AcuityAds Holdings Inc.

Consolidated Financial Statements
(in Canadian dollars)

Years ended December 31, 2014 and 2013

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AcuityAds Holdings Inc.

We have audited the accompanying consolidated financial statements of AcuityAds Holdings Inc., which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated statements of comprehensive loss, changes in shareholders deficiency and cash flows for the year then ended, and 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 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 Company'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.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31 2014 and its financial performance and its cash flows in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to note 2(a) to the consolidated financial statements, which indicates that AcuityAds Inc. has incurred recurring losses and has a shareholders' deficiency. These conditions, along with other matters as set forth in note 2(a) to the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about AcuityAds Inc.'s ability to continue as a going concern.

Other Matter

The consolidated financial statements for the year end December 31, 2013 were audited by another auditor who expressed an unmodified opinion on those financial statements dated May 28, 2014.

Harris & Partners, LLP

Chartered Professional Accountants, Licensed Public Accountants

March 23, 2015
Markham, Ontario

ACUITYADS HOLDINGS INC.

Consolidated Statements of Financial Position
(in Canadian dollars)

	December 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 1,428,642	$ 120,467
Accounts receivable	4,173,788	3,057,764
Other current assets	247,745	178,105
Investment tax credits receivable (note 4)	450,000	1,091,764
	6,300,175	4,448,100
Non-current assets:		
Property and equipment (note 5)	703,758	436,232
Total assets	$ 7,003,933	$ 4,884,332
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,032,656	$ 2,359,827
Promissory notes payable (note 6)	–	2,913,133
Current portion of Finance Lease Obligation (note 7)	162,279	–
	4,194,935	5,272,960
Non-current liabilities:		
Promissory notes payable (note 6)	3,950,169	–
Due to related parties (note 8)	–	608,249
Finance Lease Obligation (note 7)	199,540	–
Repayable government grant (note 9)	150,000	–
	4,299,709	608,249
Total liabilities	8,494,644	5,881,209
Shareholders' deficiency	(1,490,711)	(996,877)
Going concern (note 2(a))		
Total liabilities and shareholders' deficiency	$ 7,003,933	$ 4,884,332

See accompanying notes to 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, 2014 and 2013

	2014	2013
Revenue		
Managed services	$11,853,284	$9,629,360
Self-service technology	1,798,962	527,024
	13,652,246	10,156,384
Operating expenses:		
Media costs	6,658,728	4,259,422
Employee compensation and benefits (note 10)	8,067,835	3,308,319
General and administrative	4,120,674	2,038,728
Listing expense (note 9)	228,871	-
Depreciation of property and equipment	234,305	88,539
	19,310,412	9,695,008
Income (loss) from operations	(5,658,165)	461,376
Finance income (note 11)	(17,921)	-
Finance costs (note 11)	765,059	516,276
Foreign exchange (gain) loss	162,989	42,884
	910,128	559,160
Income (loss) before income taxes	(6,568,293)	(97,784)
Income taxes	11,271	-
Net income (loss) and comprehensive income (loss) for the year	$ (6,579,564)	$ (97,784)
Net income (loss) per share (note 12):		
Basic and diluted	$ (0.32)	$ 0.00

See accompanying notes to consolidated financial statements.

ACUITYADS HOLDINGS INC.

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

Years ended December 31, 2014 and 2013

Year ended December 31, 2014	Common shares Number	Common shares Amount	Contributed surplus	Warrants	Deficit	Total
Balance, December 31, 2013	104,724,680	$ 265,455	$ 326,083	$ 157,935	$ (1,746,350)	$ (996,877)
Warrants exercised (note 10(d))	2,071,407	407,935	–	(157,935)	–	250,000
Options exercised (note 10(c))	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(c))	–	–	5,174	–	–	5,174
Options exercised	10,989	5,265	(265)	–	–	5,000
Share-based compensation (note 10(c))	–	–	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)

