporation’s amortization charge.

Property and equipment

Estimates and assumptions to determine the carrying value of property and equipment and related depreciation impact the Corporation’s financial position and performance.

The charge in respect of periodic depreciation is derived after determining an estimate of an asset’s expected useful life and the expected residual value at the end of its life. Increasing an asset’s expected life or its residual value would result in a reduced depreciation charge in the consolidated statements of comprehensive income (loss). The useful lives and residual values of the Corporation’s assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The useful lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life such as changes in technology. Historically, changes in useful lives and residual values have not resulted in material changes to the Corporation’s depreciation charge.

For the Corporation's accounting policies and critical accounting estimates and judgments, refer to the Corporation's consolidated financial statements for the year ended December 31, 2016. The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses.

Recent accounting pronouncements adopted by the Corporation in 2016 are listed below:

- Amendments to IAS 1 Disclosure Initiative – The amendments to IAS 1, Presentation of Financial Statements (“IAS 1”), clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:
 - The materiality requirements in IAS 1
 - That specific line items in the statements of comprehensive income and the statement of financial position may be disaggregated
 - That entities have flexibility as to the order in which they present the notes to consolidated financial statements
 - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statements of financial position and the consolidated statements of comprehensive income. These amendments did not have a material impact on the consolidated financial statements.

- Amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets - The IASB issued amendments to these standards to introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. These amendments did not have a material impact on the consolidated financial statements.
- Clarification of IAS 12, Income Taxes (“IAS 12”) – In November 2016, the IFRS Interpretations Committee issued clarifications that provide guidance on the application of tax rates related to the expected method of recovery of an indefinite- life intangible asset for the purposes of measuring deferred tax. These clarifications did not have a material impact on the consolidated financial statements.

New accounting standards and interpretations not yet adopted by the Corporation are listed below:

The IASB has issued the following new standards and amendments to existing standards:

- IFRS 15, Revenue from Contracts with Customers (“IFRS 15”) - In May 2014, the IASB issued IFRS 15 which supersedes existing standards and interpretations including IAS 18, Revenue and IFRIC 13, Customer Loyalty Programmes.

IFRS 15 introduces a single model for recognizing revenue from contracts with customers with the exception of certain contracts under other IFRSs such as IAS 17, Leases. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the expected consideration receivable in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs. The standard is mandatorily effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation has a plan to ensure compliance with IFRS 15 by the required adoption date, which includes identifying differences between existing policies and IFRS 15, ensuring the data collection process is sufficient and appropriate, and communicating the upcoming changes with various stakeholders. The Corporation is currently executing on its adoption plan and continues to assess the impact of this standard on the consolidated financial statements.

- Amendments to IAS 12, Income Taxes – In January 2016, the IASB issued *Recognition of Deferred Tax Assets for Unrealized Losses* clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The Company will adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The Company does not expect the amendments to have a material impact on the consolidated financial statements.
- IFRS 16, Leases (“IFRS 16”) – In January 2016, the IASB issued IFRS 16 which specifies how a company will recognize, measure, present, and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. The standard is mandatorily effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Corporation is assessing the impact of this standard on its consolidated financial statements. The extent of the impact has not yet been determined.

- Amendments to IAS 7, Statement of Cash Flows (“IAS 7”) – In January 2016, the IASB issued amendments that require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The Company will adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The Company does not expect the amendments to have a material impact on the consolidated financial statements.
- Amendments to IFRS 2, Share-based Payment (“IFRS 2”) – In June 2016, the IASB issued amendments that provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash- settled to equity-settled. The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The Company does not expect the amendments to have a material impact on the consolidated financial statements.
- IFRS 9, Financial Instruments (“IFRS 9”) - In July 2014, the IASB issued IFRS 9 (2014) that will eventually supersede the current IAS 39 Financial Instruments standard. This standard establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows. This new standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The standard is mandatorily effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Corporation is assessing the impact of this standard on its consolidated financial statements. The Company does not expect the standard to have a material impact on the consolidated financial statements.
- IFRIC Interpretation 22, Foreign Currency Transactions and Advance Consideration – In December 2016, the IASB issued interpretation which clarifies the date that should be used for translation when a foreign currency transaction involves an advance payment or receipt. The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the Interpretation has not yet been determined.

