



AcuityAds Holdings Inc.

Consolidated Financial Statements
(in Canadian dollars)

Years ended December 31, 2015 and 2014



March 10, 2016

Independent Auditor's Report

To the Shareholders of AcuityAds Holdings Inc.

We have audited the accompanying consolidated financial statements of AcuityAds Holdings Inc. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2015 and the consolidated statements of comprehensive loss, changes in shareholders' deficiency and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

*PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215*

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AcuityAds Holdings Inc. and its subsidiaries as at December 31, 2015 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 1 to the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that casts significant doubt about the company's ability to continue as a going concern.

Other Matters

The consolidated financial statements of AcuityAds Holdings Inc. for the year ended December 31, 2014, were audited by another auditor who expressed an unmodified opinion on those statements on March 23, 2015.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

ACUITYADS HOLDINGS INC.

Consolidated Statements of Financial Position
(in Canadian dollars)

	December 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,252,754	\$ 1,428,642
Restricted cash (note 17 (b))	125,000	—
Accounts receivable	5,104,869	4,173,788
Other current assets	434,969	247,745
Investment tax credits receivable (note 4)	450,000	450,000
	10,367,592	6,300,175
Non-current assets:		
Restricted cash (note 17 (b))	125,000	—
Property and equipment (note 5)	1,404,875	703,758
Total assets	\$ 11,897,467	\$ 7,003,933

Liabilities and Shareholders' Deficiency

Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,868,277	\$ 4,032,656
Term Loan (note 19)	525,000	—
Revolving line of credit (note 18)	3,374,820	—
Repayable government grant (note 9)	225,000	—
Current portion of finance lease obligations (note 7)	643,605	162,279
	11,636,702	4,194,935
Non-current liabilities:		
Promissory notes payable (note 6)	—	3,950,169
Term Loan (note 19)	1,618,075	—
Repayable government grant (note 9)	—	150,000
Finance lease obligations (note 7)	479,543	199,540
	2,097,618	4,299,709
Total liabilities	13,734,320	8,494,644
Shareholders' deficiency	(1,836,853)	(1,490,711)
Going concern (note 1)		
Total liabilities and shareholders' deficiency	\$ 11,897,467	\$ 7,003,933

The accompanying notes form an integral part of the consolidated financial statements.

Approved on behalf of the Board

(Signed) "Sheldon Pollack"
Director

(Signed) "Tal Hayek"
Director

ACUITYADS HOLDINGS INC.

Consolidated Statements of Comprehensive Income (Loss)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

	2015	2014
Revenue		
Managed services	\$ 13,493,487	\$ 11,853,284
Self-service	7,200,177	1,798,962
	<u>20,693,664</u>	<u>13,652,246</u>
Operating expenses:		
Media costs	10,629,942	6,658,728
Employee compensation and benefits (note 4)	7,597,659	7,730,536
General and administrative	4,064,516	4,120,674
Share based compensation (note 10)	722,475	337,298
Listing expense (note 3)	—	228,871
Depreciation	423,788	234,305
	<u>23,438,380</u>	<u>19,310,412</u>
Income (loss) from operations	(2,744,716)	(5,658,166)
Finance costs (note 11)	820,499	747,138
Foreign exchange (gain) loss	245,112	162,989
	<u>1,065,611</u>	<u>910,127</u>
Income (loss) before income taxes	(3,810,327)	(6,568,293)
Income taxes	3,553	11,271
Net income (loss) for the year	<u>(3,813,880)</u>	<u>(6,579,564)</u>
Exchange differences on translating foreign operations	98,762	—
Comprehensive income (loss) for the year	<u>\$ (3,912,642)</u>	<u>\$ (6,579,564)</u>
Net income (loss) per share (note 12):		
Basic and diluted	\$ (0.16)	\$ (0.36)

The accompanying notes form an integral part of the consolidated financial statements.

ACUTYADS HOLDINGS INC.

Consolidated Statements of Changes in Shareholders' Deficiency
(in Canadian dollars)

Years ended December 31, 2015 and 2014

Year ended December 31, 2015	Common Shares Number	Amount	Contributed Surplus	Warrants and other reserves	Deficit	Total
Balance, December 31, 2014	20,756,265	\$ 6,031,992	\$ 803,211	\$ -	\$ (8,325,914)	\$ (1,490,711)
Shares issued - options exercised	46,154	11,400	-	-	-	11,400
Equity financing (note 10(c))	4,288,100	2,423,066	-	106,987	-	2,530,053
Share-based compensation (note 10(d))	-	-	722,475	-	-	722,475
Term loan warrants	-	-	-	302,572	-	302,572
Other comprehensive loss	-	-	-	(98,762)	-	(98,762)
Loss for the year	-	-	-	-	(3,813,880)	(3,813,880)

Balance, December 31, 2015 25,090,519 \$ 8,466,458 \$ 1,525,686 \$ 310,797 \$ (12,139,794) \$ (1,836,853)

Year ended December 31, 2014	Common Shares Number	Amount	Contributed Surplus	Warrants and other reserves	Deficit	Total
Balance, December 31, 2013	104,724,680	\$ 265,455	\$ 326,083	\$ 157,935	\$ (1,746,350)	\$ (996,877)
Shares issued - warrants exercised (note 10(d))	2,071,407	407,935	-	(157,935)	-	250,000
Shares issued - options exercised	3,724,310	199,550	(35,850)	-	-	163,700
Impact of share consolidation on the basis of 6.5:1 (note 3)	(93,517,259)	-	-	-	-	-
Private placement (note 10 (b))	3,616,352	5,750,000	-	-	-	5,750,000
Share issuance costs	-	(796,213)	170,771	-	-	(625,442)
Issuance of common shares to former Wildlaw shareholders (note 3)	125,786	200,000	-	-	-	200,000
Issuance of options to former Wildlaw option holders (note 10 (d))	-	-	5,174	-	-	5,174
Options exercised	10,989	5,265	(265)	-	-	5,000
Share-based compensation (note 10(d))	-	-	337,298	-	-	337,298
Loss for the year	-	-	-	-	(6,579,564)	(6,579,564)

Balance, December 31, 2014 20,756,265 \$ 6,031,992 \$ 803,211 \$ - \$ (8,325,914) \$ (1,490,711)

The accompanying notes form an integral part of the consolidated financial statements.

ACUITYADS HOLDINGS INC.

