

ACKROO INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016

Dated: May 1, 2017

OVERVIEW

Ackroo Inc. ("Ackroo" or the "Company") is a public company and its shares are listed on the TSX Venture Exchange (TSX-V:AKR). The Company was originally incorporated under the laws of the Province of British Columbia and was continued under the laws of the Province of Alberta and subsequently continued federally under the Canada Business Corporations Act. The Company's head office is located at Suite 201 – 62 Steacie Drive, Ottawa, Ontario, Canada K2K 2A9 and records office at Suite 2200 – 885 West Georgia Street, Vancouver, British Columbia, Canada, V6C 3E8.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

This management's discussion and analysis ("MD&A") reports on the operating results and financial condition of the Company for the year ended December 31, 2016 and is prepared as at May 1, 2017. This MD&A should be read in conjunction with the Company's consolidated financial statements as at and for the years ended December 31, 2016 and 2015, and the notes thereto which were prepared in accordance with International Financial Reporting Standards ("IFRS") (collectively referred to as the "Financial Statements"), which are available on www.sedar.com. Other information contained in this document has also been prepared by management and is consistent with the data contained in the Financial Statements.

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

CAUTIONARY NOTE REGARDING ON FORWARD-LOOKING INFORMATION

This MD&A 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

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projected in the forward-looking statements. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein.

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

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

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

OUTLOOK

The Company's efforts are focused on selling its cloud based gift card & 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. Physical and digital, in-store and online, 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

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- c) On-going one-time fees for items like collateral, custom development and other product related services (PhotoGIFTCARD merchants for instance pay 10% of the value of each card purchased)

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

As of December 31, 2016, the below represents the current YTD analytical metrics that relate to these fees:

- Average MRR (monthly recurrent revenue) per location is **\$92** per location per month
- Average initial OTR (One Time Revenue) per new location is **\$1,220**
- Average annual additional one time revenue per location is **\$266**
- Average lifetime value per location (based on a conservative 7-year minimum however trends suggest we will see at least 9 years +) is **\$10,810**
- Cost to acquire organically through our channels is approx. **\$1,000 - \$1,500**

These Non-GAAP/IFRS analytical metrics are calculated as per below:

Average MRR = The monthly recurring revenue from all active customers for the year 2016 divided by the number of active customers.

Average Initial OTR = The one time revenue from the setup and activation of all active customers for the year 2016 divided by the number of active customers.

Average annual additional OTR = The one time revenue excluding the initial setup and activation of all active customers for the year 2016 divided by the number of active customers.

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

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

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

Combined with Ackroo's consultative sales operations approach of not only deploying technology but also assisting their merchants with how to best utilize it upfront and ongoing through analytics and marketing services the Company truly does 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. Ackroo rewards platform is based on currency and unit rewards and not points creating an easier to understand and simpler model to manage for customers and merchants. This strategy falls in line with Ackroo's goal of both simplifying and consolidating the fragmented gift card and loyalty landscape.

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The Company acquires their customers through three distinct channels:

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

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

During the year ended December 31st, 2016, the Company continued to execute on their growth plans while also advancing their technology and operations. Some of the highlights of the Company's efforts during the year include:

- 22 % revenue growth from 2015
- 29 % EBITDA loss reduction from 2015
- No increase in operating expenses from 2015 yet growth in the business
- Maintained a 66% Gross Margin equal to 2015
- Only 4% attrition for the year
- Over 360 locations added
- Achieved a 27% closing ratio on all channel leads referred to the Company
- Increased average one time revenue for new merchants by 16%
- Acquired Loyalint/Fidelint to add customers, revenues and penetrate the Quebec market
- Acquired D1 Mobile customers and technology to assist us in advancing our technology into mobile
- Acquired OnTab technology in order to assist us with our e-commerce strategy
- Completed migration of the customers acquired from the D1 Mobile asset purchase
- Began migrations of customers acquired from Dealer Rewards and Fidelint/Loyalint acquisitions
- Released and deployed version 1 of our white label mobile application for merchants
- Released and deployed a new version of our white labelled cardholder portal
- Released enhancements to the program console around reporting and reconciliation for franchises
- Developed feature gaps between Dealer Rewards and the Ackroo Anywhere product
- Completed integration to Authenticom for integration to most Dealer Management systems
- Achieved the business milestone of supporting over 300 automotive locations
- Added a supported a new primary sales channel in First Data Canada
- Partnered with IQ724 to provide advanced marketing services and insight for larger merchant types
- Added new board members in Chad Holliday bringing Product Marketing & Product Management executive experience and Wayne O'Connell (Audit Chair) bringing IFRS and Public Accounting expertise.
- Closed 2 financings to support the Company's working capital and growth requirements

