

**ACKROO INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017**

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Dated: August 3, 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 six-months ended June 30, 2017 and is prepared as at August 4, 2017. This MD&A should be read in conjunction with the Company's consolidated financial statements as at and for the three and six months ended June 30, 2017 and the audited financial statements as at and for the year ended December 31, 2016, and the notes thereto which were prepared in accordance with International Financial Reporting Standards ("IFRS") (collectively referred to as the "Financial Statements"), which are available on [www.sedar.com](http://www.sedar.com). Other information contained in this document has also been prepared by management and is consistent with the data contained in the Financial Statements.

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

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

**APPROVAL**

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

**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

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

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

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

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

## **OUTLOOK**

The Company's efforts are focused on selling its cloud based gift card & 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

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

The above model is built based on a per location/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 June 30, 2017, the below represents the current YTD financial metrics that relate to these fees: (Non-GAAP/IFRS measures)

- Average MRR (monthly recurrent revenue) per location is **\$91** per location per month
- Average initial OTR (One Time Revenue) per new location is **\$1,190**
- Average OTR (One Time Revenue) per existing customer re-order is **\$1,240**
- Average lifetime value per location (based on a conservative 7-year minimum however trends suggest we will see at least 9 years +, initial OTR plus at least 1 re-order) is **\$10,074**
- 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 2017 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 2017 divided by the number of active customers.

Average additional OTR = The average one-time revenue for product and service re-orders from current Ackroo merchants.

*\*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. The 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 quarter ended June 30, 2017, 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 quarter include:

- 17 % revenue growth over Q2 2016
- 17 % YTD revenue growth over H1 2016
- Increased subscription and service revenue by 5% over Q2 2016
- Increased Gross Margin to 70% during the period. An increase of 4% over the previous quarter
- Only 3.5% attrition YTD
- Over 40 locations added
- Received a record 179 leads during the quarter
- Increased average one-time revenue for existing merchant re-orders
- Developed even more automotive related features to better support this segment
- Completed migration of ALL Dealer Rewards clients
- Completed migration of ALL Loyalint/Fidelint clients
- Supported 3 new product integrations with Clinicmaster (PMS), POS simplicity and BEST point of sale
- Released a new version of our e-gift offering adding features like delayed delivery
- Re-negotiated agreements with various operational suppliers to decrease costs
- Reduced MRR deployment times down to 30 days
- Continued both customer and channel marketing communication initiatives to drive organic growth
- Closed PP financing in early July to supporting the Companies working capital needs

The Company delivered another great quarter with the many operational and technical advancements completed while continuing to drive significant organic growth. After completing the many operational and technical tasks needed to be completed the Company reduced some staff at the end of the quarter in order to reduce overall operating costs while still positioning the Company for growth. This change along with the removal of on-going license fees from our Dealer Rewards Canada acquisition thanks to migration completion plus the advancements accomplished during the quarter bring the Company that much closer to achieving operating profits. A key objective that the Company expects to achieve in the very near future.

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**SELECTED FINANCIAL INFORMATION**

|                                       | For the six months<br>ended June 30, 2017 | For the six months<br>ended June 30, 2016 | For the six months<br>ended June 30, 2015 |
|---------------------------------------|---|---|---|
| Total revenues                        | \$ 1,300,842                              | \$ 1,107,523                              | \$ 700,700                                |
| Loss and comprehensive loss           | (802,520)                                 | (688,402)                                 | (1,076,508)                               |
| Per share - basic and diluted         | (0.03)                                    | (0.04)                                    | (0.07)                                    |
| Total current assets                  | 431,150                                   | 256,251                                   | 447,597                                   |
| Total current liabilities             | 997,822                                   | 763,833                                   | 1,294,476                                 |
| Total long-term financial liabilities | 241,014                                   | 581,155                                   | 326,061                                   |
| Cash                                  | 151,091                                   | 50  | 229,817                                   |
| Total equity                          | 710,005                                   | 644,467                                   | 574,075                                   |

*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. All operations to date have been managed through Ackroo Canada Inc.

