

CONSOLIDATED FINANCIAL STATEMENTS
For
ACKROO INC.
For the years ended
DECEMBER 31, 2015 and 2014

INDEPENDENT AUDITOR'S REPORT

To the shareholders of

ACKROO INC.

We have audited the accompanying consolidated financial statements of Ackroo Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and 2014 and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

.../2

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ackroo Inc. as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years ended December 31, 2015 and 2014 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements, which indicates that Ackroo Inc. is investing in the commercialization of its loyalty rewards product and service offering and to date has generated losses from operations. The Company depends on its ability to generate sufficient revenue in order to discharge its commitments and liabilities in the normal course of business. These conditions as set forth in Note 2 in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about Ackroo Inc.'s ability to continue as a going concern.

A handwritten signature in black ink that reads "Welch LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Ontario
April 26, 2016.

ACKROO INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 151,694	\$ 336,158
Accounts receivable (note 5)	111,542	173,099
Inventory	26,225	29,892
Prepaid expenses and other assets	<u>39,527</u>	<u>79,983</u>
	<u>328,988</u>	<u>619,132</u>
NON-CURRENT ASSETS		
Intangible assets (notes 7 and 8)	959,934	-
Goodwill (note 6)	628,043	-
Property and equipment (note 9)	<u>30,227</u>	<u>31,904</u>
	<u>1,618,204</u>	<u>31,904</u>
	<u>\$ 1,947,192</u>	<u>\$ 651,036</u>
<u>LIABILITIES AND NET DEFICIT (DEFICIENCY)</u>		
CURRENT LIABILITIES		
Bank indebtedness (notes 10 and 13)	\$ 6,924	\$ -
Accounts payable and accrued liabilities (note 16(e))	485,702	363,618
Advances from subscriptions (note 16(f))	-	590,460
Current portion of finance lease obligations (note 12)	-	4,254
Current portion of deferred revenue	900	95,487
Current portion of long-term debt (note 11)	<u>965,752</u>	<u>76,000</u>
	1,459,278	1,129,819
DEFERRED TAX LIABILITY (note 13)	-	-
DEFERRED REVENUE	3,750	10,500
LONG-TERM DEBT (note 11)	<u>242,003</u>	<u>29,000</u>
	<u>1,705,031</u>	<u>1,169,319</u>
NET DEFICIT (DEFICIENCY)		
Capital stock (note 14)	9,269,851	8,346,721
Agent options (note 14)	97,600	97,600
Warrants (note 14)	2,885,274	1,600,600
Contributed surplus (note 14)	1,704,693	1,554,371
Deficit	<u>(13,715,257)</u>	<u>(12,117,575)</u>
	<u>242,161</u>	<u>(518,283)</u>
	<u>\$ 1,947,192</u>	<u>\$ 651,036</u>

Approved by the Board:

STEVE LEVELY
..... Director

JOHN CHAPMAN
..... Director

(See accompanying notes)

Welch LLP[®]

An Independent Member of BKR International

ACKROO INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	<u>Common shares</u>		<u>Agent Options</u>	<u>Warrants</u>	<u>Contributed Surplus</u>	<u>Accumulated deficit</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>					
Balance at December 31, 2013	5,714,412 ¹	\$ 7,716,483	\$ 97,600	\$ 1,315,900	\$ 1,288,801	\$ (9,307,283)	\$ 1,111,501
Share subscriptions for cash (note 14)	1,177,367	630,238	-	284,700	-	-	914,938
Share-based compensation (note 14)			-	-	265,570	-	265,570
Share consolidation adjustment	(119)	-	-	-	-	-	-
Comprehensive loss	-	-	-	-	-	(2,810,292)	(2,810,292)
Balance at December 31, 2014	6,891,660	\$ 8,346,721	\$ 97,600	\$ 1,600,600	\$ 1,554,371	\$ (12,117,575)	\$ (518,283)
Shares subscribed for cash (note 14)	8,364,165	-	-	1,246,285	-	-	1,246,285
Shares subscribed from business combination (notes 6 and 14)	703,297	337,583	-	-	-	-	337,583
Shares subscribed from warrants (note 14)	490,000	195,511	-	(73,011)	-	-	122,500
Shares subscribed from options (note 14)	495,000	390,036	-	-	(286,086)	-	103,950
Warrants issued (note 14)	-	-	-	111,400	-	-	111,400
Share-based compensation (note 14)	-	-	-	-	436,408	-	436,408
Comprehensive loss	-	-	-	-	-	(1,597,682)	(1,597,682)
Balance at December 31, 2015	<u>16,944,122</u>	<u>\$ 9,269,851</u>	<u>\$ 97,600</u>	<u>\$ 2,885,274</u>	<u>\$ 1,704,693</u>	<u>\$ (13,715,257)</u>	<u>\$ 242,161</u>

¹ Adjusted to give effect to the 1 for 10 share exchange

(See accompanying notes)