The Company is very pleased with the progress made in 2016 and feels poised for a great 2017.

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SELECTED FINANCIAL INFORMATION

	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014
Total revenues	\$ 2,224,165	\$ 1,822,224	\$ 1,328,166
Loss and comprehensive loss	1,752,856	1,597,682	2,810,292
Per share - basic and diluted	(0.09)	(0.10)	(0.44)
Total current assets	853,587	328,988	619,132
Total current liabilities	1,100,471	1,459,278	1,129,819
Total long-term financial liabilities	494,453	245,753	39,500
Cash	643,248	151,694	336,158
Total equity	1,068,485	242,161	(518,283)

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

Operations:

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

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

SUMMARY OF QUARTERLY RESULTS

	Quarter Ended December 31, 2016	Quarter Ended September 30, 2016	Quarter Ended June 30, 2016	Quarter Ended March 31, 2016
Revenue	\$ 556,078	\$ 560,564	\$ 559,223	\$ 548,300
(Loss)	(575,809)	(488,645)	(414,295)	(274,107)
Basic and diluted loss per share ¹	(0.03)	(0.02)	(0.02)	(0.02)
	Quarter Ended December 31, 2015	Quarter Ended September 30, 2015	Quarter Ended June 30, 2015	Quarter Ended March 31, 2015
Revenue	\$ 601,758	\$ 519,766	\$ 315,562	\$ 385,138
(Loss)	(236,792)	(284,382)	(662,305)	(414,203)
Basic and diluted loss per share ¹	(0.01)	(0.02)	(0.04)	(0.03)

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

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ANALYSIS OF THE SUMMARY ANNUAL AND QUARTERLY RESULTS:

The Company puts great focus on increasing revenues, managing operating costs and driving shareholder value. During the 2016 the Company accomplished these goals by increasing revenues and managing operating costs however there was an increase in comprehensive costs due to share based compensation issued during the year which drove basic and diluted share loss to (0.09). The primary cause of this increase was an option grant to employees and advisors during this period, which is in lieu of greater cash compensation in an effort to maintain cash and reduce operating expenses.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2016

The following analysis of the Company's operating results for the year ended December 31, 2016 and includes a comparison against year ended December 31, 2015.

Revenue

For the year ended December 31, 2016, revenues were \$2,224,165 compared to \$1,822,224 for the year ended December 31, 2015. The 22% year over year revenue growth was driven by the Company's continued efforts to increase customers and revenues by selling their gift card and loyalty platform and associated services. For the three months ended December 31, 2016, revenues were \$556,078 compared to \$601,758 for the three months ended December 31, 2015.

Expenses

Cost of goods sold for the year ended December 31, 2016 was \$760,677 (gross margin 65.8%) compared to \$611,898 (gross margin 66.4%) for the year ended December 31, 2015. Cost of goods sold for the three months ended December 31, 2016 was \$194,880 compared to \$199,814 for the three months ended December 31, 2015. The results show the Company was able to maintain margins year over year despite increased shipping and manufacturing costs.

Amortization of property and equipment for the year ended December 31, 2016 was \$12,776 compared to \$12,605 for the year ended December 31, 2015. Amortization of property and equipment for the three months ended December 31, 2016 was \$3,194 compared to \$3,194 for the three months ended December 31, 2015. This depreciation relates to computer equipment, furniture and fixtures.