**SUMMARY OF QUARTERLY RESULTS**

|   | Quarter Ended<br>June 30,<br>2017 | Quarter Ended<br>March 31,<br>2017 | Quarter Ended<br>December 31,<br>2016 | Quarter Ended<br>September 30,<br>2016 |
|---|-----------------------------------|------------------------------------|---------------------------------------|--|
| Revenue                                       | \$ 651,457                        | \$ 649,385                         | \$ 556,078                            | \$ 560,564                             |
| (Loss)  | (414,077)                         | (388,443)                          | (575,809)                             | (488,645)                              |
| Basic and diluted loss per share <sup>1</sup> | (0.02)                            | (0.01)                             | (0.03)                                | (0.02)                                 |
|   | Quarter Ended<br>June 30,<br>2016 | Quarter Ended<br>March 31,<br>2016 | Quarter Ended<br>December 31,<br>2015 | Quarter Ended<br>September 30,<br>2015 |
| Revenue                                       | \$ 559,223                        | \$ 548,300                         | \$ 601,758                            | \$ 519,766                             |
| (Loss)  | (414,295)                         | (274,107)                          | (236,792)                             | (284,382)                              |
| Basic and diluted loss per share <sup>1</sup> | (0.02)                            | (0.02)                             | (0.01)                                | (0.02)                                 |

<sup>1</sup> - Numbers have been rounded to the next decimal for presentation purposes.

**ANALYSIS OF THE SUMMARY ANNUAL AND QUARTERLY RESULTS:**

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The Company puts great focus on increasing revenues, managing operating costs and driving shareholder value. During the six months ended June 30, 2017 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 six months ended which drove basic and diluted share loss to (0.03). 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 SIX MONTHS ENDED JUNE 30, 2017**

The following analysis of the Company's operating results for the three and six months ended June 30, 2017 and includes a comparison against the three and six months ended June 30, 2016.

##### **Revenue**

For the three months ended June 30, 2017, revenues were \$651,457 compared to \$559,223 for the three months ended June 30, 2016. The 17% quarter over quarter 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 six months ended June 30, 2017, revenues were \$1,300,842 compared to \$1,107,523 for the six months ended June 30, 2016. The Company increased revenue by 17% compared to the same period last year.

##### **Expenses**

**Cost of goods sold** for the three months ended June 30, 2017 was \$194,921 (gross margin 70.1%) compared to \$196,721 (gross margin 64.8%) for the three months ended June 30, 2016. The results show the Company was able to improve gross margin year over year despite increased shipping and manufacturing costs. Cost of goods sold for the six months ended June 30, 2017 was \$417,693 (gross margin 67.9%) compared to \$386,244 for the six months ended June 30, 2016 (gross margin 65.1%). Both the quarterly and YTD margin increases are a result of the reduction of licensing fees associated with the Dealer Rewards of Canada.

**Amortization of property and equipment** for the three months ended June 30, 2017 was \$3,707 compared to \$3,193 for the three months ended June 30, 2016. Depreciation for the six months ended June 30, 2017 was \$7,414 compared to \$6,387 for the six months ended June 30, 2016. This depreciation relates to computer equipment, furniture and fixtures.

**Amortization of intangible assets** for the three months ended June 30, 2017 was \$143,538 compared to \$100,808 for the three months ended June 30, 2016. Amortization of intangible assets for the six months ended June 30, 2017 was \$287,076 compared to \$201,617 the six months ended June 30, 2016. This amortization relates to amortization of assets acquired from Dealer Rewards of Canada 2014 Inc., D1 Mobile and Loyallint/Fidelint.

**Administrative expense** for the three months ended June 30, 2017 was \$394,701 compared to \$330,675 for the three months ended June 30, 2016. Administrative expense for the six months ended June 30, 2017 was

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\$768,430 compared to \$678,316 for the six months ended June 30, 2016. The increase over 2016 was a result of additional staff being added to support migrations.

**Research and development** for the three months ended June 30, 2017 was \$220,778 compared to \$119,084 for the three months ended June 30, 2016. Research and development for the six months ended June 30, 2017 was \$396,989 compared to \$217,762 for the six months ended June 30, 2016. This increase was due in part to staffing additions to the R&D department to accelerate product development and expedite product availability for revenue growth as well as a re-assessment of SR&ED relating to the 2014 fiscal year in the amount of \$88,418.

**Sales and marketing** for the three months ended June 30, 2017 was \$37,947 compared to \$53 for the three months ended June 30, 2016. Sales and marketing for the six months ended June 30, 2017 was \$79,353 compared to \$797 for the six months ended June 30, 2016. The increase in expense relates to the addition of a full-time marketing manager and related marketing costs to increase product awareness and accelerate revenue growth.