ACKROO INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Revenue (note 16(c))		
Subscription and service	\$ 1,497,813	\$ 986,511
Product	<u>324,411</u>	<u>341,655</u>
	<u>1,822,224</u>	<u>1,328,166</u>
Cost of revenue		
Subscription and service	400,112	213,503
Product	<u>211,786</u>	<u>147,385</u>
	<u>611,898</u>	<u>360,888</u>
Gross profit	<u>1,210,326</u>	<u>967,278</u>
Expenses (note 16(c))		
Administration	1,514,270	1,446,223
Research and development costs	530,250	674,145
Sales and marketing	22,348	596,385
Share-based compensation expense (note 14(e))	436,408	265,570
Amortization of intangible assets	249,769	281,232
Amortization of property and equipment	12,605	45,187
Foreign exchange (gain) loss	(3,521)	(5,885)
Investment tax credits and non-refundable grants (note 15)	-	(135,428)
	<u>2,762,129</u>	<u>3,167,429</u>
Loss before the following items	<u>(1,551,803)</u>	<u>(2,200,151)</u>
Interest income	947	872
Interest expense on long-term debt	(164,225)	(53,563)
Gain on modification of long-term debt (note 11)	46,399	-
Impairment loss (note 8)	-	(557,450)
	<u>(116,879)</u>	<u>(610,141)</u>
Loss before income taxes	(1,668,682)	(2,810,292)
Income tax expense (recovery)		
Deferred income tax recovery (note 13)	<u>(71,000)</u>	<u>-</u>
Comprehensive loss	<u>\$ (1,597,682)</u>	<u>\$ (2,810,292)</u>
Basic and diluted loss per share	<u>\$ (0.10)</u>	<u>\$ (0.44)</u>
Weighted average number of common shares outstanding		
Basic and diluted	<u>15,741,657</u>	<u>6,427,880</u>

(See accompanying notes)

ACKROO INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Comprehensive loss	\$ (1,597,682)	\$ (2,810,292)
Adjustments for:		
Amortization of deemed interest	136,761	1,942
Gain or modification of long-term debt	(46,399)	-
Amortization of property and equipment	12,605	45,187
Amortization of intangible assets	249,769	281,232
Share-based compensation	436,408	265,570
Impairment loss	-	557,450
Net amortization of lease inducement	-	(20,481)
Lease termination provision	-	93,353
Future income taxes	<u>(71,000)</u>	<u>-</u>
	(879,538)	(1,586,039)
Changes in level of:		
Accounts receivable	61,557	151,536
Prepaid expenses and other assets	40,456	17,985
Inventory	3,667	(20,184)
Accounts payable and accrued liabilities	122,084	85,002
Deferred revenue	<u>(101,337)</u>	<u>39,412</u>
	<u>(753,111)</u>	<u>(1,312,288)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Business acquisitions	(250,000)	-
Addition to property and equipment	<u>(10,928)</u>	<u>(11,976)</u>
	<u>(260,928)</u>	<u>(11,976)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	6,924	(75,000)
Repayment of long-term debt	(166,770)	(9,548)
Repayments of capital lease obligations	(4,254)	(10,791)
Issuance of capital stock	993,675	914,938
Advances from subscriptions	<u>-</u>	<u>590,460</u>
	<u>829,575</u>	<u>1,410,059</u>
(INCREASE) DECREASE IN CASH AND CASH EQUIVALENTS	(184,464)	85,795
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>336,158</u>	<u>250,363</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 151,694</u>	<u>\$ 336,158</u>

(See accompanying notes)

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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). 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 AND FUTURE OPERATIONS

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Ackroo Canada Inc. and Ackroo Corporation. All significant intercompany transactions have been eliminated.

The consolidated financial statements were approved and authorized for issue by the Board of Directors on April 26, 2016.

The consolidated financial statements are presented using the Canadian dollar, which is the company's functional currency.

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) including International Accounting Standards prevailing at December 31, 2015.

Future operations

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 \$13,715,257 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 2013, 2014 and 2015 in its sales and marketing programs and the acquisitions will result in a significant increase in revenue. 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 sufficient to fund its cash flow needs. There is no certainty that these and other strategies will be sufficient to permit the Company to continue as 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 balance sheet classifications used. Such differences in amounts could be material.

ACKROO INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

The Company's revenue is derived from the provision of loyalty rewards subscription services, consulting services and consumable products utilized by its customers in the implementation and management of customer loyalty programs. Revenue is generated in three distinct types. 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. 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. The company also generates revenue from consulting services provided for additional customer training and customized development of loyalty programs.

Arrangements maybe comprised of multiple elements in which case the elements are unbundled from the total arrangement fee and recorded based on their relative fair value as determined by reliable objective evidence. The Company determines fair value based on its internal pricing guidelines and historical experience.