Consolidated Statements of Cash Flows
(in Canadian dollars)

Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from (used in) operating activities:		
Net income (loss) for the year	\$ (3,813,880)	\$ (6,579,564)
Adjustments to reconcile net loss to net cash flows:		
Depreciation	423,788	234,305
Finance costs (note 11)	820,499	747,138
Share-based compensation (note 10 (d))	722,475	337,298
Change in non-cash operating working capital:		
Accounts receivable	(931,081)	(1,116,024)
Other current assets	(187,224)	(69,640)
Investment tax credits receivable	—	641,764
Accounts payable and accrued liabilities	2,835,621	1,672,829
Interest paid, net	(746,693)	(699,759)
	(876,495)	(4,831,653)
Cash used in investing activities:		
Additions to property and equipment	(1,124,904)	(66,932)
Restricted cash (note 17 (b))	(250,000)	—
	(1,374,904)	(66,932)
Cash flows from (used in) financing activities:		
Proceeds from promissory notes payable, net of issuance costs (note 6)	—	984,007
Repayments of promissory notes payable	(4,000,000)	—
Repayments of amounts due to related parties,	—	(602,598)
Proceeds from term loan, net of transaction costs (note 19)	2,422,678	—
Proceeds from revolving line of credit, net of transaction costs (note 18)	3,275,051	—
Additions to finance leases	1,158,449	—
Repayments of finance leases	(397,120)	(73,081)
Proceeds from private placement, net of issuance cost(s) (note 10 (b))	—	5,124,558
Proceeds from the exercise of stock options	11,400	168,700
Proceeds from the exercise of warrants (note 10(d))	—	250,000
Issuance of equity	—	205,174
Proceeds from equity financing, net of issuance costs (note 10 (c))	2,530,053	—
Proceeds related to repayable government grant (note 9)	75,000	150,000
	5,075,511	6,206,760
Increase in cash and cash equivalents	2,824,112	1,308,175
Cash and cash equivalents, beginning of year	1,428,642	120,467
Cash and cash equivalents, end of year	\$ 4,252,754	\$ 1,428,642
Supplemental disclosure of non-cash transactions:		
Additions to property and equipment under finance leases	\$ 985,811	\$ 391,525

The accompanying notes form an integral part of the consolidated financial statements.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

1. Corporate information and going concern:

AcuityAds Holdings Inc. ("Acuity Holdings"), formerly Wildlaw Capital CPC 2 Inc. ("Wildlaw"), is the parent company of AcuityAds Inc. ("Acuity" or "the Company"), a leading provider of targeted digital media solutions, enabling advertisers to connect intelligently with their audiences across online display, video, social and mobile campaigns. Acuity Holdings is a publicly traded corporation, incorporated in Canada, and its head office is located at 181 Bay Street, Suite 320, Brookfield Place, Toronto, Ontario M5J 2T3. The Company's common shares are listed on the TSX Venture Exchange ("TSXV"), under the trading symbol "AT".

The Company was incorporated as Wildlaw Capital CPC 2 Inc. under the Canada Business Corporations Act on June 28, 2011 and was classified as a Capital Pool Company as defined by the TSXV. The principal business of the Company at that time was to identify and evaluate assets or businesses with a view to completing a qualifying transaction (a "Qualifying Transaction") under relevant policies of the TSXV.

In 2014, the Company closed its Qualifying Transaction pursuant to an Agreement between Wildlaw and Acuity, and Wildlaw changed its name to AcuityAds Holdings Inc. (together, "the Company") (note 3) .

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on the assumption that the Company is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the Company has neither the intention nor the need to liquidate and is able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company has experienced losses since inception and currently has a working capital deficiency. Management continues to seek additional financing that will be required to support operating and investing activities, as the Company continues to expand its operations in the foreseeable future. There is no certainty that additional financing will be available or that it will be available on attractive terms.

These events and conditions indicate the existence of material uncertainties that may cast significant doubt as to the Company's ability to continue as a going concern. The consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported expenses, and the consolidated statement of financial position classifications used and such adjustments could be material.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

2. Significant accounting policies:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"). The accounting policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 31, 2015. The date the Board of Directors authorized the consolidated financial statements for issue is March 10, 2016.

(b) Basis of presentation:

These financial statements are prepared in Canadian dollars, which is the Company's functional and reporting currency.

These consolidated financial statements have been prepared mainly under the historical cost basis. Other measurement bases used are described in the applicable notes.

The Company's financial year corresponds to the calendar year. The consolidated financial statements are prepared on a going concern basis.

(c) Use of estimates and judgements:

The preparation of consolidated financial statements and application of IFRS often involve management's judgement and the use of estimates and assumptions deemed to be reasonable at the time they are made. The Company reviews estimates and underlying assumptions on an ongoing basis. Revisions are recognized in the period in which estimates are revised and may impact future periods as well. Other results may be derived with different judgments or using different assumptions or estimates and events may occur that could require a material adjustment.

The following are critical accounting policies subject to such judgements and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the consolidated financial statements.

(i) Key sources of estimation uncertainty

- (a) Accounts receivables - The Company monitors the financial stability of its customers and the environment in which they operate to make estimates regarding the likelihood that the individual trade receivable balances will be paid. Credit risks

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

2. Significant accounting policies (continued):

for outstanding customer receivables are regularly assessed and allowances are recorded for estimated losses.

(b) Investment tax credits receivable – The Company has claimed certain refundable Canadian investment tax credits for qualifying research and development activities performed in Canada, which are recognized in the statements of financial position when the Company estimates they are reliably estimable and realization is reasonably assured. The estimated amount recoverable is subject to review and approval by taxation authorities.

(c) Share-based payments - The estimated fair value of stock options is determined using the Black-Scholes option pricing model. Inputs to the model are subject to various estimates related to volatility, interest rates, dividend yields and expected life of the stock options issued. Fair value inputs are subject to market factors, as well as internal estimates. In addition to the fair value calculation, the Company estimates the expected forfeiture rate with respect to equity-settled share-based payments based on historical experience. There was no public market for the Company's common shares until July 22, 2014, at which time the Company's shares were listed on the TSXV. Prior to listing, the Board of Directors determined the fair value of the common shares at the time of the grant of options and sales of warrants by considering a number of objective and subjective factors.

(ii) Critical judgments in applying accounting policies:

(a) Impairment tests for non-financial assets - Judgment is applied in determining whether events or changes in circumstances during the years are indicators that a review for impairment should be conducted.

(b) Revenue and cost recognition - For revenue from sales of third-party products or services, management's judgment is applied regarding the determination of whether the Company is a principal or agent to the transactions. In making this judgment management places significant weight on the fact that the Company has the primary responsibility for providing access to the Company's Programmatic Marketing Platform, which is critical to the fulfilment of the customer deliverables, and bears the credit risk in respect of the amounts receivable from the customer.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

2. Significant accounting policies (continued):

(c) The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures and meet its liabilities for the ensuing year involves significant judgement based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

(d) Basis of consolidation:

(i) Subsidiaries:

These consolidated financial statements include the accounts of AcuityAds Holdings Inc. and its wholly-owned subsidiaries AcuityAds Inc. AcuityAds US Inc., and 2422330 Ontario Inc., a company that holds certain technology assets.

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation.

Intercompany balances and transactions, and any unrealized income and expenses arising from such transactions are eliminated upon consolidation.

(e) Foreign currency transactions:

The Company's functional and reporting currency is the Canadian dollar. Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities and related depreciation are translated at historical exchange rates. Revenue and expenses, other than depreciation are translated at the average rates of exchange for the period.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

2. Significant accounting policies (continued):

(f) Financial instruments:

(i) Non-derivative financial assets:

The Company initially recognizes loans and receivables and deposits on the date they originate. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial instruments are, for measurement purposes, grouped into categories. The classification depends on the purpose and is determined upon initial recognition. The Company's non-derivative financial assets comprise loans and receivables.

Loans and receivables, which include cash, accounts receivable and investment tax credits receivable, are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Accounts receivable comprise trade receivables, net of allowance for doubtful accounts.

Cash and cash equivalents comprise cash balances and cash deposits with original maturities of three months or less.

Investment tax credits receivable comprise refundable Canadian investment tax credits ("ITCs") for qualifying research and development activities in Canada.

