

**CONSOLIDATED FINANCIAL STATEMENTS**

**For  
ACKROO INC.**

**For the Years Ended  
December 31, 2018 and 2017**

# Independent auditor's report

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To the shareholders of Ackroo Inc.

## Opinion

We have audited the accompanying consolidated financial statements of Ackroo Inc. which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders equity and consolidated statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, present fairly, in all material respects, the consolidated financial position of Ackroo Inc., as at December 31, 2018 and December 31, 2017, and its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing these consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company's to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jeremy Jagt.

/s/ Grant Thornton LLP

Mississauga, Canada  
April 23, 2019

Chartered Professional Accountants  
Licensed Public Accountants

**ACKROO INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2018 and 2017**  
(Expressed in Canadian Dollars except for share and per share amounts)

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	31,289	33,513
Accounts receivable (Note 4)	238,479	251,354
Inventory	20,687	9,994
Prepaid expenses and other assets	25,444	15,692
Total current assets	315,899	310,553
Non-current assets		
Intangible assets (Notes 6 & 7)	1,531,305	2,602,196
Goodwill (Note 7)	1,499,084	1,499,084
Due from related party (Note 14)	165,020	165,020
Property and equipment (Note 8)	28,138	34,762
Total non-current assets	3,223,547	4,301,062
Total assets	3,539,446	4,611,615
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Bank indebtedness (Note 10)	165,000	-
Accounts payable and accrued liabilities	534,328	532,736
Current portion of deferred revenue	30,204	19,487
Current portion of long term debt (Note 9)	72,541	583,449
Total current liabilities	802,073	1,135,672
Deferred revenue	18,536	21,983
Total liabilities	820,609	1,157,655
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 12)	15,217,625	15,138,379
Warrants (Note 12)	262,855	669,145
Contributed surplus (Note 12)	2,071,610	1,869,943
Deficit	(14,833,253)	(14,223,507)
Total shareholders' equity	2,718,837	3,453,960
Total liabilities and shareholders' equity	3,539,446	4,611,615

Commitments (Note 13)  
Subsequent events (Note 15)

Approved by the Board:

Steve Levely      Director  
Wayne O'Connell      Director

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

**ACKROO INC.**  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
**For the years ended December 31, 2018 and 2017**  
(Expressed in Canadian Dollars except for share and per share amounts)

	<u>2018</u>	<u>2017</u>
<b>SALES</b>		
Subscription	3,233,856	1,708,015
Product	1,201,163	1,029,815
Total sales	<u>4,435,019</u>	<u>2,737,830</u>
<b>COST OF SALES</b>		
Subscription	227,615	199,350
Product	489,564	542,738
Total cost of sales	<u>717,179</u>	<u>742,088</u>
Gross profit	<u>3,717,840</u>	<u>1,995,742</u>
<b>EXPENSES</b>		
Administration	2,396,471	1,677,509
Research and development costs	722,573	664,668
Sales and marketing	269,378	156,723
Share-based compensation expense (Note 12)	285,451	265,900
Amortization of intangible assets	1,070,892	634,907
Amortization of property and equipment	12,814	16,253
Foreign exchange gain	(2,759)	(843)
Total expenses	<u>4,754,820</u>	<u>3,415,117</u>
<b>LOSS BEFORE THE FOLLOWING ITEMS</b>	<u>(1,036,980)</u>	<u>(1,419,375)</u>
<b>FINANCE COSTS</b>		
Interest expense	(29,844)	(84,226)
Gain on settlement of long term debt (Note 9)	-	30,489
Total finance costs	<u>(29,844)</u>	<u>(53,737)</u>
<b>LOSS BEFORE INCOME TAXES</b>	<u>(1,066,824)</u>	<u>(1,473,112)</u>
<b>INCOME TAX</b>	<u>-</u>	<u>-</u>
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<u>(1,066,824)</u>	<u>(1,473,112)</u>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<u>(0.01)</u>	<u>(0.04)</u>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<u>75,762,879</u>	<u>35,864,038</u>

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

**ACKROO INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the years ended December 31, 2018 and 2017**  
(Expressed in Canadian Dollars except for share and per share amounts)

