

**ACKROO INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AS AT AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015**

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Dated: October 27, 2015

**OVERVIEW**

Ackroo Inc. ("Ackroo" or the "Company") is a public company and its shares are listed on the TSX Venture Exchange (TSX-V:AKR) and OTC Markets (OTC: AKRFF). The Company 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, 2015 and is prepared as at October 27, 2015. This MD&A should be read in conjunction with the Company's consolidated interim financial statements as at and for the three and nine months ended September 30, 2015, the annual audited financial statements as at and for the year ended December 31, 2014, 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](http://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. The Board's review is accomplished principally through the Audit Committee, which meets periodically to review all financial reports, prior to filing.

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.

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## **OUTLOOK**

The Company's efforts are focused on selling its cloud based gift card & 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 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 and custom development.

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 merchants it is scalable and profitable for Ackroo.

The Company's Ackroo Anywhere platform provides merchants 3 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) A customer interface 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 on-going provides the Company even more differentiation in the marketplace.

The Company's online and in-store gift card & 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.

During the quarter ended September 30<sup>th</sup>, 2015, the Company continued to execute on their 2015 plan for both organic and inorganic growth. The key aspects of this strategy are:

- Organic Growth:
  - Acquisition of new customers primarily through a channel sales model
    - Direct Sales Force: (Sales operations)
    - Majority of opportunities are generated through product/referral partners
    - Other leads are via the web and customer referrals
    - Sales Operations respond to inbound leads from the channel to secure new business
    - Sales Operations also provides marketing and training support for the channels
  - Lift in revenue per current customer:
    - Direct Sales Force: (Sales Operations)
    - Same team that initially sells the channel lead also deploy, train and upsell merchants
    - All Ackroo customers are physical gift card customers to start. This group upsells the Company's other solutions like e-gift, gift card distribution, promotions, loyalty and coalitions

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- As customers use more of the solution there is an increase in both the monthly recurring fees and a lift in on-going one time fees
- Acquisition of new customers via Resellers:
  - Independent Sales Organizations that license and re-sell Ackroo's product
  - Invest via a license model to white label the product
  - Are extended a significant discount on retail rates for selling, contracting, billing and providing first line support to merchants they acquire
- Inorganic Growth – (M&A)
  - Complimentary companies that provide natural extensions of Ackroo's offering
  - Competitive companies that both directly and/or indirectly compete with Ackroo
  - Organizations in which Ackroo can reduce the overall cost to operate and increase theirs and Ackroo's ability to scale

The Company continues to spend efforts on attracting, supporting and further developing both strategies.

Today the Company is structured 1/3<sup>rd</sup> R&D staff, 1/3<sup>rd</sup> Operations Staff and 1/3<sup>rd</sup> Finance and Management. The Company believes this to be the right ratio in order to continue to develop and grow the business in the foreseeable future.

During the quarter ended September 30<sup>th</sup>, 2015, the Company focused in particular on:

- Executing under the Company's product and sales focused operational strategy.
- Integrating Dealer Rewards operationally both for new employees and customers.
- Introducing important self-serve functions in the program console for merchants with the campaigns and reporting features reducing Ackroo support costs and improving the customer experience.
- Further optimizing the PhotoGIFTCARD business from a marketing, support and product planning perspective
- Continue executing on the core sales strategy via sales operations and the focus on channel support and customer cross sell/upsell
- Adding automation to support and to the billing systems to reduce manual support time and improve the customer experience.
- Migration of the legacy MoneyBar local merchant and CAA platforms to the new Ackroo Anywhere platform. Supports focus, scale and reduced support/development costs.
- Continue operational efficiency measures by further developing the call centre reducing tier 2 and 3 support requests
- Continue pursuing accretive M&A opportunities for when timing may be right to execute
- Pursue additional referral partners for the business with the addition of POS West
- Expand the US investor base via OTC Pink market listing
- Improve all metrics of the business around increasing the average lifetime value, the average recurring revenue, and average one-time revenue while decreasing the cost to acquire and support.

