

CONSOLIDATED FINANCIAL STATEMENTS

**For
ACKROO INC.**

**For the Years Ended
December 31, 2016 and 2015**



Independent auditor's report

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To the shareholders of
Ackroo Inc.

We have audited the accompanying consolidated financial statements of Ackroo Inc., which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statement of loss and comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ackroo Inc. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements, which indicate the need to raise additional capital to fund future working capital and expansion plans. This condition, along with other matters as set forth in Note 2, indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Other matter

The financial statements of Ackroo Inc. as of and for the year ended December 31, 2015 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2015 financial statements in their report dated April 26, 2016.



Mississauga, Canada
April 30, 2017

Chartered Professional Accountants
Licensed Public Accountants

ACKROO INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the years ended December 31, 2016 and 2015
(Expressed in Canadian Dollars except for number of shares)

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	643,248	151,694
Accounts receivable (Note 5)	181,317	111,542
Inventory	5,929	26,225
Prepaid expenses and other assets	23,093	39,527
Total current assets	853,587	328,988
Non-current assets		
Intangible assets (Notes 7 & 8)	1,047,104	959,934
Goodwill (Note 8)	628,043	628,043
Due from related party (Note 13)	90,000	-
Property and equipment (Note 9)	44,675	30,227
Total non-current assets	1,809,822	1,618,204
Total assets	2,663,409	1,947,192
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Bank indebtedness (Note 11)	-	6,924
Accounts payable and accrued liabilities	506,154	485,702
Current portion of deferred revenue	11,590	900
Current portion of long term debt (Note 10)	582,727	965,752
Total current liabilities	1,100,471	1,459,278
Deferred revenue	18,912	3,750
Long term debt (Note 10)	475,541	242,003
Total liabilities	1,594,924	1,705,031
SHAREHOLDERS EQUITY		
Capital stock (Note 13)	11,806,635	9,269,851
Agent options (Note 13)	-	97,600
Warrants (Note 13)	406,290	2,885,274
Contributed surplus (Note 13)	1,873,699	1,704,693
Deficit	(13,018,139)	(13,715,257)
Total shareholders equity	1,068,485	242,161
Total liabilities and shareholders equity	2,663,409	1,947,192

Going concern (Note 2)
Commitments (Note 14)
Subsequent event (Note 16)

Approved by the Board:

Steve Levely Director

Wayne O'Connell Director

(See accompanying notes to the consolidated financial statements)

ACKROO INC.
CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
For the years ended December 31, 2016 and 2015
(Expressed in Canadian Dollars except for number of shares)

	<u>2016</u>	<u>2015</u>
SALES		
Subscription and service	1,470,039	1,245,091
Product	<u>754,126</u>	<u>577,133</u>
Total sales	<u>2,224,165</u>	<u>1,822,224</u>
COST OF SALES		
Subscription and service	337,863	281,944
Product	<u>422,814</u>	<u>329,954</u>
Total cost of sales	<u>760,677</u>	<u>611,898</u>
Gross profit	<u>1,463,488</u>	<u>1,210,326</u>
EXPENSES		
Administration	1,613,611	1,514,270
Research and development costs	451,611	530,250
Sales and marketing	5,204	22,348
Share-based compensation expense (Note 13d)	523,606	436,408
Amortization of intangible assets	460,010	249,769
Amortization of property and equipment	12,776	12,605
Foreign exchange loss (gain)	528	(3,521)
Total expenses	<u>3,067,346</u>	<u>2,762,129</u>
LOSS BEFORE THE FOLLOWING ITEMS	<u>(1,603,858)</u>	<u>(1,551,803)</u>
Interest income	-	947
Interest expense	(148,998)	(164,225)
Gain on modification of long term debt	-	46,399
	<u>(148,998)</u>	<u>(116,879)</u>
LOSS BEFORE INCOME TAXES	(1,752,856)	(1,668,682)
INCOME TAX (RECOVERY)	<u>-</u>	<u>(71,000)</u>
NET LOSS AND COMPREHENSIVE LOSS	<u>(1,752,856)</u>	<u>(1,597,682)</u>
BASIC AND DILUTED LOSS PER SHARE	<u>(0.09)</u>	<u>(0.10)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>20,488,284</u>	<u>15,741,657</u>