The Company's non-derivative financial liabilities consist of accounts payable and accrued liabilities, revolving line of credit, term loan, promissory notes payable, and amounts due to related parties. Such financial liabilities are recognized initially at fair

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

2. Significant accounting policies (continued):

value less any directly attributable transaction costs. Subsequent to initial recognition and measurement, these financial liabilities are measured at amortized cost using the effective interest method.

(g) Property and equipment:

(i) Recognition and measurement:

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in income (loss). The costs of the day-to-day servicing of property and equipment are recognized in income (loss) as incurred.

(ii) Depreciation:

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognized on a straight-line basis over the estimated useful lives of the property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

Furniture and fixtures	5 years
Data centre equipment	4 years
Office computer equipment	3 years
Equipment under finance leases	3 years

Depreciation methods, useful lives and residual values are reviewed at each year end and adjusted if appropriate.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

2. Significant accounting policies (continued):

(iii) Research and development:

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognized in income (loss) as incurred.

Expenditures on development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. To date, no material development expenditures have been capitalized primarily on the basis that the recognition of internally developed intangible assets from development activities are not met until shortly prior to the related products are in a position to derive or generate economic benefits.

(h) Impairment:

(i) Financial assets (including accounts receivable):

A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flow of that asset that can be estimated reliably. Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively based on the nature of the asset.

An impairment loss on receivables is measured as the difference between the assets carrying amount and the present value of the future cash flows expected to be derived from the asset, discounted using the original effective interest rate. The carrying value is reduced through the use of an allowance for doubtful accounts, with the loss recognized in income (loss).

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

2. Significant accounting policies (continued):

The recoverable amount of an asset or group of assets (the “cash-generating unit”) (“CGU”) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in income (loss). Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods, other than those recognized for impairment of goodwill, are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Share-based payments:

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions.

The grant date fair value of share-based payment awards granted to employees is recognized as a compensation cost, with a corresponding increase in contributed surplus, over the vesting period of the award. The amount recognized is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that vest. Upon exercising the options, the fair value of the options exercised that has been expensed to contributed surplus is reclassified to common shares and reflected in the statements of changes in shareholders' deficiency.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

2. Significant accounting policies (continued):

Deferred stock unit plan:

As part of the Company's long-term incentives for employees, Officers, and Directors a deferred stock unit plan ("DSU") was established on August 18, 2015 as a common share settled plan. DSU awards vest immediately upon grant and are settled with the issuance of common shares. The compensation expense for DSUs is based on the fair values at the time the award is granted. The expense is recognized as a component of general and administration expense with a corresponding increase to contributed surplus within shareholders' equity. Upon redemption, the fair value of the award is reclassified from contributed surplus to share capital.

(j) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The timing or amount of the outflow may still be uncertain. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(k) Revenue:

The Company generates revenue from the delivery of targeted digital media solutions, enabling advertisers to connect intelligently with their audiences across online display, video, social and mobile campaigns using its "Programmatic Marketing Platform". The Company offers its services on a fully-managed and a self-service basis. Revenue is recognized when all four of the following criteria are met: (i) evidence of an arrangement exists, (ii) delivery has occurred or a service has been provided, (iii) customer fees are fixed or determinable, and, (iv) collection is reasonably assured.

Revenue arrangements are evidenced by a fully executed insertion order ("IO"). Generally, IOs specify the number and type of advertising impressions to be delivered over a specified time at an agreed upon price, and performance objectives for an ad campaign.

Performance objectives are generally a measure of targeting as defined by the parties in advance, such as number of ads displayed, consumer clicks on ads, or consumer actions

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

2. Significant accounting policies (continued):

(which may include qualified leads, registrations, downloads, inquiries or purchase). These payment models are commonly referred to as "CPM" (cost per impression), "CPC" (cost per click) and "CPA" (cost per action).

The Company determines collectability by performing ongoing credit evaluations and monitoring its customers' accounts receivable balances. For new customers and their agents, which may be advertising agencies or other third parties, the Company may perform a credit check with an independent credit agency and may check credit references to determine creditworthiness. The Company only recognizes revenue when collection is reasonably assured. If collection is not considered reasonably assured, revenue is recognized only once all amounts are collected. Revenue is recorded net of trade discounts and volume rebates. If it is probable that discounts will be granted and amounts can be measured reliably, then the discount is recognized as a reduction of revenue as the related sales are recognized.

In instances where the Company contracts with third party advertising agencies on behalf of their advertiser clients, a determination is made to recognize revenue on a gross or net basis based on an assessment of whether the Company is acting as the principal or an agent in the transaction. Generally the Company is the primary obligor and is responsible for (i) fulfilling the advertisement delivery, (ii) establishing the selling prices for delivery of the advertisements, and (iii) performing all billing and collection activities including retaining credit risk, resulting in a determination that the Company is acting as the principal in these arrangements and therefore revenue earned and costs incurred are recognized on a gross basis.

Amounts billed in excess of revenue recognized to date on an arrangement by arrangement basis are classified as deferred revenue, whereas revenue recognized in excess of amounts billed is classified as accrued receivables and included as part of accounts receivable.

(l) Lease payments:

Leases are classified as either finance or operating. Leases that transfer substantially all the risks and benefits of ownership to the Company and meet the criteria of finance leases are accounted for as an acquisition of an asset and an assumption of an obligation at the inception of the lease, measured at the present value of minimum lease payments. Related assets are amortized on a straight-line basis over the term of the lease but not in excess of their useful lives. All other leases are accounted for as operating leases wherein rental payments are recorded in rent expenses on a straight-line basis over the term of the related lease. Tenant inducements received are amortized into rent expense over the term of the related lease agreement. The unamortized portion of tenant inducements and the

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

2. Significant accounting policies (continued):

difference between the straight-line rent expense and the payments, as stipulated under a lease agreement, are included in accounts payable and accrued liabilities.

(m) Finance costs:

Finance costs comprise interest expense on promissory notes payable, on the revolving line of credit, term loan, and amounts due to related parties. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in income (loss) using the effective interest method.

(n) Income taxes:

Income tax expense for the year comprises current and deferred income taxes. Current taxes and deferred taxes are recognized in the consolidated statements of income (loss), except to the extent that they relate to items recognized in other comprehensive income ("OCI") or directly in equity. In these cases, the taxes are also recognized in OCI or directly in equity, respectively.

The Company uses the asset and liability method of accounting for deferred income taxes. Under this method, the Company recognizes deferred income tax assets and liabilities for future income tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases, and on unused tax losses and tax credit carry-forwards. The Company measures deferred income taxes using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The Company recognizes deferred income tax assets only to the extent that it is probable that future taxable income will be available against which the deductible temporary differences as well as unused tax losses and tax credit carry-forwards can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The Company recognizes the effect of a change in income tax rates in the period of enactment or substantive enactment.

Deferred income taxes are not recognized if they arise from the initial recognition of goodwill, nor are they recognized on temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and that affects neither accounting nor taxable income (loss). Deferred income taxes are also not recognized on temporary differences relating to investments in subsidiaries to the extent that it is probable that the temporary differences will not reverse in the foreseeable future.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

2. Significant accounting policies (continued):

The Company records current income tax expense or recovery based on income earned or loss incurred for the period in each tax jurisdiction where it operates, and for any adjustment to taxes payable in respect of previous years, using tax laws that are enacted or substantively enacted at the consolidated statements of financial position dates.