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 fee is recognized when all product and training have been delivered and the customer confirms the system is working. Revenue from license and subscriptions is recognized evenly over the term or estimated term. Revenue from service and consulting fees is recognized in the period in which the services are provided.

Cash and cash equivalents

Cash and cash equivalents include cash on deposit with financial institutions and undeposited funds on hand.

Inventories

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

Financial instruments

All financial instruments are initially recognized at fair value including transaction costs, except those at fair value through profit or loss ("FVTPL") for which transaction costs are expensed when incurred.

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

Cash and cash equivalents and bank indebtedness are designated as FVTPL which are measured at fair value, with changes in fair value being recorded in net earnings at each period end.

Accounts receivable and investment tax credit recoverable have been classified as loans and receivables and are measured at amortized cost.

Accounts payable and accrued liabilities have been classified as other financial liabilities, which are measured at amortized cost.

Long-term debt and finance lease obligations have been classified as held to maturity which are measured at amortized cost using the effective interest rate method.

Due to the short-term nature of these assets and liabilities, the fair values approximate amortized cost.

ACKROO INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

Financial instruments - Cont'd.

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. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The inputs fall into three levels that may be used to measure fair value:

- Level 1 - Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- Level 2 - Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
- Level 3 - Applies to assets or liabilities for which there is no observable market data.

The fair value of assets and liabilities measured on a recurring basis include cash and cash equivalents determined based on Level 1 and Level 2 inputs. The Company believes that the recorded values of all of the other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. If such evidence exists, the Company recognizes an impairment loss for financial assets carried at amortized cost. The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows. The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

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.

Finance leases

Equipment leased by the Company under agreements which transfer substantially all of the benefits and risks of ownership to the Company are accounted for as finance leases. Accordingly, at the inception of the leases, the equipment and related lease obligations are recorded at an amount equal to the present value of future lease payments discounted at the lesser of the interest rate inherent in the lease contracts and the Company's incremental cost of borrowing.

Amortization is provided at 45% using the declining balance method.

ACKROO INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

Property and equipment

Property and equipment are recorded at cost less residual value and accumulated amortization. Amortization is calculated over the estimated useful lives of the assets as follows:

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

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

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.

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 assets

At each statement of financial position date, the Company assesses whether there is any indication that any long-lived assets, goodwill or finite life intangible assets are impaired. An impairment is recognized if the recoverable amount, determined as the higher of an asset's fair value less costs to sell and the discounted future cash flows generated from use and eventual disposal of an asset, is less than its carrying value. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Income taxes

The Company uses the asset and liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in net earnings in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and is reviewed at the end of each reporting period.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.

YEARS ENDED DECEMBER 31, 2015 AND 2014

3. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

Research and development

Current research costs other than capital asset 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 measures equity settled stock options granted based on their fair value at the grant date and recognizes compensation expense over the vesting period. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in net earnings. Consideration paid by employees on the exercise of stock options is recorded as share capital and the related share-based payments is transferred from share-based reserve to share capital.

Loss per share

The Company calculates basic loss per share using the weighted average number of common shares outstanding during the period. 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 period 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 period exceeds the exercise price of the options and warrants.

Due to the losses for the years ended December 31, 2015 and December 31, 2014, and the anti-dilutive impact of options or warrants issued, basic loss per share is equal to dilutive loss per share for the periods presented.

Significant accounting judgments, estimates and assumptions

The preparation of the Company's 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 reporting period.

Revenue recognition

Revenue from setup fees is recognized when the product and training have been delivered and the customer confirms the system is working. Judgment is required in determining when delivery has occurred and the significant risk and rewards of ownership have been transferred and if a risk of return exists due to non-compliance with the offering specifications. Judgment is also required when determining the fair value of elements included in a bundled arrangement. Revenue for service elements is recognized as the services are performed. Estimates of performance are required to recognize revenue.

Estimated useful lives of assets

The estimate useful lives of intangibles 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.

3. **SIGNIFICANT ACCOUNTING POLICIES** - Cont'd.

Significant accounting judgments, estimates and assumptions - Cont'd.

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.

Estimation uncertainty

Significant accounting policies and estimates utilized in the normal course of preparing the Company's financial statements require the determination of future cash flows utilized in assessing net recoverable amounts and net realizable values; amortization; allowance for bad debt; 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 financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all asset and liability account balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.

YEARS ENDED DECEMBER 31, 2015 AND 2014

4. **EMERGING ACCOUNTING PRONOUNCEMENTS UNDER IFRS**

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the year ended December 31, 2015 and, accordingly, have not been applied in preparing these consolidated financial statements. The more significant standards are noted below. The Company has not yet assessed the potential impact of these standards on its financial reporting.

Financial instruments

IFRS 9, Financial Instruments: Classification and Measurement ("IFRS 9"), was issued by the IASB in November 2009 and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities measured at fair value, fair value changes due to changes in the Company's credit risk are presented in other comprehensive income instead of net income unless this would create an accounting mismatch. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The effective date for implementation of this standard has been deferred pending the finalization of the impairment, classification and measurement requirements.