(See accompanying notes to the consolidated financial statements)

ACKROO INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2016 and 2015
(Expressed in Canadian Dollars except for number of shares)

	Common Shares		Agent		Contributed	Accumulated	
	Number	Amount	Options	Warrants	Surplus	Deficit	Total
Balance at December 31, 2014	6,891,660	8,346,721	97,600	1,600,600	1,554,371	(12,117,575)	(518,283)
Equity subscribed for cash	8,364,165	724,009	-	522,276	-	-	1,246,285
Shares subscribed from business combination	703,297	337,583	-	-	-	-	337,583
Shares Subscribed from warrants	490,000	164,915	-	(42,415)	-	-	122,500
Shares subscribed from options	495,000	390,036	-	-	(286,086)	-	103,950
Warrants issued	-	-	-	111,400	-	-	111,400
Share-based compensation	-	-	-	-	436,408	-	436,408
Comprehensive loss	-	-	-	-	-	(1,597,682)	(1,597,682)
Balance at December 31, 2015	16,944,122	9,963,264	97,600	2,191,861	1,704,693	(13,715,257)	242,161

Balance at December 31, 2015	16,944,122	9,963,264	97,600	2,191,861	1,704,693	(13,715,257)	242,161
Equity subscribed for cash	7,936,580	1,295,793	-	291,523	-	-	1,587,316
Shares subscribed from business combinations and asset acquisitions	1,065,934	198,658	-	-	(44,600)	-	154,058
Shares subscribed from options and warrants	1,255,200	367,227	-	(38,087)	-	-	329,140
Expiration of options / warrants	-	-	(97,600)	(2,042,374)	(310,000)	2,449,974	-
Transaction costs	-	(18,307)	-	(7,533)	-	-	(25,840)
Warrants issued	-	-	-	10,900	-	-	10,900
Share-based compensation	-	-	-	-	523,606	-	523,606
Comprehensive loss	-	-	-	-	-	(1,752,856)	(1,752,856)
Balance at December 31, 2016	27,201,836	11,806,635	-	406,290	1,873,699	(13,018,139)	1,068,485

(See accompanying notes to the consolidated financial statements)

ACKROO INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2016 and 2015
(Expressed in Canadian Dollars except for number of shares)

	2016	2015
OPERATING ACTIVITIES		
Net loss	(1,752,856)	(1,597,682)
<u>Items not affecting cash:</u>		
Non-cash interest	131,834	136,761
Gain on modification of long-term debt	-	(46,399)
Amortization of property and equipment	12,776	12,605
Amortization of intangible assets	460,010	249,769
Share-based compensation	523,606	436,408
Deferred income tax recovery	-	(71,000)
	(624,630)	(879,538)
<u>Changes in non-cash working capital items</u>		
Accounts receivable	(69,775)	61,557
Prepaid expenses	37,912	40,456
Inventory	20,296	3,667
Accounts payable and accrued liabilities	20,452	122,084
Deferred revenue	25,852	(101,337)
Cash used in operating activities	(589,893)	(753,111)
INVESTING ACTIVITIES		
Addition to property and equipment	(35,370)	(10,928)
Proceeds on disposal of property and equipment	8,146	-
Addition to intangible assets	(100,000)	(250,000)
Cash used in investing activities	(127,224)	(260,928)
FINANCING ACTIVITIES		
Repayment of bank indebtedness	(6,924)	6,924
Repayment of long-term debt	(535,005)	(166,770)
Repayment of capital lease obligations	-	(4,254)
Transaction costs on the issuance of equity	(14,940)	-
Issuance of capital stock	1,765,540	993,675
Cash provided by financing activities	1,208,671	829,575
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	491,554	(184,464)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	151,694	336,158
CASH AND CASH EQUIVALENTS, AT END OF YEAR	643,248	151,694