**Stock based compensation** expense for the three months ended June 30, 2017 was \$66,000 as compared to \$158,394 for the three months ended June 30, 2016. Stock based compensation expense for the six months ended June 30, 2017 was \$118,500 as compared to \$260,205 for the six months ended June 30, 2016. Stock based compensation expenses during the year related to employee incentives and compensation to Board members.

**Impairment** expense for the three and six months ended June 30, 2017 was \$NIL compared to \$NIL for the three and six months ended June 30, 2016.

**Interest expense** for the three months ended June 30, 2017 was \$5,526 compared to \$67,503 for the three months ended June 30, 2016. Interest expense for the six months ended June 30, 2017 was \$30,605 compared to \$134,506 for the six months ended June 30, 2016. Interest expense reflects interest on debt, tax filing and amortization of deemed interest on loans.

**Loss from Operations**

**Comprehensive loss** from operations for the three months ended June 30, 2017 was \$414,077 compared to \$414,295 for the three months ended June 30, 2016. Comprehensive loss from operations for the six months ended June 30, 2017 was \$802,520 compared to \$688,402 for the six months ended June 30, 2016.

The \*operating loss from operations excluding interest, taxes, amortization, stock-based compensation, SR&ED re-assessment and restructuring charges for the three months ended June 30, 2017 was \$106,888 compared to the loss of \$84,397 for the three months ended June 30, 2016. The \*operating loss from operations excluding interest, taxes, amortization, stock-based compensation, SR&ED re-assessment and restructuring charges for the six months ended June 30, 2017 was \$270,507 compared to the loss of \$172,519 for the six months ended June 30, 2016. The increase in loss was due to the addition of staff in order to expedite the growth and development of the business.

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

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|  | Six months<br>ended<br><u>June 30, 2017</u> | Six months<br>ended<br><u>June 30, 2016</u> | Three months<br>ended<br><u>June 30, 2017</u> | Three months<br>ended<br><u>June 30, 2016</u> |
|--|---|---|---|---|
| <b>NET LOSS AND COMPREHENSIVE LOSS</b>           | (802,520)                                   | (688,402)                                   | (414,077)                                     | (414,295)                                     |
| add: Share-based compensation expense (Note 13d) | 118,500                                     | 260,205                                     | 66,000  | 158,394                                       |
| add: Amortization of intangible assets           | 287,076                                     | 201,617                                     | 143,538                                       | 100,808                                       |
| add: Amortization of property and equipment      | 7,414                                       | 6,387                                       | 3,707   | 3,193   |
| add: Income tax (recovery)                       | -   | -   | -   | -   |
| add: 2014 SR&ED re-assessment                    | 88,418                                      | -   | 88,418  | -   |
| less: Interest expense                           | 30,605                                      | 134,506                                     | 5,526   | 67,503  |
| less: Interest Income                            | -   | -   | -   | -   |
| less: Gain on modification of long term debt     | -   | (86,832)                                    | -   | -   |
|  | <u>(270,507)</u>                            | <u>(172,519)</u>                            | <u>(106,888)</u>                              | <u>(84,397)</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 June 30, 2017 are as follows:

|                               | Amounts<br>Due | Collected<br>within 30 days<br>of period end | Remaining<br>Overdue<br>Balance |
|-------------------------------|----------------|--|---------------------------------|
| 1 - 30 days due               | 239,925        | 126,722                                      | 113,203 *                       |
| 31 - 60 days due              | 3,488          | 1,254  | 2,234                           |
| 61 - 90 days due              | 2,713          | 744  | 1,969                           |
| Greater than 90 days past due | 1,241          | 366  | 875                             |
|                               | 247,367        | 129,086                                      | 118,281                         |

\* 1-30 days due balance includes a large balance still within terms

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

|                               | Amounts<br>Due | Collected<br>within 30 days<br>of year end | Remaining<br>Overdue<br>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                             |
|                               | 181,317        | 94,486                                     | 86,831                          |

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 June 30, 2017, the allowance for doubtful accounts amounted to \$nil (2016 - \$nil).

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##### (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

As at the six months ended June 30, 2017, the Company has a deficit of \$13,649,559 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 three months ended June 30, 2017 consumed cash of \$164,415 as compared to the three months ended June 30, 2016 that consumed cash of \$342,124. The Company's operating activities for the six months ended June 30, 2017 consumed cash of \$522,019 as compared to the six months ended June 30, 2016 of \$460,729

The operating, investing and financing activities in the three months ended June 30, 2017 resulted in a \$11,272 increase in the cash position of the Company as compared to a \$12,404 decrease in the cash position for the three months ended June 30, 2016. The operating, investing and financing activities in the six months ended June 30, 2017 resulted in a \$492,157 decrease in the cash position of the Company as compared to a \$151,644 decrease in the cash position for the six months ended June 30, 2016.