	Common Shares		Agent		Contributed	Accumulated	
	Number	Amount	Options	Warrants	Surplus	Deficit	Total
<b>Balance at December 31, 2016</b>	<b>27,201,836</b>	<b>11,806,635</b>	-	<b>406,290</b>	<b>1,873,699</b>	<b>(13,018,139)</b>	<b>1,068,485</b>
Equity subscribed for cash	11,575,364	326,883	-	309,762	-	-	<b>636,645</b>
Shares subscribed from business combinations	35,800,000	2,864,000	-	-	-	-	<b>2,864,000</b>
Shares subscribed from options and warrants	910,200	140,861	-	(46,907)	(1,912)	-	<b>92,042</b>
Expiration of options / warrants	-	-	-	-	(267,744)	267,744	-
Share-based compensation	-	-	-	-	265,900	-	<b>265,900</b>
Comprehensive loss	-	-	-	-	-	(1,473,112)	<b>(1,473,112)</b>
<b>Balance at December 31, 2017</b>	<b>75,487,400</b>	<b>15,138,379</b>	-	<b>669,145</b>	<b>1,869,943</b>	<b>(14,223,507)</b>	<b>3,453,960</b>
<b>Balance at December 31, 2017</b>	<b>75,487,400</b>	<b>15,138,379</b>	-	<b>669,145</b>	<b>1,869,943</b>	<b>(14,223,507)</b>	<b>3,453,960</b>
Shares subscribed from options and warrants	550,000	79,246	-	-	(32,996)	-	<b>46,250</b>
Expiration of options / warrants	-	-	-	(406,290)	(50,788)	457,078	-
Share-based compensation	-	-	-	-	285,451	-	<b>285,451</b>
Comprehensive loss	-	-	-	-	-	(1,066,824)	<b>(1,066,824)</b>
<b>Balance at December 31, 2018</b>	<b>76,037,400</b>	<b>15,217,625</b>	-	<b>262,855</b>	<b>2,071,610</b>	<b>(14,833,253)</b>	<b>2,718,837</b>

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

**ACKROO INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2018 and 2017**  
(Expressed in Canadian Dollars except for share and per share amounts)

	<b>2018</b>	<b>2017</b>
<b>OPERATING ACTIVITIES</b>		
Net loss	(1,066,824)	(1,473,112)
<u>Items not affecting cash:</u>		
Non-cash interest	-	9,822
Gain on settlement of long-term debt	-	(30,489)
Amortization of property and equipment	12,814	16,253
Amortization of intangible assets	1,070,892	634,907
Share-based compensation	285,451	265,900
	<b>302,333</b>	<b>(576,719)</b>
<u>Changes in non-cash working capital items</u>		
Accounts receivable	12,875	(70,039)
Inventory	(10,693)	(3,565)
Prepaid expenses and other assets	(9,752)	7,401
Accounts payable and accrued liabilities	1,592	26,583
Deferred revenue	7,269	10,968
Cash provided by (used in) operating activities	<b>303,624</b>	<b>(605,371)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(6,190)	(6,341)
Purchase of intangible assets	-	(100,000)
Cash provided by (used in) investing activities	<b>(6,190)</b>	<b>(106,341)</b>
<b>FINANCING ACTIVITIES</b>		
Advances of bank indebtedness	165,000	-
Repayment of long-term debt	(510,908)	(551,690)
Issuance of capital stock	46,250	653,667
Cash provided by (used in) financing activities	<b>(299,658)</b>	<b>101,977</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(2,224)	(609,735)
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>	33,513	643,248
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	31,289	33,513

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

**ACKROO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the years ended December 31, 2018 and 2017**  
(Expressed in Canadian Dollars except for share and per share amounts)

**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. BASIS OF PREPARATION**

**Statement of compliance**

The consolidated financial statements of the Company have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements for the year ended December 31, 2018 were approved and authorized for issue by the Board of Directors on April 23, 2019.

**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.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Revenue recognition**

Revenue represents the amount the Company expects to receive for products and services in its contracts with customers, net of discounts and sales taxes. The Company’s revenue is derived from the provision of loyalty rewards software-as-a-service (“SaaS”) arrangements, consulting services and consumable products utilized by its customers in the implementation and management of customer loyalty programs. Revenue is generated in three distinct ways: (i) setup includes all of the components required to start a loyalty program including: software, card readers, loyalty cards, artwork, training and configuration of the software to meet customer specific requirements; (ii) transactions include the ongoing monthly processing of loyalty transactions and are charged on either a per transaction basis or a flat monthly fee over the contract period; (iii) the Company also generates revenue from consulting services provided for additional customer training and customized development of loyalty programs.

Typically, the Company enters into contracts that contain services such as subscriptions, incremental variable fees, transaction fees, setup fees and professional services. The Company evaluates these arrangements to determine the appropriate unit of accounting (performance obligation) for revenue recognition purposes based on whether the services are distinct from some or all of the other services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and Ackroo’s promise to transfer the good or service is separately identifiable from other promises in the contractual



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arrangement with the customer. Where a contract consists of more than one performance obligation, revenue for each performance obligation is recognized primarily on the relative fair value basis for each performance obligation.

The Company recognizes revenue when it has transferred significant risks of ownership, legal title has passed, it retains neither continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transactions will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from setup not relating to the sale of product is classified as subscription and service on the consolidated statements of loss and comprehensive loss and is deferred and recognized over the expected life of the estimated term of the merchant agreement. Revenue from license and subscriptions is recognized evenly over the term or estimated term. Revenue from the supply of product and service and consulting fees is recognized in the year in which the product or services are delivered.