(See accompanying notes to the consolidated financial statements)

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEARS ENDED DECEMBER 31, 2016 AND 2015 (Expressed in Canadian Dollars except for number of shares)

1. NATURE OF OPERATIONS

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

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"). The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. To date the Company has incurred an accumulated loss of \$13,018,139 and negative cash flow from operations as the Company invests in the commercialization of its loyalty rewards product and service offering. This raises doubt about the ability of the Company to continue as a going concern. The Company has raised equity to fund the commercialization activities and product enhancements. The Company expects that the investment it has made in 2015 and 2016 in its sales and marketing programs will result in a significant increase in revenue. Although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding in the future or available under terms acceptable to the Company, or that the Company will be able to generate sufficient returns from operations. The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities and commitments when due is dependent on the Company generating revenue and debt and/or equity financing sufficient to fund its cash flow needs. These circumstances indicate the existence of material uncertainty that casts significant doubt on the ability of the Company to meet its business plan and its obligations as they come due, and accordingly the appropriateness of the use of the accounting principles applicable to a going concern.

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

3. BASIS OF PREPARATION

Statement of compliance

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

The consolidated financial statements for the year ended December 31, 2016 were approved and authorized for issue by the Board of Directors on April 30, 2017.

Basis of measurement

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

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEARS ENDED DECEMBER 31, 2016 AND 2015 (Expressed in Canadian Dollars except for number of shares)

Basis of consolidation

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

The Company's revenue is derived from the provision of loyalty rewards subscription services, consulting services and consumable products utilized by its customers in the implementation and management of customer loyalty programs. Revenue is generated in three distinct types. Setup includes all of the components required to start a loyalty program including: software, card readers, loyalty cards, artwork, training and configuration of the software to meet customer specific requirements. Transactions include the ongoing monthly processing of loyalty transactions and are charged on either a per transaction basis or a flat monthly fee over the contract period. The Company also generates revenue from consulting services provided for additional customer training and customized development of loyalty programs.

Arrangements maybe comprised of multiple elements such as those described in setup above, in which case the elements are unbundled from the total arrangement fee and recorded based on their relative fair value. The Company determines fair value using the relative fair value of each separately identifiable component.

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

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

Deferred revenue

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

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian Dollars except for number of shares)

Cash and cash equivalents

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

Inventory

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

Financial instruments

Financial instruments are recognized on the consolidated statement of financial position when the Company becomes a party to the contractual provisions of a financial instrument. The Company is required to initially recognize all of its financial assets and liabilities, including derivatives and embedded derivatives in certain contracts, at fair value. Loans and receivables, held to maturity financial assets and other financial liabilities are subsequently measured at amortized cost.

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management choices and intentions related thereto for the purpose of ongoing measurements. Classification choices for financial assets include: a) FVTPL – measured at fair value with changes in fair value recorded in net earnings; b) held to maturity – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; c) available for sale – measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment except for investment in affiliate as it is a non-derivative equity instrument with no quoted market price; and d) loans and receivables – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is no longer recognized or impaired. Classification choices for financial liabilities include: a) FVTPL – measured at fair value with changes in fair value recorded in net earnings and b) other financial liabilities – measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is derecognized.

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

Cash and cash equivalents	loans and receivables
Accounts receivable	loans and receivables
Accounts payable and accrued liabilities	other financial liabilities
Bank indebtedness and long-term debt	other financial liabilities

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

Transaction costs other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are added to or deducted from the fair value of the financial asset or financial

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEARS ENDED DECEMBER 31, 2016 AND 2015 (Expressed in Canadian Dollars except for number of shares)

liability, as appropriate, on initial recognition and amortized using the effective interest method.

