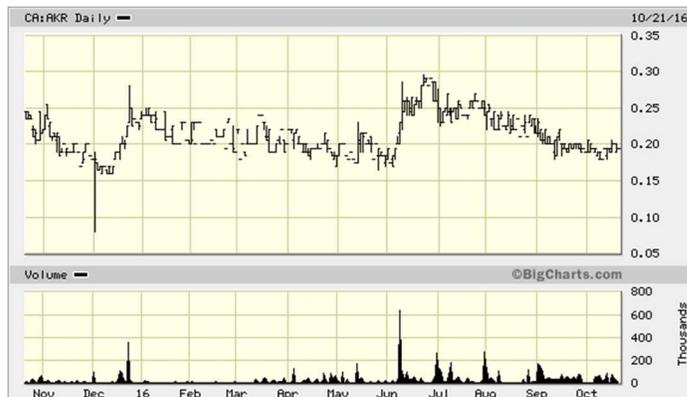


Operational and Financing Update – OCTOBER 21, 2016

Ackroo Inc. (AKR – TSX-V, \$0.195)

Ackroo Inc.	AKR - TSX-V
<i>(Currency is in CAD unless noted otherwise)</i>	
Last Price (\$)	\$0.195
12 Month Target Price (\$)	\$0.425
Return to target	118%
52-week high / low (\$)	\$0.295 / \$0.08
Average Daily Volume (90-Day)	46,660
Market Info	
Shares Outstanding (M)	22.2
Warrants (M)	0.3
Options (M)	2.2
Fully Diluted Shares Out (M)	24.7
Market Capitalization (\$M)	\$4.33
Enterprise Value (\$M)	\$5.42
Most Recent Quarter	
	Q2 2016
Revenue (\$M)	0.56
Gross Margin (%)	65%
EBITDAS (\$M)	(\$0.09)
Working Capital (\$M)	(\$0.51)
Total Debt (\$M)*	\$1.09
<i>* Calculation includes post-quarter adjustments</i>	
Valuation	
EV/Revenue - Annualized H1 16	2,45
EV/Revenue - Expected FY 16	2,26

FYE: Dec 31	FY 2015	FY 2016E	FY 2017E	FY 2018E
Revenue (\$M)	\$1.82	\$2.40	\$3.12	\$4.06
Gross Margin	66%	65%	75%	75%
EBITDAS (\$M)	(\$0.76)	(\$0.24)	\$0.34	\$0.84



- On September 30, 2016, Ackroo completed the acquisition of Quebec-based Loyalint/Fidelint from Orbo Rewards. The acquisition significantly increases the company’s footprint in the Quebec province and should be very accretive to operating earnings.

- On October 18, 2016, Ackroo and marketing services company iQ724 (“IQ”), a wholly owned subsidiary of public company Mobi724 (CSE: MOS), announced that the two companies have signed a joint marketing partnership agreement.

- We believe there is a high probability that Ackroo will reach cash flow breakeven from operations in Q1 2017.

- Ackroo is currently conducting a non-brokered private placement in which it will raise up to \$1,000,000 at \$0.20 with a 24-month \$0.30 half warrant.

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Ackroo acquires Loyalint/Fidelint from Orbo Rewards

On September 30, 2016, Ackroo completed the acquisition of Quebec-based Loyalint/Fidelint from Orbo Rewards. Under the terms of the acquisition, Ackroo bought the Loyalint/Fidelint software and hardware platform for gift card and loyalty and all related customer contracts representing over \$15K of monthly recurring revenue, additional one-time revenue and 138 total locations. Total purchase price of \$470K includes a \$100K upfront payment, 500,000 AKR shares and fifteen monthly payments of \$18K starting in December 2016.

The Loyalint/Fidelint acquisition, which was initially announced in a press release dated September 15, 2016, significantly increases Ackroo's footprint in the Quebec province. It now makes sense for the company to hire a fully bilingual sales operations specialist to support the Quebec market and leverage their footprint to grow revenue in that region. According to CEO Steve Levely, migration time should be minimal as Ackroo's Anywhere platform provides all of the current features and functions the Loyalint/Fidelint platform has plus considerably more enhancements.