Revenue from Contracts

The IASB has issued a new standard, IFRS 15, Revenue from Contracts with Customers, which replaces among others IAS 18, Revenue: IFRIC 18, Transfers of Assets from Customers and SIC 31, Revenue - Barter Transactions Involving Advertising Services. The purpose of IFRS 15 is to establish the principles that an entity shall apply to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. This standard becomes effective on January 1, 2018. The Company has not yet assessed the impact of the new standard on its financial statements.

5. **FINANCIAL INSTRUMENTS***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 defined as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in the market value.

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 bank indebtedness bears interest based on bank's prime rate and therefore the Company is exposed to interest rate risk on this financial instrument.

Currency risk

The Company's exposure to currency risk is primarily related to the sales and purchases denominated in foreign currency. As at December 31, 2015, approximately \$9,000, \$NIL and \$4,000 of the Company's cash, accounts receivable and accounts payable, respectively, are exposed to fluctuations in U.S. dollar. As at December 31, 2014, approximately \$45,000, \$3,000 and \$15,000 of the Company's cash, accounts receivable and accounts payable, respectively, are exposed to fluctuations in U.S. dollar.

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.

YEARS ENDED DECEMBER 31, 2015 AND 2014

5. **FINANCIAL INSTRUMENTS** - Cont'd.

(b) *Credit risk*

The Company is exposed to credit risk resulting from the possibility that parties may default on their financial obligations. The Company's maximum exposure to credit risk represents the sum of the carrying value of its cash and accounts receivable. The Company's cash is 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 balances at December 31, 2015 are as follows:

	<u>Amounts due</u>	<u>Collected within 30 days of period end</u>	<u>Remaining overdue balance</u>
1 - 30 days due	\$ 98,666	\$ 85,444	\$ 13,222
31 - 60 days due	9,710	6,189	3,521
61 - 90 days due	1,888	1,888	-
Greater than 90 days past due	<u>1,278</u>	<u>-</u>	<u>1,278</u>
	<u>\$ 111,542</u>	<u>\$ 93,521</u>	<u>\$ 18,021</u>

The balances at December 31, 2014 are as follows:

	<u>Amounts due</u>	<u>Collected within 30 days of period end</u>	<u>Remaining overdue balance</u>
1 - 30 days due	\$ 111,497	\$ 98,290	\$ 13,207
31 - 60 days due	34,116	34,116	-
61 - 90 days due	537	-	537
Greater than 90 days past due	<u>26,949</u>	<u>7,154</u>	<u>19,795</u>
	<u>\$ 173,099</u>	<u>\$ 139,560</u>	<u>\$ 33,539</u>

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 December 31, 2015 the allowance for doubtful accounts amounted to \$nil (2014 - \$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 will enable the Company to meet its financial obligations. A schedule of debt repayments can be found in note 11. See note 2 "Basis of Presentation and Future Operations".

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.

YEARS ENDED DECEMBER 31, 2015 AND 2014

6. BUSINESS COMBINATION

Effective January 20, 2015, the Company acquired certain assets of Gift2Gift Corp. ("Gift2Gift"), a company incorporated under the federal laws of Canada, for cash consideration of \$150,000.

Fair value assets acquired were:

Computer equipment	\$	1,975
Customer contracts		43,827
Intellectual property		79,611
Goodwill arising on acquisition		<u>24,587</u>
	\$	<u>150,000</u>

The total amount of goodwill that is expected to be deductible for tax purposes is \$18,440.

Effective May 29, 2015, the Company acquired certain assets of Dealer Rewards of Canada 2014 Inc. ("Dealer Rewards"), a company incorporated under the federal laws of Canada, and a division of Dealer Rewards Inc. and their affiliate Evolve Automotive Group Inc., for a purchase price of \$1,500,000 in cash and 769,231 common shares of Ackroo with a fair value of \$369,231. The acquisition was accounted for as a business combination.

Cash consideration of \$100,000 was paid at closing, with the remaining \$1,400,000 payable over the next 18 month with \$600,000 due by December 31, 2015, \$400,000 due by June 30, 2016, and a final contingent amount of \$400,000 due by December 31, 2016 which is subject to performance provisions. All equity consideration was issued at closing, except for 65,934 common shares to be issued on May 29, 2016. The cash consideration was recorded at fair value of \$1,249,289 and is being amortized using effective interest rate method. Subsequent to the purchase date the payment terms were amended with the amended payment terms detailed in note 11.

Fair value of net assets acquired were:

Inventory	\$	7,300
Customer contracts		1,078,764
Goodwill arising on acquisition		<u>603,456</u>
		1,689,520
Deferred tax liability		<u>71,000</u>
Net asset acquired	\$	<u>1,618,520</u>

Partial goodwill arose as a result of the recognition of the deferred tax liability with the deferred tax liability representing the tax effect of the difference between the tax value and fair value of the customer contracts. The total amount of goodwill that is expected to be deductible for tax purposes is \$452,592.