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

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

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

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

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

Foreign currency

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

Property and equipment

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

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

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

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian Dollars except for number of shares)

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

Goodwill and intangible assets

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

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

Impairment of non-financial assets

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

Long-lived assets or finite life intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs to sell and value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

When an impairment loss subsequently reverses, other than related to goodwill, the carrying amount of the asset is increased to the revised estimate, but is limited to the carrying amount that would have been determined if no impairment loss had been recognized in prior years.

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

Income taxes

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

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEARS ENDED DECEMBER 31, 2016 AND 2015 (Expressed in Canadian Dollars except for number of shares)

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

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

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

Investment tax credits

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

Research and development

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

Share-based payments

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

Loss per share

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

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian Dollars except for number of shares)

warrants are dilutive when the Company has income from continuing operations and the average market price of the common shares during the period exceeds the exercise price of the options and warrants.

Due to the losses for the years ended December 31, 2016 and December 31, 2015, and the antidilutive impact of options or warrants issued, basic loss per share is equal to dilutive loss per share for the years presented.

Significant accounting judgments, estimates and assumptions

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

Revenue recognition

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

Asset purchase or business combination

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

Estimated useful lives of assets

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

Impairment of non-financial assets

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

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

Recognition of deferred income taxes

The extent to which deferred income tax assets can be recognized is based on an assessment of the probability of the Company's future taxable income against which the deferred tax assets can be

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEARS ENDED DECEMBER 31, 2016 AND 2015 (Expressed in Canadian Dollars except for number of shares)

utilized. In addition, significant judgment is required in assessing the impact of a legal or economic limits of uncertainties in various tax jurisdictions.

Estimation uncertainty

Significant accounting policies and estimates utilized in the normal course of preparing the Company's consolidated financial statements require the determination of future cash flows utilized in assessing net recoverable amounts and net realizable values; amortization; allowance for doubtful accounts; useful lives of property, equipment and intangible assets; recoverability of goodwill and long-lived assets; ability to utilize tax losses and investment tax credits; fair value of share based awards and warrants; and measurement of deferred taxes. In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis where required.

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

Accounting standards issued but not yet effective

The Company has identified new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

IFRS 9 *Financial Instruments*

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

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

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, which provides a single, principles based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. This standard is effective January 1, 2018 and allows early adoption. The Company has not early adopted this standard and is currently assessing the impact that this standard will have on the consolidated financial statements.

IFRS 16 *Leases*

In January 2016, the IASB issued IFRS 16 which replaces IAS 17 for the accounting of leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEARS ENDED DECEMBER 31, 2016 AND 2015 (Expressed in Canadian Dollars except for number of shares)

use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16: changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and options periods; changes the accounting for sale and leaseback arrangements; largely retains IAS 17's approach to lessor

accounting and introduces new disclosure requirements. This standard is effective January 1, 2019 and allows early adoption. The Company has not early adopted this standard and is currently assessing the impact that this standard will have on the consolidated financial statements.

5. FINANCIAL INSTRUMENTS

Fair value of financial instruments

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

Risk Management

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

(a) Market risk

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

Interest rate risk

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

Currency risk

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

(b) Credit risk

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

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEARS ENDED DECEMBER 31, 2016 AND 2015 (Expressed in Canadian Dollars except for number of shares)

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

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

The aging of accounts receivable balances at December 31, 2015 are as follows:

	Amounts Due	Collected within 30 days of year 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 December 31, 2016, the allowance for doubtful accounts amounted to \$nil (2015 - \$nil).

(c) Liquidity risk

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

6. BUSINESS COMBINATIONS AND ASSET ACQUISITIONS

Business Combinations

Gift2Gift Corp.

Effective January 20, 2015, the Company acquired certain assets of Gift2Gift Corp. ("Gift2Gift"), a company incorporated under the federal laws of Canada, for a purchase price of \$150,000. The purchase price was net settled by the Company issuing 1,000,000 common shares and 1,000,000

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian Dollars except for number of shares)

warrants in accordance with the private placement completed on January 20, 2015. The acquisition was accounted for as a business combination.

