

ACKROO INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS AT AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

Dated: October 28, 2016

OVERVIEW

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 was originally incorporated under the laws of the Province of British Columbia and was continued under the laws of the Province of Alberta and subsequently continued federally under the Canada Business Corporations Act. The Company's head office is located at Suite 201 – 62 Steacie Drive, Ottawa, Ontario, Canada K2K 2A9 and records office at Suite 2200 – 885 West Georgia Street, Vancouver, British Columbia, Canada, V6C 3E8.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

This management's discussion and analysis ("MD&A") reports on the operating results and financial condition of the Company for the three and nine months ended September 30, 2016 and is prepared as at October 28, 2016. This MD&A should be read in conjunction with the Company's consolidated financial statements as at and for the three and nine months ended September 30, 2016, the annual audited financial statements as at and for the year ended December 31, 2015, and the notes thereto which were prepared in accordance with International Financial Reporting Standards ("IFRS") (collectively referred to as the "Financial Statements"), which are available on www.sedar.com. Other information contained in this document has also been prepared by management and is consistent with the data contained in the Financial Statements.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's certifying officers, based on their knowledge, having exercised reasonable diligence, are also responsible to ensure that these filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by these filings, and these Financial Statements together with the other financial information included in these filings fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented in these filings. The Board of Directors approves the Financial Statements and MD&A and ensures that management has discharged its financial responsibilities.

All dollar amounts referred to in this MD&A are expressed in Canadian dollars except where indicated otherwise.

APPROVAL

The Board of Directors of the Company has approved the disclosure contained in this MD&A.

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CAUTIONARY NOTE REGARDING ON FORWARD-LOOKING INFORMATION

This Management's Discussion and Analysis includes "forward-looking statements", within the meaning of applicable Canadian securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward looking statements. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein.

Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These forward-looking statements include but are not limited to statements concerning:

- The successful outcome of negotiations to acquire channel partners
- Estimated future sales
- Research and development costs
- The Company's strategies and objectives
- The Company's ability to maintain operating expense levels
- The Company's tax position, anticipated tax refunds and the tax rates applicable to the Company
- The availability of qualified sales and operations employees
- General business and economic conditions
- The Company's ability to drive economies of scale
- Future financing arrangements

Readers are cautioned that the foregoing lists of risks, uncertainties, assumptions and other factors are not exhaustive. Events or circumstances could cause actual results to differ materially from those estimated or projected and expressed in, or implied by these forward-looking statements. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of the Company should not place undue reliance on these forward-looking statements. The forward-looking statements contained in this document are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. This cautionary statement expressly qualifies the forward-looking statements.

OUTLOOK

The Company's efforts are focused on selling its cloud based gift card and loyalty platform into the retail and hospitality markets across North America with an extra focus on supporting the small to medium size business segments. Through this focus, Ackroo has developed a solution that is robust, easy to use, and affordable for

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all merchants. From single location mom and pops to large multi-location organizations, the Ackroo platform is built to support the growing needs of this important business segment.

Via a SaaS based business model Ackroo charges their merchants:

- a) A one-time setup fee to deploy the technology and train customers
- b) Monthly recurring fees to process, support and further develop the product
- c) On-going one-time fees for items like collateral, custom development and other product related services (PhotoGIFTCARD merchants for instance pay 10% of the value of each card purchased)

The above model is built based on a per location cost structure so that regardless of size the solution is not only affordable for the merchant it is scalable and profitable for Ackroo.

As of September 30th, 2016 the below represents the current YTD financial metrics that relate to these fees: (Non-GAAP/IFRS measures)

- Average MRR (monthly recurrent revenue) per location is **\$97** per location per month
- Average initial OTR (One Time Revenue) per new location is **\$1,270**
- Average annual recurring one time revenue per location is **\$224**
- Average lifetime value per location (based on a conservative 7 year minimum however trends suggest we will see at least 9 years +) is **\$10,986**
- Cost to acquire organically through our channels is approx. **\$1,000 - \$1,500**

**Note: The above is based on merchants who utilize the core gift card and rewards platform and not merchants that are solely using services like PhotoGIFTCARD. Management monitors these trends in order to validate and assess business progress.*

The Company's Ackroo Anywhere platform provides merchants three key interfaces for their business:

- 1) Real time in-store and online point-of-sale integration to allow merchants to authorize and process transactions
- 2) A self-serve program console to help them view critical data for reconciliation, reporting and marketing purposes while also allowing them to manage and modify their program
- 3) Customer interfaces to allow consumers to register, check, transfer and reload balances

Combined with Ackroo's consultative sales operations approach of not only deploying technology but also assisting their merchants with how to best utilize it upfront and ongoing, provides the Company even more differentiation in the marketplace.

