

Condensed Consolidated Interim Financial Statements

Points International Ltd.

June 30, 2016

Contents

	Page
Condensed consolidated interim financial statements	
Condensed consolidated interim statements of financial position	2
Condensed consolidated interim statements of comprehensive income	3
Condensed consolidated interim statements of changes in equity	4
Condensed consolidated interim statements of cash flows	5
Notes to the condensed consolidated interim financial statements	6

Points International Ltd.
Condensed Consolidated Interim Statements of Financial Position

Expressed in thousands of United States dollars
(Unaudited)

As at		June 30, 2016	December 31, 2015
	Note		
ASSETS			
Current assets			
Cash and cash equivalents		\$ 55,371	\$ 51,364
Restricted cash		500	1,000
Funds receivable from payment processors		5,791	6,588
Accounts receivable		3,596	2,988
Prepaid expenses and other assets	10	2,553	1,256
Total current assets		<u>\$ 67,811</u>	<u>\$ 63,196</u>
Non-current assets			
Property and equipment		1,229	1,466
Intangible assets		18,056	18,616
Goodwill		7,130	7,130
Deferred tax assets		1,433	1,755
Long-term investment	10	5,000	5,000
Other assets		2,721	2,765
Total non-current assets		<u>\$ 35,569</u>	<u>\$ 36,732</u>
Total assets		<u>\$ 103,380</u>	<u>\$ 99,928</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		\$ 5,356	\$ 5,808
Payable to loyalty program partners		50,841	49,526
Current portion of other liabilities	10	833	1,852
Total current liabilities		<u>\$ 57,030</u>	<u>\$ 57,186</u>
Non-current liabilities			
Deferred tax liabilities		445	425
Other liabilities		248	122
Total non-current liabilities		<u>\$ 693</u>	<u>\$ 547</u>
Total liabilities		<u>\$ 57,723</u>	<u>\$ 57,733</u>
SHAREHOLDERS' EQUITY			
Share capital		59,313	59,293
Contributed surplus		10,527	9,859
Accumulated other comprehensive income (loss)		326	(624)
Accumulated deficit		(24,509)	(26,333)
Total shareholders' equity		<u>\$ 45,657</u>	<u>\$ 42,195</u>
Total liabilities and shareholders' equity		<u>\$ 103,380</u>	<u>\$ 99,928</u>
Guarantees and Commitments	7		

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

Points International Ltd.
Condensed Consolidated Interim Statements of Comprehensive Income

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

	Note	For the three months ended		For the six months ended	
		June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
REVENUE					
Principal		\$ 80,529	\$ 64,930	\$ 151,270	\$ 127,555
Other partner revenue		3,288	2,951	6,061	7,427
Interest		47	17	93	33
Total Revenue	9	\$ 83,864	\$ 67,898	\$ 157,424	\$ 135,015
EXPENSES					
Direct cost of principal revenue		72,704	56,577	136,069	112,393
Employment costs		6,214	5,823	12,117	11,747
Marketing and communications		461	399	787	674
Technology services		416	361	790	631
Depreciation and amortization		1,297	883	2,227	1,760
Foreign exchange (gain) loss		88	(141)	168	(5)
Operating expenses		1,533	1,455	2,826	2,708
Total Expenses		\$ 82,713	\$ 65,357	\$ 154,984	\$ 129,908
OPERATING INCOME BEFORE INCOME TAXES		\$ 1,151	\$ 2,541	\$ 2,440	\$ 5,107
Income tax expense		220	820	616	1,671
NET INCOME		\$ 931	\$ 1,721	\$ 1,824	\$ 3,436
OTHER COMPREHENSIVE INCOME					
Items that will subsequently be reclassified to profit or loss:					
Unrealized gain (loss) on foreign exchange derivative designated as cash flow hedges		135	156	955	(606)
Income tax effect		(36)	(41)	(253)	161
Reclassification to net income of loss on foreign exchange derivatives designated as cash flow hedges		29	321	337	653
Income tax effect		(7)	(85)	(89)	(173)
Other comprehensive income for the period, net of income tax		\$ 121	\$ 351	\$ 950	\$ 35
TOTAL COMPREHENSIVE INCOME		\$ 1,052	\$ 2,072	\$ 2,774	\$ 3,471
EARNINGS PER SHARE					
Basic earnings per share	5	\$ 0.06	\$ 0.11	\$ 0.12	\$ 0.22
Diluted earnings per share	5	\$ 0.06	\$ 0.11	\$ 0.12	\$ 0.22

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

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

Expressed in thousands of United States dollars except
number of shares
(Unaudited)

Note	Share Capital		Attributable to equity holders of the Company				Total shareholders' equity
	Number of Shares	Amount	Contributed Surplus	Accumulated other comprehensive income (loss)	Accumulated deficit		
Balance at December 31, 2015	15,306,402	\$ 59,293	\$ 9,859	\$ (624)	\$ (26,333)	\$ 42,195	
Net Income	-	-	-	-	1,824	1,824	
Other comprehensive income, net of tax	-	-	-	950	-	950	
Total comprehensive income	-	-	-	950	1,824	2,774	
Effect of share option compensation plan	6	-	352	-	-	352	
Effect of RSU compensation plan	6	-	1,006	-	-	1,006	
Share issuances – share options		500	7	(2)	-	5	
Share issuances – RSUs		-	315	(315)	-	-	
Shares repurchased	4	(77,482)	(302)	(373)	-	(675)	
Balance at June 30, 2016	15,229,420	\$ 59,313	\$ 10,527	\$ 326	\$ (24,509)	\$ 45,657	
Balance at December 31, 2014	15,649,085	\$ 61,084	\$ 11,985	\$ (354)	\$ (31,498)	\$ 41,217	
Net Income	-	-	-	-	3,436	3,436	
Other comprehensive income, net of tax	-	-	-	35	-	35	
Total comprehensive income	-	-	-	35	3,436	3,471	
Effect of share option compensation plan	6	-	503	-	-	503	
Effect of RSU and PSU compensation plan	6	-	568	-	-	568	
Share issuances – share options		93,014	574	(303)	-	271	
Share issuances – RSUs		-	416	(416)	-	-	
Share capital held in trust		-	(1,106)	-	-	(1,106)	
Shares repurchased	4	(182,015)	(710)	(1,253)	-	(1,963)	
Balance at June 30, 2015	15,560,084	\$ 60,258	\$ 11,084	\$ (319)	\$ (28,062)	\$ 42,961	

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

Points International Ltd.
Condensed Consolidated Interim Statements of Cash Flows

Expressed in thousands of United States dollars

(Unaudited)

	Note	For the three months ended		For the six months ended	
		June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Cash flows from operating activities					
Net income for the period		\$ 931	\$ 1,721	\$ 1,824	\$ 3,436
Adjustments for:					
Depreciation of property and equipment		356	281	592	550
Amortization of intangible assets		941	602	1,635	1,210
Unrealized foreign exchange loss (gain)		(759)	579	(535)	(417)
Equity-settled share-based payment transactions	6	690	570	1,358	1,071
Deferred income tax expense (recovery)		(15)	710	(2)	1,527
Net (gain) loss on derivative contracts designated as cash flow hedges		164	477	1,292	47
Changes in non-cash balances related to operations	8	7,132	(7,840)	(1,094)	(119)
Net cash provided by (used in) operating activities		\$ 9,440	\$ (2,900)	\$ 5,070	\$ 7,305
Cash flows from investing activities					
Acquisition of property and equipment		(239)	(148)	(355)	(264)
Additions to intangible assets		(393)	(799)	(1,075)	(1,263)
Changes in restricted cash		500	1,000	500	250
Net cash provided by (used in) investing activities		\$ (132)	\$ 53	\$ (930)	\$ (1,277)
Cash flows from financing activities					
Proceeds from exercise of share options		5	40	5	271
Shares repurchased	4	(405)	(1,095)	(675)	(1,963)
Purchases of share capital held in trust	6	-	(1,106)	-	(1,106)
Net cash provided by (used in) financing activities		\$ (400)	\$ (2,161)	\$ (670)	\$ (2,798)
Net increase (decrease) in cash and cash equivalents		\$ 8,908	\$ (5,008)	\$ 3,470	\$ 3,230
Cash and cash equivalents at beginning of the period		\$ 45,703	\$ 46,128	\$ 51,364	\$ 36,868
Effect of exchange rate fluctuations on cash held		760	(585)	537	437
Cash and cash equivalents at end of the period		\$ 55,371	\$ 40,535	\$ 55,371	\$ 40,535
Interest Received		\$ 37	\$ 17	\$ 74	\$ 33
Taxes Paid		\$ (34)	\$ -	\$ (300)	\$ (176)

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

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

POINTS INTERNATIONAL LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

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 West, 7th Floor, Toronto, Ontario, Canada, M5H 2G5. The condensed consolidated interim financial statements of the Corporation as at and for the three and six months ended June 30, 2016 comprise the Corporation and its wholly-owned subsidiaries, Points International (US) Ltd., Points International (UK) Ltd., Points.com Inc., Points Development (US) Ltd and Points Travel Inc., a newly established Canadian subsidiary. 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, however this is dependent on changes in the Corporation's partnership base and effectiveness of promotional activity.

The consolidated financial statements of the Corporation as at and for the year ended December 31, 2015 are available at www.sedar.com or www.sec.gov.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the three and six months ended June 30, 2016 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").

The notes presented in these second quarter 2016 condensed consolidated interim financial statements include only significant changes and transactions occurring since December 31, 2015, and are not fully inclusive of all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the Corporation's annual consolidated financial statements for the year ended December 31, 2015. All amounts are expressed in thousands of United States dollars, except per share amounts, or as otherwise indicated.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 10, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial statements follow the same accounting policies and methods of application as those disclosed in the Corporation's annual audited consolidated financial statements for the year ended December 31, 2015.

POINTS INTERNATIONAL LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

New standards and interpretations not yet adopted

The IASB has issued new standards and amendments to existing standards. These changes have not yet been adopted by the Corporation and could have an impact on future periods.

- IFRS 15, Revenue from Contracts with Customers (effective January 1, 2018);
- IFRS 9, Financial Instruments (effective January 1, 2018); and
- IFRS 16, Leases (effective January 1, 2019).

These changes are described in detail in the Corporation's 2015 annual report. The Corporation is assessing the impacts of the above standards on its condensed consolidated interim financial statements.

4. CAPITAL AND OTHER COMPONENTS OF EQUITY

Authorized with no Par Value

Unlimited common shares
Unlimited preferred shares

Issued

At June 30, 2016, all issued shares are fully paid. The holders of common shares are entitled to receive dividends, if any are declared, and are entitled to one vote per share.

Accumulated other comprehensive income

Accumulated other comprehensive income is comprised of the unrealized gains/losses on foreign exchange derivatives designated as cash flow hedges. 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.

In the three and six months ended June 30, 2016, the Company repurchased an aggregate of 43,682 and 77,482 common shares, at an aggregate purchase price of \$405 and \$675, respectively (for the three and six months ended June 30, 2015, under the 2015 NCIB the Company repurchased an aggregate of 92,718 and 182,015 common shares, at an aggregate purchase price of \$1,095 and \$1,963, respectively). As at June 30, 2016, an aggregate of 77,482 common shares (2015: 182,015) were cancelled, resulting in a reduction to stated capital and contributed surplus of \$302 and \$373 (2015: \$710 and \$1,253, 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 2015 or 2016 NCIB.

POINTS INTERNATIONAL LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

5. EARNINGS PER SHARE

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

Thousands of US dollars, except per share amounts	For the three month period ended June 30,	
	2016	2015
Net income available to common shareholders for basic and diluted earnings per share	\$ 931	\$ 1,721
Weighted average number of common shares outstanding – basic	15,265,394	15,614,542
Effect of dilutive securities – share-based payments	16,529	51,452
Weighted average number of common shares outstanding – diluted	15,281,923	15,665,994
Earnings per share - reported:		
Basic	\$ 0.06	\$ 0.11
Diluted	\$ 0.06	\$ 0.11

Thousands of US dollars, except per share amounts	For the six month period ended June 30,	
	2016	2015
Net income available to common shareholders for basic and diluted earnings per share	\$ 1,824	\$ 3,436
Weighted average number of common shares outstanding – basic	15,282,041	15,640,421
Effect of dilutive securities – share-based payments	11,975	73,078
Weighted average number of common shares outstanding – diluted	15,294,016	15,713,499
Earnings per share - reported:		
Basic	\$ 0.12	\$ 0.22
Diluted	\$ 0.12	\$ 0.22

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 what the net income per share would be 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 a strike 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.

A total of 660,565 options that were out of the money for both the three and six months ended June 30, 2016 (2015 – 613,904 and 643,790) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

POINTS INTERNATIONAL LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

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 during the three and six months ended June 30, 2016 and 2015, respectively.

6. SHARE-BASED PAYMENTS

As at June 30, 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 to grant as described in the Management Information Circular dated March 2, 2016. The new share option plan changed the number of net options authorized to 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 to grant as at June 30, 2016 is shown in the table below:

	June 30, 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	(750,646)
Options available to grant	779,214

As at June 30, 2015, the options available to grant were determined using the legacy plan, as shown by the table below:

	June 30, 2015
Options authorized by shareholders	2,250,000
Less: options exercised	(1,369,128)
Net options authorized	880,872
Less: options issued & outstanding	(790,120)
Options available to grant	90,752

The fair value of each option grant is estimated at the date of grant using the Black-Scholes option pricing model. The weighted average fair value of options granted during the three and six month periods ended June 30, 2016 in Canadian dollars was \$4.22 and \$3.72 (2015: \$3.85 for both periods). Expected volatility is generally determined by the amount the Corporation's daily share price fluctuated over the expected life of the option. The fair value of options granted in the six months ended June 30, 2016 were calculated using the following range of assumptions:

	For the six month period ended June 30,	
	2016	2015
Dividend yield	NIL	NIL
Risk free rate	0.56% - 0.60%	0.51%
Expected volatility	46.77% - 46.87%	40.39%
Expected life of options in years	4.20	4.20

POINTS INTERNATIONAL LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

A summary of the status of the Corporation's share option plan as of June 30, 2016 and 2015, and changes during the six months 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\$)
Balance at January 1	760,774	\$ 15.59	547,289	\$ 15.34
Granted	60,533	10.68	375,906	12.34
Exercised	(500)	9.17	(124,415)	5.81
Expired and forfeited	(70,161)	13.52	(8,660)	6.44
Balance at June 30	750,646	\$ 15.39	790,120	\$ 15.51
Exercisable at June 30	436,637	\$ 16.17	291,117	\$ 15.07

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	126,118	1.96	\$ 9.78	86,717	\$ 9.73
\$10.00 to \$14.99	376,089	3.75	\$ 12.32	140,882	\$ 12.30
\$15.00 to \$19.99	132,587	1.73	\$ 15.97	131,807	\$ 15.95
\$20.00 and over	115,852	2.71	\$ 30.84	77,231	\$ 30.84
	750,646			436,637	

Share unit plan

On March 7, 2012, the Corporation implemented an employee share unit plan, under which employees are periodically granted Restricted Share Units ("RSUs") and/or Performance Share Units ("PSUs"). The RSUs vest either over a period of three years or in full on the third anniversary of the grant date. A total of 23,793 and 274,516 RSUs have been granted for the three and six months ended June 30, 2016 (2015 – 8,616 and 112,250 RSUs). As at June 30, 2016, 536,621 RSUs and nil PSUs were outstanding (2015 – 206,395 RSUs and 73,758 PSUs).

	Weighted Average Fair Value	
	Number of RSUs	(in CAD\$)
Balance at January 1, 2016	301,841	\$ 15.38
Granted	274,516	\$ 10.08
Vested	(25,602)	\$ 16.31
Forfeited	(14,134)	\$ 15.43
Balance at June 30, 2016	536,621	\$ 12.62

POINTS INTERNATIONAL LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

	Number of RSUs and PSUs	Weighted Average Fair Value (in CAD\$)
Balance at January 1, 2015	228,035	\$ 20.38
Granted	112,250	\$ 12.66
Vested	(52,456)	\$ 12.39
Forfeited	(7,676)	\$ 21.11
Balance at June 30, 2015	280,153	\$ 18.76

Included in the comparative period table above are 73,758 PSUs which were granted to certain employees in 2014 and were forfeited in December 2015.

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 purchase shares from the open market on a periodic basis through a share purchase trust. As of June 30, 2016, 127,851 of the Corporation's common shares were held in trust for this purpose. The Corporation did not make any purchases of share capital held in trust during the three and six months ended June 30, 2016 (87,535 common shares were purchased at an aggregate purchase price of \$1,106 during the three and six months ended June 30, 2015).

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 for the three and six month periods ended June 30, 2016 is \$690 and \$1,358 (2015 - \$570 and \$1,071).

7. GUARANTEES AND COMMITMENTS

	Total	Year 1 ⁽³⁾	Year 2	Year 3	Year 4	Year 5+
Operating leases ⁽¹⁾	\$ 7,733	\$ 880	\$ 1,353	\$ 1,403	\$ 1,210	\$ 2,887
Principal revenue ⁽²⁾	558,648	84,796	166,558	171,320	135,937	37
	\$ 566,381	\$ 85,676	\$ 167,911	\$ 172,723	\$ 137,147	\$ 2,924

(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 interim 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.

POINTS INTERNATIONAL LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

8. SUPPLEMENTAL CASH FLOW INFORMATION

For the period ended June 30,	Three months ended		Six months ended	
	2016	2015	2016	2015
Decrease (increase) in funds receivable from payment processors	\$ 318	\$ (930)	\$ 797	\$ 1,501
Decrease (increase) in accounts receivable	(605)	(72)	(608)	89
Decrease (increase) in prepaid expenses and other assets	82	(1,989)	(1,297)	(2,909)
Decrease in other assets	14	363	44	358
(Decrease) increase in accounts payable and accrued liabilities	1,038	377	(452)	(1,836)
Decrease in other liabilities	(42)	(702)	(893)	(39)
Increase (decrease) in payable to loyalty program partners	6,327	(4,887)	1,315	2,717
	\$ 7,132	\$ (7,840)	\$ (1,094)	\$ (119)

9. 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 who is the chief operating decision maker.

Enterprise-wide disclosures - Geographic information

For the period ended June 30,	Three months ended				Six months ended			
	2016		2015		2016		2015	
Revenue								
United States	\$ 74,017	88%	\$ 60,470	89%	\$ 138,207	88%	\$ 117,103	87%
Europe	7,306	9%	5,336	8%	15,133	10%	14,154	10%
Canada and other	2,541	3%	2,092	3%	4,084	2%	3,758	3%
	\$ 83,864	100%	\$ 67,898	100%	\$ 157,424	100%	\$ 135,015	100%

Revenue earned by the Corporation is generated from sales to loyalty program partners directly or from sales directly to members of loyalty programs with which the Corporation partners. Revenues by geographic region are shown above and are based on the country of residence of each of the Corporation's loyalty partners. At June 30, 2016, substantially all of the Corporation's assets were in Canada.

Dependence on loyalty program partners

For the three month period ended June 30, 2016, there were three (2015 – three) loyalty program partners for which sales to their members individually represented more than 10% of the Corporation's total revenue. In aggregate, sales to the members of these three partners represented 68% (2015 – 69%) of the Corporation's total revenue.

For the six month period ended June 30, 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, sales to the members of these four partners represented 76% (2015 – 66%) of the Corporation's total revenue.

POINTS INTERNATIONAL LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

10. FINANCIAL INSTRUMENTS

Determination of fair value

The fair values of funds receivable from payment processors, accounts receivable, accounts payable and accrued liabilities and payable to loyalty program partners, approximate their carrying values at June 30, 2016 due to their short-term maturities.

Fair value hierarchy

The Corporation has determined the estimated fair values of its financial instruments based on appropriate market inputs and valuation methodologies, as disclosed below. Considerable judgment is required to develop certain of these estimates. 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 instrument 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 June 30, 2016 and December 31, 2015 are as follows:

POINTS INTERNATIONAL LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

As at June 30, 2016	Carrying Value	Level 2	Level 3
Assets:			
Foreign exchange contracts designated as cash flow hedges ⁽ⁱ⁾	\$ 467	\$ 467	\$ -
Investment in China Rewards ⁽ⁱⁱ⁾	5,000	-	5,000
	\$ 5,467	\$ 467	\$ 5,000

As at December 31, 2015	Carrying Value	Level 2	Level 3
Assets:			
Foreign exchange contracts designated as cash flow hedges ⁽ⁱ⁾	\$ 20	\$ 20	\$ -
Investment in China Rewards ⁽ⁱⁱ⁾	5,000	-	5,000
Liabilities:			
Foreign exchange contracts designated as cash flow hedges ⁽ⁱ⁾	(845)	(845)	-
	\$ 4,175	\$ (825)	\$ 5,000

- (i) The carrying values of the Corporation's forward contracts are included in prepaid expenses and other assets and current portion of other liabilities in the condensed consolidated interim statements of financial position.
- (ii) The valuation technique used by the Corporation for the Investment in China Rewards was a discounted cash flow approach. The carrying value of the Corporation's Investment in China Rewards is included in long-term investment in the condensed consolidated interim statements of financial position.

There were no material financial instruments categorized in Level 1 as at June 30, 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. There were no gains or losses recognized in comprehensive income as a result of financial instruments categorized in Level 3 during the three and six months ended June 30, 2016.

11. RELATED PARTIES*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. One 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 three months ended June 30,		Transaction values for the six months ended June 30,	
	2016	2015	2016	2015
Marketing expenses	\$ 23	\$ 25	\$ 45	\$ 50
Technology services expenses	\$ -	\$ -	\$ 3	\$ -

POINTS INTERNATIONAL LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

The Corporation has an investment in China Rewards which allows it to elect one member of the Board of Directors. As at June 30, 2016, the Corporation had a receivable of \$93 from China Rewards (December 31, 2015: \$93). 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.

12. 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 June 30, 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 three and six months ended June 30, 2016.