RISKS AND UNCERTAINTIES

The results of operations and financial condition of the Corporation are subject to a number of risks and uncertainties, and are affected by a number of factors outside of the control of management. The following section summarizes certain of the major risks and uncertainties that could materially affect our future business results going forward. The risks described below may not be the only risks faced by the Corporation. Other risks which currently do not exist or which are deemed immaterial may surface and have a material adverse impact on the Corporation's results of operations and financial condition.

A downturn in the demand for air travel could adversely impact the demand for loyalty currency services

The Corporation and the majority of its loyalty program partners operate in the travel industry. The ability of the Corporation's loyalty program partners to continue to drive commercial activity to their businesses is integral to generating loyalty miles/points for their respective programs. As well, the overall popularity of loyalty miles/points and value they have to end-customers is what drives the business activity of the Corporation. The Corporation generates the majority of its revenue from end-customers who are transacting loyalty miles/points through the Corporation's online solutions. As such, the majority of revenue is transactional in nature and dependent on the number and size of these transactions. There is no assurance that the popularity of these programs will continue to grow or maintain current levels of popularity. A change in consumer tastes or a downturn in the travel industry in North America may adversely affect the Corporation's ability to generate ongoing revenue from transactions.

Consolidation activity in the airline industry is common and has been part of an industrywide solution to address structural financial problems. This activity could potentially increase due to increasing operating costs, or bankruptcy of major carriers. Additional consolidation activity among the Corporation's partner base could result in the loss of a partnership and potentially have an adverse impact on the Corporation's future earnings.

We rely on contractual relationships with loyalty program partners that are subject to termination and renegotiation

There can be no assurance that the Corporation will be successful in maintaining its existing contractual relationships with its loyalty program partners. The Corporation's loyalty program partners have in the past, and may in the future, negotiate arrangements that may be short-term and subject to renewal, non-exclusive and/or terminable at the option of the partner on relatively short notice without penalty. Loyalty program partners that have not provided a long-term commitment or guarantee of exclusivity, or that have the ability to terminate on short notice, may exercise this flexibility to end their relationship with the Corporation or to negotiate from time to time more preferential financial and other terms than originally contracted for. The Corporation cannot ensure that such negotiations will not have a material adverse effect on the financial condition or results of operations of the Corporation. In addition, there can be no assurance that the Corporation will be able to establish relationships with new loyalty program partners.

We may not be able to convert the Corporation's pipeline of prospective partners or launch new products with new or existing partners as expected or planned

There can be no assurance that the Corporation will be successful in launching new partnerships with existing products or launching new products with new or existing partnerships as expected or planned. There is a risk that revenue and profitability targets will not be achieved if expected new partner launches or new product launches does not materialize.

We could face significant liquidity risk if we fail to meet contractual performance commitments

In relation to the reseller model, the Corporation has made contractual guarantees on the minimum value of points and miles that will be processed over the term of its agreements with certain loyalty program partners, which, for the most part, have been met. The commitments are measured annually. There is a risk that these commitments may not be met, such as the case in 2015 and in certain prior years, resulting in the Corporation being required to purchase the shortfall in points/miles to meet annual contracted levels and take these into inventory. The Corporation's ability to use or sell any purchased points/miles is limited by terms in its contracts. As a result, there is a risk that the Corporation may have difficulty in selling or making use of this inventory which could have a material adverse effect on the Corporation's business, revenues, operating results and financial condition. There is also a risk that the Corporation may have insufficient resources to purchase any shortfall and that the Corporation may need to obtain financing to meet such commitments. There is a risk that such financing may not be available to the Corporation. The failure to obtain such financing could have a material adverse impact on the Corporation's business, revenues, operating results and financial condition.