The Company's online and in-store gift card and loyalty program options provide a blend of stored value capabilities (gift card) and advanced rewards features and functions (loyalty and promotions), arming businesses with their own 'private currency' and the flexibility to create customized rewards programs that resonate with their customers.

The Company acquires customers through three distinct channels:

1. Via their integrated point of sale partners. These selected partners who sell merchant services like debit and credit or point of sale software refer their current and prospective clients to Ackroo.
2. Via direct sales efforts. Customer referrals, vertical market approaches etc.

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3. Via merger and acquisition.

It is through these channels that the Company now supports over 2,000 locations via the various products and services the company provides.

During the quarter ended September 30th 2016, the Company continued to execute on its 2016 growth plans while also advancing its core technology. Some of the highlights of the Company's efforts during the quarter include:

- 37 % year to date revenue growth from 2015
- 8% year over year revenue growth from Q3 2015
- A 48% year to date decrease in operating losses from 2015
- Operating losses were \$107,960 during the quarter which included \$78,960 of operating losses plus \$29,000 of non-recurring IR expenses maintaining our \$20-\$30k per month burn rate.
- Less than 1% attrition during the quarter (total YTD attrition is less than 4%)
- Completed migration of the newly acquired Appetite Platform to Ackroo
- Released and deployed version 1 of Ackroo's white labelled mobile app for merchants
- Released and deployed the new version of their white labelled cardholder portal
- Released enhancements to the program console around reporting and reconciliation for franchises
- Developed feature gaps between Dealer Rewards and the Ackroo Anywhere product
- Supported additional point of sale integration in iLube (POS system for automotive service companies)
- Supported new sales channel in First Data Canada
- Had record lead volume from the channel during the period
- Acquired Loyalint/Fidelint to add customers, revenues and penetrate the Quebec market
- Issued a financing to the market to help capitalize the Company so that it can continue to execute on their organic and inorganic growth plans

During the quarter ended September 30th 2016, the Company continued to execute on its 2016 plans for both organic and inorganic growth.

Inorganically the purchase of Loyalint/Fidelint adds immediate revenues and customers. From a product perspective Ackroo does not have any additional development needed to migrate these acquired merchants so all of these merchants will be moved over to the Ackroo Anywhere platform within the first 180 days. The Company is also not hiring any employees from Loyalint/Fidelint as current Ackroo staff can support the account base. Ackroo will look to hire 1 additional bi-lingual staff member to support the growth of these accounts as well as to gain more merchants in this region. The cost for this employee will be funded out of one-time revenue generated from these accounts and other new ones in the region so that all recurring revenues go straight to the bottom line.

Organically the Company grew the customer base and revenues via more channel optimization and current customer upselling of products and services. With the addition of our 3rd primary channel partner, First Data Canada, the Company expects to see continuous organic growth as they better support them and the other channels the Company has. With the advancements in the product offering with solutions like mobile connectivity there is a great opportunity for Ackroo to add expansion MRR (Monthly recurring revenue increase of existing customers) and OTR (one-time revenue) via setup and custom development. There is also the likelihood of winning more accounts from competition as the Company continues to grow the breadth of its offering such as, adding both new MRR and new OTR (One-time revenue).

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The Company is pleased with the progress that was made during the period and is very well positioned to close out the year strong and leverage that momentum into 2017.

SELECTED FINANCIAL INFORMATION

	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015
Total revenues	1,668,087	1,220,466
Loss and comprehensive loss	1,177,048	1,360,890
Per share - basic and diluted	0.06	0.09
		-
Total current assets	270,509	393,379
Total current liabilities	1,006,813	1,201,102
Total long-term financial liabilities	671,155	451,913
Cash	12,890	156,870
Total equity	653,821	494,127

Financial information prepared in accordance with International Financial Reporting Standards ("IFRS")

Operations:

As described in the overview, the Company is aggressively selling its SAAS based gift card and loyalty platform into the retail and hospitality markets across North America with an extra focus on supporting the small to medium size business segments. This platform enables small to medium sized businesses to automate the processing and management of gift card and loyalty transactions in order to increase profitability and build long-term customer relationships.