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.

YEARS ENDED DECEMBER 31, 2015 AND 2014

7. **INTANGIBLE ASSETS**

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

	2015		2014	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Intellectual property	\$ 87,111	\$ 26,617	\$ 1,175,334	\$ 1,175,334
Customer contracts	<u>1,122,591</u>	<u>223,151</u>	<u>138,500</u>	<u>138,500</u>
	1,209,702	<u>\$ 249,768</u>	1,313,834	<u>\$ 1,313,834</u>
Accumulated amortization	<u>249,768</u>		<u>1,313,834</u>	
	<u>\$ 959,934</u>		<u>\$ -</u>	

During 2015 the intangible assets balance arose as a result of the acquisitions referenced in note 6. The ending 2014 balance was written off with the impairment referenced in note 8.

8. **IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES**

In fiscal 2014, as a result of an impairment assessment of goodwill and intangible assets, an impairment loss of \$557,450 was recorded.

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.

YEARS ENDED DECEMBER 31, 2015 AND 2014

9. PROPERTY AND EQUIPMENT

<u>Cost</u>	<u>Computer equipment under capital lease</u>	<u>Computer equipment</u>	<u>Leasehold improvements</u>	<u>Furniture and fixtures</u>	<u>Total</u>
As at December 31, 2013	\$ 26,548	\$ 14,904	\$ 235,880	\$ 16,888	\$ 294,220
Additions	-	11,976	-	-	11,976
Disposals	-	-	(235,880)	-	(235,880)
As at December 31, 2014	26,548	26,880	-	16,888	70,316
Additions	3,040	7,887	-	-	10,927
Write-off	-	-	-	-	-
As at December 31, 2015	<u>\$ 29,588</u>	<u>\$ 34,767</u>	<u>\$ -</u>	<u>\$ 16,888</u>	<u>\$ 81,243</u>
<u>Accumulated amortization</u>	<u>Computer equipment under capital lease</u>	<u>Computer equipment</u>	<u>Leasehold improvements</u>	<u>Furniture and fixtures</u>	<u>Total</u>
As at December 31, 2013	\$ 16,446	\$ 5,979	\$ 21,823	\$ 1,689	\$ 45,937
Amortization	4,546	6,712	30,889	3,040	45,187
Disposals	-	-	(52,712)	-	(52,712)
As at December 31, 2014	20,992	12,691	-	4,729	38,412
Amortization	3,013	7,160	-	2,432	12,605
Write-off	-	-	-	-	-
As at December 31, 2015	<u>\$ 24,005</u>	<u>\$ 19,851</u>	<u>\$ -</u>	<u>\$ 7,161</u>	<u>51,017</u>
<u>Net book value</u>	<u>Computer equipment under capital lease</u>	<u>Computer equipment</u>	<u>Leasehold improvements</u>	<u>Furniture and fixtures</u>	<u>Total</u>
As at December 31, 2014	\$ 5,556	\$ 14,189	\$ -	\$ 12,159	\$ 31,904
As at December 31, 2015	\$ 5,583	\$ 14,916	\$ -	\$ 9,728	\$ 30,227

Leasehold inducement arises from rent credit and leasehold improvement inducements and are amortized over the term of the lease. In November 2014 the Company terminated its office lease and entered into a new lease. On termination of the lease the Company wrote-off the previously recorded leasehold improvements and lease inducements.

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.

YEARS ENDED DECEMBER 31, 2015 AND 2014

10. CREDIT FACILITIES

The Company has a revolving demand facility with a maximum borrowing of \$200,000 of which \$6,923.50 was utilized at December 31, 2015 (2014 - \$nil). It is repayable on demand, bears interest at prime plus 2% 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.

11. LONG-TERM DEBT

The Company has the following debt balances outstanding:

	<u>2015</u>	<u>2014</u>
During 2014 the Company renegotiated the terms of their office lease with the prior debt amount exchanged for a new loan. The loan is unsecured, bears interest at approximately 8% per annum, payable monthly in blended principal and interest of \$3,000.	\$ 33,322	\$ 105,000
During 2015 the Company acquired Dealers Rewards Canada agreeing to make ten monthly payments of \$100,000 starting January 2016 with the final payment of \$300,000 in January 2017. The payments are unsecured and non-interest bearing. On the date of acquisition the assumed debt was recorded at the present value of the agreed upon payment terms using an interest rate of 20%. The payment terms were modified subsequent to the acquisition to the above repayment dates. On modification the present value of the debt was recalculated resulting in a gain on modification of \$46,399	<u>1,174,433</u> <u>1,207,755</u>	<u>-</u> <u>105,000</u>
Less: Current portion	<u>965,752</u>	<u>(76,000)</u>
Long-term portion	<u>\$ 242,003</u>	<u>\$ 29,000</u>

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

2016	\$ 1,033,322
2017	<u>300,000</u>
	1,333,322
Less amount representing interest	<u>125,567</u>
	<u>\$ 1,207,755</u>

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.