In the ordinary course of business, there are many transactions for which the ultimate tax outcome is uncertain. The final tax outcome of these matters may be different from the estimates originally made by management in determining the Company's income tax provisions. Management periodically evaluates the positions taken in the Company's tax returns with respect to situations in which applicable tax rules are subject to interpretation. The Company establishes provisions related to tax uncertainties where appropriate based on its best estimate of the amount that will ultimately be paid to or received from tax authorities.

(o) Investment tax credits:

The Company is entitled to certain refundable Canadian investment tax credits ("ITC") for qualifying research and development activities performed in Canada. The ITCs are accounted for as a reduction of the related expenditures for items expensed in the statements of income (loss), being primarily as part of employee compensation and benefits, or as a reduction of the related asset's cost for items capitalized in the statements of financial position when the amount is reliably estimable and realization is reasonably assured.

(p) Government assistance:

Government assistance is recognized at fair value when there is reasonable assurance that it will be received and the Company will comply with the conditions associated with the grant. To the extent that government assistance is earned under the conditions of the grant prior to receipt of funds, the Company records a government assistance receivable. Government assistance related to operating expenses is reflected as a reduction of such expenses in the period when they are incurred. Government assistance recognized as a reduction of employee compensation and benefits expense for the year ended December 31, 2015 was \$159,731 (2014 - \$86,301).

(q) Income (loss) per share:

Basic income (loss) per share is calculated by dividing the income (loss) for the year by the weighted average number of common shares outstanding during the year. Diluted income

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

2. Significant accounting policies (continued):

(loss) per share is calculated by dividing the income (loss) for the year by the sum of the weighted average number of common shares outstanding and the dilutive common share equivalents outstanding during the year. Common share equivalents consist of the shares issuable upon exercise of stock options and shares issuable upon exercise of common share unit options calculated using the treasury stock method. Common share equivalents are not included in the calculation of the weighted average number of shares outstanding for diluted income (loss) per share when the effect would be anti-dilutive.

(r) Recently issued accounting pronouncements:

At the date of authorization of these consolidated financial statements, the IASB has issued the following new and revised standards and amendments which are not yet effective for the relevant periods.

(i) IFRS 9, Financial Instruments ("IFRS 9"):

In July 2014, the IASB issued IFRS 9, which replaces IAS 39, Financial Instruments - Recognition and Measurement, and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2018. The Company is assessing the impact of this new standard on its consolidated financial statements.

(ii) IFRS 15, Revenue from Contracts with Customers ("IFRS 15"):

IFRS 15 was issued in May 2014 and will provide a more structured approach to measuring and recognizing revenue. The new guidance includes a five-step recognition and measurement approach and enhanced quantitative and qualitative disclosure requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard is effective for annual periods beginning on or after January 1, 2018. Entities will have a choice of full retrospective application, or prospective application with additional disclosures (simplified transition method). The company is assessing the impact of this standard on the consolidated financial statements.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

2. Significant accounting policies (continued):

(iii) IFRS 16, Leases ("IFRS 16"):

On January 13, 2016, the International Accounting Standards Board (IASB) published IFRS 16, "Leases", which replaces the current guidance in IAS 17. IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts. The standard applies to annual periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15, "Revenue from Contracts with Customers", is applied.

3. Reverse Acquisition

In 2014, Wildlaw completed its Qualifying Transaction, which was effected pursuant to an agreement between Wildlaw and Acuity. Pursuant to the agreement, Wildlaw acquired all of the issued and outstanding shares of Acuity.

As part of the Qualifying Transaction, Wildlaw consolidated its common shares on the basis of 31.8 to 1. Acuity consolidated its common shares on the basis of 6.5 to 1, and subsequently amalgamated with a wholly-owned subsidiary of Acuity Holdings (the "Amalgamation"), pursuant to which all shares of Acuity, including those issued to former holders of the Acuity shares issued on the private placement (note 10(b)), were exchanged for shares of Acuity Holdings. Following completion of the Qualifying Transaction, Acuity Holdings had an aggregate of 20,745,276 common shares outstanding, comprising 17,003,138 common shares issued to former holders of Acuity common shares, 3,616,352 common shares to investors in the private placement and 125,786 common shares to former holders of Wildlaw common shares.

Upon closing of the Qualifying Transaction, the shareholders of Acuity (including investors under the private placement) owned 99% of the common shares of the Company and as a result, the transaction was considered a reverse acquisition of Wildlaw by Acuity. For accounting purposes, Acuity is considered the acquirer and Wildlaw the acquiree. Accordingly, the condensed consolidated financial statements are in the name of AcuityAds Holdings Inc. (formerly Wildlaw Capital CPC 2 Inc.) however they are a continuation of the financial statements of Acuity which has a financial year end of December 31.

The results of operations of Wildlaw are included in the consolidated financial statements of Acuity from the date of the reverse acquisition, July 16, 2014.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

3. Reverse Acquisition (continued):

The following summarizes the reverse takeover of Wildlaw by Acuity and the net assets acquired and liabilities assumed at July 16, 2014:

Fair value of consideration paid to former Wildlaw holders of:

Common shares (125,786 common shares at \$1.59 per common share)	\$ 200,000
Options	5,174
Total consideration	<u>205,174</u>

Identifiable assets acquired and liabilities assumed:

HST receivable	\$ 13,861
Accounts payable and accrued liabilities	<u>(37,558)</u>
Net assets (liabilities) acquired/assumed	<u>(23,697)</u>

Listing expense	<u>\$ 228,871</u>
-----------------	-------------------

The amalgamation with Wildlaw allowed the former Acuity, a private company, to obtain a listing on the TSXV without having to go through an initial public offering process. As the acquisition was not considered a business combination, a total of \$228,871, being the excess of fair value of the consideration paid to obtain the listing over the net assets (liabilities) received (assumed), together with other fees related to the Qualifying Transaction of \$348,382 during the year ended December 31, 2014, have been included in listing expense in the consolidated statement of income (loss).

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

4. Investment tax credits receivable:

During 2014, the Company received notification from the Canada Revenue Agency (“CRA”) that the investment tax credits that were claimed in respect of eligible scientific research and experimental development (“SRED”) for fiscal years 2011 and 2012 were being disallowed. After consulting with its professional advisors, the Company disagrees with the position taken by the CRA and intends to file an objection following receipt of the Notice of Assessment. There can be no assurance regarding the outcome of the objection, when a resolution may be reached, or the likelihood that similar claims for 2013 and 2014 will not be similarly challenged by CRA. The Company reduced the carrying amount of investment tax credits by \$775,097 in 2014. The charge was included in employee compensation and benefits expense for the year ended December 31, 2014. In the event that the Company’s objection for 2011 and 2012 is unsuccessful, no further charges against the Company’s income (loss) will be required in respect of claims for those years.