#### **Deferred revenue**

Deferred revenue is comprised of startup fees received in advance of a merchant being setup on the Company's loyalty platform and is recognized in income over the estimated life of the merchant agreement.

#### **Cash and cash equivalents**

The Company's policy is to present bank balances under cash and cash equivalents, including bank overdrafts with balances that fluctuate frequently from being positive to overdrawn and undeposited funds on hand.

#### **Inventory**

Inventory consists of components such as cards and card readers and is recorded at the lower of cost and net realizable value. Previously written down inventory is reversed if circumstances that caused the write-down no longer exist.

#### **Financial instruments**

Financial instruments are recognized on the consolidated statements of financial position when the Company becomes a party to the contractual provisions of a financial instrument. The Company is required to initially recognize all of its financial assets and liabilities, including derivatives and embedded derivatives in certain contracts, at fair value.

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management choices and intentions related thereto for the purpose of ongoing measurements. Classification for financial assets include:

- a) FVTPL – measured at fair value with changes in fair value recorded in net earnings;
- b) FVTOCI – measured at fair value with changes in fair value recognized in other comprehensive income for the current year until realized through disposal or impairment except for investment in affiliate as it is a non-derivative equity instrument with no quoted market price; and
- c) Amortized cost – recorded at amortized cost with gains and losses recognized in net earnings in the year that the asset is no longer recognized or impaired.

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Classification choices for financial liabilities include:

- a) FVTPL – measured at fair value with changes in fair value recorded in net earnings; and
- b) Amortized cost – measured at amortized cost with gains and losses recognized in net earnings in the year that the liability is derecognized.

The Company's financial assets and liabilities are classified and measured as follows:

Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Due from related party	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost

With respect to financial assets measured at amortized cost, the Company assesses whether there are any indications of impairment. When there is an indication of impairment, and if the Company determines that during the year there was a significant adverse change in the expected timing or amount of future cash flows from a financial asset, they will then recognize a reduction as an impairment loss in the statements of income and comprehensive income. The reversal of a previously recognized impairment loss on a financial asset measured at amortized cost is recognized in the statements of income and comprehensive income in the year the reversal occurs.

Transaction costs other than those related to financial instruments classified as FVTPL or FVTOCI, which are expensed as incurred, are added to or deducted from the fair value of the financial asset or financial liability, as appropriate, on initial recognition and amortized using the effective interest method.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value.

Fair value determination is classified within a three-level hierarchy, based on observability of significant inputs, as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Unobservable inputs for the asset or liability. Inputs into the determination of the fair value require management judgment or estimation.

If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Changes to valuation methods may result in transfers into or out of an investment's assigned level.

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or if the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire.

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**Foreign currency**

In preparing the financial statements, transactions in currencies other than the Company's functional currency are recorded at the exchange rates prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the foreign exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the Canadian dollars at the effective exchange rate on the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognized in the statement of comprehensive income.

**Property and equipment**

Property and equipment are recorded at cost less residual value and accumulated amortization. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company. Amortization is provided when the asset is available for use, over the estimated useful life of the asset, using the following annual rates and methods:

Computer equipment	45%, declining balance method
Equipment under finance lease	45%, declining balance method
Leasehold improvements	straight line, over the shorter of useful life or term of the lease
Furniture and fixtures	20%, declining balance method

An asset's residual value, useful life and amortization method are reviewed, and adjusted prospectively if appropriate, on an annual basis.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in the consolidated statements of loss and comprehensive loss.

**Business Combinations**

Business combinations are accounted for by applying the acquisition method. The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. The acquiree's identifiable assets and liabilities that meet the conditions for recognition under IFRS 3, Business Combinations ("IFRS 3"), are recognized at their fair value at the acquisition date.

The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value. Transaction costs related to the acquisition are expensed as they are incurred.

Goodwill arising on acquisition is recognized as an asset and represents the excess of acquisition cost over the fair value of the Company's share of the identifiable net assets of the acquiree at the date of the acquisition. Any excess of identifiable net assets over the acquisition cost is recognized in net income immediately after acquisition.

**Goodwill and intangible assets**

Goodwill, representing the excess of the purchase price over the fair value of the net assets acquired, is carried at its original value based on the acquisition, less impairment losses determined subsequent to the acquisition.

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Intangible assets consist of acquired customer contracts and intellectual property. Intangible assets are accounted for at cost. Customer contracts and intellectual property have finite useful lives and are carried at cost less accumulated amortization and accumulated impairment losses. The customer contracts are amortized on straight-line basis over the estimated useful life of 3 years. Intellectual property is amortized on straight-line basis over the estimated useful life of 5 years.