Year ended December 31, 2013	Common shares Number	Common shares Amount	Contributed surplus	Warrants	Deficit	Total
Balance, December 31, 2012	100,000,000	$ 1,000	$ 197,282	$ –	$ (1,647,766)	$ (1,449,484)
Shares and warrants issued note 10(d))	2,071,407	92,087	–	157,935	–	250,022
Options exercised	2,433,840	128,480	(18,595)	–	–	109,885
Share-based compensation (note 10(c))	219,433	43,888	147,396	–	–	191,284
Dividends paid	–	–	–	–	(800)	(800)
Loss for the year	–	–	–	–	(97,784)	(97,784)
Balance, December 31, 2013	104,724,680	$ 265,455	$ 326,083	$ 157,935	$ (1,746,350)	$ (996,877)

See accompanying notes to consolidated financial statements.

ACUITYADS HOLDINGS INC.

Consolidated Statements of Cash Flows
(in Canadian dollars)

Years ended December 31, 2014 and 2013

	2014	2013
Cash flows from (used in) operating activities:		
Net loss for the year	$ (6,579,564)	$ (97,784)
Adjustments to reconcile net loss to net cash flows:		
Depreciation of property and equipment	234,305	88,539
Finance costs (note 11)	765,058	516,276
Finance income	(17,921)	–
Share-based compensation (note 10(c))	324,628	191,284
Reverse takeover consideration included in listing expense (note 3)	-	–
Change in non-cash operating working capital:		
Accounts receivable	(1,116,024)	(1,125,111)
Other current assets	(69,640)	(144,437)
Investment tax credits receivable	641,764	(600,000)
Accounts payable and accrued liabilities	1,672,829	(831,838)
Interest paid, net	(699,759)	(410,827)
	(4,639,150)	(2,413,898)
Cash used in investing activities:		
Additions to property and equipment	(66,932)	(452,320)
Cash flows from (used in) financing activities:		
Proceeds from promissory notes, net of issuance costs (note 6)	984,007	2,891,416
Repayments of amounts due to related parties, net (note 6)	(602,598)	(324,336)
Repayments of capital leases	(73,080)	–
Proceeds from private placement, net of issue costs (note 10(b))	5,124,558	–
Proceeds from the issuance of common shares and warrants (note 10(b))	–	250,022
Proceeds from the exercise of stock options	181,370	109,885
Proceeds from the exercise of warrants (note 10(b))	250,000	–
Proceeds received from repayable government grant (note 9)	150,000	–
Dividends paid	–	(800)
	6,014,257	2,926,187
Increase in cash and cash equivalents	1,308,175	59,969
Cash and cash equivalents, beginning of year	120,467	60,498
Cash and cash equivalents, end of year	$ 1,428,642	$ 120,467
Supplemental disclosure of non-cash transactions:		
Additions to property and equipment under capital lease	$ 391,525	$ –
Issuance of common shares in connection with reverse takeover (note 3)	$ 200,000	$ –

See accompanying notes to consolidated financial statements.

1. Corporate information:

AcuityAds Holdings Inc. (“Acuity Holdings”), formerly Wildlaw Capital CPC 2 Inc. (“Wildlaw”), is the parent company of AcuityAds Inc. ("Acuity"), a provider of targeted digital advertising solutions enabling advertisers to connect intelligently with their audiences across online display, mobile, social and video campaigns. Acuity Holdings is a publicly traded corporation, incorporated in Canada, and its head office is located at 5775 Yonge Street, Suite 1802, Toronto, Ontario M2M 4J1. 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.

On July 16, 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) .

2. Significant accounting policies:

(a) Going concern:

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 has a shareholders' deficiency. On July 22, 2014 the Company received the net proceeds from a private placement (note 10(b)). Additional financing 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.

2. Significant accounting policies (continued):

The above events and conditions indicate the existence of a material uncertainty 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 condensed consolidated statement of financial position classifications used.

(b) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("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, 2014. The date the Board of Directors authorized the consolidated financial statements for issue is March 23, 2015.

(c) Basis of presentation:

The 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.

2. Significant accounting policies (continued):

(d) 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 reported consolidated results of operations and consolidated financial position.