Acuity became a public company in 2014 pursuant to the Qualifying Transaction and accordingly the Federal portion of any investment tax credits claimed on eligible SRED expenses following the Transaction will no longer be refundable but will be carried forward for up to 20 years to reduce future income taxes payable.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

5. Property and equipment:

	Furniture and fixtures	Data centre equipment	Office computer equipment	Equipment under finance leases	Total
Net book value, December 31, 2014	\$ 12,426	\$ 278,563	\$ 56,267	356,503	703,758
Additions	62,445	—	76,648	985,811	1,124,904
Depreciation	(4,995)	(124,848)	(32,874)	(261,071)	(423,788)
Net book value, December 31, 2015	\$ 69,876	\$ 153,715	\$ 100,041	\$ 1,081,243	1,404,875

	Furniture and fixtures	Data centre equipment	Office computer equipment	Equipment under finance leases	Total
Net book value, December 31, 2013	\$ 10,725	\$ 400,739	\$ 24,768	—	\$436,232
Additions	4,892	6,895	43,446	446,598	501,831
Depreciation	(3,191)	(129,071)	(11,948)	(90,095)	(234,305)
Net book value, December 31, 2014	\$ 12,426	\$ 278,563	\$ 56,266	\$ 356,503	703,758

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

6. Promissory notes payable:

In 2013, the Company entered into a credit agreement (the "Credit Agreement") with a Canadian lender in the amount of \$3,000,000. In January 2014, the Company borrowed an additional \$1,000,000 that was available under the Credit Agreement. All amounts under the Credit Agreement were due in January 2016. The interest rate for all amounts outstanding under the Credit Agreement was 17% commencing as of February 2014.

Transaction costs incurred on the initial draw of \$3,000,000 of promissory notes were \$108,584. Additional transaction costs of \$15,993 were incurred when the Company borrowed the remaining \$1,000,000 in January 2014. All transaction costs have been capitalized and deferred. These deferred transaction costs were amortized over the term of the Credit Agreement under the effective interest method and included in finance costs.

The following tables outline the activity of the promissory notes during the years ended December 31, 2015 and 2014:

Amortized cost, January 1, 2015	\$ 3,950,169
Accrued interest on promissory notes	588,712
Payment of interest on promissory notes	(588,712)
Amortization of deferred finance charges	49,831
Principal amount repaid	(4,000,000)
Amortized cost, December 31, 2015	\$ —

Amortized cost, January 1, 2014	\$ 2,913,133
Additional principal amount drawn on note	1,000,000
Accrued interest on promissory notes	690,575
Payment of interest on promissory notes	(690,575)
Deferred finance charges incurred	(15,992)
Amortization of deferred finance charges	53,028
Amortized cost, December 31, 2014	\$ 3,950,169

The promissory note is secured by a fixed floating charge on all assets of the Company including all intellectual property rights.

The note is also secured by a full general security agreement, an assignment of Investment Tax Credits, and a pledge of all shares of any direct or indirect subsidiary of the Company.

On November 13, 2015 the promissory note was paid in full.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

7. Finance lease obligations:

	December 31, 2015	December 31, 2014
Obligations under finance leases	\$ 1,123,148	\$ 361,819
Less:		
Current portion	643,605	162,279
	<u>\$ 479,543</u>	<u>\$ 199,540</u>

The Company has minimum lease payment commitments under finance leases for the following amounts:

2016	\$ 741,917
2017	370,978
2018	156,250
	<u>1,269,145</u>
Less interest (11.5%)	145,997
Present value of minimum lease payments	<u>\$1,123,148</u>

8. Related party transactions and balances:

The Company entered into a promissory note agreement with certain shareholders and officers of the Company, whereby the Company borrowed from these lending parties. The amounts borrowed bore interest at 12% and were due on demand. All amounts were repaid in full in 2014.

Balance, January 1, 2014	\$ 608,249
Accrued interest	(4,465)
Payment of interest	(1,186)
Principal amount repaid	(602,598)
Balance, December 31, 2014	<u>\$ —</u>

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

8. Related party transactions and balances (continued):

Directors and Officers are eligible to participate in the Company's Stock Option Plan. For the year ended December 31, 2015, 270,000 and 600,000 stock options have been granted to Directors and Officers of the Company (note 10(d)).

\$1,600,000 of the Term Loan (note 19) relates to amounts loaned by related parties.

Transactions with key management personnel:

The key management personnel of The Company are the Executive Officer's and Board of Directors. The remuneration of key management personnel during the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Key management compensation and benefits	\$ 1,247,586	\$ 1,183,065
Share based compensation	181,567	30,904
Total	\$ 1,452,755	\$ 1,213,969

9. Repayable government grant:

In 2014, the Company was awarded a repayable, non-interest bearing government grant to fund a research and development project pursuant to a Cooperation and Project Funding Agreement. The maximum financial assistance receivable is \$300,000 or 50% of the actual expenditures on the project, of which \$150,000 was received during the year ended December 31, 2014 and \$75,000 was received during the year ended December 31, 2015.

The grant is repayable upon successful commercialization or sale of any resulting technology or product, at a rate of 2.5% of annual gross sales of the relevant product until 90% to 100% of the grant is repaid, depending on the year of repayment following the first commercial transaction.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

10. Share capital and share-based payments:

(a) Share capital:

At December 31, 2015, the Company had an unlimited number of common shares authorized for issuance, and 25,090,519 common shares outstanding.

(b) Private placement:

The Company completed a private placement (the "Offering") of 3,616,352 subscription receipts (the "Subscription Receipts"), pursuant to an Agency Agreement dated April 24, 2014 with a syndicate led by Paradigm Capital Inc., including Clarus Securities Inc. and Euro Pacific Canada Inc. Each Subscription Receipt entitled the holder to one common share of Acuity Holdings in connection with the completion of the Qualifying Transaction, at \$1.59 per Subscription Receipt, for aggregate gross proceeds of \$5,750,000. Share issuance costs of \$796,213 comprised of \$170,771 in respect of compensation options issued to the private placement agents, and cash expenses of \$625,442, resulted in net proceeds of \$5,124,558. All of the escrow release conditions were satisfied and immediately prior to the closing of the Qualifying Transaction, the Subscription Receipts were exchanged for common shares of Acuity on a 1 to 1 basis and the net proceeds of the Offering were released to Acuity.

(c) Equity Financing:

On May 19, 2015, the Company completed a Public Offering, issuing 4,288,100 common shares at a price of \$0.70 per share for gross proceeds of \$3,001,670. The Public Offering was co-led by Paradigm Capital and Beacon Securities Limited. As part of the shares issuance costs, the Agents received cash commission of \$199,616 and broker warrants for 7% of the aggregate number of offered common shares under the offering. The warrants are exercisable for a period of 24 months following closing of the Public Offering at a purchase price per share equal to the Common Share issue price. The Company issued 300,167 warrants at the fair value of \$0.36 per warrant that was determined using the Black-Scholes model using the following assumptions: risk-free interest rate of 0.69%, expected volatility of 81%, expected life of 1.5 years, expected dividends of nil. The warrants value of \$106,987 was recognised in contributed surplus with a corresponding reduction of the share capital. The Company incurred additional share issuance costs of \$272,001 in connection with the Public Offering.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

10. Share capital and share-based payments (continued):

(d) Stock Option Plan:

Pursuant to the Qualifying Transaction, the Company's Stock Option Plan was replaced by the Wildlaw Capital CPC 2 Inc. Stock Option Plan (the "Plan") , and all outstanding options to purchase common shares of Acuity were replaced with options to purchase common shares of the Company. Under the Plan, the Board of Directors may grant options to employees, officers, directors and consultants of the Company with substantially the same terms as the former plan. As at December 31, 2015, the Company was entitled to issue 2,509,052 stock options under the Plan. The maximum number of common shares which may be issued under the Plan is a rolling fixed maximum percentage of 10% of the common shares issued and outstanding at a point in time. The expiry date of options granted under the Plan typically does not exceed five years from the grant date. The vesting schedule is at the discretion of the Board and is generally annually over a three-year period. The exercise price of options is based on a determination of the fair market value per share on the day preceding the grant date.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