At Espace MicroCaps, our core investment thesis on AKR is based on our conviction that the gift card and loyalty space is ripe for massive consolidation and provides highly accretive acquisition opportunities on top of organic growth. For instance, our case study of the Dealer Rewards Canada (DRC) acquisition (see [AKR Initiation Report](#)) suggests Ackroo paid a multiple of 4-5x operating profits before migration of DRC customers on Ackroo's Anywhere Platform; after migration, excluding one-time development costs, the multiple could get as low as 2.5-3x.

In our opinion, albeit small, Loyalint/Fidelint is an ever better acquisition than Dealer Rewards Canada. Here's why:

- *Strategy:* Leverage Loyalint/Fidelint's market presence in Quebec to grow revenue in that region. Migration of their customers to Ackroo's Anywhere platform will also provide upselling and cross selling opportunities.
- *Execution risk:* No development work required for migration of Loyalint/Fidelint customers to Ackroo's Anywhere platform.
- *Purchase price:* According to our pro formal model (see table next page), valuation multiple of the Loyalint/Fidelint acquisition should be in the range of 2.8-3.2x operating profits.

Considering emerging growth public companies are normally valued at 10x+ operating profits, as shareholders, we are very excited about the opportunity to finance Ackroo’s acquisition strategy.

Table 1 – Pro-forma model Loyalint/Fidelint

Loyalint/Fidelint Pro-Forma	Bear	Bull
Revenue		
<i>Recurring</i>	180 000	180 000
<i>One-Time</i>	50 000	100 000
(-) COGS		
<i>Recurring</i>	-	-
<i>One-Time (50%)</i>	25 000	50 000
Gross Profit	205 000	230 000
(-) OPEX	60 000	60 000
Cash Operating Income	145 000	170 000
Multiple Paid	3,24	2,76

Ackroo signs marketing partnership agreement with iQ724

On October 18, 2016, Ackroo and marketing services company iQ724 (“IQ”), a wholly owned subsidiary of public company Mobi724 (CSE: MOS), announced that the two companies have signed a joint marketing partnership agreement. Through this agreement, Ackroo will provide its Ackroo Anywhere solution and IQ will provide their customized marketing services modules as a combined solution for merchants across North America. The initiative will support upselling Ackroo's gift card and loyalty platform to IQ clients and upselling IQ's customized marketing services modules to Ackroo clients as well as pursuing net new opportunities together via each companies channel partnerships.

If this sounds familiar, it’s no coincidence. On August 26, 2014, Ackroo signed a similar agreement with Dealer Rewards. What happened a year later? They bought their Canadian operations in a friendly deal. No matter what is the endgame here, it’s another positive strategic move to better position Ackroo in the Quebec market.

Partnering with iQ724, Ackroo now has immediate access to upsell to big brands like Uniprix, Kia Canada, La Cage Brasserie Sportive and many others that iQ724 supports with some of its custom marketing solutions. IQ's marketing intelligence and data analytics platforms are powerful, but their processing solutions for gift card and loyalty are behind Ackroo's according to our industry contacts. By combining their respective offerings, Ackroo and IQ now have a stronger solution to offer SME businesses and large brands.

Indeed, CEO Steve Levely made the following comment in the press release: *“Medium to large merchants demand advanced solutions like what iQ724 offers and so while Ackroo will continue to develop our core solution to support the small to medium sized marketplace this partnership will better position the Company to support large to enterprise accounts as well.”*

Additionally, Mobi724 and iQ724 each have a couple of product partners that are new to Ackroo. The company could leverage those relationships to increase its total addressable market with strategic product integration.

On an interesting note, IQ was recently acquired by Mobi724 on January 1, 2016, for \$250K cash and a contingent consideration based on future sales. Based on Mobi724 management expectations, they should do approximately \$2M in revenue in 2016.