We could face significant competition from other companies in the loyalty industry including loyalty program partners that may have, or develop, in-house business solutions departments that could take responsibility for services currently provided by the Corporation, as well as, significant competition from the online travel agency industry including existing and new online travel agencies that directly competes against the Corporation's Points Travel product

With respect to the Corporation's Points Loyalty Wallet consumer portal, several indirect competitors are currently in the market with limited product offerings. Other Internet websites that offer financial and account aggregation and management are potential competitors. These indirect and potential competitors currently offer the ability to track program balances, but do not offer any of the transaction options available on Points.com. Management believes that none of these competitors are actively partnering with loyalty programs to independently provide a service similar to Points.com. Rather, these indirect competitors are only able to retrieve and display member account information. However, it is possible that one or more of the indirect or potential competitors could, in the future, compete directly with Points Loyalty Wallet.

The Corporation's loyalty currency services must compete with a wide range of companies that provide business solutions technology, from small companies to large. 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 that the Corporation may not lose some or all of its arrangements with its loyalty program partners, including its key loyalty program partners, thereby decreasing its ability to compete and operate as a viable business. In addition, the increasing popularity of open source technology places greater risk on the proprietary technology offered by the Corporation to its existing and potential partners.

Loyalty partners may have, or may develop, in-house business solutions such as a cash and points product that could replace or compete with the products and services offered by the Corporation. Any competition or adverse change in the business relationship described above could have a material adverse impact on the Corporation's business, operations and prospects.

Further, with respect to the Points Travel product, the Corporation may face significant competition from other online travel agencies. Many existing and potential competitors do or could have greater technical or financial resources than the Corporation in the online travel agency industry. Therefore, the financial performance of the Corporation may be adversely affected by such competition.

Our brand, revenue and profitability are affected by our ability to control cyber security risks

Due to the online nature of the Corporation's business, member databases are maintained for products and services offered on Points.com. These databases contain member information including account transactions. Although the Corporation has established rigorous security procedures, the databases may be vulnerable to potential unauthorized access to, or use or disclosure of member data. If the Corporation were to experience a security breach, its reputation may be negatively affected and the traffic generated on Points.com could decline in the event of any publicized compromise of security. Any perception that the Corporation released consumer information without authorization could subject the businesses to complaints and investigation by the applicable privacy regulatory bodies and adversely affect relationships with Points.com members and loyalty program partners and their membership. In addition, any unauthorized release of member information, or any public perception that member information was released without authorization, could lead to legal claims from consumers or regulatory enforcement actions.

We could face adverse consequences if there is a risk in the viability of the internet and system infrastructure

The end customers of the Corporation's software depend on internet service providers, online service providers and the Corporation's infrastructure for access to the software solutions the Corporation provides to its loyalty program partners. These services are subject to service outages and delays due to system failures, stability or interruption. As a result, the Corporation may not be able to meet a satisfactory level of service as contracted with its partners, and may cause a breach of the Corporation's contractual commitments, which could have a material adverse effect on the Corporation's business, revenues, operating results and financial condition.

The promotion and strengthening of our brand is critical to our business

The Corporation believes that continuing to strengthen its brand is an important factor in achieving widespread acceptance of the Corporation's services, and will require an increased focus on active marketing efforts. The Corporation will likely need to spend increasing amounts of money on, and devote greater resources to, advertising, marketing, and other efforts to create and maintain brand loyalty among users and potential users. Brand promotion activities may not yield increased revenues, and even if they do, any increased revenues may not offset the expenses incurred in building the Corporation's brand. If the Corporation fails to promote and maintain the Corporation's brand, or if the Corporation incurs substantial expenses in an unsuccessful attempt to promote and maintain the Corporation's brand, the Corporation's business could be harmed.