10. Share capital and share-based payments (continued):

The following table summarizes the continuity of options issued under the Plan:

	2015		2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	1,097,339	\$ 1.43	6,469,310	\$ 0.08
Prior to Qualifying Transaction (2014 Only):				
Granted	-	-	20,000	\$0.35
Forfeited or cancelled	-	-	-	
Exercised	-	-	(3,724,310)	\$0.04
Impact of 6.5:1 share consolidation	-	-	(2,339,616)	\$0.04
Granted to Agents at closing of the Offering	-	-	253,145	\$ 1.59
Re-issued to former holders of Wildlaw options	-	-	12,579	\$ 3.18
Granted	2,041,904	\$ 0.92	510,768	\$1.51
Forfeited or cancelled	(776,237)	\$ 0.92	(93,548)	\$1.28
Exercised	(46,154)	\$ 0.25	(10,989)	\$0.46
Outstanding, end of year	2,316,852	\$ 0.95	1,097,339	\$1.43
Options exercisable, end of year	937,285	\$ 0.95	643,292	\$ 1.43

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

10. Share capital and share-based payments (continued):

A summary of the status of the Company's stock options under the Plan is as follows:

2015:

Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average number of options exercisable
\$0.25	7,692	0.17	7,692
\$0.46	82,308	0.94	82,308
\$0.60	150,000	2.08	112,500
\$0.75	46,750	3.92	20,042
\$0.78	171,077	1.00	171,077
\$0.83	20,000	4.92	-
\$0.89	320,000	4.92	-
\$0.94	135,000	4.67	135,000
\$0.98	1,181,230	4.09	241,155
\$1.59	182,795	2.25	151,617
\$1.63	8,204	1.50	7,179
\$2.15	11,796	2.00	8,715
	2,316,852		937,285

2014:

Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average number of options exercisable
\$0.25	53,846	1.00	53,846
\$0.46	82,307	1.63	82,307
\$0.75	50,000	4.83	-
\$0.78	36,077	2.00	17,769
\$0.98	105,462	2.37	33,000
\$1.59	647,837	3.46	388,145
\$1.63	87,692	2.53	49,554
\$2.15	18,460	3.00	6092
\$2.28	3,078	4.17	-
\$3.18	12,580	7.58	12,579
	1,097,339		643,292

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

10. Share capital and share-based payments (continued):

During the year ended December 31, 2015, the Company recorded share-based compensation expense related to stock options granted to employees, Officers and Directors of the Company of \$722,475 (2014 - \$337,298).

During the year ended December 31, 2015, the Company granted 1,715,154 options respectively with a weighted average exercise price of \$0.95 (2014 – 779,569 stock options) to employees and Directors of the Company. Of those options, 600,000 were granted to an Officer of the Company and vest over 18 months. An additional 326,750 options were granted to consultants as compensation for services rendered at a weighted average price of \$0.75 all expiring during 2020.

During the year ended December 31, 2015, 46,154 options were exercised at a weighted average exercise price of \$0.25 respectively per option, for gross proceeds of \$11,400 respectively (2014 – 10,989 and 583,960 options (post consolidation basis) were exercised at a weighted average exercise price of \$0.45 and \$0.29 respectively per option, for gross proceeds of \$5,000 and \$168,700 respectively).

Share-based compensation expense was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model with the weighted average assumptions for options granted during the year ended December 31 as follows:

	2015	2014
Weighted average grant date fair value of options granted	\$0.82	\$1.11
Weighted average assumptions used:		
Expected option life	5 years	4.9 Years
Risk-free interest rate	0.81%	1.57%
Dividend yield	-	-
Expected volatility	81%	90%

The Company estimates the expected volatility over the life of the option based on the Company's historical volatility and a peer group average, given there was no stock price history for the Company prior to the listing of shares on July 16, 2014.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

10. Share capital and share-based payments (continued):

(e) Warrants:

Pursuant to the Qualifying Transaction, the Company re-issued 6,289 common share purchase warrants to former holders of Wildlaw warrants. The re-issued warrants bore an exercise price of \$3.18 and an expiry date of July 20, 2014. All of these warrants expired on July 20, 2014 unexercised.

11. Finance costs:

	2015	2014
Finance costs:		
Interest on finance leases and other interest	\$ 66,945	\$ 7,998
Interest and fees on promissory notes payable	638,543	743,604
Interest and fees on revolving line of credit (note 18)	40,171	-
Interest and fees on term loan (note 19)	74,840	-
Interest on amounts due to related parties (note 8)	-	(4,464)
Total finance costs	\$ 820,499	\$ 747,138

12. Net income (loss) per share:

The computations for basic and diluted net income (loss) per share for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Net income (loss) for the year	\$ (3,813,880)	\$ (6,579,564)
Weighted average number of shares outstanding, basic and diluted	23,395,591	18,489,251
Net income (loss) per share, basic and diluted	\$ (0.16)	\$ (0.36)

Options to purchase 937,285 common shares (2014 – 1,097,339) and 1,133,501 warrants (2014 – nil) were outstanding at December 31, 2015. The weighted average number of options and warrants were excluded from the calculation of diluted income (loss) per share for the years ended December 31, 2015 and 2014 because their inclusion would have been anti-dilutive.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

13. Segment information:

The Company has one operating segment.

The Company's chief operating decision maker is its Chief Executive Officer ("CEO"). The CEO evaluates performance, makes operating decisions and allocates resources based on financial data consistent with the presentation in these consolidated financial statements.

The Company's assets and operations are substantially located in Canada; however, the Company has employees and customers in the United States and generates revenues in both regions as well as internationally. Revenue by region for the years ended December 31 is as follows:

	2015	2014
Canada	\$10,850,983	\$ 10,693,009
United States	6,845,413	2,959,237
International	2,997,268	–
	<u>\$ 20,693,664</u>	<u>\$ 13,652,246</u>

During the year ended December 31, 2015, the Company had one customer that represented 10% of total revenue. The customer is an advertising agency representing multiple brands. In 2014 the Company had a different customer that represented 17.1% of total revenue. The customer is an advertising agency representing multiple brands.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

14. Fair value of financial instruments:

(a) Classification of financial instruments:

The following table provides the allocation of financial instruments and their associated financial instrument classifications:

	Loans and receivables/ financial liabilities
December 31, 2015	
Measurement basis	Amortized cost
Financial assets:	
Cash and cash equivalents	\$ 4,252,754
Restricted cash	250,000
Accounts receivable	5,104,869
Investment tax credits receivable	450,000
Government assistance receivables	82,418
	<u>\$ 10,140,041</u>
Financial liabilities:	
Accounts payable and accrued liabilities	\$ 6,868,277
Revolving line of credit	3,374,820
Term loan	2,143,075
Finance lease obligations	1,123,148
Repayable government grant	225,000
	<u>\$ 13,734,320</u>
December 31, 2014	
Measurement basis	Amortized cost
Financial assets:	
Cash and cash equivalents	\$ 1,428,642
Accounts receivable	4,173,788
Investment tax credits receivable	450,000
Government assistance receivables	104,301
	<u>\$ 6,156,731</u>
Financial liabilities:	
Accounts payable and accrued liabilities	\$ 4,032,656
Promissory notes payable	3,950,169
Finance lease obligations	361,819
Repayable government grant	150,000
	<u>\$ 8,494,644</u>

