

**ACKROO INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2018**

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Dated: April 23, 2019

**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.

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, 2018 and is prepared as at April 23, 2019. This MD&A should be read in conjunction with the Company's Consolidated Financial Statements as at and for the year ended December 31, 2018, and 2017, 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 years 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 years 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 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

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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 marketing platform into automotive, petroleum, hospitality and retail business of all sizes. 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 these growing business segments.

Via a software-as-a-service ("SaaS") based business model Ackroo charges their merchants:

- a) A one-time setup fee to deploy the technology and train customers
- b) Monthly recurring fees to process, support and further develop the product
- c) On-going one-time fees for items like cards/collateral, custom development, distribution and marketing services.

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.

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As of December 31, 2018 the below represents the current YTD financial metrics as well as 2017 and 2016 metrics that relate to these fees: (Non-GAAP/IFRS measures)

	2016	2017	2018	Comments
Avg. MRR per loc	\$92	\$72	\$72	Maintaining
Avg. New OTR	\$1,220	\$1,210	\$1,301	Maintaining
Avg. Ex OTR	\$1,020	\$1,190	\$1,179	Maintaining
GC vs LTY Prod Mix	70%   30%	65%   35%	60%   40%	Improving
Mktg services clients	< 3%	< 4%	< 5%	Growing
Avg. Tx per month	300k+	350k+	400k+	Growing
MRR to OTR Ratio	60%   40%	62%   38%	73%   27%	Improving
Retention	95%	96%	96%	Maintaining
Locations	1,500+	4,000+	4,200+	Growing
Approx. LTV (7 year)	\$12,008	\$10,828	\$9,585	Maintaining
Organic CAC	< \$1,500	\$1,255	\$979	Improving
LTV to Organic CAC	8 to 1	9 to 1	10 to 1	Improving
Inorganic CAC	< \$2,500	<\$2,500	N/A	Maintaining
LTV to Inorganic CAC	4 to 1	4 to 1	N/A	Maintaining

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

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

Average New OTR = The one-time revenue from the setup and activation of all active customers divided by the number of activated customers.

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

Approx. LTV = The approximate lifetime value is calculated based on a 7-year minimum lifespan.  $MRR \times 84 + \text{New/Initial OTR} + \text{at least 3 existing OTR re-orders}$ .

Organic CAC = The total cost of sales/marketing including channel referral commissions plus some administrative costs from on-boarding and training divided across the # of new locations added during the year.

*\*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 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 business insight and marketing services the Company truly does differentiation in the marketplace.

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The Company's online and in-store gift card & loyalty marketing platform manages 3 key merchant currencies in gift card, loyalty and promotions. The platform provides both the ability to process the data as well as actionable tools to drive results through these currencies.

The Company acquires their customers through three distinct channels:

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

It is through these channels that the company now supports over 4,000 locations and growing via the various products and services the company provides.

During the quarter ended December 31, 2018, 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:

- **62% YoY revenue growth** over 2017
- **First ever positive year** with **\$332,177** in **positive EBITDA** and **\$406,427** in **positive Adjusted EBITDA**
- **Increased subscription revenue** by **89%** over 2017
- **Increased Gross Margin** to **84%** during the year. An **11% increase** 2017
- **Added 378 organic locations** and lost only 180 in 2018
- **2018 attrition rate** of **only 4%**
- **Completed all but 2 migrations** of the KESM/LoyalMark acquisition
- **Achieved revenue per employee target of \$200k +** in 2018
- **Achieved revenue per location target of \$1,110 +** in 2018. A **10% increase** over 2017.
- **Achieved a 32% sales closing ratio** on all channel leads referred to Ackroo during the year
- **Increased gift cards funded/sold** by clients by **20% YoY**
- **Increase loyalty and promo's funded** by clients by **40% YoY**
- **Continued product and operational segment focus & advancement** (Automotive, Petroleum, Hospitality, Retail)
- Maintained new **customer deployment time** averages to be **below 30 days**
- Continued both customer and **channel marketing communication initiatives to drive organic growth**
- **Current active M&A pipeline** has grown to more than **\$12M per annum**
- **Organic large account sales pipeline** in excess of **\$1M per annum**

The Company spent the bulk of 2018 integrating their largest acquisition to date in KESM/LoyalMark while managing the business to deliver 4 straight positive EBITDA quarters. The results allowed the Company to then pay off their M&A debt from Dealer Rewards with these earnings.