YEARS ENDED DECEMBER 31, 2015 AND 2014

12. **FINANCE LEASE OBLIGATIONS**

Future lease payments under finance lease are as follows:

	<u>2015</u>	<u>2014</u>
Leases repaid in 2015	\$ -	\$ 4,824
Less amount representing deemed interest at 25%	<u>-</u>	<u>570</u>
Balance of obligation	-	4,254
Current portion	<u>-</u>	<u>4,254</u>
Long-term portion	<u>\$ -</u>	<u>\$ -</u>

13. **INCOME TAXES**

The major components of income tax expense for the years ended December 31, 2015 and December 31, 2014 are:

	<u>2015</u>	<u>2014</u>
Current income tax	\$ -	\$ -
Deferred tax:		
Reversal of intangible asset temporary difference	<u>(71,000)</u>	<u>-</u>
Total income tax expense (recovery)	<u>\$ (71,000)</u>	<u>\$ -</u>

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>2015</u>	<u>2014</u>
Tax expense (recovery) at combined federal and provincial statutory rate for Canadian corporations of 26.50%	\$ (442,201)	\$ (744,727)
Non-deductible expense and other	75,304	227,727
Unrecognized tax benefits on non-capital losses	<u>295,897</u>	<u>517,000</u>
Income tax expense (recovery)	<u>\$ (71,000)</u>	<u>\$ -</u>

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.

YEARS ENDED DECEMBER 31, 2015 AND 2014

13. **INCOME TAXES** - Cont'd.

Deferred income taxes

The components of deferred tax are as follows:

	<u>2015</u>	<u>2014</u>
Deferred tax assets		
Scientific research and experimental development costs	\$ 356,478	\$ 225,874
Non-refundable investment tax credits	449,772	296,912
Property and equipment	(1,877)	(525)
Intangible assets and share issue costs	244,174	150,061
Capital losses	2,937,862	2,937,862
Non-capital losses and other	<u>3,709,245</u>	<u>3,577,362</u>
	7,695,654	7,187,546
Valuation allowance	<u>7,695,654</u>	<u>7,187,546</u>
	<u>\$ -</u>	<u>\$ -</u>

Ackroo Inc. and Ackroo Canada Inc. have unused non-capital losses of approximately \$5,945,000 and \$7,973,000, 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:

	<u>Ackroo Canada Inc.</u>	<u>Ackroo Inc.</u>
2035	\$ 995,000	\$ 107,000
2034	1,236,000	121,000
2033	2,541,000	192,000
2032	3,201,000	962,000
2031	-	1,016,000
2030	-	416,000
2029	-	520,000
2028	-	901,000
2027	-	949,000
2026	-	761,000

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 \$450,000 which can be used to offset future income taxes otherwise payable and expire starting 2032. The Company has recorded in 2015 a provision of \$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.

Ackroo Canada Inc. has undeducted scientific research and experimental development expenses for tax purposes of approximately \$1,345,000 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.

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.

YEARS ENDED DECEMBER 31, 2015 AND 2014

14. 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) Shares issued and outstanding

	<u>2015</u>	<u>2014</u>
Common - 16,944,122 shares (2014 - 6,891,660 shares)	\$ 9,947,197	\$ 9,024,067
Share issue costs	<u>677,346</u>	<u>677,346</u>
	<u>\$ 9,269,851</u>	<u>\$ 8,346,721</u>

During the year ended December 31, 2014, the Company completed consolidation of its issued and outstanding shares on the basis of ten pre-consolidation shares to one post-consolidation share. The comparative number of shares have been presented as if they have been consolidated.

During the year ended December 31, 2014, the Company issued 1,177,367 common shares pursuant to private placements for cash consideration of \$963,550 before the impact of share issue costs and the amount allocated to warrants.

During 2015, the Company closed a private placement for net proceeds of \$1,246,285. The offering was oversubscribed. The Company issued 8,364,165 units to subscribers at a price of \$0.15 per unit, each unit consisting of one common share and one share purchase warrant, each whole warrant entitling the holder to acquire one additional common share of the Company at a price of \$0.25 per share for a period of 12 months. No finder's fees or commissions were paid in connection with the closing of the private placement.

During 2015, 490,000 warrants and 495,000 options were exercised by various shareholders and executives of the Company.

c) Escrow shares

On October 1, 2012 the Company completed the acquisition of MoneyBar Transactions Canada Inc. ("MoneyBar") and issued 4,585,679 common shares of which 3,048,538 were placed in escrow. These were in addition to 57,101 common shares which were held in escrow prior to the acquisition of MoneyBar.

As at December 31, 2015, NIL common shares remained in escrow (2014 - 2,351,534 shares).

d) Outstanding warrants

In connection with the 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 share purchase warrants and allocated the residual value to the common shares.