Fair value of 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>

Dealer Rewards of Canada 2014 Inc.

Effective May 29, 2015, the Company acquired certain assets of Dealer Rewards of Canada 2014 Inc. ("Dealer Rewards"), a company incorporated under the federal laws of Canada, and a division of Dealer Rewards Inc. and their affiliate Evolve Automotive Group Inc., for a purchase price of \$1,500,000 in cash and long-term debt and 769,231 common shares of Ackroo. The long-term debt was non-interest bearing and was recorded at \$1,249,019, reflecting an effective interest rate of 20.0%. The fair value of the common shares is \$369,231. The acquisition was accounted for as a business combination.

As of December 31, 2016, the Company has paid Dealer Rewards \$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	<u>603,456</u>
	<u>1,689,520</u>
Deferred tax liability	71,000
Net	<u>1,618,520</u>

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 and goodwill. The total amount of goodwill that is expected to be deductible for tax purposes is \$452,592.

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEARS ENDED DECEMBER 31, 2016 AND 2015 (Expressed in Canadian Dollars except for number of shares)

Asset Acquisitions

OnTab Inc.

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

D1 Mobile Corp.

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

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

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

Royalty Bonus: In addition to the compensation set forth above, D1 Mobile is entitled to receive a cash bonus equivalent to forty percent (40%) of the portion of gross revenue derived, and collected, by the Company, which exceeds the aggregate of \$50,000 and any amounts paid to D1 Mobile in connection with the additional bonus described below. The amount shall be paid to the Consultant on a quarterly basis, for a period of 2 years following completion of the acquisition, and each installment shall be due and payable within 60 days of completion of each fiscal quarter of the Company. As of the year ended December 31, 2016, no royalty bonus was due to D1 Mobile Corp. as gross revenue did not meet the above criteria.

D1 Mobile shall also be entitled to an additional cash bonus equivalent to 70% of all cash amounts received by the Company for the provision of services to FRESHii Inc. in the 3 month period following completion of the acquisition, and 100% of all cash amounts received by the Company for the provision of services to Yogen Fruz in the 1 month period following completion of the acquisition. As of the year ended December 31, 2016, no royalty bonus was due to D1 Mobile Corp. as gross revenue did not meet the above criteria.

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

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian Dollars except for number of shares)

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.

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

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

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

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

Prepaid expenses	21,478
Customer contracts	<u>427,180</u>
Consideration Paid	<u>448,658</u>

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

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian Dollars except for number of shares)

7. INTANGIBLE ASSETS

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

INTANGIBLE ASSETS

Cost	Intellectual Property	Customer Contracts	Total
As at December 31, 2014	-	-	-
Additions - business combinations	87,111	1,122,591	1,209,702
As at December 31, 2015	87,111	1,122,591	1,209,702
Additions - asset acquisitions	-	547,180	547,180
As at December 31, 2016	87,111	1,669,771	1,756,882

Accumulated Amortization

As at December 31, 2014	-	-	-
Amortization	26,617	223,151	249,769
As at December 31, 2015	26,617	223,151	249,769
Amortization	17,422	442,588	460,010
As at December 31, 2016	44,039	665,739	709,779

Net book value

As at December 31, 2015	60,494	899,440	959,934
As at December 31, 2016	43,072	1,004,031	1,047,103

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

During the year ended December 31, 2016, amortization expense for intangible assets amounted to \$460,010 (2015 – \$249,769).

8. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES

Goodwill was tested for impairment at December 31, 2016 and 2015, and it was determined no impairment existed. Intangible assets were not tested for impairment at December 31, 2016 and 2015 as there were no indicators of impairment.