The company then finished the year making re-investments into areas like product and marketing to better position the company to continue their inorganic and organic growth plans for 2019 onwards.

The Company is very happy with the results during 2018 and the great progress that was completed operationally, product and partners wise and is poised for their biggest year yet in 2019.

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**SELECTED FINANCIAL INFORMATION**

	For the year ended December 31, 2018	For the year ended December 31, 2017	For the year ended December 31, 2016
Total revenues	\$ 4,435,019	\$ 2,737,830	\$ 2,224,165
Loss and comprehensive loss	(1,066,824)	(1,473,112)	(1,752,856)
Per share - basic and diluted	(0.01)	(0.04)	(0.09)
Total current assets	315,899	310,553	853,587
Total assets	3,539,446	4,611,615	2,663,409
Total current liabilities	802,073	1,135,672	1,100,471
Total long-term financial liabilities	18,536	21,983	494,453
Cash	31,289	33,513	643,248
Total equity	2,718,837	3,453,960	1,068,845

*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, 2018	Quarter Ended September 30, 2018	Quarter Ended June 30, 2018	Quarter Ended March 31, 2018
Total revenues	\$ 1,135,387	\$ 1,083,046	\$ 1,048,171	\$ 1,168,415
Loss and comprehensive loss	(258,408)	(328,987)	(141,434)	(337,995)
Basic and diluted loss per share	(0.00)	(0.01)	(0.00)	(0.00)
	Quarter Ended December 31, 2017	Quarter Ended September 30, 2017	Quarter Ended June 30, 2017	Quarter Ended March 31, 2017
Total revenues	\$ 814,121	\$ 622,867	\$ 651,457	\$ 649,385
Loss and comprehensive loss	(502,836)	(167,756)	(414,077)	(388,443)
Basic and diluted loss per share	(0.01)	(0.00)	(0.02)	(0.01)

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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 year ended December 31, 2018 the Company accomplished these goals by increasing margins and managing operating costs which drove basic and diluted loss per share to \$(0.01) from \$(0.04) in 2017.

**RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2018**

The following analysis of the Company's operating results for the year ended December 31, 2018 and includes a comparison against the year ended December 31, 2017.

**Revenue**

For the year ended December 31, 2018, revenues were \$4,435,019 compared to \$2,737,830 for the year ended December 31, 2017. The 62% year over year revenue growth was driven by the Company's continued efforts to organically increase customers and revenues by selling their gift card and loyalty platform and associated services and the revenue contributed by the newly acquired KESM / LoyalMark customers. For the three-months ended December 31, 2018, revenues were \$1,135,386 compared to \$814,121 for the three-months ended December 31, 2017. The Company increased revenue by 40% for these three-months compared to last year.

**Expenses**

**Cost of goods sold** for the year ended December 31, 2018 was \$717,179 (gross margin 83.8%) compared to \$742,088 (gross margin 72.9%) for the year ended December 31, 2017. Cost of goods sold for the three-months ended December 31, 2018 was \$174,345 (gross margin 84.6%) compared to \$171,551 for the three-months ended December 31, 2017 (gross margin 78.9%). The results show the Company was able to improve margins year over year by maintaining shipping and product costs coupled with the higher average margin customers from the KESM / LoyalMark acquisition and reduction of the Dealer Rewards licensing fees.

**Amortization of property and equipment** for the year ended December 31, 2018 was \$12,814 compared to \$16,253 for the year ended December 31, 2017. Depreciation for the three-months ended December 31, 2018 was \$1,329 compared to \$5,133 for the three-months ended December 31, 2017. This depreciation relates to computer equipment, furniture and fixtures.