**Impairment of non-financial assets**

Goodwill and intangibles with indefinite useful lives are reviewed for impairment annually, or when events or changes in circumstances indicate the carrying value of the assets may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs of disposal and value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses related to goodwill cannot be reversed.

Long-lived assets or finite life intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs to sell and value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. When an impairment loss subsequently reverses, other than related to goodwill, the carrying amount of the asset is increased to the revised estimate but is limited to the carrying amount that would have been determined if no impairment loss had been recognized in prior years.

In the process of measuring expected future cash flows, management makes assumptions about future growth of profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's assets in subsequent financial years.

**Income taxes**

The income tax expense for the year comprises current and deferred tax. Tax is recognized in the consolidated statements of loss and comprehensive loss, except to the extent it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is recognized in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted, at the end of the year, and any adjustments to tax payable in respect to previous years.

Deferred taxes are calculated using the asset and liability method on temporary differences between the carrying amount of assets and liabilities and their related tax bases. Deferred income taxes are measured using substantively enacted tax rates that will be in effect when the amounts are expected to be settled. Deferred tax assets are only recognizable to the extent it is probable that they will be utilized against future taxable income. The assessment of probability of future taxable income in which deferred tax assets can be utilized is based on the Company's latest approved forecast, which is adjusted for significant non-taxable income and expenses. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, the deferred tax asset is generally recognized to the extent it is recoverable.

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Deferred tax assets and liabilities are only offset when the Company has the right and intention to offset current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets and liabilities are recognized as a component of income or expense in net earnings or loss, except where they relate to items that are recognized in other comprehensive income or equity.

**Investment tax credits**

The Company claims investment tax credits as a result of incurring scientific research and development expenditures. Investment tax credits are recognized when the related expenditures are incurred and there is reasonable assurance of their realization. Investment tax credits in connection with research and development activities are recorded as a reduction of the cost of the related assets or expenditures. Management has made a number of estimates and assumptions in determining the expenditures eligible for the investment tax credit claim and the amount could be materially different from the recorded amount upon assessment by the Canada Revenue Agency.

**Research and development**

Current research costs other than property and equipment acquisitions are expensed as incurred. Development costs are deferred and amortized when the criteria for deferral under IFRS are met, or otherwise, are expensed. To date, no such costs have been deferred.

**Share-based payments**

The Company records equity settled share-based payments for the granting of stock options and warrants granted using the fair value method whereby all awards to employees are recorded at the fair value of each stock option or warrant at the date of the grant using the Black-Scholes option pricing model. The fair value of the stock options is amortized over the vesting period with a corresponding increase in contributed surplus. The amount recognized as an expense is adjusted to reflect the number of options expected to eventually vest. Any consideration paid by the option or warrant holders to purchase shares is credited to share capital and the related share-based payments is transferred from warrant reserve or contributed surplus to share capital.

**Loss per share**

The Company calculates basic loss per share using the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding by an amount that assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are applied to repurchase common shares at the average market price for the year in calculating the net dilution impact. Stock options and warrants are dilutive when the Company has income from continuing operations and the average market price of the common shares during the year exceeds the exercise price of the options and warrants.

Due to the losses for the years ended December 31, 2018 and December 31, 2017, and the antidilutive impact of options or warrants issued, basic loss per share is equal to diluted loss per share for the years presented.

**Significant accounting judgments, estimates and assumptions**

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the year.

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Revenue recognition

Revenue from setup fees is recognized over the life of the merchant agreement. Judgment is required when determining the fair value of elements included in a bundled merchant arrangement and the estimated life of each merchant agreement. Revenue for service elements is recognized as the services are performed. Estimates of performance are required to recognize revenue.

Asset purchase or business combination

The Company applies judgement on whether the purchase of assets represents a business combination or an asset purchase. The Company also applies judgment on the recognition and measurement of the assets acquired and liabilities assumed, and estimates are utilized to calculate and measure such adjustments. In measuring the fair value of the assets and liabilities acquired management uses estimates of future cash flows and discount rates.

Estimated useful lives of assets

The estimated useful lives of intangible assets and property and equipment are based on management's intentions, historical experience, internal plans and other factors as determined by management. The useful lives are reviewed on an annual basis and any revisions to the useful lives are accounted for prospectively.

Impairment of financial instruments

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost. Loss allowances for accounts receivable are measured at an amount equal to the life time expected credit losses if the amount is not considered fully recoverable. A financial asset carried at amortized is considered credit-impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Individually significant financial assets are tested for credit impairment on an individual basis. The remaining financial assets are assessed collectively.

Impairment of non-financial assets

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Recognition of deferred income taxes

The extent to which deferred income tax assets can be recognized is based on an assessment of the probability of the Company's future taxable income against which the deferred tax assets can be utilized. In addition, significant judgment is required in assessing the impact of a legal or economic limit of uncertainties in various tax jurisdictions.