The third quarter was an important one for the Company as the Company positioned itself for a strong close to 2015 and beyond.

The Company put great focus on operational enhancements in order to increase revenues, and reduce support time and costs. This focus resulted in the Company's best quarter to date not just from a revenue perspective but

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from an operational improvement perspective as well. Steering the company towards product and revenue is critical for the Company and is what is going to allow the Company to keep executing.

Inorganically the Company integrated the Dealer Rewards Canada team and their customers adding over \$50,000 per month of recurring revenue to the quarter. The Company has also continued to have conversations with other targets in an effort to be a consolidator in the marketplace and have several interested parties they are in discussion with.

Organically the Company grew both the Ackroo Anywhere business and the Dealer Rewards business across the quarter. Increasing merchants and revenue per location in both areas. Through the adoption of sales operations nurturing and upselling customers there was significant lift in revenues in both areas. The channel also continued to contribute maintaining the lead volume from earlier in the year and the sales operations team continued to execute closing more than 25% of those leads sent in. As the Company adds more referral partners and continues to work to optimize the current partners lead volume will grow and so will organic growth.

The Company continues to see strong results from their direct channel sales and M&A initiatives and will continue to focus in these two areas for the foreseeable future.

From a seasonality perspective Q3 is typically one of the better quarters of the year. It is a time when companies begin thinking about the holidays as well as implementing new programs like loyalty into their business. The Company strategically took this time to focus on operational enhancements which they successful did and will continue to do and certainly leveraged this time to maximize revenue per current customer and to attract more new customers into the business.

The Company is extremely pleased with the Q3 results in all aspects of the business and look forward to a great close to 2015.

As at September 30, 2015, the Company had cash reserves of \$156,870 and negative working capital of \$807,723.

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**SELECTED FINANCIAL INFORMATION**

	For the nine-months ended September 30, 2015	For the nine- months ended September 30, 2014
Total revenues	\$ 1,220,466	\$ 977,906
Loss and comprehensive loss	1,360,890	1,830,416
Per share - basic and diluted	0.09	0.30
Total current assets	393,379	362,786
Total current liabilities	1,201,102	471,968
Total long-term financial liabilities	451,913	125,312
Cash	156,870	87,860
Total equity	494,127	614,391

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

**Operations:**

As described in the overview, the Company is selling its SAAS based gift card and loyalty platform into the full retail marketplace with an extra focus on small and medium size merchants. This platform enables small to medium sized businesses, independent merchants and business networks to increase profitability and build long-term customer relationships through customized gift card, loyalty and rewards programs.

Ackroo Inc. is a holding company that has 100% ownership and control of the operating company Ackroo Canada Inc. (formerly MoneyBar Rewards Inc.).

**SUMMARY OF QUARTERLY RESULTS<sup>2</sup>**

	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)	(\$ 979,874)
Basic and diluted loss per share <sup>1</sup>	(0.02)	(0.04)	(0.03)	(0.15)
	Quarter Ended September 30, 2014	Quarter Ended June 30, 2014	Quarter Ended March 31, 2014	Quarter Ended December 31, 2013
Revenue	\$ 321,972	\$ 285,673	\$ 370,261	\$ 406,904
(Loss)	(\$ 478,383)	(\$ 561,422)	(\$ 790,613)	(\$ 675,604)
Basic and diluted loss per share <sup>1</sup>	(\$0.077)	(\$0.09)	(0.10)	(\$0.10)

<sup>1</sup> - Numbers have been rounded to the next decimal for presentation purposes and adjusted for the 1 for 10 share exchange.

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

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#### **ANALYSIS OF THE SUMMARY OF QUARTERLY RESULTS:**

The Company is aggressively selling its SAAS based gift card and loyalty platform into all sectors of the retail economy. The Company's utilization of web-based solutions provide the power to massively scale in a lightweight online tool, that works with customers' existing point-of-sale equipment, making it easy and affordable for businesses of any size to design and launch their own gift card and/or loyalty program.