**Amortization of intangible assets** for the year ended December 31, 2018 was \$1,070,892 compared to \$634,907 for the year ended December 31, 2017. Amortization of intangible assets for the three-months ended December 31, 2018 was \$237,893 compared to \$204,293 the three-months ended December 31, 2017. This amortization relates to amortization of assets acquired from Dealer Rewards of Canada 2014 Inc., D1 Mobile Corp., Loyalint / Fidelint Platform (ORBO RÉCOMPENSES INC.), KESM Transactions Solutions Inc. & LoyalMark LLC.

**Administrative expense** for the year ended December 31, 2018 was \$2,396,471 compared to \$1,677,509 for the year ended December 31, 2017. Administrative expense for the three-months ended December 31, 2018 was \$756,044 compared to \$581,366 for the three-months ended December 31, 2017. The increase in

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administrative expense relates to the additional personnel and consulting fees and associated operating expenses from the KESM / LoyalMark acquisition.

**Research and development** for the year ended December 31, 2018 was \$722,573 compared to \$664,668 for the year ended December 31, 2017. Research and development for the three-months ended December 31, 2018 was \$191,470 compared to \$153,639 for the three-months ended December 31, 2017. Costs year over year increased slightly due to the R&D staff and associated costs from the KESM acquisition.

**Sales and marketing** for the year ended December 31, 2018 was \$269,378 compared to \$156,723 for the year ended December 31, 2017. Sales and marketing for the three-months ended December 31, 2018 was \$4,268 compared to \$34,826 for the three-months ended December 31, 2017. The increase in expense relates to the implementation of a dedicated marketing team, business development team and initiatives to expedite growth in the business.

**Stock based compensation** expense for the year ended December 31, 2018 was \$285,451 as compared to \$265,900 for the year ended December 31, 2017. Stock based compensation expense for the three-months ended December 31, 2018 was \$23,714 as compared to \$147,400 for the three-months ended December 31, 2017. Stock based compensation expenses during the year related to employee incentives and compensation to Board members.

**Interest expense** for the year ended December 31, 2018 was \$29,844 compared to \$84,226 for the year ended December 31, 2017. Interest expense for the three-months ended December 31, 2018 was \$3,923 compared to \$32,697 for the three-months ended December 31, 2017. Interest expense primarily reflects interest on the Dealer Rewards long-term debt which was repaid at the end of 2018.

**Loss from Operations**

**Net loss and comprehensive loss** for the year ended December 31, 2018 was \$1,066,824 compared to \$1,473,112 for the year ended December 31, 2017. Net loss and comprehensive loss for the three-months ended December 31, 2018 was \$258,410 compared to \$502,837 for the three-months ended December 31, 2017. The net income and comprehensive income (excluding interest, taxes, amortization, stock-based compensation and unusual items) "Adjusted EBITDA\*" for the year ended December 31, 2018 was a **gain of \$406,426** compared to the "Adjusted EBITDA\*" loss of \$502,315 the year ended December 31, 2017. The net income and comprehensive income (excluding interest, taxes, amortization, stock-based compensation and unusual items) "Adjusted EBITDA\*" for the three-months ended December 31, 2018 was a **gain of \$82,698** compared to the "Adjusted EBITDA\*" loss of \$129,403 the three-months ended December 31, 2017. The year ended December 31, 2018 represents the **fourth consecutive positive "Adjusted EBITDA" quarter and first positive "Adjusted EBITDA" year for the Company** as the Company begins to realize the synergistic benefit of the KESM / LoyalMark acquisition.

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

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	2018	2017	Three months ended Dec 31, 2018	Three months ended Dec 31, 2017
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	(1,066,824)	(1,473,112)	(258,410)	(502,836)
add: Share-based compensation expense	285,451	265,900	23,714	147,400
add: Amortization of intangible assets	1,070,892	634,907	237,893	204,293
add: Amortization of property and equipment	12,814	16,253	1,329	5,132
add: Interest expense	29,844	84,226	3,923	32,697
less: Gain on settlement of long-term debt	-	(30,489)	-	(16,089)
add: Severance of employee acquired with KESM	74,250	-	74,250	-
<b>Adjusted EBITDA Income/(Loss)</b>	<b>406,427</b>	<b>(502,315)</b>	<b>82,699</b>	<b>(129,403)</b>