Estimation uncertainty

Significant accounting policies and estimates utilized in the normal course of preparing the Company's consolidated financial statements require the determination of future cash flows utilized in assessing net recoverable amounts and net realizable values; identification and measurement of

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assets acquired and liabilities assumed in business combinations; amortization; allowance for doubtful accounts; useful lives of property, equipment and intangible assets; recoverability of goodwill and long-lived assets; ability to utilize tax losses and investment tax credits; fair value of share based awards and warrants; and measurement of deferred taxes. In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis where required.

These estimates have been applied in a consistent manner and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in these financial statements. The estimates are impacted by many factors, some of which are highly uncertain. The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on the Company's consolidated financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all asset and liability account balances.

**Accounting standards issued but not yet effective**

The standards and interpretations that have been issued, but are not yet effective, up to the date of issuance of these consolidated financial statements are disclosed below. The Company intends to adopt these standards on the required effective date.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 which replaces IAS 17 for the accounting of leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16: changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and options periods; changes the accounting for sale and leaseback arrangements; largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements. This standard is effective January 1, 2019 and allows early adoption.

The Company has not early adopted this standard and is currently assessing the impact that this standard will have on the consolidated financial statements.

**Recently adopted accounting standards**

IFRS 9 Financial Instruments

In July 2014, the IASB reissued IFRS 9 which replaced IAS 39. The replacement standard has the following significant components: establishes two primary measurement categories for financial assets – amortized cost and fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held to maturity, available for sale and loans and receivable categories. This standard became effective January 1, 2018.

The adoption of IFRS 9 did not have a material impact on the consolidated financial statements of the Company.

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IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, which provides a single, principles based five-step model for revenue recognition to be applied to all customer contracts and requires enhanced disclosures. This standard became effective January 1, 2018.

The adoption of IFRS 15 did not impact the Company's current revenue recognition policies or necessitate any material changes to its internal controls or data systems.

**4. FINANCIAL INSTRUMENTS**

Fair value of financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, due from related party, accounts payable and accrued liabilities, 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.

*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.

*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.

(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.



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The aging of accounts receivable balances at December 31, 2018 are as follows:

	Amounts Due	Collected within 30 days of period end	Remaining Aged Balance
1 - 30 days	216,135	163,713	52,422
31 - 60 days	16,002	5,922	10,080
61 - 90 days	1,503	932	571
Greater than 90 days	4,839	1,242	3,597
	238,479	171,809	66,670

The aging of accounts receivable balances at December 31, 2017 are as follows:

	Amounts Due	Collected within 30 days of year end	Remaining Aged Balance
1 - 30 days	244,093	176,249	67,844
31 - 60 days	3,684	821	2,863
61 - 90 days	1,950	-	1,950
Greater than 90 days	1,627	-	1,627
	251,354	177,070	74,284

The Company has limited credit risk since the Company does not typically extend credit to its customers and customers are required to provide a pre-authorized method of payment upon entering into a service contract. The Company carries out, on a continuing basis, credit checks on its clients, a review of outstanding amounts and maintains provisions for estimated uncollectible accounts. Provisions for doubtful accounts, not due to credit loss, are made on an account by account basis. At December 31, 2018, the allowance for doubtful accounts amounted to \$Nil (2017 - \$Nil). As at December 31, 2018 there were two customers that each represented greater than 10% of the current total accounts receivable (13.7% and 11.8% respectively) whose entire balance was subsequently paid after year end.

(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.

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**5. BUSINESS COMBINATIONS**

**Business Combinations**

KESM Transactions Solutions Inc. & LoyalMark LLC

On December 1, 2017 the Company completed the acquisition of certain software technologies and customer contracts from KESM Transactions Solutions Inc. & LoyalMark LLC which assets comprise the KESM/LoyalMark software platform. The acquisition is a business combination accounted for using the acquisition method in accordance with IFRS 3. Assets assumed in the acquisition have been recorded at their fair values as at the date of acquisition. The excess of the consideration transferred over the fair value of the assets acquired has been included in goodwill. The acquisition of the KESM/LoyalMark assets is expected to contribute to the profitability of the Company through synergies identified and expected to be realized in the elimination of redundant expenditures including staff and overheads. In determining the fair market value of the assets acquired, synergies are not factored in in order to assess a fair market participant value. As a result, goodwill was created which represents the synergistic benefits to be realized by the Company starting immediately following acquisition. In consideration for the assets, the Company issued 35,800,000 common shares, and paid cash consideration of \$200,000 of which \$100,000 was paid on closing of the acquisition with the remaining \$100,000 to be paid during fiscal 2018 and fiscal 2019 (\$25,000 – 2018 and \$75,000 – 2019). In addition, the Company entered into 5-year consulting agreements with the 2 owners of KESM/LoyalMark to provide advice and consulting services in advancing the business. In consideration for providing the services under the consulting agreements, the Company will pay \$33,334 and US\$10,000 respectively per month. The consulting agreements may be terminated by KESM/LoyalMark with 30 days' notice. The consulting services have been determined to be post acquisition compensation.