Over the previous nine quarters the Company has further developed its technology to provide more functionality on a wider range of devices and has built an expanded its operations team. The average quarter to quarter revenue growth, for the twelve month period, of over 10% is reflective of this technology and operational focus.

#### **RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015**

The following analysis of the Company's operating results for the three and nine months ended September 30, 2015 and includes a comparison against the three and nine-month periods ended September 30, 2014.

#### **Revenue**

For the three months ended September 30, 2015, revenues were \$519,766 compared to \$321,972 for the three months ended September 30, 2014. During the three months ended September 30, 2015, the Company aggressively sold its gift card and loyalty programs, as well as managing Dealer Rewards acquired customers to reach revenue growth by over 60%.

For the nine months ended September 30, 2015, revenues were \$1,220,466 compared to \$977,906 for the nine months ended September 30, 2014. During the nine months ended September 30, 2015, the Company increased revenue by 23% as compared to the same period last year.

#### **Expenses**

**Cost of goods sold** for the three months ended September 30, 2015 was \$183,914 compared to \$77,649 for the three months ended September 30, 2014. The results show a margin decrease from 76% to 65%. The margin decrease is a result of the higher percentage of lower margin product and service sold in 2015 as compared with 2014. Cost of goods sold for the nine months ended September 30, 2015 was \$412,084 compared to \$256,824 for the nine months ended September 30, 2014. The results show a margin decrease from 74% to 66% as a result of the higher percentage of lower margin product and service sold in 2015.

**Depreciation** for the three months ended September 30, 2015 was \$3,194 compared to \$13,043 for the three months ended September 30, 2014. Depreciation for the nine months ended September 30, 2015 was \$9,411 compared to \$39,130 for the nine months ended September 30, 2014. This depreciation relates to computer equipment, furniture and fixtures.

**Amortization of intangible assets** for the three months ended September 30, 2015 was \$100,809 compared to \$70,308 the three months ended September 30, 2014. Amortization of intangible assets for the nine months ended September 30, 2015 was \$148,960 compared to \$210,925 the nine months ended September 30, 2014. The 2015 amortization relates to amortization of assets acquired from Gift2Gift Corp and Dealer Rewards Canada.

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**Administrative expense** for the three months ended September 30, 2015 was \$340,476 compared to \$308,133 for the three months ended September 30, 2014. Administrative expense for the nine months ended September 30, 2015 was \$1,029,775 compared to \$960,413 for the nine months ended September 30, 2014. This increase in expense relates to the restructuring of sales department and consolidation of sales and operations departments, as well as severance payment to an executive of the Company due to ongoing reorganization.

**Research and development** for the three months ended September 30, 2015 was \$135,898 compared to \$135,771 for the three months ended September 30, 2014. Research and development for the nine months ended September 30, 2015 was \$403,978 compared to \$552,489 for the nine months ended September 30, 2014. These expenditures reflect the Company's continued commitment to the development of new technologies. The decrease in expense relates to the restructuring of the R&D department.

**Sales and marketing** for the three months ended September 30, 2015 was \$3,396 compared to \$64,749 for the three months ended September 30, 2014. Sales and marketing for the nine months ended September 30, 2015 was \$14,865 compared to \$537,327 for the nine months ended September 30, 2014. The decrease in expense relates to the restructuring of the Sales department and consolidation of sales and operations departments.

**Stock based compensation** expense for the three months ended September 30, 2015 was \$66,334 as compared to \$137,672 for the three months ended September 30, 2014. Stock based compensation expense for the nine months ended September 30, 2015 was \$451,582 as compared to \$383,135 for the nine months ended September 30, 2014. Stock based compensation expenses during the three and nine months ended September 30, 2015 related to employee incentives and compensation to Board members.