The Company has negative working capital of \$566,672 as of the six months ended June, 2017 as compared to negative working capital of \$507,582 as of the six months ended June 30, 2016. 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.

As at June 30, 2017, the Company has remaining future financial commitments under its office-operating leases in the amount of \$34,688 (2017), \$110,635 (2018), \$110,635 (2019), \$77,635 (2020), \$12,439 (2021).

| Contractual obligations              | Total            | Less than 1 year |                |               |          |
|--------------------------------------|------------------|------------------|----------------|---------------|----------|
|                                      |                  | 1 - 3 years      | 4 - 5 years    | After 5 years |          |
| Debt                                 | 758,681          | 543,505          | 215,176        | -             | -        |
| Operating leases                     | 346,012          | 89,985           | 243,588        | 12,439        | 0        |
| <b>Total contractual obligations</b> | <b>1,104,693</b> | <b>633,490</b>   | <b>458,764</b> | <b>12,439</b> | <b>0</b> |

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

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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>June 30, 2017</u> | <u>2016</u>       |
|---|----------------------|-------------------|
| Common - 27,212,036 shares (2016 - 27,201,836 shares) | 12,503,298           | 12,499,345        |
| Share issue costs                                     | <u>692,710</u>       | <u>692,710</u>    |
|   | <u>11,810,588</u>    | <u>11,806,635</u> |

As of June 30, 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.

## ACKROO INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017

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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.

During the six months ended June 30, 2017, the Company granted 820,000 stock options exercisable at an average price of \$0.18 per option. In addition, 10,200 stock options were exercised by employees.

#### (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<br>of warrants | Weighted Average<br>Exercise Price |
|-------------------------------------|-----------------------|------------------------------------|
| <b>Balance at December 31, 2014</b> | <b>1,439,904</b>      | <b>\$4.44</b>                      |
| Warrants expired                    | -1,439,904            | -4.44                              |
| Warrants exercised                  | -490,000              | -0.25                              |
| Warrants issued                     | 8,664,165             | 0.25                               |
| <b>Balance at December 31, 2015</b> | <b>8,174,165</b>      | <b>0.25</b>                        |
| Warrants expired                    | -7,434,165            | 0.25                               |
| Warrants exercised                  | -440,000              | 0.25                               |
| Warrants issued                     | 2,567,200             | 0.30                               |
| <b>Balance at December 31, 2016</b> | <b>2,867,200</b>      | <b>0.31</b>                        |
| Warrants expired                    | -                     | 0.00                               |
| Warrants exercised                  | -                     | 0.00                               |
| Warrants issued                     | -                     | 0.00                               |
| <b>Balance at June 30, 2017</b>     | <b>2,867,200</b>      | <b>\$0.31</b>                      |

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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.

**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 27,212,036 common shares outstanding, which means that up to 2,721,204 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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As at June 30, 2017, a summary of the Company's stock option activity is as follows:

|                                   | Number of Options | Weighted Average<br>Exercise Price |
|-----------------------------------|-------------------|------------------------------------|
| <b>Balance, December 31, 2014</b> | <b>355,863</b>    | <b>\$1.18</b>                      |
| ESOP Options Granted              | 1,710,000         | \$27.00                            |
| ESOP Expired/Cancelled            | -589,292          | \$1.18                             |
| Exercised                         | -495,000          | \$0.21                             |
| <b>Balance, December 31, 2015</b> | <b>981,571</b>    | <b>\$0.46</b>                      |
| ESOP Options Granted              | 2,525,000         | \$0.22                             |
| ESOP Expired/Cancelled            | -310,000          | \$0.37                             |
| Exercised                         | -815,200          | \$0.21                             |
| <b>Balance, December 31, 2016</b> | <b>2,381,371</b>  | <b>\$0.26</b>                      |
| ESOP Options Granted              | 820,000           | \$0.18                             |
| ESOP Expired/Cancelled            | -550,000          | \$0.34                             |
| Exercised                         | -10,200           | \$0.20                             |
| <b>Balance, June 30, 2017</b>     | <b>2,641,171</b>  | <b>\$0.21</b>                      |