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 FOR YEARS ENDED DECEMBER 31, 2016 AND 2015
 (Expressed in Canadian Dollars except for number of shares)

9. PROPERTY AND EQUIPMENT

PROPERTY AND EQUIPMENT

Cost	Computer equipment under finance lease	Computer equipment	Furniture and fixtures	Total
As at December 31, 2014	26,548	26,880	16,888	70,316
Additions	3,040	7,887	-	10,927
Disposals	-	-	-	-
As at December 31, 2015	29,588	34,767	16,888	81,243
Additions	-	21,556	13,814	35,370
Disposals	-	(8,145)	-	(8,145)
As at December 31, 2016	29,588	48,178	30,702	108,468

Accumulated Amortization	Computer equipment under finance lease	Computer equipment	Furniture and fixtures	Total
As at December 31, 2014	20,992	12,691	4,729	38,412
Amortization	3,013	7,160	2,432	12,605
As at December 31, 2015	24,005	19,851	7,161	51,017
Amortization	3,184	7,160	2,432	12,776
As at December 31, 2016	27,189	27,011	9,593	63,793

Net book value	Computer equipment under finance lease	Computer equipment	Furniture and fixtures	Total
As at December 31, 2015	5,583	14,916	9,727	30,227
As at December 31, 2016	2,399	21,167	21,110	44,675

ACKROO INC.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian Dollars except for number of shares)**

10. LONG-TERM DEBT

The Company has the following debt balances outstanding:

	<u>2016</u>	<u>2015</u>
Office loan, unsecured, bearing interest at approximately 8% per annum, payable monthly in blended installments of principal and interest of \$3,000.	-	33,322
Dealer Rewards - unsecured, non-interest bearing, and payable in ten monthly installments of \$100,000 commencing January 2016 with the final payment of \$300,000 due January 2017. During the year ended December 31, 2016, the loan was renegotiated to be repaid in 24 equal installments of \$36,916 with an interest rate of 10% per annum commencing January 31, 2017, maturing December 2018.	800,000	1,174,433
Orbo Rewards – unsecured, non-interest bearing, payable over 15 months in equal payments of \$18,000 per month starting in December 2016. On acquisition the assumed debt was recorded at the agreed upon payment terms discounted at an effective interest rate of 10%.	<u>258,268</u>	<u>-</u>
	1,058,268	1,207,755
Current Portion	<u>582,727</u>	<u>965,752</u>
Long-term portion	<u>475,541</u>	<u>242,003</u>

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

2017	655,428
2018	<u>475,428</u>
	1,130,856
Less amount representing interest	<u>72,588</u>
	<u>1,058,268</u>

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian Dollars except for number of shares)

11. CREDIT FACILITIES

The Company has a revolving demand facility with a maximum borrowing of \$200,000 of which \$Nil was utilized at December 31, 2016 (2015 - \$6,924). The facility is repayable on demand, bears interest at prime plus 2% (2.70% at December 31, 2016) and is secured by a general security agreement over all personal property of the Company. The borrowings under this facility must not exceed the aggregate of 75% of good Canadian and U.S. accounts receivable and 65% of good foreign currency receivable.

12. INCOME TAXES

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

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

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

Reconciliation for statutory rate:

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

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian Dollars except for number of shares)

The composition of unrecognized tax benefits are as follows:

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

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

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

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

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

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

ACKROO INC.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian Dollars except for number of shares)**

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

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

13. CAPITAL STOCK

(a) Authorized share capital

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

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

(b) Issued and outstanding

	<u>2016</u>	<u>2015</u>
Common - 27,201,836 shares (2015 - 16,944,122 shares)	12,499,345	10,640,610
Share issue costs	<u>692,710</u>	<u>677,346</u>
	<u>11,806,635</u>	<u>9,963,264</u>

On January 20, 2015, the Company closed a private placement for net proceeds of \$1,246,285. 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.

In connection with the business and asset acquisitions (Note 6), the Company issued 1,000,000 common shares (2015 - 769,231) as consideration for the purchases. In addition, it issued 65,934 common shares as part of the contingent consideration payable on the Dealer Rewards acquisition.