Ackroo Inc. is a holding company that has 100% ownership and control of the operating company Ackroo Canada Inc. (formerly MoneyBar Rewards Inc.). All operations to date have been managed through Ackroo Canada Inc.

SUMMARY OF QUARTERLY RESULTS²

	Quarter Ended September 30, 2016	Quarter Ended June 30, 2016	Quarter Ended March 31, 2016	Quarter Ended December 31, 2015
Revenue	560,564	559,223	548,300	601,758
(Loss)	(488,645)	(414,295)	(274,107)	(236,792)
Basic and diluted loss per share ¹	(0.02)	(0.02)	(0.02)	(0.01)
	Quarter Ended September 30, 2015	Quarter Ended June 30, 2015	Quarter Ended March 31, 2015	Quarter Ended December 31, 2014
Revenue	519,766	315,562	385,138	350,260
(Loss)	(284,382)	(662,305)	(414,203)	(979,894)
Basic and diluted loss per share ¹	(0.02)	(0.04)	(0.03)	(0.15)

1 - Numbers have been rounded to the next decimal for presentation purposes.

2 - Financial information prepared in accordance with International Financial Reporting Standards ("IFRS").

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ANALYSIS OF THE SUMMARY OF QUARTERLY RESULTS:

The Company puts great focus on increasing revenues, managing operating costs and driving shareholder value. During the most recent quarter the Company accomplished these goals by increasing revenues and managing operating costs however there was an increase in comprehensive costs due to share based compensation issued in Q3 which drove basic and diluted share loss to (0.02). The primary cause of this increase was an option grant to employees and advisors during this period, which is in lieu of greater cash compensation in an effort to maintain cash and reduce operating expenses.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

The following analysis of the Company's operating results for the three and nine months ended September 30, 2016 and includes a comparison against the three and nine months ended September 30, 2015.

Revenue

For the three months ended September 30, 2016, revenues were \$560,564 compared to \$519,766 for the three months ended September 30, 2015. The 8% year over year revenue growth was driven by the company's continued efforts to increase customers and revenues by selling their gift card and loyalty platform and associated services.

For the nine months ended September 30, 2016, revenues were \$1,668,087 compared to \$1,220,466 for the nine months ended September 30, 2015. During the nine months ended September 30, 2016, the Company increased revenue by 37% as compared to the same period last year.

Expenses

Cost of goods sold for the three months ended September 30, 2016 was \$179,553 compared to \$183,914 for the three months ended September 30, 2015. The results show a slight margin increase from 65% in 2015 to 68% in 2016. Cost of goods sold for the nine months ended September 30, 2016 was \$565,797 compared to \$412,084 for the nine months ended September 30, 2015. The results show the same overall margin from 2015 to 2016. The margin increases in the quarter are a result of improved sourcing of COGS and better pricing from various suppliers.

Depreciation for the three months ended September 30, 2016 was \$3,194 compared to \$3,194 for the three months ended September 30, 2015. Depreciation for the nine months ended September 30, 2016 was \$9,582 compared to \$9,411 for the nine months ended September 30, 2015. This depreciation relates to computer equipment, leasehold improvements, furniture and fixtures.

Amortization of intangible assets for the three months ended September 30, 2016 was \$102,434 compared to \$100,809 for the three months ended September 30, 2015. Amortization of intangible assets for the nine months ended September 30, 2016 was \$304,051 compared to \$148,960 the nine months ended September 30, 2015. This amortization relates to amortization of assets acquired from Dealer Rewards of Canada 2014 Inc.

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Administrative expense for the three months ended September 30, 2016 was \$380,643 compared to \$340,476 for the three months ended September 30, 2015. Administrative expense for the nine months ended September 30, 2016 was \$1,058,959 compared to \$1,029,775 for the nine months ended September 30, 2015. Administrative expenses remained flat in 2016 compared to 2015 as a result of efforts to contain operating costs.

Research and development for the three months ended September 30, 2016 was \$108,821 compared to \$135,898 for the three months ended September 30, 2015. Research and development for the nine months ended September 30, 2016 was \$326,583 compared to \$403,978 for the nine months ended September 30, 2015. This reduction was due to the company's continued efforts to reduce costs in all departments of the business while still maintaining growth.