Summary of Insider Transactions by Steve Levely in Q3 2016

Transaction ID	Date of transaction YYYY-MM-DD	Date of filing YYYY-MM-DD	Ownership type (and registered holder, if applicable)	Nature of transaction	Number or value acquired or disposed of	Unit price or exercise price	Closing balance	Insider's calculated balance
2850019	2016-06-09	2016-06-10	Direct Ownership :	10 - Acquisition or disposition under a prospectus exemption	+75,000	0.2000	815,000	815,000
2887088	2016-07-15	2016-07-18	Direct Ownership :	51 - Exercise of options	+200,000	0.2500	815,000	815,000
2887089	2016-07-15	2016-07-18	Direct Ownership :	11 - Acquisition or disposition carried out privately	-200,000	0.2500	815,000	815,000
2875761	2016-08-09	2016-08-10	Direct Ownership :	10 - Acquisition or disposition in the public market	-88,500	0.2400	828,500	828,500
2875763	2016-08-10	2016-08-10	Direct Ownership :	10 - Acquisition or disposition in the public market	-1,500	0.2400	825,000	825,000
2875767	2016-08-10	2016-08-10	Direct Ownership :	11 - Acquisition or disposition carried out privately	+125,000	0.2000	850,000	850,000
2881785	2016-08-22	2016-08-24	Direct Ownership :	11 - Acquisition or disposition carried out privately	+20,000	0.2100	870,000	870,000
2882475	2016-08-22	2016-08-26	Direct Ownership :	11 - Acquisition or disposition carried out privately	+130,000	0.2000	800,000	800,000
2883710	2016-08-26	2016-08-31	Direct Ownership :	10 - Acquisition or disposition in the public market	-125,000	0.2300	875,000	875,000
2883711	2016-08-31	2016-08-31	Direct Ownership :	11 - Acquisition or disposition carried out privately	+100,000	0.2000	775,000	775,000
2883712	2016-08-31	2016-08-31	Direct Ownership :	11 - Acquisition or disposition carried out privately	+50,000	0.2100	825,000	825,000
2885780	2016-09-01	2016-09-02	Direct Ownership :	10 - Acquisition or disposition in the public market	-150,000	0.2300	875,000	875,000
2887014	2016-09-07	2016-09-07	Direct Ownership :	11 - Acquisition or disposition carried out privately	+55,000	0.2000	730,000	730,000
2887015	2016-09-07	2016-09-07	Direct Ownership :	11 - Acquisition or disposition carried out privately	+40,000	0.2100	770,000	770,000

Between July 18, 2016, and September 7, 2016, Steve Levely has executed 13 insider transactions in the open markets. Many investors wondered what was going on and sold in fear that Steve was reducing his position in AKR. First, we would like to remind our followers that, even if the SEDI.ca website seems to date all the way back to the World Wide Web public announcement in 1990, it remains your most reliable source for insider transactions. See table next page for Steve's insider transactions.

We can notice that Steve actually added to his position. He increased his stake from 540,000 to 770,000 shares, adding 75,000 in the last closed private placement and then 165,000 through option exercises. He did sell some shares in the process, but it was to finance the option exercises. In total, 800,000 options have been exercised by Steve and employees since June 30, 2016, bringing approximately \$170K in the company's coffers. The money should cover the company's burn rate until it turns cash flow positive, leaving Steve with some breathing room while he raises additional capital through capital markets.

Steve is slowly adding to his position under \$0.25. When the AKR share price gets over the \$0.25 level, we expect him to start paying back his shareholder loan of \$90K which was issued to him so he can exercise his \$0.25 warrants. He still has until December 2018 to do so.

Ackroo announces new private placement opportunity

On September 30, 2016, Ackroo announced that the company is conducting a non-brokered private placement in which it will raise up to \$1,000,000. In connection with the private placement, the company will issue up to 5,000,000 units (each, a "Unit") at a price of \$0.20 per unit. Each unit will consist of one common share of the company and one-half-of-one common share purchase warrant, each full warrant entitling the holder to purchase one additional common share of the Company (a "Warrant Share") at a price of \$0.30 per Warrant Share for a period of 24 months from the date of the issuance.