**Interest** income for the three months ended September 30, 2015 was \$36 compared to \$29 for the three months ended September 30, 2014. Interest income for the nine months ended September 30, 2015 was \$947 compared to \$872 for the nine months ended September 30, 2014. The income is a result of interest earned on cash deposits. Interest expense for the three months ended September 30, 2015 was \$60,090 compared to \$2,972 for the three months ended September 30, 2014. Interest expense for the nine months ended September 30, 2015 was \$83,305 compared to \$9,130 for the nine months ended September 30, 2014, and reflects interest on capital leases and long-term debt.

#### **Loss from Operations**

Loss from operations for the three months ended September 30, 2015 was \$284,382 compared to \$478,383 for the three months ended September 30, 2014. Loss from operations for the nine months ended September 30, 2015 was \$1,360,890 compared to \$1,830,416 for the nine months ended September 30, 2014. The significant decrease in loss from operations for the current period is due to the Company's decision to aggressively pursue cost reduction activities. The loss from operations excluding interest, taxes, amortization and stock-based compensation for the three months ended September 30, 2015 was \$53,991 compared to \$254,417 for the three months ended September 30, 2014. The loss from operations excluding interest, taxes, amortization and stock-based compensation for the nine months ended September 30, 2015 was \$543,497 compared to \$1,188,968 for the nine months ended September 30, 2014. It has decreased 54% compare with same period in previous year.



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**FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and cash equivalents, accounts receivables, accounts payable and accrued liabilities, finance lease obligations, and long-term debt. 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 and long-term debt	held to maturity

**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 capital leases and long-term debt bear interest at fixed rate. Bank indebtedness is based on market rates plus a fixed percentage and represents some risk. As a whole, the Company's exposure to interest rate risk is minimal.

**Currency risk**

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 cash equivalents and accounts receivable. The Company's cash and cash equivalents are deposited with a Canadian chartered bank and as a result management believes the risk of loss on this item to be remote. Management believes that the credit risk on its accounts receivable is limited as the amounts are expected to be collected in the Company's next operating cycle.

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The balances at September 30, 2015 are as follows:

	Amounts due	Collected within 23 days of period end	Remaining overdue balance
1 - 30 days due	\$ 141,935	\$ 110,402	\$ 31,533
31 - 60 days due	19,033	7,401	11,632
61 - 90 days due	8,799	7,805	994
Greater than 90 days past due	9,975	3,803	6,171
	<u>\$ 179,742</u>	<u>\$ 129,411</u>	<u>\$ 50,330</u>

The balances at December 31, 2014 are as follows:

	Amounts due	Collected within 30 days of period end	Remaining overdue balance
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	26,949	7,154	19,795
	<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. During the three month period ended September 30, 2015, there were no one customer that accounted for 10% or greater of the total company sales.

(d) Liquidity risk

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

**LIQUIDITY AND CAPITAL RESOURCES**

At September 30, 2015, the Company has a deficit of \$13,478,465 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.

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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, 2015 consumed cash of \$91,585 as compared to the three months ended September 30, 2014 of \$288,306. The Company's operating activities for the nine months ended September 30, 2015 consumed cash of \$731,791 as compared to the nine months ended September 30, 2014 of \$1,101,949.

The operating, investing and financing activities resulted in a \$179,288 decrease and a \$162,503 decrease in the cash position of the Company for the nine months ended September 30, 2015 and September 30, 2014 respectively. The resulting cash balances were \$156,870 and \$87,860 as at September 30, 2015 and September 30, 2014, respectively.

The Company has negative working capital of \$807,723 as at September 30, 2015. This resulted largely from the asset purchase of Dealer Rewards Canada, as the majority of cash payment has been deferred.

The Company has future financial commitments under its office-operating lease in the amount of \$12,491 for remainder of fiscal 2015.

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.

## **SHARE CAPITAL**

### **(a) Issued and outstanding**

The Company completed a consolidation of its issued and outstanding share capital on the basis of ten (10) pre-consolidation shares to one (1) post-consolidation share on December 9, 2014.

As at October 27, 2015 the Company had 16,944,122 common shares issued and outstanding (December 31, 2014 – 6,891,660).

On January 20, 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.

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**(b) 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.