Sales and marketing for the three months ended September 30, 2016 was \$929 compared to \$3,396 for the three months ended September 30, 2015. Sales and marketing for the nine months ended September 30, 2016 was \$1,726 compared to \$14,865 for the nine months ended September 30, 2015. The decrease in expense relates to the restructuring of certain aspects of the sales organization to move the business to a sales operations model. The Company will look to hire back into this department for growth once additional capital is available.

Stock based compensation expense for the three months ended September 30, 2016 was \$226,500 as compared to \$66,334 for the three months ended September 30, 2015. Stock based compensation expense for the nine months ended September 30, 2016 was \$486,705 as compared to \$451,582 for the nine months ended September 30, 2015. Stock based compensation expenses during the year nine months ended September 30, 2016 and September 30, 2015 related to employee incentives and compensation to Board members.

Impairment expense for the three and nine months ended September 30, 2016 was \$NIL compared to \$NIL for the three and six months ended September 30, 2015.

Interest income for the three months ended September 30, 2016 was \$NIL compared to \$36 for the three months ended September 30, 2015. Interest income for the nine months ended September 30, 2016 was \$NIL compared to \$947 for the nine months ended September 30, 2015. The income is a result of interest earned on cash deposits. Interest expense for the three months ended September 30, 2016 was \$48,557 compared to \$60,090 for the three months ended September 30, 2015. Interest expense for the nine months ended September 30, 2016 was \$183,063 compared to \$83,305 for the nine months ended September 30, 2015, and reflects interest on capital leases, tax filing and amortization of deemed interest on loans. The increase in interest expense is related to the Dealer Rewards Canada acquisition for accounting purposes and is non-cash bearing.

Loss from Operations

Comprehensive loss from operations for the three months ended September 30, 2016 was \$488,645 compared to \$284,382 for the three months ended September 30, 2015. Comprehensive loss from operations for the nine months ended September 30, 2016 was \$1,177,048 compared to \$1,360,890 for the nine months ended September 30, 2015. The significant decrease in loss from operations year to date is due to the Company's decision to aggressively pursue cost reduction activities as well as increasing revenues. The operating loss from operations excluding interest, taxes, amortization, stock-based compensation and restructuring charges for the three months ended September 30, 2016 was \$107,960 (\$78,960 + \$29,000 for non-recurring/non-operating

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investment services which includes a \$9,500 investment tax credit) compared to the loss of \$53,991 (loss was \$144,214 before \$90,223 investment tax credit) for the three months ended September 30, 2015. The significant decrease was once again due to cost reduction activities as well as increasing revenues.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivables, accounts payable and accrued liabilities, finance lease obligations, and loans payable. Unless otherwise noted, the carrying values of these financial instruments as presented in the condensed consolidated interim statement of financial position reasonably approximate their fair values, due to their short-term nature or their terms and conditions approximate market rates.

The Company's financial instruments have been classified as follows:

Cash and cash equivalents	fair value through profit or loss
Accounts receivable	loans and receivables
Accounts payable and accrued liabilities	other financial liabilities
Finance lease obligations	other financial liabilities

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 bear 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 transacts primarily in Canadian dollars and is not exposed to significant currency risk.

(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

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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 as at September 30, 2016 are as follows:

	Amounts Due	Collected within 30 days of period end	Remaining Overdue Balance
1 - 30 days due	205,338	197,505	7,832
31 - 60 days due	403	158	245
61 - 90 days due	-	-	-
Greater than 90 days past due	228	-	228
	<u>205,969</u>	<u>197,663</u>	<u>8,306</u>

The balances as at December 31, 2015 are as follows:

	Amounts Due Due	Collected within 30 days of period end	Remaining Overdue Balance
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	1,278	-	1,278
	<u>111,542</u>	<u>93,521</u>	<u>18,021</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 September 30, 2016 the allowance for doubtful accounts amounted to \$nil (2015 - \$nil). During the three-month period ended September 30, 2016, there was no single customer that accounted for 10% or greater of the total company sales.