## **FINANCIAL INSTRUMENTS**

### Fair value of financial instruments

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

### Risk Management

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

#### (a) Market risk

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

#### *Interest rate risk*

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

#### *Currency risk*

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



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(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, 2018 are as follows:

	Amounts Due	Collected within 30 days of period end	Remaining Aged Balance
1 - 30 days	216,135	163,713	52,422
31 - 60 days	16,002	5,922	10,080
61 - 90 days	1,503	932	571
Greater than 90 days	4,839	1,242	3,597
	238,479	171,809	66,670

The aging of accounts receivable balances at December 31, 2017 are as follows:

	Amounts Due	Collected within 30 days of year end	Remaining Aged Balance
1 - 30 days	244,093	176,249	67,844
31 - 60 days	3,684	821	2,863
61 - 90 days	1,950	-	1,950
Greater than 90 days	1,627	-	1,627
	251,354	177,070	74,284

The Company has limited credit risk since the Company does not typically extend credit to its customers and customers are required to provide a pre-authorized method of payment upon entering into a service contract. The Company carries out, on a continuing basis, credit checks on its clients, a review of outstanding amounts and maintains provisions for estimated uncollectible accounts. Provisions for doubtful accounts, not due to credit loss, are made on an account by account basis. At December 31, 2018, the allowance for doubtful accounts amounted to \$Nil (2017 - \$Nil). As at December 31, 2018 there were two customers that each represented greater than 10% of the current total accounts receivable (13.7% and 11.8% respectively) whose entire balance was subsequently paid after year end.

(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.

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**LIQUIDITY AND CAPITAL RESOURCES**

At December 31, 2018, the Company has a deficit of \$14,833,252 however it no longer expects to incur further cash losses in the development of its business. 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, 2018 provided cash of \$303,624 as compared to the year ended December 31, 2017 which consumed cash of \$605,371.

The operating, investing and financing activities for the year ended December 31, 2018 consumed cash of \$2,224 as compared to the year ended December 31, 2017 which consumed cash of \$609,735. The resulting cash balances were \$31,289 and \$33,513 as at the years ended December 31, 2018 and 2017 respectively.

The Company has negative working capital of \$486,174 as at December 31, 2018 as compared to negative working capital of \$825,119 as at December 31, 2017. The Company plans to organically increase its revenues in order support its working capital requirements, however, should revenue not be significantly increased, the Company will either pursue cost cutting measures and/or issue a private placement or secure debt financing in the Winter/Spring of 2019 to help assist in the servicing of its obligations for 2019.

The Company has future financial commitments under its office-operating leases in the amount of \$110,635 (2019), \$305,037 (2020), \$246,721 (2021), \$241,258 (2022) and \$248,332 (2023).

<b>Contractual obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>2 - 3 years</b>	<b>4 - 5 years</b>	<b>After 5 years</b>
Debt	72,541	72,541	-	-	-
Operating leases	2,796,602	110,635	551,758	489,590	1,644,618
<b>Total contractual obligations</b>	<b>2,869,143</b>	<b>183,176</b>	<b>551,758</b>	<b>489,590</b>	<b>1,644,618</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.

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**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>2018</u>	<u>2017</u>
Common - 76,037,400 shares (2017 - 75,487,400 shares)	<u>15,217,625</u>	<u>15,138,379</u>

As of April 23, 2019, there were 76,037,400 (94,407,364 diluted) common shares issued and outstanding.

**RELATED PARTY TRANSACTIONS**

On September 1, 2018 the Company entered into an agreement with a member of the management team to consolidate the two amounts previously shown as “due from related party” into one consolidated promissory note representing \$165,020 with a maturity date, and payment due on or before, December 31, 2020. This is a non-cash transaction and the promissory note is non-interest bearing. As of December 31, 2018, the balance was \$165,020.

The Company entered into consulting agreements with directors and officers resulting in expense in the year ended December 31, 2018 and 2017 of \$11,088 and \$33,176 respectively. As at December 31, 2018 \$10,388 was unpaid and included in accounts payable and accrued liabilities (2017 - \$22,007).