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

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

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian Dollars except for number of shares)

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

(c) Outstanding Warrants

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

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

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

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

	Number of warrants	Weighted Average Exercise Price
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)	0.25
Warrants exercised	(440,000)	0.25
Warrants issued	2,567,200	0.30
Balance at December 31, 2016	2,867,200	\$0.31

The relative fair value allocated to the warrants issued in 2016 totaled \$291,523 (2015 - \$522,276). In determining the relative fair value, the fair value of the warrants was calculated using the Black-Scholes model using risk-free interest rate of 0.73%, volatility of 200% and 223%, expected life between 1 and 2 years and 0% dividend yield. (2015 - risk-free interest rate between 0.97% and 1.10%, volatility between 180% and 194%, expected life between 1 and 2 years and 0% dividend yield).

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian Dollars except for number of shares)

(d) Stock options

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

Under Exchange policy, all such rolling stock option plans which set the number of common shares issuable under the plan at a maximum of 10% of the issued and outstanding common shares must be approved and ratified by shareholders on an annual basis. There are currently 27,201,836 common shares outstanding, which means that up to 2,720,184 of the Company's common shares could be reserved for issuance upon the exercise of stock options.

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

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

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian Dollars except for number of shares)

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

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2014	355,863	\$1.18
ESOP Options Granted	1,710,000	\$27.00
ESOP Expired/Cancelled	(589,292)	\$1.18
Exercised	(495,000)	\$0.21
Balance, December 31, 2015	981,571	\$0.46
ESOP Options Granted	2,525,000	\$0.22
ESOP Expired/Cancelled	(310,000)	\$0.37
Exercised	(815,200)	\$0.21
Balance, December 31, 2016	2,381,371	\$0.26

At December 31, 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)
01-Oct-12	21,571	21,571	\$1.00	01-Oct-17	0.7500
19-Jan-15	50,000	50,000	\$0.21	18-Jan-18	1.0000
15-Jun-15	450,000	450,000	\$0.37	15-Jun-18	1.5000
11-Jan-16	250,000	250,000	\$0.25	11-Jan-19	2.2100
07-Jun-16	364,800	364,800	\$0.20	07-Jun-19	2.5000
15-Jul-16	250,000	250,000	\$0.26	15-Jul-19	2.5500
22-Aug-16	410,000	410,000	\$0.24	22-Aug-19	2.6500
15-Sep-16	350,000	350,000	\$0.21	15-Sep-19	2.7100
18-Nov-16	235,000	235,000	\$0.20	18-Nov-19	2.8800
December 31, 2016	2,381,371	2,381,371	\$0.26		

14. Commitments

The Company rents premises under operating leases which expire between 2017 and 2020. In addition, Annual minimum lease payments to maturity will be approximately as follows:

2017	\$109,750
2018	48,292
2019	36,000
2020	3,000

Lease payments recognized as an expense during the year ended December 31, 2016 were \$104,297 (2015 - \$94,879).

ACKROO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian Dollars except for number of shares)

15. Related party transactions

a. Compensation of key management personnel

The remuneration of key management personnel of the Company during years ended December 31, 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Salaries, incentives / short-term benefits	212,300	413,915
Termination benefits	-	35,000
Share based compensation	<u>172,500</u>	<u>307,821</u>
	<u>384,800</u>	<u>756,736</u>

b. Related party transactions

On January 11, 2016, the company entered into an agreement with a member of the management team to defer payment for the exercise of warrants over a period of up to three years. The amount of the warrant exercise is reflected in the "due from related party" as shown in the financial statements and as of December 31, 2016, no amount has been drawn down. This is a non-cash transaction.

The company entered into consulting agreements with directors and officers resulting in expense in the year of \$31,265 (2015 - \$42,556). As at December 31, 2016 \$11,795 was unpaid and included in accounts payable and accrued liabilities (2015 - \$9,427)

c. Segmented information

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

16. Subsequent event

Subsequent to year end, the Company granted 310,000 stock options exercisable at a price of \$0.215 per option (January 2017) and granted 510,000 stock options exercisable at a price of \$0.155 per option (April 2017), expiring after three years and vesting immediately.