(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

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its operations coupled with additional financing activities will enable the Company to meet its financial obligations. Note 2 Going Concern discloses liquidity risk and management's plans.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2016, the Company has a deficit of \$14,892,304 and expects to incur further losses in the development of its business. As the Company is still in its early stages of its growth plan the Company does not generate sufficient revenue and has not yet achieved profitable operations, and expects to incur further losses. The Company's objective in managing liquidity risk is to maintain sufficient liquidity in order to meet operational and investing requirements at any point in time. The Company has historically financed its operations and met its capital requirements primarily through the sale of capital stock by way of private placements, exercise of stock options, debt, and the exercise of warrants issued.

The Company's operating activities for the three months ended September 30, 2016 consumed cash of \$93,365 as compared to the three months ended September 30, 2015 of (\$56,755). The Company's operating activities for the nine months ended September 30, 2016 consumed cash of \$280,479 as compared to the nine months ended September 30, 2015 of \$560,981. The result was due to an increase in revenues and a reduction of costs despite payments to long term debt requirements.

The operating, investing and financing activities resulted in a \$138,804 decrease and a \$179,288 decrease in the cash position of the Company for the nine months ended September 30, 2016 and September 30, 2015 respectively. The decrease in 2016 was primarily due to the repayment of debt. The resulting cash balances were \$12,890 and \$156,870 as at September 30, 2016 and September 30, 2015, respectively.

The Company has negative working capital of \$736,304 as at September 30, 2016 as compared to negative working capital of \$807,723 as at September 30, 2015

The Company has future financial commitments under its office-operating leases in the amount of \$27,438 for the remainder of fiscal 2016.

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

CAPITAL STOCK

(a) Issued and outstanding

As at September 30, 2016 the Company had 22,186,636 common shares issued and outstanding (December 31, 2015 – 16,944,122).

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

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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 the first 3 months of 2016, 440,000 warrants were exercised by shareholders and executives of the company and 450,000 options were granted to executives of the company.

During the second quarter of 2016, the Company closed a private placement for net proceeds of \$587,316. The Company issued 2,936,580 units to subscribers at a price of \$0.20 per unit. No finder's fees or commissions were paid in connection with the closing of the private placement.

During the third quarter of 2016, 800,000 options were exercised by executives and employees of the Company and the Company issued an additional 1,010,000 options to employees and executives. In addition, the Company opened a Private Placement to raise proceeds of \$1.0M.

b) Escrow shares

As at September 30, 2016, NIL common shares remained in escrow (2014 - 2,351,534 shares).

c) Outstanding warrants

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

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

	Number of warrants	Weighted Average Exercise Price
Balance at December 31, 2013	845,270	6.82
Warrants expired	(61,123)	(4.50)
Warrants exercised	-	-
Agent warrants issued	-	-
Warrants issued	655,757	1.38
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	8,664,165	0.25
Balance at December 31, 2015	8,174,165	0.25
Warrants expired	(7,434,165) -	
Warrants exercised	(440,000)	0.25
Warrants issued	-	-
Balance at September 30, 2016	300,000	0.37

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

The fair value of the warrants issued in 2015 totaled \$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.

d) 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 22,186,636 common shares outstanding, which means that up to 2,218,664 Ackroo Shares could be reserved for issuance upon the exercise of stock options.

Options are exercisable over periods of up to ten years as determined by the Board of Directors and are required to have an exercise price no less than the closing market price of the common shares prevailing on the day that the option is granted less a discount of up to 25%, with the amount of the discount varying with market price in accordance with the policies of the Exchange. Options held by an officer, director or service provider (not conducting investor relations) expire 30 days after the option holder has left office or the service provider ceases providing services, and for options held by service providers conducting investor relations, 30 days after 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.

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

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2013	564,903	\$2.500
Expired/Cancelled	-562,457	\$2.780
Granted	353,417	\$0.870
Balance, December 31, 2014	355,863	\$1.180
ESOP Options Granted	1,710,000	\$27.00
ESOP Expired/Cancelled	-589,292	\$1.180
Exercised	-495,000	\$0.210
Balance, December 31, 2015	981,571	\$0.460
ESOP Options Granted	2,290,000	\$0.224
ESOP Expired/Cancelled	-310,000	\$0.373
Exercised	-800,000	\$0.210
Balance, September 30, 2016	2,161,571	\$0.265