We are exposed to adverse consequences if the Corporation cannot successfully retain its intellectual property

Our success depends, in part, on our ability to protect our proprietary methodologies, processes, know-how, tools, techniques and other intellectual property that we use to provide our services. Our general practice is to pursue patent, copyright, trademark, trade secret or other appropriate intellectual property protection that is reasonable and necessary to protect and leverage our intellectual assets. We also assert trademark rights in and to our name, product names, logos and other markings used to identify our goods and services in the marketplace. We routinely file for and have been granted trademark registrations from trademark offices worldwide. All of these actions taken allow us to enforce our intellectual property rights should the need arise. However, the laws of some countries in which we conduct business may offer only limited protection of our intellectual property rights; and despite our efforts, the steps taken to protect our intellectual property may not be adequate to prevent or deter infringement or other misappropriation of intellectual property, and we may not be able to detect unauthorized use of our intellectual property, or take appropriate steps to enforce our intellectual property rights.

We are exposed to litigation and adverse consequences if we infringe on the intellectual property rights of others

Third parties may assert claims against the Corporation alleging infringement of their intellectual property rights. An adverse determination in any litigation of this type could result in the Corporation being required to pay significant damages, require the Corporation to design around a third party's patent or to license alternative technology from another party. In addition, litigation may be time-consuming and expensive to defend and could result in the diversion of time and resources. Any claims by third parties may also result in limitations on the ability to use the intellectual property subject to these claims. Any of the foregoing could have a material adverse effect on the Corporation's business, revenues, operating results and financial condition.

Our operations are dependent on the proper functioning of software and processing of transactions

Defects in our owned or licensed software products, delays in delivery, and failures or mistakes in our processing of electronic transactions could materially harm our business, including our customer relationships and operating results. Our operations are dependent on our ability to protect our computer equipment and the information stored in our data centres against damage that may be caused by fire, power loss, telecommunication failures, unauthorized intrusion, computer viruses and disabling devices, and other similar events. A failure in our production systems or a disaster or other event affecting our production systems or business operations could result in a disruption or loss of availability of our products or services to our customers. Any disruption to our services could impair our reputation and cause us to lose customers or revenue, or face litigation, necessitate customer service or repair work that would involve substantial costs and distract management from operating our business.

Our financial performance is substantially dependent on retaining key technical and management personnel

Our performance is substantially dependent on the performance of our key technical and senior management personnel. Our success is highly dependent on our continuing ability to identify, hire, train, motivate, promote and retain highly qualified management, directors, technical, and sales and marketing personnel. Competition for such personnel is always strong. Our inability to attract or retain the necessary management, directors, technical, and sales and marketing personnel, or to attract such personnel on a timely basis could have a material adverse effect on our business, results of operations, financial condition and the price of our securities.

Chargebacks of a material amount could have an adverse consequence on the Corporation

A chargeback is any credit card transaction undertaken by an end-customer that is later reversed or repudiated. The Corporation is subject to exposure in regard to chargebacks, a high incidence of which could result in penalties or eventual shut down of the payment method. While Points has fraud control measures in place to minimize exposure, chargebacks could have a material adverse effect on its business, operating results and financial condition.

Our business could be negatively impacted by changes to domestic and international tax laws, rules and regulations

The Corporation operates in multiple jurisdictions and has relationships with several foreign partners. The application of various domestic and international sales, use, occupancy, value-added and other tax laws, rules and regulations to the Corporation's products and services is subject to interpretation by the applicable taxing authorities. Many of the fundamental statutes and regulations that impose these taxes were established before the growth of the internet and ecommerce. If the tax laws, rules or regulations are amended, if new adverse laws, rules or regulations are adopted, or if current laws are interpreted adversely to the Corporation's interests, particularly with respect to occupancy or value-added taxes, the results could increase the Corporation's tax payments (prospectively or retrospectively) and/or subject it to penalties and decrease the demand for the Corporation's products and services if the Corporation passes on such costs to the consumer. As a result, these changes could have a material adverse effect on the Corporation's business, operating results and financial condition.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The audited consolidated financial statements of Points International Ltd. are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with IFRS as issued by the IASB. These statements include some amounts that are based on estimates and judgment. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

The Corporation's policy is to maintain systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, accurate and reliable and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and is comprised entirely of outside directors. The Committee meets periodically with management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee reviews the Corporation's annual consolidated financial statements, the reports of the independent registered public accounting firm on the consolidated financial statements and the effectiveness of internal control over financial reporting, and other information in the Annual Report. The Committee reports its findings to the Board for consideration by the Board when it approves the financial statements for issuance to the shareholders.