The consolidated statements of loss and comprehensive loss for the year ended December 31, 2017 include \$136,400 in revenue, \$105,000 in expenses for a net income contribution of \$31,400. The Company incurred transaction costs of \$31,600. The goodwill acquired is not expected to be deductible for tax purposes.

Fair value of net assets acquired is as follows:

Inventory	\$ 500
Customer contracts	2,080,000
Intellectual property	110,000
Goodwill arising on acquisition	<u>871,041</u>
	<u><u>\$3,061,541</u></u>

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**6. INTANGIBLE ASSETS**

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

<b>Cost</b>	Intellectual Property	Customer Contracts	Total
As at December 31, 2016	87,111	1,669,771	1,756,882
Additions - business combination	110,000	2,080,000	2,190,000
As at December 31, 2017	197,111	3,749,771	3,946,882
As at December 31, 2018	197,111	3,749,771	3,946,882

**Accumulated Amortization**

As at December 31, 2016	44,040	665,739	709,779
Amortization	19,430	615,477	634,907
As at December 31, 2017	63,470	1,281,216	1,344,686
Amortization	47,402	1,023,489	1,070,891
As at December 31, 2018	110,872	2,304,705	2,415,577

**Net book value**

As at December 31, 2017	133,641	2,468,555	2,602,196
As at December 31, 2018	86,239	1,445,066	1,531,305

The intangible assets in 2017 were recorded as a result of the business combination disclosed in Note 5.

**7. GOODWILL**

Goodwill was tested for impairment at December 31, 2018, and it was determined no impairment existed. No impairments of goodwill have been recorded historically.

**8. PROPERTY AND EQUIPMENT**

<b>Cost</b>	Computer equipment under finance lease	Computer equipment	Furniture and fixtures	Total
As at December 31, 2016	29,588	48,178	30,702	108,468
Additions	-	6,341	-	6,341
As at December 31, 2017	29,588	54,519	30,702	114,809
Additions	-	6,190	-	6,190
As at December 31, 2018	29,588	60,709	30,702	120,999

<b>Accumulated amortization</b>	Computer equipment under finance lease	Computer equipment	Furniture and fixtures	Total
As at December 31, 2016	27,189	27,011	9,593	63,793
Amortization	1,080	10,952	4,222	16,254
As at December 31, 2017	28,269	37,963	13,815	80,047
Amortization	594	8,843	3,377	12,814
As at December 31, 2018	28,863	46,806	17,192	92,861

<b>Net book value</b>	Computer equipment under finance lease	Computer equipment	Furniture and fixtures	Total
As at December 31, 2017	1,319	16,556	16,887	34,762
As at December 31, 2018	725	13,903	13,510	28,138

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**9. LONG-TERM DEBT**

The Company has the following debt balances outstanding:

	<u>2018</u>	<u>2017</u>
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. This debt has now been repaid in full.	-	485,908
KESM Transactions Solutions Inc. & LoyalMark LLC – unsecured, non-interest bearing, due in fiscal 2018 and fiscal 2019 (\$25,000 - 2018 and \$75,000 - 2019). Upon acquisition, the balance of cash consideration of \$100,000 was recorded and discounted at an effective interest rate of 10%.	72,541	97,541
	72,541	583,449
Current portion	72,541	583,449
Long-term portion	-	-

**10. CREDIT FACILITIES**

The Company has a revolving demand facility with a maximum borrowing of \$350,000 of which \$165,000 was utilized at December 31, 2018 (2017 - \$Nil). The facility is repayable on demand, bears a total interest rate at bank prime + 2% (5.95% at December 31, 2018) 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 accounts receivable.

**11. INCOME TAXES**

The major components of income tax expense for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Current tax	\$ 14,141	-
Deferred tax	(14,141)	-
Total income tax expense	-	-

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:

	<u>2018</u>	<u>2017</u>
Tax recovery at combined federal and provincial rate		
Canadian corporations of 26.5%	(282,708)	(390,375)
Non-deductible expense and other	75,645	73,066
Unrecognized tax benefits on non-capital losses	207,064	317,309
	-	-

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The composition of unrecognized tax benefits are as follows:

	<u>2018</u>	<u>2017</u>
Scientific research and experimental development costs	457,755	457,755
Non-refundable investment tax credits	119,242	119,242
Intangible assets and share issue costs	4,230,415	4,520,026
Non-capital losses and other	6,948,838	6,949,923
	<u>11,756,250</u>	<u>12,046,946</u>

Ackroo Canada Inc. has un-deducted scientific research and experimental development expenses for tax purposes of \$1,449,131 which are available for carry forward to reduce future years' income for tax purposes. These expenses carry forward indefinitely.