At September 30, 2016, 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)
October 1, 2012	21,571	21,571	\$ 1.000	October 1, 2017	1.00
January 19, 2015	50,000	50,000	\$ 0.210	January 18, 2018	1.25
June 15, 2015	450,000	450,000	\$ 0.370	June 15, 2018	1.75
January 11, 2016	250,000	250,000	\$ 0.250	January 11, 2019	2.46
June 7, 2016	380,000	380,000	\$ 0.200	June 7, 2019	2.75
July 15, 2016	250,000	250,000	\$ 0.260	July 15, 2019	2.80
August 22, 2016	410,000	410,000	\$ 0.235	August 22, 2019	2.90
September 15, 2016	350,000	350,000	\$ 0.210	September 15, 2019	2.96
September 30, 2016	2,161,571	2,161,571	\$ 0.265		

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%	1.00%
Dividend yield	NIL	NIL
Expected volatility	185.00%	190.00%
Expected life	1-3 years	1-3 Years

Compensation expense recorded for options granted in 2016 totaled \$486,705 (2015 - \$451,582).

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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.

RELATED PARTY TRANSACTIONS

On January 11, 2016, the company entered into an agreement with a member of the management team to defer payment for the exercise of warrants over a period of up to three (3) years. The amount of the warrant exercise is reflected in the "due from related party" as shown in the financial statements and as of September 30, 2016, no amount has been drawn down. This is a non-cash transaction.

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.

This strategic acquisition will further strengthen Ackroo's penetration of the rapidly growing, multi-billion-dollar gift card market by adding innovative features to their existing market leading platform. This acquisition will also potentially increase Ackroo's merchant footprint by adding Gift2Gift Corp.'s more than 500 merchant locations.

Gift2Gift Corp. is a privately held company with deep roots in consumer goods marketing, production and distribution. The Company provides a software and fulfillment solution that allows consumers or companies to personalize or co-brand their favorite gift card. Recognizing the opportunity to address the Gift Card market with a personal touch was the seed for developing their proprietary PhotoGIFTCARD.com system. The Company's focus is on providing a simple, flexible, user-friendly service that anyone can use. Gift2Gift Corp. is headquartered in Vancouver, BC, Canada.

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

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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.

This strategic acquisition will further strengthen Ackroo's penetration of the automotive sector and the rapidly growing, multi-billion-dollar gift card and loyalty market. This acquisition increases Ackroo's merchant footprint by adding 107 dealer locations and increases the Companies recurring revenue by more than \$53,000 per month. The Company also gains ample opportunity to gain one-time revenue from these current and growing customers.

Dealer Rewards Canada is a privately held subsidiary of Dealer Rewards Inc. The Company provides a SaaS based solution platform that assists automotive dealers with increasing revenues, increasing customer loyalty and retention, reducing advertising costs concurrent with improving financial performance and improving long-term stability. The Company's focus is on providing a simple, flexible, user-friendly solution to help grow their automotive business. Dealer Rewards Inc. is headquartered in Delaware, USA. For more information, visit: www.dealerrewards.com

As of July 28th 2016 the Company has paid Dealer Rewards of Canada \$700,000 in cash and has a remaining balance of \$800,000 owed. Through a restructuring of the agreement the final \$800,000 is owed with interest and paid monthly starting January 2017. The parties have agreed to pay the final amount across a 24-month term resulting in monthly payments including interest of \$36,916 per month starting January 2017. There are no further payments owed in 2016 in respect to the purchase agreement.

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.

D1 Mobile Corp.

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

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All equity consideration was paid at closing and the value of the assets was recorded at fair market value. The value of the assets was calculated using a discounted cash flow based on the existing operations of the business for a 5-year timeframe in conjunction with consideration for the consulting agreement and an expected royalty bonus provision, resulting in a total net value of \$206,382. It was determined that the value of the acquisition exceeded the consideration paid for the assets and a gain on acquisition was recorded in the amount of \$86,832.

Fair value of net assets acquired were:

Inventory	-
Customer contracts	206,832
Gain on Acquisition	(86,832)
Consideration Paid	\$120,000

Royalty Bonus: In addition to the compensation set forth above, the D1 Mobile 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 D1 Mobile in connection with the additional bonus described below. The amount shall be paid to the Consultant on a quarterly basis, for a period of 2 years following completion of the acquisition, and each installment shall be due and payable within 60 days of completion of each fiscal quarter of the Company.