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

14. Fair value of financial instruments (continued):

(b) Carrying value and fair value of financial instruments:

The following table provides the carrying value and fair value of financial instruments:

	December 31, 2015		December 31, 2014	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Cash and cash equivalents	\$ 4,252,754	\$ 4,252,754	\$ 1,428,642	\$ 1,428,642
Restricted cash	250,000	250,000	—	—
Accounts receivable	5,104,869	5,104,869	4,173,788	4,173,788
ITC receivable	450,000	450,000	450,000	450,000
Government assistance receivables	82,418	82,418	104,301	104,301
	<u>\$ 10,140,041</u>	<u>\$ 10,140,041</u>	<u>\$ 6,156,731</u>	<u>\$ 6,156,731</u>
Financial liabilities:				
Accounts payable and accrued liabilities	\$ 6,868,277	\$ 6,868,277	\$ 4,032,656	\$ 4,032,656
Promissory note	—	—	3,950,169	3,950,169
Revolving line of credit	3,374,820	3,374,820	—	—
Repayable government grant	225,000	225,000	150,000	150,000
Term loan	2,143,075	2,143,075	—	—
Finance lease obligations	1,123,148	1,123,148	361,818	361,818
	<u>\$ 13,734,320</u>	<u>\$ 13,734,320</u>	<u>\$ 8,494,643</u>	<u>\$ 8,494,643</u>

(c) Fair value measurements:

The Company provides disclosure of the three-level hierarchy that reflects the significance of the inputs used in making the fair value measurement. The carrying value of cash and cash equivalents, restricted cash, accounts receivable, ITC receivable, government assistance receivables, revolving line of credit, repayable government grant and accounts payable and accrued liabilities approximate their fair value given their short-term nature. The carrying value of the non-current liabilities approximates their fair value, given the difference between the discount rates used to recognize the liabilities in the consolidated balance sheets and the market rates of interest is not significant. The three levels of fair value hierarchy based on the reliability of inputs are as follows:

- Level 1- inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 - inputs are based on observable market data, either directly or indirectly other than quoted prices; and
- Level 3 - inputs are not based on observable market data.

There were no transfers of financial assets during the year between any of the levels.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

15. Capital Risk Management

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to provide returns to its shareholders. The Company defines capital that it manages as the aggregate of its shareholders' equity (deficiency), which comprises issued capital, contributed surplus, and deficit. The Company manages its capital structure and makes adjustments to it in working capital requirements. In order to maintain or adjust its capital structure, The Company, upon approval from the Board of Directors, may issue shares, repurchase shares, pay dividends, or undertake other activities as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements, except for certain monthly financial covenants associated with the Revolving Line of Credit as described in note 18.

16. Financial Risk Management

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's risk management policies on an annual basis. The management department identifies and evaluates financial risks and is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

(a) Credit Risk:

Credit risk is the risk of financial loss to The Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises from the Company's accounts receivable and cash. At December 31, 2015, seven customers represented 10%, 9%, 9%, 6%, and 6%, 6%, and 6% of the gross accounts receivable balance of \$5,136,869 respectively.

The accounts receivable balances due from these significant customers were current at December 31, 2015. No other individual customers represented more than 5% of accounts receivable. As at December 31, 2015 the allowance for doubtful accounts was \$32,000. In establishing the appropriate allowance for doubtful accounts, management makes assumptions with respect to the future collectability of the receivables. Assumptions are based on an individual assessment of a customer's credit quality as well as subjective factors and trends. Overdue accounts at December 31, 2015 were \$255,605 respectively. Management believes that the allowance is adequate.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

16. Financial Risk Management (continued):

The Company reviews the components of these accounts on a regular basis to evaluate and monitor this risk. The Company's customers are generally financially established organizations which limits the credit risk relating to the customers. In addition, credit reviews by the Company take into account the counterparty's financial position, past experience and other factors.

The Company from time to time invests its excess cash in accounts with Schedule A banks, with the objective of maintaining safety of the principal and providing adequate liquidity to meet current payment obligations and future planned capital expenditures and with the secondary objective of maximizing the overall yield of the portfolio. The Company's cash as at December 31, 2015 is not subject to external restrictions, except for \$250,000 which is currently held as collateral for a letter of credit. Investments must be rated at least investment grade by recognized rating agencies. Given these high credit ratings, the Company does not expect any counterparties to these investments to fail to meet their obligations.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company manages its liquidity risk by continually monitoring forecasted and actual revenue and expenditures and cash flows from operations. Management is also actively involved in the review and approval of planned expenditures. The Company's principal cash requirements are for principal and interest payments on its debt, capital expenditures and working capital needs. The Company uses its operating cash flows, loans and borrowings and cash balances to maintain liquidity. Refer to note 1.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

16. Financial Risk Management (continued):

The following are the contractual maturities for the financial liabilities:

December 31, 2015	Carrying amount	Contractual cash flow on demand	Less than 1 year	1 to 3 years	> 3 years
Accounts payable and accrued liabilities	\$ 6,868,277	\$ 6,868,277	\$ 6,868,277	\$ –	\$ –
Revolving line of credit	3,374,820	3,460,000	3,460,000	–	–
Term loan	2,143,075	2,500,000	525,000	1,975,000	–
	\$ 12,386,172	\$ 12,828,277	\$ 10,853,277	\$ 1,975,000	\$ –

December 31, 2014	Carrying amount	Contractual cash flow on demand	Less than 1 year	1 to 3 years	> 3 years
Accounts payable and accrued liabilities	\$ 4,032,656	\$ 4,032,656	\$ 4,032,656	\$ –	\$ –
Promissory notes payable	3,950,169	4,000,000	4,000,000	–	–
	\$ 7,982,825	\$ 8,032,656	\$ 8,032,656	\$ –	\$ –

(c) Interest rate risk:

Interest rate risk is the risk of financial loss to the Company if interest rates increase on interest-bearing instruments. The Revolving Line of Credit bears interest at a rate of prime plus 2.25%, at December 31, 2015 the prime rate was 3.50%. The Term Loan bears interest at a fixed rate, which the Company believes is consistent with fair market interest rates.

(d) Foreign exchange or currency risk:

The Company is exposed to foreign exchange risk from purchase transactions, as well as recognized financial assets and liabilities denominated in U.S. dollars. The Company's main objective in managing its foreign exchange risk is to maintain U.S. cash on hand to support U.S. forecasted obligations and cash flows. To achieve this objective, the Company monitors forecasted cash flows in foreign currencies and attempts to mitigate the risk by modifying the nature of cash held. During the year ended December 31, 2015, the Company maintained a portion of its cash resources in both U.S. and Canadian dollars. The Company does not have any foreign currency derivative instruments outstanding as at December 31, 2015.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

16. Financial Risk Management (continued):

The Company has performed a sensitivity analysis in respect of foreign exchange exposure in 2015. The analysis used a modeling technique that compares the U.S. dollar equivalent of all revenue recognized and expenses incurred in Canadian dollars, at the actual exchange rate, to a hypothetical 10% adverse movement in the foreign currency exchange rates against the U.S. dollar, with all other variables held constant. Foreign currency exchange rates used were based on the market rates in effect during 2015. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in an increase in net loss for 2015. There can be no assurances that the above projected exchange rate decrease will materialize.