As at October 27, 2015, there are no common shares remaining in escrow (December 31, 2014 – 1,549,733 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 warrant and allocate the residual value to the common shares.

During the year ended December 31, 2014, in connection with private placements, the Company issued 588,683 share purchase warrants to acquire one common share at exercise price between \$1.00 and \$2.20 per share expired 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 expired 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 share purchase warrant for each share unit. Each share purchase 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.

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

	<b>Number of warrants</b>
<b>Balance at December 31, 2013</b>	<b>845,270</b>
Warrants expired	(61,123)
Warrants exercised	-
Warrants issued	655,757
<b>Balance at December 31, 2014</b>	<b>1,439,904</b>
Warrants expired	(1,439,904)
Warrants exercised	(490,000)
Warrants Issued	300,000
Warrants issued	8,364,165
<b>Balance at October 27, 2015</b>	<b>8,174,165</b>

The fair value of the subscription warrants issued in January 2015 totaled \$1,246,285. The fair value was calculated using the Black-Scholes model using 0.87% risk-free interest rate, 217% volatility, 12 month expected life and 0% dividend yield.

The fair value of the warrants issued in July 2015 totaled \$111,400. The fair value was calculated using the Black-Scholes model using 0.44% risk-free interest rate, 296% volatility, 36 months expected life and 0% dividend yield.

The fair value of the agent warrants and subscription warrants issued in 2014 totaled \$29,200 and \$255,500 respectively. 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%, 1 year expected life and 0% dividend yield.

For the nine month period ended September 30, 2015, a total 490,000 warrants were exercised by various shareholders of the Company with an exercise price of \$0.25 per share.

**(d) Stock options**

Under the terms of the Company's Stock Option Plan, 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 Ackroo shares, provided that the number of Ackroo shares reserved for issuance, together with those to be issued pursuant to options previously granted, does not exceed 10% of the issued and outstanding Ackroo 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 Ackroo shares outstanding,

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which means that up to 1,694,412 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 Ackroo 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 90 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 relation's 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:

	Number of Options	Weighted Average Exercise Price
<b>Balance, December 31, 2012</b>	<b>567,441</b>	<b>\$4.20</b>
Expired/Cancelled	(481,648)	\$4.20
Granted	479,110	\$2.00
<b>Balance, December 31, 2013</b>	<b>564,903</b>	<b>\$2.50</b>
Expired/Cancelled	(562,457)	2.78
Granted	353,416	0.87
<b>Balance, December 31, 2014</b>	<b>355,862</b>	<b>\$1.18</b>
Expired/Cancelled	(359,292)	0.92
Exercised	(495,000)	0.21
Granted	935,000	0.21
Granted	525,000	0.37
Granted	250,000	0.30
<b>Balance, October 27, 2015</b>	<b>1,211,570</b>	<b>\$0.37</b>

Effective January 19, 2015, the Company cancelled 256,903 existing stock options. The 256,903 cancelled options were replaced by the issuance of 935,000 new options with an exercise price of \$0.21 per share, and which expire in three years and vest immediately.

Effective June 15, 2015, the Company issued 525,000 options with an exercise price of \$0.37 per share, and which expire in three years and vest immediately.

Effective September 1, 2015, the Company issued 250,000 options with an exercise price of \$0.30 per share, which expire in three years and vest immediately.

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At September 30, 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	October 1, 2017	2.01
October 4, 2012	25,000	25,000	\$4.50	October 4, 2022	7.02
July 15, 2014	19,999	7,777	\$1.00	July 15, 2024	8.80
January 19, 2015	370,000	370,000	\$0.21	January 19, 2018	2.31
June 15, 2015	525,000	525,000	\$0.37	June 15, 2018	2.71
September 1, 2015	250,000	250,000	\$0.30	September 1, 2018	2.92
September 30, 2015	1,211,570	1,199,348	\$0.41		2.81

The fair value of options granted during 2015 was estimated using the Black-Scholes option pricing model with the following assumptions:

<u>Grant Date</u>	<u>Granted</u>	<u>Stock Price</u>	<u>Exercise Price</u>	<u>Expected Life</u>	<u>Volatility</u>	<u>Dividend Rate</u>	<u>Risk Free Rate</u>	<u>Fair Value</u>
January 19, 2015	935,000	0.21	0.21	3	258%	0.0%	0.87%	\$ 202,648
June 15, 2015	525,000	0.37	0.21	2-3	290%	0.0%	0.62%	\$ 182,600
September 1, 2015	250,000	0.26	0.30	2-3	311%	0.0%	0.45%	\$ 64,400

**RELATED PARTY TRANSACTIONS**

An officer and director of the Company had an agreement to provide consulting services. Total expense recorded in the nine-month period ended September 30, 2015 amounted to \$NIL and in the nine-month period ended September 30, 2014 amounted to \$74,375. There were no unpaid amounts as at September 30, 2015 and \$5,300 remained unpaid at September 30, 2014. This agreement has been terminated effective October 31, 2014.

An officer of the Company had a consulting agreement to provide marketing consulting services. Total expense recorded in the nine-month period ended September 30, 2015 amounted to \$NIL and in the nine-month period ended September 30, 2014 amounted to \$32,500. There were no unpaid amounts as at September 30, 2015 and September 30, 2014. This agreement has been terminated effective February 28, 2014.

On December 30, 2011, the company entered into a service agreement and a license agreement with MoneyBar Transactions Canada Inc. ("MTC") whereby the company will provide services and deliverables as reasonably requested by MTC to assist MTC in performing its obligations under the joint venture agreement between MTC and Kennerly Edwards Consulting Inc. In return for the provision of the services and the development of deliverables, MTC shall pay to the company all net revenues received by MTC and/or its affiliates from its and/or their participation in the joint venture. For the nine-month period ended September 30, 2015, the company

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recognized \$16,600 of revenue for the services and deliverables, of which \$NIL is unpaid and included in accounts receivable as of September 30, 2015. For the nine-month period ended September 30, 2014, the company recognized \$57,080 of revenue for the services and deliverables, of which \$4,788 was being unpaid and included in accounts receivable as of September 30, 2014. A shareholder of the Company is the principal shareholder and sole director of MTC. This agreement has been terminated effective September 1, 2015.

The Company has an agreement with a company that has an officer who is a consultant of the Company and an associate who is a director of the Company to provide legal services. Total expense recorded in the nine-month period ended September 30, 2015 amounted to \$34,187. There were \$7,187 unpaid at September 30, 2015. Total expense recorded in the nine-month period ended September 30, 2014 amounted to \$31,820 and \$12,803 remained unpaid at September 30, 2014.

### **BUSINESS COMBINATION**

Effective January 20, 2015, the Company acquired certain assets of Gift2Gift Corp., a company incorporated under the federal laws of Canada, for a purchase price 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.

Effective May 29, 2015, the Company acquired certain assets of Dealer Rewards of Canada 2014 Inc., a company incorporated under the federal laws of Canada, 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 Inc. with a fair value of \$369,231.

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 consideration 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 over life of the assets using effective interest rate method.

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



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automotive business. Dealer Rewards Inc. is headquartered in Delaware, USA. For more information, visit: [www.dealerrewards.com](http://www.dealerrewards.com).

## **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**

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

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**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, 2014.

**CHANGES IN ACCOUNTING POLICIES**

Except as set out below under "Recent Accounting Pronouncements", the accounting policies applied in the financial statements as at and for the three and nine-months ended September 30, 2015 are the same as those applied in the Company's audited financial statements as at and for the period ended December 31, 2014 which are available at [www.sedar.com](http://www.sedar.com). and reflect all the adjustments necessary for fair presentation in accordance with IAS 34. There has been no material impact on these financial statements from changes in accounting standards during the period.

**ADDITIONAL INFORMATION**

Additional information relating to the Company is available at [www.sedar.com](http://www.sedar.com).