(i) Key sources of estimation uncertainty

(a) Trade 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 for outstanding customer receivables are regularly assessed and allowances are recorded for estimated losses.

(b) Income tax credits receivable – The Company claims 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 by taxation authorities. During the second quarter of 2014, the Company revised its estimate of certain investment tax credits receivable for 2011 and 2012 (Note 4).

2. Significant accounting policies (continued):

(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.

(e) Basis of consolidation:

(i) Subsidiaries:

These consolidated financial statements include the accounts of AcuityAds Holdings Inc. and its wholly-owned subsidiary AcuityAds Inc. and its wholly-owned subsidiaries AcuityAds US Inc., and 2422330 Ontario Inc., a company that holds certain technology assets. All intercompany transactions, balances, revenues and expenses have been eliminated.

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.

2. Significant accounting policies (continued):

(ii) Transactions eliminated on consolidation.

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

(f) 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 and amortization are translated at historical exchange rates. Revenue and expenses, other than depreciation and amortization, are translated at the average rates of exchange for the period.

(g) 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 (including assets designated at fair value through profit or loss) 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.

2. Significant accounting policies (continued):

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 and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

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, promissory notes payable, amounts due to related parties and bank indebtedness. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition and measurement, these financial liabilities are measured at amortized cost using the effective interest method.

(h) 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

2. Significant accounting policies (continued):

equipment and are recognized net within operating income. The costs of the day-to-day servicing of property and equipment are recognized in comprehensive income (loss) as incurred.

(ii) Depreciation:

Depreciation is calculated over 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 Lease	3 years

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

(iii) Research and development:

Expenditures on research activities, undertaken with are the prospect of gaining new scientific or technical knowledge and understanding, is recognized in comprehensive 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.

2. Significant accounting policies (continued):

(i) 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. Individually 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 loans and receivable 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. The carrying value is reduced through the use of an allowance for doubtful accounts, with the loss recognized in net 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.

The recoverable amount of an asset or group of assets (the “cash-generating unit or “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 comprehensive 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.

2. Significant accounting policies (continued):

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.

(j) 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.

(k) 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.

2. Significant accounting policies (continued):

(l) Revenue:

The Company generates revenue from the targeted delivery of digital advertisements to internet users through various channels, including online display, mobile, social and video using its “Programmatic Marketing Platform”. The Company offers its services on a fully-managed and a self-service technology 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 (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 fees 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

2. Significant accounting policies (continued):

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.

In situations where 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.

(m) 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 difference between the straight-line rent expense and the payments, as stipulated under the lease agreement, are included in other liabilities.

(n) Finance cost:

Finance cost comprises interest expense on bank indebtedness, promissory notes payable 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 comprehensive income (loss) using the effective interest method.

(o) 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 comprehensive 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

2. Significant accounting policies (continued):

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.

The Company records current income tax expense or recovery based on taxable 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.

2. Significant accounting policies (continued):

(p) Investment tax credits:

The Company is entitled to certain refundable Canadian investment tax credits 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 comprehensive 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.

(q) 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 expense for the year ended December 31, 2014 was $86,301 (2013 - $385,788).

(r) Loss per share:

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

2. Significant accounting policies (continued):

(s) 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 October 2010, 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 entitiy'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. Under IFRS 15 revenue is recognized an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods and services to a customer. The standard is effective for annual periods beginning on or after January 1, 2017, and is to be applied retrospectively. The company is assessing the impact of this standard on the consolidated financial statements.

3. Reverse Acquisition

On July 16, 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 is considered a reverse acquisition of Wildlaw by Acuity. For accounting purposes, Acuity is considered the acquirer and Wildlaw the acquiree. Accordingly, the 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.

(in Canadian dollars)

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 (see Note 8(c))	5,174
Total consideration	205,174
Identifiable assets acquired and liabilities assumed:	
HST receivable	$ 13,861
Accounts payable and accrued liabilities	(37,558)
Net assets (liabilities) acquired/assumed	(23,697)
Listing expense	$ 228,871

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 comprehensive income (loss).