If a shift in foreign currency exchange rates of 10% were to occur, the foreign exchange gain or loss on the Company's net monetary assets could change by approximately \$270,147 due to the fluctuation and this would be recorded in the consolidated statements of (income) loss.

Balances held in U.S. dollars are as follows:

	December 31, 2015	December 31, 2014
Cash	\$ 3,886,039	\$61,050
Accounts receivable	2,880,343	591,329
Accounts payable	4,064,915	1,588,653

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

17. Commitments and contingencies:

(a) Non-cancellable operating lease rentals:

Non-cancellable operating lease rentals are payable as follows:

	December 31, 2015	December 31, 2014
Less than 1 year	\$ 662,630	\$95,222
Between 1 and 5 years	2,124,808	—
	\$ 2,787,438	\$95,222

The Company leases office facilities under operating leases. The lease terms are between 1 and 5 years.

During the year ended December 31, 2015, an amount of \$451,425 was recognized as an expense in income (loss) in respect of operating leases.

(b) Restricted cash:

On July 21, 2015 the Company entered into a letter of credit. The letter of credit is security that relates to an office lease in Toronto the Company signed. The letter of credit is backed up by \$250,000 that is held at a Canadian financial institution and is drawn down by the landlord over the term of the lease. \$125,000 is scheduled to be returned back to the Company in August 2016 and was classified as current restricted cash in the consolidated statement of financial position.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

18. Revolving line of credit:

On November 13, 2015, the Company secured a US\$3.5 million (approximately CDN\$4.6 million) Revolving Line of Credit from Silicon Valley Bank ("SVB"). The SVB facility has a maturity date 364 days from closing and interest accrues at prime plus 2.25% per annum. At December 31, 2015 the prime rate was 3.50%. The Revolving Line of Credit is calculated based on a maximum total amount of 80% of the Company's accounts receivable and 80% of investment tax credits receivables. The proceeds were used to retire existing debt and for general corporate purposes.

The following table outlines the activity of the revolving line of credit during the year ended December 31, 2015:

Amortized cost, January 1, 2015	\$	–
Amount drawn against revolving line of credit, net of transaction costs		3,275,051
Accrued interest on revolving line of credit		40,171
Payment of interest on revolving line of credit		(19,165)
Exchange differences		78,763
Principal amount repaid		–
<hr/>		
Amortized cost, December 31, 2015	\$	3,374,820

Transaction costs incurred securing the revolving line of credit were \$106,185. All transaction costs have been capitalized and deferred. These deferred transaction costs are being amortized over the term of the agreement under the effective interest method and included in finance costs.

The revolving line of credit is secured by a full general security agreement, an assignment of Investment Tax Credits, and a pledge of all shares of any direct or indirect subsidiary of the Company.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

19. Term Loan:

During the year ended December 31, 2015 a \$2.5 million Term Loan was made pursuant to a Credit Agreement dated November 10, 2015, between the Company, its subsidiaries and various lenders (the "Lenders"), including several individuals that are non-arm's length to the Corporation (the "NAL Lenders"). The NAL Lenders included several officers and directors of the Company who funded an aggregate of \$1,600,000 of the Loan.

The Term Loan is subordinate to a revolving line of credit with Silicon Valley Bank ("SVB") and has a term of two years and accrues interest at the rate of 15.25% per annum paid monthly and includes a partial bonus warrant. The Company received TSX Venture Exchange (the "Exchange") approval to issue one bonus warrant ("Warrant") to each Lender for each \$3.00 of principal amount of loan advanced to the Company. The Company issued 833,334 warrants exercisable for a period of 2 years. The exercise price of the warrants is \$0.92 per common share and the fair value was \$0.36 per warrant. The fair value of the warrants was determined using the Black-Scholes model using the following assumptions: risk-free interest rate of 0.64%, expected volatility of 81%, expected life of 1.5 years, expected dividends of nil.

Transaction costs incurred securing the revolving line of credit were \$77,322. All transaction costs have been capitalized and deferred. These deferred transaction costs are being amortized over the term of the agreement under the effective interest method and included in finance costs.

50% of the principal portion of the Term Loan is to be repaid in 7 equal quarterly installments beginning April 1, 2016. The remaining 50% of the Term Loan is paid at maturity.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

19. Term Loan (continued):

The following table outlines the activity of the term loan during the year ended December 31, 2015:

Amortized cost, January 1, 2015	\$	—
Amounts drawn, net of transaction costs and warrants		2,120,106
Accrued interest		74,840
Payment of interest		(51,871)
Principal amount repaid		—
Balance, December 31, 2015	\$	2,143,075

20. Income taxes:

(a) Income tax recovery:

The Company has not recorded any deferred income tax recovery on losses in comprehensive income (loss) and will not be until, in the opinion of management, it is probable that the deferred tax assets will be realized.

A reconciliation between tax recovery and accounting income multiplied by the Company's domestic tax rate for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Income (loss) before income taxes	\$ (3,810,327)	\$ (6,579,564)
Income tax recovery at the Company's statutory tax rate of 26.5% (2012 - 26.5%)	\$ (1,009,737)	\$ (1,743,584)
Increase (decrease) in income taxes resulting from:		
Permanent differences	232,408	272,871
Changes in unrecognized SRED pool and temporary differences	—	61,181
Taxable Income of US Subsidiary	3,553	11,271
Effect of foreign exchange rates	(35,418)	—
Current year loss for which no benefit recognized	812,747	1,409,532
Income tax expense	\$ 3,553	\$ 11,271

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

20. Income taxes (continued):

(b) Deferred taxes:

Recognized deferred income tax assets and deferred income tax liability:

Deferred income tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2015	2014	2015	2014
Non-capital loss carry-forwards	-	\$ 37,445	-	\$ (37,445)
Property and Equipment	-	-	-	-
Tax credits	-	-	-	-
Tax assets (liabilities)	-	37,445	-	(37,445)
Reclassification	-	(37,445)	-	37,445
Net tax assets (liabilities)	\$ -	\$ -	\$ -	\$ -

Unrecognized deferred tax asset:

Deferred tax assets have not been recognized in respect of the following items:

	2015	2014
Non capital loss carryforwards	\$ 10,677,000	\$ 7,200,000
SRED expenditure pool	-	154,587
Deductible temporary differences	192,000	52,246
	\$ 10,869,000	\$ 7,406,833

At December 31, 2015 the Company had non-capital losses of approximately \$10,677,000 which are available to reduce future taxable income and for which no benefit has currently been recognized in the financial statements. The non-capital losses will expire as follows: 2034 - \$ 5,662,000; 2035 - \$5,015,000.

ACUITYADS HOLDINGS INC.

Notes to Consolidated Financial Statements (continued)
(in Canadian dollars)

Years ended December 31, 2015 and 2014

20. Income taxes (continued):

(c) Investment tax credits:

The Company is entitled to certain federal and provincial income tax incentives for qualified research and development expenditures based on management's interpretation of the applicable legislation in the Income Tax Act (Canada). These tax incentives are available to reduce future Canadian income taxes payable or are refundable in cash depending on various factors.

Investment tax credits are recorded as a reduction in employee compensation and benefits, which was nil in 2015 (2014 - \$450,000).