Amortization of intangible assets for the year ended December 31, 2016 was \$460,010 compared to \$249,769 for the year ended December 31, 2015. Amortization of intangible assets for the three months ended December 31, 2016 was \$155,959 compared to \$100,809 for the three months ended December 31, 2015. This amortization relates to amortization of assets acquired from Dealer Rewards of Canada 2014 Inc., D1 Mobile and Loyallint/Fidelint.

Administrative expense for the year ended December 31, 2016 was \$1,613,611 compared to \$1,514,270 for the year ended December 31, 2015. Administrative expense for the three months ended December 31, 2016 was \$554,652 compared to \$484,495 for the three months ended December 31, 2015.

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Research and development for the year ended December 31, 2016 was \$451,611 compared to \$530,250 for the year ended December 31, 2015. Research and development for the three months ended December 31, 2016 was \$125,028 compared to \$126,272 for the three months ended December 31, 2015. This reduction was due to the Company's continued efforts to reduce costs in all departments of the business while still maintaining growth.

Sales and marketing for the year ended December 31, 2016 was \$5,204 compared to \$22,348 for the year ended December 31, 2015. Sales and marketing for the three months ended December 31, 2016 was \$3,478 compared to \$7,483 for the three months ended December 31, 2015. The decrease in expense relates to the restructuring of certain aspects of the sales organization to move the business to a sales operations model. The Company will look to hire back into this department for growth once additional capital is available.

Stock based compensation expense for the year ended December 31, 2016 was \$523,606 as compared to \$436,408 for the year ended December 31, 2015. Stock based compensation expense for the three months ended December 31, 2016 was \$36,901 as compared to (\$15,174) for the three months ended December 31, 2015. Stock based compensation expenses during the year related to employee incentives and compensation to Board members.

Impairment expense for the year ended and three months ended December 31, 2016 was \$NIL compared to \$NIL for the year ended and three months ended December 31, 2015.

Interest expense for year ended December 31, 2016 was \$148,998 compared to \$164,225 for the year ended December 31, 2015. Interest expense for three months ended December 31, 2016 was \$34,065 compared to \$165,172 for the three months ended December 31, 2015. Interest expense reflects interest on, tax filing and amortization of deemed interest on loans. The majority of the interest expense is "deemed interest" and is related to the Dealer Rewards acquisition for accounting purposes and is non-cash bearing.

Loss from Operations

Comprehensive loss from operations for the year ended December 31, 2016 was \$1,752,856 compared to \$1,597,682 for the year ended December 31, 2015. Comprehensive loss from operations for the three months ended December 31, 2016 was \$488,977 compared to \$307,792 for the three months ended December 31, 2015. The *operating loss from operations excluding interest, taxes, amortization, stock-based compensation and restructuring charges for year ended December 31, 2016 was \$607,466 compared to the loss of \$853,021 the year ended December 31, 2015. The *operating loss from operations excluding interest, taxes, amortization, stock-based compensation and restructuring charges for three months ended December 31, 2016 was \$326,989 compared to the loss of \$309,524 the three months ended December 31, 2015. The significant decrease was once again due to cost containment activities as well as increasing revenues. Operating costs remain flat despite increased revenues and continued price pressure on Cost of Goods Sold.

**These are non-GAAP measures and are calculated as per the table below.*

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	<u>2016</u>	<u>2015</u>
NET LOSS AND COMPREHENSIVE LOSS	(1,752,856)	(1,597,682)
add: Share-based compensation expense (Note 13d)	523,606	436,408
add: Amortization of intangible assets	460,010	249,769
add: Amortization of property and equipment	12,776	12,605
less: Interest expense	148,998	164,225
less: Interest income	-	(947)
less: Gain on modification of long term debt	-	(46,399)
add: Income tax (recovery)	-	(71,000)
	<u>(607,466)</u>	<u>(853,021)</u>

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.

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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.

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). During the year ended December 31, 2016, there was no single customer that accounted for 10% or greater of the total company sales.

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In late December 2016, The Company implemented a new billing system which, due to setup, data migration and approval timelines, caused a temporary delay in processing customer payments.