**BUSINESS COMBINATION**

**Business Combination**

**KESM Transactions Solutions Inc. & LoyalMark LLC**

On December 1, 2017 the Company completed the acquisition of certain software technologies and customer contracts from KESM Transactions Solutions Inc. & LoyalMark LLC which assets comprise the KESM/LoyalMark software platform. The acquisition is a business combination accounted for using the acquisition method in accordance with IFRS 3. Assets assumed in the acquisition have been recorded at their fair values as at the date of acquisition. The excess of the consideration transferred over the fair value of the assets acquired has been included in goodwill. The acquisition of the KESM/LoyalMark assets is expected to contribute to the profitability of the Company through synergies identified and expected to be realized in the elimination of redundant expenditures including staff and overheads. In determining the fair market value of the assets acquired, synergies are not factored in in order to assess a fair market participant value. As a result, goodwill was created which represents the synergistic benefits to be realized by the Company starting immediately following acquisition. In consideration for the assets, the Company issued 35,800,000 common shares, and paid cash

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consideration of \$200,000 of which \$100,000 was paid on closing of the acquisition with the remaining \$100,000 to be paid during fiscal 2018 and fiscal 2019 (\$25,000 – 2018 and \$75,000 – 2019). In addition, the Company entered into 5-year consulting agreements with the 2 owners of KESM/LoyalMark to provide advice and consulting services in advancing the business. In consideration for providing the services under the consulting agreements, the Company will pay \$33,334 and US\$10,000 respectively per month. The consulting agreements may be terminated by KESM/LoyalMark with 30 days' notice. The consulting services have been determined to be post acquisition compensation.

Fair value of net assets acquired is as follows:

Inventory	\$ 500
Customer contracts	2,080,000
Intellectual property	110,000
Goodwill arising on acquisition	871,041
	<u>871,041</u>
	<u>\$3,061,541</u>

## **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.

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**Future Operations**

The Company anticipates that it will have positive cash flows from operations in the future however there is no assurance of that. 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 does not expect to incur further operating losses and negative cash flow as it continues to grow its platform and gain market further acceptance. 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.

**Revenue concentration**

For the year ended December 31, 2018, there was one customer that represented 21.1% of total revenue. There was no other customer that represented more than 10% of revenue.

**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 year ended December 31, 2018.

**CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

**Accounting standards issued but not yet effective**

The standards and interpretations that have been issued, but are not yet effective, up to the date of issuance of these consolidated financial statements are disclosed below. The Company intends to adopt these standards on the required effective date.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 which replaces IAS 17 for the accounting of leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16: changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and options periods; changes the accounting for sale and leaseback arrangements; largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements. This standard is effective January 1, 2019 and allows early adoption.

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

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**Recently adopted accounting standards**

IFRS 9 Financial Instruments

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

The adoption of IFRS 9 did not have a material impact on the consolidated financial statements of the Company.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, which provides a single, principles based five-step model for revenue recognition to be applied to all customer contracts and requires enhanced disclosures. This standard became effective January 1, 2018.

The adoption of IFRS 15 did not impact the Company's current revenue recognition policies or necessitate any material changes to its internal controls or data systems.

**SUBSEQUENT EVENTS**

Subsequent to year ended December 31, 2018, the Company renegotiated the consulting agreements related to the KESM acquisition to significantly lower the monthly consultation fees and extending term of the agreement. The monthly consulting fees which had a remaining term of 47 months has been extended to 84 months with the monthly amounts decreasing from \$33,333 CAD and \$10,000 USD to \$16,246 CAD and \$8,000 USD respectively for an annual savings of \$236,968.

Subsequent to year ended December 31, 2018, the Company secured a loan from SOFII (Southern Ontario Fund for Investment in Innovation) for \$500,000 with a term of 5 years, with payment of interest only for the first 6 months at a rate of 8%.

On April 10, 2019 the Company issued 300,000 options at an exercise price of \$0.115 for a period of 3 years which vest immediately to new employees.

**ADDITIONAL INFORMATION**

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