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.

YEARS ENDED DECEMBER 31, 2015 AND 2014

14. CAPITAL STOCK - Cont'd.

d) Outstanding warrants - Cont'd.

During the year ended December 31, 2014, in connection with private placements, the Company issued 588,683 subscription warrants to acquire one common share at exercise price between \$1.00 and \$2.20 per share expiring between January 31, 2015 and July 15, 2015. Ackroo issued 67,073 warrants to agents and finders who provided assistance in connection with the private placement completed by the Company. Each agent warrant entitles the holder to acquire one common share at exercise price between \$1.00 and \$2.20 per share expiring between January 31, 2015 and July 15, 2015. The Company determined the fair value of the warrants and allocated the residual value to the common shares.

In connection with a private placement immediately before the completion of the reverse takeover in 2012, the Company issued 784,148 share units which entitled the holder to receive one common share and one subscription warrant for each share unit. Each subscription warrant entitles the holder to acquire one common share at an exercise price of \$7.00 per share until October 1, 2015. The Company determined the fair value of the subscription warrant and allocated the residual value to the common shares.

Ackroo issued 61,123 options to agents and finders who provided assistance in connection with the private placement completed by MoneyBar. Each agent option entitles the holder to acquire one Ackroo common share and one common share purchase warrant at a price of \$4.50 until October 1, 2014.

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

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>
Balance at December 31, 2013	845,270	\$ 6.82
Warrants expired	(61,123)	(4.50)
Warrants issued	<u>655,757</u>	<u>1.38</u>
Balance at December 31, 2014	1,439,904	\$ 4.44
Warrants expired	(1,439,904)	(4.44)
Warrants exercised	(490,000)	(0.25)
Warrants issued	<u>8,664,165</u>	<u>0.25</u>
Balance at December 31, 2015	<u>8,174,165</u>	<u>\$ 0.25</u>

The fair value of the warrants issued in 2015 totalled \$1,357,685. The fair value was calculated using the Black-Scholes model using risk-free interest rate between 0.97% and 1.10%, volatility between 180% and 194%, expected life between 1 and 3 years and 0% dividend yield.

e) Stock options

Under the terms of Ackroo, approved Stock Option Plan (ESOP) the Board of Directors of Ackroo may, from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants of Ackroo 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 16,944,122 common shares outstanding, which means that up to 1,694,412 Ackroo Shares could be reserved for issuance upon the exercise of stock options.

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.

YEARS ENDED DECEMBER 31, 2015 AND 2014

14. CAPITAL STOCK - Cont'd.

e) Stock options - Cont'd.

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 Ackroo 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 Ackroo or employees of companies providing management or consulting services to Ackroo. 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.

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

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Balance at December 31, 2013	564,903	\$ 2.50
Expired/cancelled	(562,457)	\$ (2.78)
Options Granted	<u>353,416</u>	<u>\$ 0.87</u>
Balance at December 31, 2014	355,862	\$ 1.18
ESOP Options granted	1,710,000	\$ 0.27
ESOP Expired/cancelled	(589,292)	\$ (1.18)
Exercised	<u>(495,000)</u>	<u>\$ (0.21)</u>
Balance at December 31, 2015	<u>981,570</u>	<u>\$ 0.46</u>

At December 31, 2015, a summary of stock options outstanding and exercisable are as follows:

<u>Grant Date</u>	<u>Number of Options outstanding</u>	<u>Number of Options Exercisable</u>	<u>Exercise Price</u>	<u>Expiry date</u>	<u>Remaining contractual life (years)</u>
October 1, 2012	21,571	21,571	\$1.00	June 30, 2016	0.50
October 4, 2012	25,000	25,000	\$4.50	June 30, 2016	0.50
July 15, 2014	20,000	9,445	\$1.00	July 15, 2024	8.44
January 19, 2015	200,000	200,000	\$0.21	January 18, 2018	2.00
June 15, 2015	525,000	525,000	\$0.37	June 15, 2018	2.50
September 1, 2015	<u>190,000</u>	<u>190,000</u>	<u>\$0.30</u>	September 1, 2015	2.75
December 31, 2015	<u>981,571</u>	<u>971,016</u>	<u>\$0.46</u>		

Subsequent to year end, in January 2016, the Company granted 450,000 stock options exercisable at a price of \$0.25 per option, expiring after three years and vesting immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.

YEARS ENDED DECEMBER 31, 2015 AND 2014

14. **CAPITAL STOCK** - Cont'd.e) **Stock options** - Cont'd.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	<u>2015</u>	<u>2014</u>
Risk free interest rate	1.00%	1.35%
Dividend yield	NIL	NIL
Expected volatility	190.00%	190.00%
Expected life	1-3 years	5 years

Compensation expense recorded for options granted totaled \$436,408 (2014 - \$265,570).