On behalf of the shareholders, the financial statements have been audited by KPMG LLP, the external auditors, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). KPMG LLP has full and free access to the Audit Committee.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Corporation in reports filed with securities regulatory agencies is recorded, processed, summarized and reported on a timely basis and is accumulated and communicated to the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. An evaluation was carried out under the supervision of and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Corporation's disclosure controls and procedures (as defined in rules adopted by the US Securities and Exchange Commission ("SEC") and in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) as of December 31, 2016. Based on this evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures were effective as of the end of the period covered by this report.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Corporation is responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting, as those terms are defined in rules adopted by the SEC and National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. There have been no changes in the Corporation's internal control over financial reporting during the quarter and year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Internal control includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Corporation, provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with generally accepted accounting principles, provide reasonable assurance that receipts and expenditures are made only in accordance with authorization of management and the Board of Directors, and provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material impact on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and can provide only reasonable assurance with respect to the financial statement preparation and presentation.

Management of the Corporation has evaluated the effectiveness of internal control over financial reporting based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management has concluded that the Corporation's internal control over financial reporting is effective as of December 31, 2016.

The effectiveness of the Corporation's internal control over financial reporting as of December 31, 2016, has been audited by KPMG LLP, the Corporation's Independent Registered Public Accounting Firm, who also audited the Corporation's consolidated financial statements as at and for the year ended December 31, 2016.

Rule 13a-14(b) Certification - CEO

The undersigned officer of Points International Ltd. (the “ **Corporation** ”), hereby certifies, to the best of such officer's knowledge, that the Corporation’s annual report on Form 40-F for the year ended December 31, 2016, to which this certification is attached (the “ **Report** ”):

1. fully complies with the requirements of section 13(a) or 15(d) of the *Securities Exchange Act of 1934* , as amended, and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the.

Date: March 8, 2017

/s/ Robert MacLean

Robert MacLean

Chief Executive Officer

Rule 13a-14(b) Certification - CFO

The undersigned officer of Points International Ltd. (the “**Corporation**”), hereby certifies, to the best of such officer's knowledge, that the Corporation's annual report on Form 40-F for the year ended December 31, 2016, to which this certification is attached (the “**Report**”):

1. fully complies with the requirements of section 13(a) or 15(d) of the *Securities Exchange Act of 1934*, as amended, and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: March 8, 2017

/s/ Michael D'Amico

Michael D'Amico
Chief Financial Officer

Rule 13a-14(a) Certification - CEO

I, Robert MacLean, certify that:

1. I have reviewed this annual report on Form 40-F of Points International Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 8, 2017

/s/ Robert MacLean

Robert MacLean

Chief Executive Officer

Rule 13a-14(a) Certification - CFO

I, Michael D'Amico, certify that:

1. I have reviewed this annual report on Form 40-F of Points International Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 8, 2017

/s/ Michael D'Amico

Michael D'Amico
Chief Financial Officer



KPMG LLP
333 Bay Street
Suite 4600
Toronto ON
M5H 2S5

Telephone (416) 777-8500
Fax (416) 777-8818
www.kpmg.ca

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Points International Ltd.:

We consent to the use of:

- our Independent Auditors' Report of Independent Registered Public Accounting Firm dated March 8, 2017 on the consolidated financial statements of Points International Ltd., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information; and
- our Report of Independent Registered Public Accounting Firm dated March 8, 2017 on Points International Ltd.'s internal control over financial reporting as of December 31, 2016,

each of which is incorporated by reference in this annual report on Form 40-F of Points International Ltd. for the fiscal year ended December 31, 2016.

We also consent to the incorporation by reference of such reports in Registration Statement No. 333-172806 on Form S-8 of Points International Ltd.

Chartered Professional Accountants, Licensed Public Accountants

March 8, 2017
Toronto, Canada

KPMG LLP is a Canadian limited liability partnership and a member of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP