CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For

ACKROO INC.

As at and for the three-months and nine-months months ended

September 30, 2017

(UNAUDITED – PREPARED BY MANAGEMENT)

NOTICE OF NO AUDITOR REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Management of the Company is responsible for the preparation of the accompanying unaudited condensed consolidated interim financial statements. The unaudited condensed interim financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards for the preparation of condensed interim financial statements and are in accordance with IAS 34 – Interim Financial Reporting.

The Company's auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

ACKROO INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at September 30, 2017 and December 31, 2016

(UNAUDITED – PREPARED BY MANAGEMENT)

(Expressed in Canadian Dollars except for number of shares)

	Sep 30, 2017	Dec 31, 2016
		(Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	86,412	643,248
Accounts receivable (Note 5)	215,947	181,317
Inventory	13,059	5,929
Prepaid expenses and other assets	18,510	23,093
Total current assets	333,928	853,587
Non-current assets		
Intangible assets (Notes 7 & 8)	616,489	1,047,104
Goodwill (Note 8)	628,043	628,043
Due from related party (Note 15)	165,020	90,000
Property and equipment (Note 9)	39,896	44,675
Total non-current assets	1,449,447	1,809,822
Total assets	1,783,375	2,663,409
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	368,362	506,154
Current portion of deferred revenue	19,405	11,590
Current portion of long term debt (Note 10)	409,576	582,727
Total current liabilities	797,343	1,100,471
Deferred revenue	21,710	18,912
Long term debt (Note 10)	108,927	475,541
Total liabilities	927,980	1,594,924
SHAREHOLDERS EQUITY		
Capital stock (Note 13)	11,843,933	11,806,635
Warrants (Note 13)	1,009,590	406,290
Contributed surplus (Note 13)	1,819,187	1,873,699
Deficit	(13,817,314)	(13,018,139)
Total shareholders equity	855,395	1,068,485
Total liabilities and shareholders equity	1,783,375	2,663,409

Going concern (Note 2)

Commitments (Note 14)

Subsequent event (Note 16)

Approved by the Board:

Steve Levely Director

Wayne O'Connell Director

(See accompanying notes to the consolidated financial statements)

ACKROO INC.

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

For the three and nine months ended September 30, 2017 and 2016

(UNAUDITED – PREPARED BY MANAGEMENT)

(Expressed in Canadian Dollars except for number of shares)

	Nine months ended **Sept 30, 2017**	Nine months ended **Sept 30, 2016**	Three months ended **Sept 30, 2017**	Three months ended **Sept 30, 2016**
SALES				
Subscription and service	1,230,698	1,080,707	437,868	348,421
Product	693,011	587,380	184,999	212,143
Total sales	1,923,709	1,668,087	622,867	560,564
COST OF SALES				
Subscription and service	161,652	244,696	28,651	73,919
Product	408,885	321,101	124,193	105,634
Total cost of sales	570,537	565,797	152,844	179,553
Gross profit	1,353,171	1,102,290	470,022	381,011
EXPENSES				
Administration	1,096,143	1,058,959	327,713	380,643
Research and development costs	511,029	326,583	114,040	108,821
Sales and marketing	121,897	1,726	42,544	929
Share-based compensation expense (Note 13d)	118,500	486,705	-	226,500
Amortization of intangible assets	430,614	304,051	143,538	102,434
Amortization of property and equipment	11,120	9,582	3,706	3,194
Foreign exchange loss (gain)	(2,985)	(4,500)	(286)	(1,423)
Total expenses	2,286,318	2,183,106	631,255	821,098
LOSS BEFORE THE FOLLOWING ITEMS	(933,147)	(1,080,816)	(161,232)	(440,087)
Interest expense	(51,529)	(183,063)	(20,924)	(48,557)
Gain on modification of long term debt (Note 6)	14,400	86,832	14,400	-
	(37,129)	(96,231)	(6,524)	(48,557)
LOSS BEFORE INCOME TAXES	(970,275)	(1,177,047)	(167,756)	(488,644)
INCOME TAX (RECOVERY)	-	-	-	-
NET LOSS AND COMPREHENSIVE LOSS	(970,275)	(1,177,047)	(167,756)	(488,644)
BASIC AND DILUTED LOSS PER SHARE	(0.03)	(0.06)	(0.00)	(0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	30,727,961	19,133,471	37,655,027	21,304,679

** The gain on acquisition was reversed in Q4 2016*

(See accompanying notes to the consolidated financial statements)

ACKROO INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended September 30, 2017 and 2016

(UNAUDITED – PREPARED BY MANAGEMENT)

(Expressed in Canadian Dollars except for number of shares)

	Common Shares		Agent		Contributed	Accumulated	
	Number	Amount	Options	Warrants	Surplus	Deficit	**Total**
Balance at December 31, 2015	**16,944,122**	**9,269,851**	**97,600**	**2,885,274**	**1,704,693**	**(13,715,257)**	**242,161**
Equity subscribed for cash	2,936,580	587,316	-	-	-	-	**587,316**
Shares subscribed from business combinations and asset acquisitions	1,065,934	233,187	-	-	-	-	**233,187**
Shares subscribed from options and warrants	1,240,000	350,450	-	(68,950)	-	-	**281,500**
Expiration of options / warrants	-	-	(97,600)	(2,710,724)	2,808,324	-	**-**
Transaction costs	-	-	-	-	-	-	**-**
Warrants issued	-	-	-	-	-	-	**-**
Share-based compensation	-	-	-	-	486,705	-	**486,705**
Comprehensive loss	-	-	-	-	-	(1,177,048)	**(1,177,048)**
Balance at September 30, 2016	**22,186,636**	**10,440,804**	**-**	**105,600**	**4,999,722**	**(14,892,305)**	**653,821**
Balance at December 31, 2016	**27,201,836**	**11,806,635**	**-**	**406,290**	**1,873,699**	**(13,018,139)**	**1,068,485**
Equity subscribed for cash	11,575,364	33,345	-	603,300	-	-	**636,645**
Shares subscribed from business combinations and asset acquisitions	-	-	-	-	-	-	**-**
Shares subscribed from options and warrants	10,200	3,953	-	-	(1,913)	-	**2,040**
Expiration of options / warrants	-	-	-	-	(171,100)	171,100	**-**
Transaction costs	-	-	-	-	-	-	**-**
Warrants issued	-	-	-	-	-	-	**-**
Share-based compensation	-	-	-	-	118,500	-	**118,500**
Comprehensive loss	-	-	-	-	-	(970,275)	**(970,275)**
Balance at September 30, 2017	**38,787,400**	**11,843,933**	**-**	**1,009,590**	**1,819,187**	**(13,817,314)**	**855,395**

(See accompanying notes to the consolidated financial statements)

ACKROO INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine-months ended September 30, 2017 and 2016

(UNAUDITED – PREPARED BY MANAGEMENT)

(Expressed in Canadian Dollars except for number of shares)

	Nine months ended **September 30, 2017**	Nine months ended **September 30, 2016**
OPERATING ACTIVITIES		
Net loss	(970,275)	(1,177,048)
Items not affecting cash:		
Non-cash interest	(6,268)	183,063
Gain on modification of long-term debt	(14,400)	-
Amortization of property and equipment	11,120	9,582
Amortization of intangible assets	430,614	304,051
Share-based compensation	118,500	-
Gain on acquisition	-	(86,832)
Deferred income tax recovery	-	486,705
	(430,709)	**(280,479)**
Changes in non-cash working capital items		
Accounts receivable	(109,650)	(184,427)
Prepaid expenses	4,583	17,405
Inventory	(7,130)	18,175
Accounts payable and accrued liabilities	(137,792)	(153,191)
Deferred revenue	10,613	(4,650)
Cash used in operating activities	**(670,085)**	**(587,167)**
INVESTING ACTIVITIES		
Addition to property and equipment	(6,341)	(26,031)
Cash used in investing activities	**(6,341)**	**(26,031)**
FINANCING ACTIVITIES		
Repayment of bank indebtedness	-	128,077
Repayment of long-term debt	(519,095)	(530,000)
Transaction costs on the issuance of equity	-	7,500
Issuance of capital stock	638,685	868,816
Cash provided by financing activities	**119,590**	**474,393**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(556,836)	(138,804)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	643,248	151,694
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	86,412	12,890

(See accompanying notes to the consolidated financial statements)

1. NATURE OF OPERATIONS

Ackroo Inc. ("Ackroo" or the "Company") is a public company and its shares are listed on the TSX Venture Exchange (TSX-V:AKR) and OTC Markets (OTC: AKRFF). The Company is incorporated under the Canada Business Corporations Act. The Company's head office is located at 62 Steacie Drive, Suite 201, Ottawa, Ontario, Canada. The Company develops and sells an online loyalty and rewards platform that enables businesses to design and execute customer transaction, engagement and retention strategies.

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"). The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. To date the Company has incurred an accumulated loss of $13,817,314 and negative cash flow from operations as the Company invests in the commercialization of its loyalty rewards product and service offering. This raises doubt about the ability of the Company to continue as a going concern. The Company has raised equity to fund the commercialization activities and product enhancements. The Company expects that the investment it has made in 2016 in its sales and marketing programs will result in a significant increase in revenue in 2017. Although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding in the future or available under terms acceptable to the Company, or that the Company will be able to generate sufficient returns from operations. The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities and commitments when due is dependent on the Company generating revenue and debt and/or equity financing sufficient to fund its cash flow needs. These circumstances indicate the existence of material uncertainty that casts significant doubt on the ability of the Company to meet its business plan and its obligations as they come due, and accordingly the appropriateness of the use of the accounting principles applicable to a going concern.

The consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported revenue and expenses and the classifications used in the consolidated statement of financial position. Such differences in amounts could be material.

3. BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements of the Company have been prepared in in compliance with International Financial Reporting Standards for the preparation of condensed interim financial statements and are in accordance with IAS 34 – Interim Financial Reporting.

The consolidated financial statements for the three-months and nine-months ended September 30, 2017 were approved and authorized for issue by the Board of Directors on November 6, 2017.

Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis.

Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Company and its wholly owned subsidiaries Ackroo Canada Inc. and Ackroo Corporation. The financial statements of all subsidiaries are prepared for the same reporting period, using consistent accounting policies. In preparing the consolidated financial statements, all intra-group balances and transactions between the entities in the consolidated group have been eliminated.

The consolidated financial statements are presented using the Canadian dollar, which is the parent and subsidiary companies' functional currency.

4. SIGNIFICANT ACCOUNTING POLICIES

Refer to the Fiscal 2016 audited financial statements.

5. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, due from related party and long-term debt. The Company believes that the recorded values of all these financial instruments, with the exception of long-term debt, approximate their current fair values because of their short-term nature. The fair value of long-term debt approximates its carrying value due to its market rate of interest.

Risk Management

The Company's activities expose it to a variety of financial risks including market risk (i.e. currency risk, interest rate risk), credit and liquidity risks.

(a) Market risk

Market risk is the risk that the fair value or expected future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Company is mainly exposed to interest rate risk and currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's long-term debt bears interest at a fixed rate. Bank indebtedness is based on market rates plus a fixed percentage and represents some risk. As a whole, the Company's exposure to interest rate risk is minimal.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company transacts primarily in Canadian dollars and is not exposed to significant currency risk.

(Expressed in Canadian Dollars except for number of shares)

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's credit risks relate to its cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents are deposited with a Canadian chartered bank and as a result management believes the risk of loss on this item to be remote. Management believes that the credit risk on its accounts receivable is limited as the amounts are expected to be collected in the Company's next operating cycle.

The aging of accounts receivable balances at September 30, 2017 are as follows:

	Amounts Due	Collected within 30 days of period end	Remaining Aged Balance
1 - 30 days due	202,483	97,404	105,079 *
31 - 60 days due	1,601	1,108	494
61 - 90 days due	7,387	5,656	1,732
Greater than 90 days past due	4,475	603	3,872
	215,947	104,770	111,177

* 1-30 days due balance includes a large balance still within terms

The aging of accounts receivable balances at December 31, 2016 are as follows:

	Amounts Due	Collected within 30 days of year end	Remaining Aged Balance
1 - 30 days due	171,083	84,665	86,418
31 - 60 days due	7,902	7,831	71
61 - 90 days due	2,182	1,990	192
Greater than 90 days past due	150	-	150
	181,317	94,486	86,831

The Company provides credit to its clients in the normal course of operations. It carries out, on a continuing basis, credit checks on its clients, a review of outstanding amounts and maintains provisions for estimated uncollectible accounts. At September 30, 2017, the allowance for doubtful accounts amounted to $nil (2016 - $nil).

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's management believes its existing working capital coupled with the cash that will be generated from its operations coupled with additional financing activities will enable the Company to meet its financial obligations. Note 2 *Going Concern* discloses liquidity risk and management's plans.

6. BUSINESS COMBINATIONS AND ASSET ACQUISITIONS

Asset Acquisitions

OnTab Inc.

On February 18, 2016, the Company completed the acquisition of certain software technologies from OnTab Inc. ("OnTab). This transaction did not meet the criteria of an acquisition of a business under IFRS 3, Business Combinations ("IFRS 3") and the Company determined that a value could not be reasonably placed on the assets acquired from OnTab. As no consideration was paid to the seller for the assets, no value was recorded in the financial statements.

D1 Mobile Corp.

On March 14, 2016, the Company completed the purchase of certain software technologies and customer contracts from D1 Mobile Corp. ("D1 Mobile"). In consideration for the assets, the Company issued 500,000 common shares. In addition, the Company entered into a consulting agreement with D1 Mobile effective on closing of the acquisition, pursuant to which D1 Mobile agreed to assist with the development and integration of the acquired assets. In consideration for providing the services under the consulting agreement D1 Mobile will receive payments of $5,000 per month plus an additional royalty bonus as described below. The consulting agreement may be terminated by either party with 30 days' notice.

All equity consideration was paid at closing and the value of the assets was recorded at the fair market value of the equity instruments issued. The value of the assets was calculated using a discounted cash flow based on the existing operations of the business for a 5-year timeframe in conjunction with consideration for the consulting agreement and an expected royalty bonus provision, resulting in a total net value of $120,000.

This transaction did not meet the criteria of an acquisition of a business under IFRS 3 and the Company allocated the full $120,000 of purchase consideration to customer contracts.

Royalty Bonus: In addition to the compensation set forth above, D1 Mobile is entitled to receive a cash bonus equivalent to forty percent (40%) of the portion of gross revenue derived, and collected, by the Company, which exceeds the aggregate of $50,000 and any amounts paid to D1 Mobile in connection with the additional bonus described below. The amount shall be paid to the Consultant on a quarterly basis, for a period of 2 years following completion of the acquisition, and each installment shall be due and payable within 60 days of completion of each fiscal quarter of the Company. As of the nine-months ended September 30, 2017, no royalty bonus was due to D1 Mobile Corp. as gross revenue did not meet the above criteria.

D1 Mobile shall also be entitled to an additional cash bonus equivalent to 70% of all cash amounts received by the Company for the provision of services to FRESHii Inc. in the 3 month period following completion of the acquisition, and 100% of all cash amounts received by the Company for the provision of services to Yogen Fruz in the 1 month period following completion of the acquisition. As of the nine-months ended September 30, 2017, no royalty bonus was due to D1 Mobile Corp. as gross revenue did not meet the above criteria.

(Expressed in Canadian Dollars except for number of shares)

Loyalint / Fidelint Platform (ORBO RÉCOMPENSES INC)

On September 30, 2016 the Company completed the acquisition of certain software technologies and customer contracts from Orbo Récompenses Inc. ("Orbo Rewards"), which assets comprise the Loyalint/Fidelint software platform. In consideration for the assets, the Company issued 500,000 common shares, and paid cash consideration of $370,000 of which $100,000 was paid on closing of the acquisition and an additional $270,000 will be paid over a 15-month span commencing December 2016 and continuing through February 2018.

The Company negotiated a reduced early payout of the remaining cash consideration and the balance was paid out in July of 2017. As a result of the reduced early payout balance, the savings was recorded to Gain on Modification of Debt.

In addition, the Company entered into a consulting agreement with Orbo Rewards, effective on completion of the acquisition, with an initial term of 12 months. Pursuant to the consulting agreement, the principals of Orbo Rewards will provide technical and operational support during product migration between the Loyalint/Fidelint platform and the Company's existing software platform. In addition,

Orbo Rewards has agreed to provide second line operational support for a period of no more than 10 months or 100 hours, for no additional consideration to be paid by the Company. Any Operational support beyond the initial 100 hours or 10 months will be billed to the Company at a rate of $75 per hour. Orbo Rewards has also agreed to providing 150 hours or 12 months of technical support, at no additional cost to the Company. Any technical support beyond the initial 150 hours or 12 months will be billed to the Company at a rate of $100 per hour.

This transaction did not meet the criteria of an acquisition of a business under IFRS 3.

The Company allocated the purchase price to the net assets acquired as follows:

Prepaid expenses	21,478
Customer contracts	427,180
Consideration Paid	448,658

The consulting contact was cancelled during the 2016 fiscal year, and the remaining amount was charged to income.

(Expressed in Canadian Dollars except for number of shares)

7. INTANGIBLE ASSETS

The Company's amortized intangible assets consist of the following:

INTANGIBLE ASSETS

Cost	Intellectual Property	Customer Contracts	Total
As at December 31, 2015	87,111	1,122,591	1,209,702
Additions - asset acquisitions	-	547,180	547,180
As at December 31, 2016	87,111	1,669,771	1,756,882
Additions - asset acquisitions	-	-	-
As at September 30, 2017	87,111	1,669,771	1,756,882
Accumulated Amortization			
As at December 31, 2015	26,617	223,151	249,769
Amortization	17,422	442,588	460,010
As at December 31, 2016	44,039	665,739	709,779
Amortization	13,172	417,442	430,614
As at September 30, 2017	57,211	1,083,181	1,140,393
Net book value			
As at December 31, 2015	60,494	899,440	959,934
As at December 31, 2016	43,072	1,004,031	1,047,104
As at September 30, 2017	29,901	586,590	616,489

The intangible assets were recorded as a result of the business combinations and asset acquisitions disclosed in Note 6.

During the nine-months ended September 30, 2017, amortization expense for intangible assets amounted to $430,614 (2016 – $460,010).

8. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES

Goodwill and Intangible Assets are tested for impairment annually. – Please refer to the F' 2016 year-end audited statements.

(Expressed in Canadian Dollars except for number of shares)

9. PROPERTY AND EQUIPMENT

PROPERTY AND EQUIPMENT

Cost	Computer equipment under finance lease	Computer equipment	Furniture and fixtures	Total
As at December 31, 2015	29,588	34,767	16,888	81,243
Additions	-	21,556	13,814	35,370
Disposals	-	(8,145)	-	(8,145)
As at December 31, 2016	29,588	48,178	30,702	108,468
Additions	-	6,341	-	6,341
Disposals	-	-	-	-
As at September 30, 2017	29,588	54,519	30,702	114,809

Accumulated Amortization	Computer equipment under finance lease	Computer equipment	Furniture and fixtures	Total
As at December 31, 2015	24,005	19,851	7,161	51,017
Amortization	3,184	7,160	2,432	12,776
As at December 31, 2016	27,189	27,011	9,593	63,793
Amortization	810	7,143	3,166	11,120
As at September 30, 2017	27,999	34,154	12,759	74,913

Net book value	Computer equipment under finance lease	Computer equipment	Furniture and fixtures	Total
As at December 31, 2015	5,583	14,916	9,727	30,227
As at December 31, 2016	2,399	21,167	21,109	44,675
As at September 30, 2017	1,589	20,365	17,943	39,896

(Expressed in Canadian Dollars except for number of shares)

10. LONG-TERM DEBT

The Company has the following debt balances outstanding:

	September 30, 2017	2016
Dealer Rewards - unsecured, non-interest bearing, and payable in ten monthly installments of $100,000 commencing January 2016 with the final payment of $300,000 due January 2017. During the year ended December 31, 2016, the loan was renegotiated to be repaid in 24 equal installments of $36,916 with an interest rate of 10% per annum commencing January 31, 2017, maturing December 2018.	518,503	800,000
Orbo Rewards – unsecured, non-interest bearing, payable over 15 months in equal payments of $18,000 per month starting in December 2016. On acquisition the assumed debt was recorded at the agreed upon payment terms discounted at an effective interest rate of 10%. The Company negotiated a reduced early payout of the remaining cash consideration and the balance was paid out in July of 2017. As a result of	-	258,268
	518,503	1,058,268
Current Portion	409,576	582,727
Long-term portion	108,927	475,541

Principal repayments over the next two years are estimated as follows:

2017	110,748
2018	442,686
	553,434
Less amount representing interest	34,931
	518,503

The Company negotiated a reduced early payout of the remaining cash consideration and the balance was paid out in July of 2017. As a result of the reduced early payout balance, the savings was recorded to Gain on Modification of Debt.

11. CREDIT FACILITIES

The Company has a revolving demand facility with a maximum borrowing of $200,000 of which $Nil was utilized at September 30, 2017 (2016 - $Nil). The facility is repayable on demand, bears interest at prime plus 2% (2.70% at December 31, 2016) and is secured by a general security agreement over all personal property of the Company. The borrowings under this facility must not exceed the aggregate of 75% of good Canadian and U.S. accounts receivable and 65% of good foreign currency receivable.

(Expressed in Canadian Dollars except for number of shares)

12. INCOME TAXES

The major components of income tax expense for the years ended December 31, 2016 and 2015 are:

	2016	2015
Current Tax	-	-
Deferred Tax :		
Utilization of previously unrecognized tax loss carryforwards	-	(71,000)
Total income tax expense (recovery)	-	(71,000)

The impact of differences between the Company's reported income tax expense and the expense that would otherwise result from the application of statutory tax rates is as follows:

Reconciliation for statuatory rate:

	2016	2015
Tax expense (recovery) at combined federal and provincial statutory rate for Canadian corporations of 26.50%	(464,507)	(442,201)
Non-deductible expense and other	164,080	75,304
Unrecognized tax benefits on non-capital losses	300,427	295,897
Income tax expense (recovery)	-	(71,000)

(Expressed in Canadian Dollars except for number of shares)

The composition of unrecognized tax benefits are as follows:

	2016	2015
Scientific research and experimental development costs	1,449,131	1,345,200
Non-refundable investment tax credits	473,902	1,697,253
Property and equipment	(9,693)	(7,083)
Intangible assets and share issue costs	1,679,536	921,411
Capital losses	22,172,544	22,172,543
Non-capital losses and other	15,237,413	13,997,151
	41,002,833	40,126,475

Ackroo Inc. and Ackroo Canada Inc. have unused non-capital losses of approximately $5,984,000 and $9,209,000 respectively, which may be carried forward and applied to reduce taxable income of future years. Ackroo Inc.'s losses were principally derived from its previous resource based operating activities, and are restricted in their application to continuing taxable income from similar operating activities. The losses are available for a limited time only and expire as follows:

	Ackroo Inc.	Ackroo Canada Inc.
2036	118,000	994,000
2035	28,000	1,237,000
2034	121,000	1,236,000
2033	192,000	2,541,000
2032	962,000	3,201,000
2031	1,016,000	-
2030	416,000	-
2029	520,000	-
2028	901,000	-
2027	949,000	-

Ackroo Inc. has capital losses for income tax purposes of approximately $22,173,000 which are available for carry forward to reduce future year's income from capital gains. These capital losses carry forward indefinitely but are restricted to resource based business.

Ackroo Canada Inc. has investment tax credits for income tax purposes of approximately $474,000 which can be used to offset future income taxes otherwise payable and expire starting 2032.

The Company has recorded in 2016 a provision of $nil (2015 - $100,000) in respect of a tax exposure with the amount recorded in accounts payable and accrued liabilities. This represents the midpoint of the at risk amount.

(Expressed in Canadian Dollars except for number of shares)

Ackroo Canada Inc. has un-deducted scientific research and experimental development expenses for tax purposes of approximately $1,449,000 which are available for carry forward to reduce future years' income for tax purposes. These expenses carry forward indefinitely.

The Company has not recognized the future tax benefit of these losses and tax credits.

13. CAPITAL STOCK

(a) Authorized share capital

The Company is authorized to issue an unlimited number of the following shares:

Preferred shares – issuable in series with the terms and conditions to be set on issuance
Common shares – voting, without par value.

(b) Issued and outstanding

	Sept 30, 2017	2016
Common - 38,787,400 shares (2016 - 27,201,836 shares)	12,536,643	12,499,345
Share issue costs	692,710	692,710
	11,843,933	11,806,635

On June 9, 2016, the Company closed a private placement for net proceeds of $587,316. The Company issued 2,936,580 shares to subscribers at a price of $0.20 per share. No finder's fees or commissions were paid in connection with the closing of the private placement.

On November 18, 2016, the Company closed a private placement for net proceeds of $1,000,000. The Company issued 5,000,000 units to subscribers at a price of $0.20 per unit. Each unit consisted of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share of the Company at a price of $0.30 per share for a period of 2 years. The Company paid total transaction costs in the amount of $25,840, comprised of $14,940 in professional fees $10,900 for the issuance 67,200 warrants as a finder’s fee.

During the year ended December 31, 2016, 440,000 warrants (2015 - 490,000) and 815,200 options (2015 - 495,000) were exercised by various shareholders and executives of the Company. The Company also issued an additional 2,525,000 options to employees and executives.

During the six-months ended June 30, 2017, the Company granted 820,000 stock options exercisable at a weighted average price of $0.18 per option. In addition, 10,200 stock options were exercised by employees.

On July 10, 2017, the Company completed a private placement for proceeds totaling $636,645 consisting of 11,575,364 units at a price of $0.055 per Unit. Each “Unit” consists of one common share of the Company and one share purchase warrant (each a “Warrant”) entitling the holder to purchase an additional common share of the Company at a price of $0.10 per share for a period of sixty months.

(Expressed in Canadian Dollars except for number of shares)

The Warrants are subject to accelerated expiry in the event the closing price of the Company's shares is $0.20 or more for thirty consecutive trading days. No finder's fees or commissions were paid in connection with the closing of the private placement.

(c) Outstanding Warrants

In connection with the January 20, 2015 private placement, the Company issued 8,364,165 share purchase warrants. Each share purchase warrant entitles the holder to acquire one common share at an exercise price of $0.25 per share until January 20, 2016. The Company determined the fair value of the common shares and share purchase warrants and allocated the proceeds from the private placement on a relative fair value basis to the common shares and share purchase warrants.

The Company issued 300,000 warrants at a price of $0.37 on July 13, 2015 in settlement of certain outstanding obligations of the Company. Each warrant entitles the holder to acquire one common share with an expiry date of July 13, 2018.

The Company issued 2,567,200 warrants in connection with a Private Placement that closed November 18, 2016. Each share purchase warrant entitles subscribers to purchase one additional common share of the Company at a price of $0.30 per share for a period of 24 months from the date of issuance. The warrants are subject to accelerated expiry in the event the Company's shares close at $0.40 or more for 10 consecutive trading days. The Company determined the fair value of the common shares and share purchase warrants and allocated the proceeds from the private placement on a relative fair value basis to the common shares and share purchase warrants.

On July 10, 2017, the Company completed a private placement for proceeds totaling $636,645 consisting of 11,575,364 units at a price of $0.055 per Unit. Each "Unit" consists of one common share of the Company and one share purchase warrant (each a "Warrant") entitling the holder to purchase an additional common share of the Company at a price of $0.10 per share for a period of sixty months. The Warrants are subject to accelerated expiry in the event the closing price of the Company's shares is $0.20 or more for thirty consecutive trading days. No finder's fees or commissions were paid in connection with the closing of the private placement.

A summary of the Company's warrant activity is as follows:

	Number of warrants	Weighted Average Exercise Price
Balance at December 31, 2015	**8,174,165**	**0.25**
Warrants expired	(7,434,165)	**0.25**
Warrants exercised	(440,000)	**0.25**
Warrants issued	**2,567,200**	**0.30**
Balance at December 31, 2016	**2,867,200**	**0.31**
Warrants expired	-	**0.00**
Warrants exercised	-	**0.00**
Warrants issued	11,575,364	**0.10**
Balance at September 30, 2017	**14,442,564**	**$0.14**

The relative fair value allocated to the warrants issued in 2016 totaled $291,523 (2015 - $522,276). In determining the relative fair value, the fair value of the warrants was calculated using the Black-Scholes model using risk-free interest rate of 0.73%, volatility of 200% and 223%, expected life between 1 and 2 years and 0% dividend yield. The relative fair value allocated to the warrants issued on July 10, 2017 totaled $603,300. In determining the relative fair value, the fair value of the warrants was calculated using the Black-Scholes model using risk-free interest rate of 1.72%, volatility of 183% and expected life of 5 years with a 0% dividend yield.

(d) Stock options

Under the terms of the Company's approved Stock Option Plan (ESOP) the Board of Directors of the Company may, from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants of the Company options to purchase common shares, provided that the number of common shares reserved for issuance, together with those to be issued pursuant to options previously granted, does not exceed 10% of the issued and outstanding common shares at the time of the grant. In addition, the number of shares which may be reserved for issuance to any one individual may not exceed 5% of the issued shares on a yearly basis, or 2% if the optionee is engaged in investor relations activities or is a consultant.

Under Exchange policy, all such rolling stock option plans which set the number of common shares issuable under the plan at a maximum of 10% of the issued and outstanding common shares must be approved and ratified by shareholders on an annual basis. There are currently 38,787,400 common shares outstanding, which means that up to 3,878,740 of the Company's common shares could be reserved for issuance upon the exercise of stock options.

Options are exercisable over periods of up to ten years as determined by the Board of Directors and are required to have an exercise price no less than the closing market price of the common shares prevailing on the day that the option is granted less a discount of up to 25%, with the amount of the discount varying with market price in accordance with the policies of the Exchange. Options held by an officer, director or service provider (not conducting investor relations) expire 30 days after the option holder has left office or the service provider ceases providing services, and for options held by service providers conducting investor relations, 30 days after the Company terminates that relationship. In the case of the death of an employee, officer, director or other service provider, the option may be exercised by a personal representative or heir until the earlier of the option's expiry or one year after the option holder died.

Pursuant to the Stock Option Plan, the Board of Directors may from time to time authorize the grant of options to directors, officers, employees and consultants of the Company or employees of companies providing management or consulting services to the Company. Other than options granted to consultants performing investor relations activities which must vest in stages over 12 months with no more than one-quarter of the options vesting in any three-month period, the Stock Option Plan contains no vesting requirements, but permits the Board of Directors to specify a vesting schedule in its discretion.

(Expressed in Canadian Dollars except for number of shares)

A summary of the Company's stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2014	**355,863**	**$1.18**
ESOP Options Granted	1,710,000	$27.00
ESOP Expired/Cancelled	(589,292)	$1.18
Exercised	(495,000)	$0.21
Balance, December 31, 2015	**981,571**	**$0.46**
ESOP Options Granted	2,525,000	$0.22
ESOP Expired/Cancelled	(310,000)	$0.37
Exercised	(815,200)	$0.21
Balance, December 31, 2016	**2,381,371**	**$0.26**
ESOP Options Granted	820,000	$0.18
ESOP Expired/Cancelled	(550,000)	$0.34
Exercised	(10,200)	$0.20
Balance, September 30, 2017	**2,641,171**	**$0.21**

At September 30, 2017, a summary of stock options outstanding and exercisable are as follows:

Grant Date	# of Options Outstanding	# of Options Exercisable	Exercise Price	Expiry Date	Remaining Contractual Life (years)
1-Oct-12	21,571	21,571	$1.000	1-Oct-17	0.00
11-Jan-16	200,000	200,000	$0.250	11-Jan-19	1.28
7-Jun-16	354,600	354,600	$0.200	7-Jun-19	1.68
15-Jul-16	250,000	250,000	$0.260	15-Jul-19	1.79
22-Aug-16	410,000	410,000	$0.235	22-Aug-19	1.89
15-Sep-16	350,000	350,000	$0.210	15-Sep-19	1.96
18-Nov-16	235,000	235,000	$0.200	18-Nov-19	2.13
16-Jan-17	310,000	310,000	$0.215	16-Jan-20	2.30
12-Apr-17	510,000	510,000	$0.155	12-Apr-20	2.53
September 30, 2017	**2,641,171**	**2,641,171**	**$0.216**		

14. Commitments

The Company rents premises under operating leases which expire between 2017 and 2021. In addition, Annual minimum lease payments to maturity will be approximately as follows:

2017	$17,334
2018	$110,635
2019	$110,635
2020	$77,635
2021	$12,439

(Expressed in Canadian Dollars except for number of shares)

Lease payments recognized as an expense during the nine-months ended September 30, 2017 and September 30, 2016 were $65,768 and $79,314 respectively.

15. Related party transactions

a. Compensation of key management personnel

The remuneration of key management personnel (includes CEO, CFO and board) of the Company during the nine-months ended September 30, 2017 and 2016 was as follows:

	Sept 30, 2017	Sept 30, 2016
Salaries, incentives / short-term benefits	260,008	158,805
Share based compensation	58,200	173,106
	318,208	331,911

b. Related party transactions

On January 11, 2016, the company entered into an agreement with a member of the management team to defer payment for the exercise of warrants over a period of up to three years. The amount of the warrant exercise is reflected in the "due from related party" as shown in the financial statements and as of September 30, 2017, no amount has been drawn down. This is a non-cash transaction.

On July 10, 2017, the company entered into an agreement with a member of the management team to defer payment for the purchase of shares over a period of up to three years. The amount of the share purchase is reflected in the "due from related party" as shown in the financial statements and as of September 30, 2017, no amount has been drawn down. This is a non-cash transaction.

The company entered consulting agreements with directors and officers resulting in expense in the nine-months ended September 30, 2017 of $11,166 (September 30, 2016 - $0).

c. Segmented information

The Company has not established discrete operating or geographic segments. Financial information is only available at the total company level and is not segmented. Management makes decisions at a total company level. An immaterial amount of reported revenue is derived outside of Canada and a geographic areas outside of Canada are not managed separately.

16. Subsequent event

Subsequent to the nine-months ended September 30, 2017, the Company signed a letter of intent (LOI) to acquire KESM/LoyalMark from M3 Rebel.

https://ackroo.com/ackroo-acquire-kesmloyalmark-m3-rebel/