The Company uses the Black-Scholes model to calculate option fair values which requires highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values. The expected volatility is based on the Company's historical volatility since it became publicly listed plus the historical volatility of the TSX Venture index for the period before its public listing. The expected life is the average expected period to exercise, which given the Company's limited option history, was based on industry benchmarks. The risk free interest rate is the yield on zero-coupon Canadian government bonds of a term consistent with the assumed option expected life.

f) **Capital management**

The Company's capital is composed of its shareholders' equity and loans payable. The Company manages its capital to ensure financial stability as well as to finance growth. The Company plans to issue equity to meet its capital needs. It may also access debt financing to support working capital. The Company is not currently exposed to externally imposed capital requirements. Management reviews its capital management approach on an on-going basis and believes that this approach, given the size of the Company, is appropriate.

15. **GOVERNMENT GRANTS**

In 2014, the Company entered into a contribution agreement with the Industrial Research Assistance Program (IRAP) of National Research Council of Canada (NRC) for a period of six months expiring in July 2014. NRC agreed to contribute up to a maximum amount of \$30,000 for salary costs incurred to July 2014 for the project covered by the agreement. For the year ended December 31, 2014, the Company recognized non-refundable grants amounting to \$ 28,321 .

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.

YEARS ENDED DECEMBER 31, 2015 AND 2014

16. OTHER INFORMATION

(a) Commitments

The Company rents premises under operating leases which expire between 2014 and 2019. In addition, the Company leases equipment under operating leases which expire between 2015 and 2016. Annual minimum lease payments to maturity will be approximately as follows:

2016	\$	77,300
2017		77,300
2018		6,883

Lease payments recognized as an expense during the years ended December 31, 2015 and December 31, 2014 were \$94,879.34 and \$181,263 respectively.

(b) Compensation of key management personnel

The remuneration of key management personnel of the Company during the years ended December 31, 2015 and December 31, 2014 was as follows:

	<u>2015</u>	<u>2014</u>
Salaries, incentives and other short-term benefits	\$ 413,915	\$ 284,762
Termination benefits	\$ 35,000	\$ -
Share-based compensation	\$ 307,821	\$ 157,397

(c) Related party transactions

The company entered into consulting agreements with directors and officers resulting in expense in the year of \$42,556 (2014 - \$169,400). As at December 31, 2015 \$9,427 was unpaid and included in accounts payable and accrued liabilities (2014 - \$nil).

(d) Segmented information

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

16. **OTHER INFORMATION** - Cont'd.

(e) Subsequent events

Acquisition of OnTab Inc.

On February 18, 2016 the company completed an asset purchase agreement with OnTab Inc. for the software technologies owned by the Vendor. There was no cash or share value attributed to the transaction however a consulting arrangement with one of the owners companies, Ordib Inc., was initiated. Terms of the consulting agreement are open and can be terminated by Ackroo with 45 days notice. The consulting compensation consists of \$0/hour for the first 20 hours worked for the company. After the initial 20 hours the consultant will be paid \$90/hour for the first 20 hours in any given month and \$119/hour for each hour after 20 hours in a given calendar month.

D1 Mobile Corp.

On March 14th, 2016 the company completed an asset purchase agreement with D1 Mobile Corp. for the software technologies and customer contracts owned by the Vendor. The purchase agreement consisted of 500,000 common shares in Ackroo Inc. with no cash consideration. In addition, Ackroo entered into a consulting agreement with D1 Mobile Corp effective the date of the Asset Purchase agreement that may be terminated by either party with 30 days notice. The compensation for the consulting agreement is a base rate of \$5,000/per month plus an additional Royalty bonus as per below.

Royalty Bonus: In addition to the compensation set forth above, the Consultant shall be entitled to receive a cash bonus equivalent to forty (40%) of the portion of gross revenue derived, and collected, by the Company, which exceeds the aggregate of \$50,000.00 and any amounts paid to the Consultant pursuant to section 1.6, from each of the Designated Clients (as defined below). The amount shall be paid to the Consultant on a quarterly basis, for a period of two (2) years following the Closing Date (as defined in the Purchase Agreement), and each installment shall be due and payable on the date which is sixty (60) days following the conclusion of each fiscal quarter of Ackroo Inc. At the time of completion of payment, the Company shall render to the Consultant a statement evidencing the calculation of the bonus payable, and such statement shall be definitive proof of the amount of the bonus owing to the Consultant.

Additional Bonus: The Consultant shall be entitled to a further cash bonus equivalent to seventy (70%) percent of all cash amounts received by the Company for the provision of services to FRESHii Inc. during the three (3) month period commencing on the Closing Date (as defined in the Purchase Agreement), and one-hundred (100%) percent of all cash amounts received by the Company for the provision of services to Yogen Fruz during the one (1) month period commencing on the Closing Date (as defined in the Purchase Agreement). Any such bonus amount shall be paid to the Consultant within fifteen (15) calendar days following the conclusion of such three (3) month period.