As at June 30, 2017, a summary of stock options outstanding and exercisable are as follows:

| Grant Date           | # of Options<br>Outstanding | # of Options<br>Exercisable | Exercise<br>Price | Expiry<br>Date | Remaining<br>Contractual<br>Life (years) |
|----------------------|-----------------------------|-----------------------------|-------------------|----------------|--|
| 01-Oct-12            | 21,571                      | 21,571                      | \$1.000           | 01-Oct-17      | 0.25                                     |
| 11-Jan-16            | 200,000                     | 200,000                     | \$0.250           | 11-Jan-19      | 1.53                                     |
| 07-Jun-16            | 354,600                     | 354,600                     | \$0.200           | 07-Jun-19      | 1.94                                     |
| 15-Jul-16            | 250,000                     | 250,000                     | \$0.260           | 15-Jul-19      | 2.04                                     |
| 22-Aug-16            | 410,000                     | 410,000                     | \$0.235           | 22-Aug-19      | 2.14                                     |
| 15-Sep-16            | 350,000                     | 350,000                     | \$0.210           | 15-Sep-19      | 2.21                                     |
| 18-Nov-16            | 235,000                     | 235,000                     | \$0.200           | 18-Nov-19      | 2.39                                     |
| 16-Jan-17            | 310,000                     | 310,000                     | \$0.215           | 16-Jan-20      | 2.55                                     |
| 12-Apr-17            | 510,000                     | 510,000                     | \$0.155           | 12-Apr-20      | 2.79                                     |
| <b>June 30, 2017</b> | <b>2,641,171</b>            | <b>2,641,171</b>            | <b>\$0.216</b>    |                |  |

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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>June 30, 2017</u> | <u>2016</u> | <u>2015</u> |
|-------------------------|----------------------|-------------|-------------|
| Risk free interest rate | 0.84%                | 0.56%       | 1.00%       |
| Dividend yield          |                      |             |             |
| Expected volatility     | 150.00%              | 213.00%     | 185.00%     |
| Expected life           | 1 - 3 years          | 1 - 3 years | 1 - 3 years |

Compensation expense recorded for options granted for the three months ended June 30, 2017 totalled \$66,000 and for the three months ended June 30, 2016 totalled \$158,394.

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

**RELATED PARTY TRANSACTIONS**

On January 11, 2016, the company entered into an agreement with a member of the management team to defer payment for the exercise of warrants over a period of up to three years. The amount of the warrant exercise is reflected in the “due from related party” as shown in the financial statements and as of June 30, 2017, no amount has been drawn down. This is a non-cash transaction.

The company entered consulting agreements with directors and officers resulting in expense in the six-months ended June 30, 2017 of \$7,983 (June 30, 2016 - \$0).

**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.

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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.

As of June 30, 2017, the Company has paid Dealer Rewards \$885,319 in cash and has a remaining balance of \$614,681 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.

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



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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 three months ended June 30, 2017, 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 three months ended June 30, 2017, 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

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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.

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 2016 fiscal 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**

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

**Future Operations**

Presently, the Company revenues are not sufficient to meet operating and capital expenses and the Company has incurred operating losses since inception, which are likely to continue for the foreseeable future. The Company anticipates that it will have negative cash flows in the near term. There is no assurance that the Company will operate profitably or will generate positive cash flow in the future. In addition, the Company's operating results in the future may be subject to significant fluctuations due to many factors not within our control, such as the unpredictability of when customers will place orders, the size of customers' orders, the demand for the Company's platform and solutions, the level of competition and general economic conditions. The Company expects to incur operating losses and negative cash flow until its platform gain market acceptance sufficient to generate a commercially viable and sustainable level of sales so that it is operating in a profitable manner. 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 June 30, 2017.

**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 the six-months ended June 30, 2017, the Company completed a private placement for proceeds totaling \$636,645 consisting of 11,575,364 units at a price of \$0.055 per Unit. Each "Unit" consists of one common share of the Company and one share purchase warrant (each a "Warrant") entitling the holder to purchase an additional common share of the Company at a price of \$0.10 per share for a period of sixty months. The Warrants are subject to accelerated expiry in the event the closing price of the Company's shares is \$0.20 or more for thirty consecutive trading days.

In connection with completion of the placement, the Company also reached an agreement with Orbo Récompenses Inc. (Orbo Rewards) to settle the outstanding balance of \$144,000 owing to Orbo Rewards through a one-time cash payment of \$129,600

**ADDITIONAL INFORMATION**

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