D1 Mobile shall also be entitled to an additional cash bonus equivalent to 70% of all cash amounts received by the Company for the provision of services to FRESHii Inc. in the 3 month period following completion of the acquisition, and 100% of all cash amounts received by the Company for the provision of services to Yogen Fruz in the 1 month period following completion of the acquisition.

OnTab Inc.

On February 18, 2016 the company completed the acquisition of certain software technologies from OnTab Inc. ("OnTab). There was no cash or share value attributed to the transaction however a consulting arrangement with one of the principals of OnTab, Ordib Inc. ("Ordib"), was initiated. Terms of the consulting agreement are open and can be terminated by the Company with 45 days' notice. Pursuant to the terms of the consulting agreement, after an initial 20 hours of service, Ordib will be compensated at an hourly rate of \$90 for the first 20 hours of any given month and \$119 for each hour thereafter.

It was determined that a value could not be reasonably placed on the assets acquired from OnTab. As no consideration was paid to seller for the assets, no value was recorded in the financial statements

Loyalint / Fidelint Platform (ORBO RÉCOMPENSES INC)

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

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In addition, the Company entered into a consulting agreement with Orbo Rewards, effective on completion of the acquisition, with an initial term of 12 months. Pursuant to the consulting agreement, the principals of Orbo Rewards will provide technical and operational support during product migration between the Loyalint/Fidelint platform and the Company's existing software platform. In addition, Orbo Rewards has agreed to provide second line operational support for a period of no more than 10 months or 100 hours, at no cost to the Company. Any Operational support beyond the initial 100 hours or 10 months will be billed to the Company at a rate of \$75 per hour. Orbo Rewards has also agreed to providing 150 hours or 12 months of technical support, at no additional cost to the Company. Any technical support beyond the initial 150 hours or 12 months will be billed to the Company at a rate of \$100 per hour.

Fair value of net assets acquired were:

Inventory	\$	-
Prepaid		21,478
Customer contracts		427,180
Gain on Acquisition		-
Consideration Paid	\$	448,658

RISKS AND UNCERTAINTIES

The Ability to Manage Growth

Should the Company be successful in its efforts to acquire customers it will experience significant growth in operations. If this occurs management anticipates that additional expansion will be required in order to continue development. Any expansion of the Company's business would place further demands on its management, operational capacity and financial resources. The failure to manage growth effectively could have a material adverse effect on the Company's business, financial condition and results of operations.

Possible Dilution to Present and Prospective Shareholders

The Company's plan of operation, in part, contemplates the further issuance of securities of the Company and possibly, incurring debt. Any transaction involving the issuance of previously authorized but unissued common shares would result in dilution, possibly substantial, to present and prospective holders of common shares.

Dependence of Key Personnel

The Company strongly depends on the business and technical expertise of its management and key personnel. There is little possibility that this dependence will decrease in the near term.

Lack of Trading

The lack of trading volume of the Company's shares reduces the liquidity of an investment in the Company's shares.

Volatility of Share Price

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Market prices for shares of TSX Venture Exchange companies are often volatile. Factors such as announcements of financial results, and other factors could have a significant effect on the price of the Company's shares.

Trends and Uncertainties

The Company's ability to generate revenues in the future is dependent on its ability to successfully acquire channel partners, customers and create an infrastructure to economically manage any resulting growth in operations.

Future Operations

Presently, the Company revenues are not sufficient to meet operating and capital expenses and the Company has incurred operating losses since inception, which are likely to continue for the foreseeable future. The Company anticipates that it will have negative cash flows in the near term. There is no assurance that the Company will operate profitably or will generate positive cash flow in the future. In addition, the Company's operating results in the future may be subject to significant fluctuations due to many factors not within our control, such as the unpredictability of when customers will place orders, the size of customers' orders, the demand for the Company's platform and solutions, the level of competition and general economic conditions. The Company expects to incur operating losses and negative cash flow until its platform gain market acceptance sufficient to generate a commercially viable and sustainable level of sales so that it is operating in a profitable manner. These circumstances raise doubt about the Company's ability to continue as a going concern

CRITICAL ACCOUNTING ESTIMATES

There have been no significant changes to any accounting estimates as disclosed in the Company's most recent audited financial statements as at and for the period ended December 31, 2015.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The Company has disclosed information of standards issued but not yet effective in Note 4 to the Consolidated Financial Statements which accompany this MD&A.

ADDITIONAL INFORMATION

Additional information relating to the Company is available at www.sedar.com.