(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.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2016, the Company has a deficit of \$13,018,139 and expects to incur further losses in the development of its business. As the Company is still in its early stages of its growth plan the Company does not generate sufficient revenue and has not yet achieved profitable operations, and expects to incur further losses. The Company’s objective in managing liquidity risk is to maintain sufficient liquidity in order to meet operational and investing requirements at any point in time. The Company has historically financed its operations and met its capital requirements primarily through the sale of capital stock by way of private placement, exercise of stock options, debt, and the exercise of warrants issued.

The Company’s operating activities for the year ended December 31, 2016 consumed cash of \$589,893 as compared to the year ended December 31, 2015 of \$753,111.

The operating, investing and financing activities resulted in a \$491,554 increase and a \$184,464 decrease in the cash position of the Company for the years ended December 31, 2016 December 31, 2015 respectively. The increase in 2016 was primarily due to the cash raised through the 2 private placements, offset with the repayment of long-term debt and operational losses. The resulting cash balances were \$643,248 and \$151,694 as at December 31, 2016 and 2015, respectively.

The Company has negative working capital of \$246,884 as at December 31, 2016 as compared to negative working capital of \$1,130,290 as at December 31, 2015. The Company plans to increase revenues in order support their working capital requirements, however should revenue not be significantly increased, the Company will either pursue cost cutting measures and/or issue a private placement in the fall of 2017.

The Company has future financial commitments under its office-operating leases in the amount of \$109,750 (2017), \$48,292 (2018), \$36,000 (2019) and \$3,000 (2020).

Contractual obligations	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Debt	1,058,268	582,727	475,541	-	-
Operating leases	197,042	109,750	48,292	36,000	3,000
Total contractual obligations	1,255,310	692,477	523,833	36,000	3,000

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

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substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

CAPITAL STOCK

(a) 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>

As of May 1, 2017, there were 27,212,036 common shares issued and outstanding.

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 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 common 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 and \$10,900 for the issuance of 67,200 warrants as a finder's fee.

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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.

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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.

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

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 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		

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

	<u>2016</u>	<u>2015</u>
Risk free interest rate	0.56%	1.00%
Dividend yield	NIL	NIL
Expected volatility	213.00%	185.00%
Expected life	1-3 years	1-3 Years

Compensation expense recorded for options granted in 2016 totaled \$523,606 (2015 - \$ 436,408).

The Company uses the Black-Scholes model to calculate option fair values which requires highly subjective assumptions, including future stock price volatility and expected time until exercise, which

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greatly affect the calculated values. The expected volatility is based on the Company's historical volatility since it became publicly listed plus the historical volatility of the TSX Venture index for the period before its public listing. The expected life is the average expected period to exercise, which given the Company's limited option history, was based on industry benchmarks. The risk-free interest rate is the yield on zero-coupon Canadian government bonds of a term consistent with the assumed option expected life.

RELATED PARTY TRANSACTIONS

On January 11, 2016, the company entered into an agreement with a member of the management team to defer payment for the exercise of warrants over a period of up to three 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).

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 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	24,587
	<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.

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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	603,456
	<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.

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

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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 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, at no cost to the Company. Any Operational support beyond the initial 100 hours or 10 months will be billed to the Company at a rate of \$75 per hour. Orbo Rewards has also agreed to providing 150 hours or 12 months of technical support, at no additional cost to the Company. Any technical support beyond the initial 150 hours or 12 months will be billed to the Company at a rate of \$100 per hour.

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

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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.

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

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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. The Company has historically financed its operations and met its capital requirements primarily through the sale of capital stock by way of private placement, exercise of stock options, debt, and the exercise of warrants issued and will continue to do so when necessary to ensure the liquidity of the business. These circumstances raise doubt about the Company's ability to continue as a going concern.

CRITICAL ACCOUNTING ESTIMATES

There have been no significant changes to any accounting estimates as disclosed in the Company's most recent audited financial statements as at and for the period ended December 31, 2016.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

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

SUBSEQUENT EVENTS

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.

ADDITIONAL INFORMATION

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