Management has already secured an initial order of \$107,500 to cover the Loyalint/Fidelint upfront payment. Additionally, the proceeds of the private placement will be used to recapitalize the balance sheet (\$400,000) and hire staff to support growth and development of the Company's existing technology and product offerings (\$500,000).

Forecasts and Outlook

We will update our forecasts and target price after Ackroo reports Q3 2016 financial results and closes its private placement offering. Early indications from management seem to suggest much better momentum with this financing than the last one. Although there is no certainty they can raise the full amount, we are comfortable knowing that only \$500K is needed to get to cash flow breakeven from operations and cover payments to DRC and Loyalint/Fidelint vendors. Everything above \$500K is pure growth capital.

From an operational standpoint, Ackroo is poised for substantial organic growth in 2017:

- Strong strategy in place for the Quebec market
- Increasing monthly volume of leads and deployments with First Data
- Good traction with their new mobile offering
- Large brand pipeline continues to grow

From a product standpoint, it is important to note that final development work for migration of DRC accounts has begun in Q4 and management expects the process to be over by January 2017. For one-time development costs, Ackroo will save \$22K in monthly license fees (\$66K per quarter) at current recurring revenue run rates.

Considering all of the above, we believe there is a high probability that Ackroo will reach cash flow breakeven from operations in Q1 2017. Then, it should make it much easier for investors to notice Ackroo's high operating leverage, which should result in 40-50% marginal contribution of additional revenue to bottom line. Usually, strong organic revenue increases and highly accretive acquisitions are a recipe to hockey stick free cash flow growth per share.

If our investment thesis is right, we think AKR could be a potential multi-bagger thanks to valuation multiple expansion and free cash flow growth per share.

Financial snapshots

	Q2 16	Q1 16	Q4 15	Q3 15	Q2 15	Q1 15
Revenue	559 223	548 300	601 758	519 766	315 562	385 138
(-) COGS	196 721	189 523	199 815	183 914	91 028	137 141
Gross Profit	362 502	358 777	401 943	335 852	224 534	247 997
(-) OPEX	449 812	447 063	618 250	479 770	513 708	455 140
(-) Grants and tax credits*	-	-	(9 777)	(90 223)	-	-
EBITDAS**	(87 310)	(88 286)	(206 530)	(53 695)	(289 174)	(207 143)
Key Metrics						
Revenue Growth y/y	77%	42%	72%	61%	10%	4%
Gross Margin	65%	65%	67%	65%	71%	64%
Improvement in EBITDAS loss	70%	57%	51%	79%	22%	63%
Working Capital	(507 582)	(1 180 833)	(1 130 290)	(807 723)	(846 879)	368 620

	FY 15	FY 14	FY 13	FY 12
Revenue	1 822 224	1 328 166	1 284 016	681 142
(-) COGS	611 898	360 888	426 451	166 825
Gross Profit	1 210 326	967 278	857 565	514 317
(-) OPEX	2 066 868	2 716 753	3 430 474	4 123 264
(-) Grants and tax credits*	(100 000)	(135 428)	(77 480)	(183 701)
EBITDAS**	(756 542)	(1 614 047)	(2 495 429)	(3 425 246)
Key Metrics				
Revenue Growth y/y	37%	3%	89%	
Gross Margin	66%	73%	67%	76%
Improvement in EBITDAS loss	53%	35%	27%	
Working Capital	(1 130 290)	(510 687)	176 218	3 234 124

* Grants and tax credits exclude a \$100K provision for potential reversal of previous years SRED in FY 15

** EBITDAS excluding foreign exchange gains & losses

Disclosure

Philippe Bergeron-Bélanger, Mathieu Martin and MicroCaps Research Canada Inc., which operates Espace MicroCaps, own collectively 342,500 shares of Ackroo. Philippe and Mathieu will subscribe to at least 50,000 and 25,000 units respectively in the current open private placement financing. MicroCaps Research Canada Inc. has provided Ackroo with communication-marketing services in the amount of \$9,000 year-to-date.

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