Ackroo Canada Inc. has investment tax credits for income tax purposes of \$119,242 which can be used to offset future income taxes otherwise payable and expire starting 2032.

Ackroo Canada Inc. has deductible temporary differences for income tax purposes of \$4,230,415 which can be used to offset future income taxes otherwise payable and do not expire.

Ackroo Inc. and Ackroo Canada Inc. have unused non-capital losses of \$477,423 and \$6,471,415 respectively, which may be carried forward and applied to reduce taxable income of future years. The losses are available for a limited time only and expire as follows:

	<b>Ackroo Inc</b>	<b>Ackroo Canada Inc</b>
2038	18,405	-
2037	19,572	812,938
2036	19,703	984,964
2035	106,952	936,241
2034	120,888	1,235,593
2033	191,903	2,501,679
	<u>477,423</u>	<u>6,471,415</u>

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

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**12. 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**

	<u>2018</u>	<u>2017</u>
Common - 76,037,400 shares (2017 - 75,487,400 shares)	15,217,625	15,138,379

On December 1, 2017, the Company issued 35,800,000 shares for the acquisition of KESM Transactions Solutions Inc. & LoyalMark LLC.

During the year ended December 31, 2017, 900,000 warrants and 10,200 options were exercised by various shareholders and executives of the Company. The Company also issued an additional 2,820,000 options to employees and executives.

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 entitling the holder to purchase an additional common share of the Company at a price of \$0.10 per share for a period of 60 months. No finder's fees or commissions were paid in connection with the closing of the private placement.

**(c) Outstanding warrants**

On July 10, 2017, the Company completed a private placement for proceeds totalling \$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 entitling the holder to purchase an additional common share of the Company at a price of \$0.10 per share for a period of 60 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. 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.

As at and for the years ended December 31, 2018 and 2017, a summary of the Company's warrant activity is as follows:

	<b>Number of warrants</b>	<b>Weighted Average Exercise Price</b>
<b>Balance at December 31, 2016</b>	<b>2,867,200</b>	<b>\$0.307</b>
Warrants expired	-	<b>\$0.000</b>
Warrants exercised	(900,000)	<b>\$0.100</b>
Warrants issued	11,575,364	<b>\$0.100</b>
<b>Balance at December 31, 2017</b>	<b>13,542,564</b>	<b>\$0.140</b>
Warrants expired	(2,867,200)	<b>\$0.307</b>
Warrants exercised	-	<b>\$0.000</b>
Warrants issued	-	<b>\$0.000</b>
<b>Balance at December 31, 2018</b>	<b>10,675,364</b>	<b>\$0.100</b>

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The relative fair value allocated to the warrants issued in 2017 totaled \$309,762. 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%, expected life of 5 years and 0% dividend yield. (2016 - using risk-free interest rate of 0.73%, volatility between 200% and 223%, expected life between 1 and 2 years and 0% dividend yield).

No new warrants have been issued as of the year ended December 31, 2018. The 300,000 warrants issued July 13, 2015 expired on July 13, 2018. The 2,567,200 warrants issued on November 17, 2016 expired on November 17, 2018.

**(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 76,037,400 (2017 – 75,487,400) common shares outstanding, which means that up to 7,603,740 (2017 – 7,548,740) 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 three 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.

During the year ended December 31, 2018, the Company granted 3,925,000 stock options which vested immediately exercisable at a weighted average price of \$0.126 per option. In addition, 450,000 stock options were cancelled at a weighted average price of \$0.153 per option and 550,000 options were exercised at a weighted average price of \$0.084 per option.

The relative fair value allocated to the options issued and vested in 2018 totaled \$285,451 (2017 - \$265,900). In determining the relative fair value, the fair value of the options was calculated using the Black-Scholes model using a weighted average risk-free interest rate of 1.85%, weighted average

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volatility of 112%, expected life of 1-3 years and 0% dividend yield. (2017 - using weighted average risk-free interest rate of 1.34%, weighted average volatility of 124%, expected life between 1-3 years and 0% dividend yield).

At December 31, 2018, a summary of the Company's stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price
<b>Balance, December 31, 2016</b>	<b>2,381,371</b>	<b>\$0.259</b>
ESOP Options Granted	2,820,000	\$0.135
ESOP Expired/Cancelled	(721,571)	\$0.330
Exercised	(10,200)	\$0.200
<b>Balance, December 31, 2017</b>	<b>4,469,600</b>	<b>\$0.170</b>
ESOP Options Granted	3,925,000	\$0.126
ESOP Expired/Cancelled	(450,000)	\$0.153
Exercised	(550,000)	\$0.084
<b>Balance, December 31, 2018</b>	<b>7,394,600</b>	<b>\$0.154</b>

At December 31, 2018 and at December 31, 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)
January 11, 2016	200,000	200,000	\$0.250	11-Jan-19	1.03
June 7, 2016	304,600	304,600	\$0.200	7-Jun-19	1.43
July 15, 2016	250,000	250,000	\$0.260	15-Jul-19	1.54
August 22, 2016	390,000	390,000	\$0.235	22-Aug-19	1.64
September 15, 2016	350,000	350,000	\$0.210	15-Sep-19	1.71
November 18, 2016	195,000	195,000	\$0.200	18-Nov-19	1.88
January 16, 2017	290,000	290,000	\$0.215	16-Jan-20	2.04
April 12, 2017	490,000	490,000	\$0.155	12-Apr-20	2.28
December 13, 2017	2,000,000	2,000,000	\$0.120	13-Dec-20	2.95
<b>December 31, 2017</b>	<b>4,469,600</b>	<b>4,469,600</b>	<b>\$0.170</b>		

Grant Date	# of Options Outstanding	# of Options Exercisable	Exercise Price	Expiry Date	Remaining Contractual Life (years)
January 11, 2016	150,000	150,000	\$0.250	January 11, 2019	0.03
June 7, 2016	304,600	304,600	\$0.200	June 7, 2019	0.43
July 15, 2016	250,000	250,000	\$0.260	July 15, 2019	0.54
August 22, 2016	390,000	390,000	\$0.235	August 22, 2019	0.64
September 15, 2016	320,000	320,000	\$0.210	September 15, 2019	0.71
November 18, 2016	195,000	195,000	\$0.200	November 18, 2019	0.88
January 16, 2017	240,000	240,000	\$0.215	January 16, 2020	1.04
April 12, 2017	470,000	470,000	\$0.155	April 12, 2020	1.28
December 13, 2017	1,700,000	1,700,000	\$0.120	December 13, 2020	1.95
January 11, 2018	400,000	400,000	\$0.110	January 11, 2021	2.03
January 11, 2018	2,300,000	2,300,000	\$0.150	January 11, 2021	2.03
April 4, 2018	75,000	75,000	\$0.080	April 4, 2021	2.26
May 2, 2018	250,000	250,000	\$0.075	May 2, 2021	2.34
December 14, 2018	350,000	350,000	\$0.100	December 14, 2021	2.96
<b>December 31, 2018</b>	<b>7,394,600</b>	<b>7,394,600</b>	<b>\$0.154</b>		



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**13. Commitments**

The Company rents premises under operating leases which expire between 2019 and 2029. In addition, annual minimum lease payments over the next five years will be approximately as follows:

2019	110,635
2020	305,037
2021	246,721
2022	241,258
2023	248,332

Lease payments recognized as an expense during the years ended December 31, 2018 and 2017 were \$114,630 and \$83,102 respectively.

**14. Related party transactions**

**(a) Compensation of key management personnel**

The remuneration of key management personnel of the Company during the years ended December 31, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Salaries, incentives / short-term benefits	393,498	352,301
Share based compensation	253,470	83,639
	<u>646,968</u>	<u>435,940</u>

**(b) Related party transactions**

On September 1, 2018 the Company entered into an agreement with a member of the management team to consolidate two amounts previously shown as “due from related party” into one consolidated promissory note representing \$165,020 with a maturity date, and payment due on or before, December 31, 2020. This is a non-cash transaction and the promissory note is non-interest bearing. As of December 31, 2018, the balance was \$165,020.

The Company entered into consulting agreements with directors and officers resulting in expense in the years ended December 31, 2018 and 2017 of \$11,088 and \$33,176 respectively. As at December 31, 2018 \$10,388 was unpaid and included in accounts payable and accrued liabilities (2017 - \$22,007).

**(c) Segmented information**

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

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**15. Subsequent events**

Subsequent to year ended December 31, 2018, the Company renegotiated the consulting agreements related to the KESM acquisition to significantly lower the monthly consultation fees and extending term of the agreement. The monthly consulting fees which had a remaining term of 47 months has been extended to 84 months with the monthly amounts decreasing from \$33,333 CAD and \$10,000 USD to \$16,246 CAD and \$8,000 USD respectively for an annual savings of \$236,968.

Subsequent to year ended December 31, 2018, the Company secured a loan from SOFII (Southern Ontario Fund for Investment in Innovation) for \$500,000 with a term of 5 years, with payment of interest only for the first 6 months at a rate of 8%.

On April 10, 2019 the Company issued 300,000 options at an exercise price of \$0.115 for a period of 3 years which vest immediately to new employees.