4. Investment tax credits receivable:

During the year, 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. The Company expects a Notice of Assessment reflecting this disallowance to be forthcoming in due course. After consulting with its professional advisors, the Company disagrees with the position taken by 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 during the second quarter of 2014. This charge is included in employee compensation and benefits 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 comprehensive income (loss) will be required in respect of claims for those years.

Acuity became a public company pursuant to the Qualifying Transaction and accordingly the Federal portion of any SREDs claimed on eligible 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.

(in Canadian dollars)

5. Property and equipment:

	Data centre equipment	Office computer equipment	Furniture and fixtures	Equipment under finance lease	Total
Cost					
Balance, January 1, 2013	$ 79,739	$ -	$ 8,978	$ -	$ 88,717
Additions	418,446	29,139	4,735	-	452,320
Balance, December 31, 2013	$ 498,185	$ 29,139	$ 13,713	$ -	$ 541,037
Additions	6,896	47,286	4,892	446,598	505,672
Balance, December 31, 2014	$ 505,081	$ 76,425	$ 18,605	$ 446,598	$ 1,046,709
Depreciation					
Balance, January 1, 2013	$ 15,368	$ -	$ 898	$ -	$ 16,266
Depreciation	82,078	4,372	2,089	-	88,529
Balance, December 31, 2013	$ 97,446	$ 4,372	$ 2,987	$ -	$ 104,805
Depreciation	129,072	15,786	3,192	90,095	234,304
Balance, December 31, 2014	$ 226,518	$ 20,158	$ 6,179	$ 90,095	$ 339,109
Net December 31, 2013	$ 400,739	$ 24,767	$ 10,726	$ -	$ 436,232
Net December 31, 2014	$ 278,563	$ 56,267	$ 12,426	$ 356,503	$ 703,758

(in Canadian dollars)

6. Promissory notes payable:

On July 9, 2013, the Company entered into a credit agreement (the "Credit Agreement") with a Canadian lender in the amount of $3,000,000, due January 2016. In January 2014, the Company borrowed the remaining $1,000,000 that was available under the Credit Agreement. All amounts are due in January 2016. Upon the mutual agreement of the parties, the interest rate for all amounts outstanding under the Credit Agreement increased from 16.5% to 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 are being amortized over the term of the arrangement under the effective interest method and included in finance costs.

The following table outlines the activity of the promissory notes during the year ended December 31, 2014:

Amortized cost, December 31, 2013	$ 2,913,133
Additional principal amount drawn on note	1,000,000
Accrued interest on promissory notes	690,575
Repayment 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

At December 31, 2013, the promissory notes were classified as current liabilities because the Company was in breach of one of the financial covenants under the debt agreement governing the promissory notes at December 31, 2013. The Company received an acknowledgement from the lender subsequent to December 31, 2013 that the default had been waived. The Company is in compliance with all covenants at December 31, 2014 and accordingly the debt has been classified as non-current.

6. Promissory notes payable (continued):

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

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

(in Canadian dollars)

7. Finance Lease Obligations:

	December 31, 2014	December 31, 2013
Obligations under capital lease	$ 361,818	$ –
Less:		
Current portion	162,278	–
	$ 199,540	$ –

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

2015	$ 202,532
2016	184,817
2017	19,167
	406,516
Less interest (10.5%)	55,215
Present value of minimum lease payments	$ 361,818

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 bear interest at 12% and are due on demand. Amounts have been repaid during the year. The amounts due that were to related parties were subordinated to the promissory notes payable described in note 6, and according to the terms of the Company's Credit Agreement, amounts due to these related parties cannot be settled by the Company in whole or in part while the promissory notes are outstanding, without the prior written consent of the lender.

During the third quarter of 2014, the Company repaid the amounts due to related parties in full. The repayment was made pursuant to the conditions precedent to closing the Qualifying Transaction. The lender provided their written consent to the promissory note repayment.

(in Canadian dollars)

8. Related party transactions and balances (continued):

Balance, December 31, 2013	$	608,249
Accrued interest		(4,465)
Interest payments		(1,186)
Principal repaid		(602,598)
Balance, December 31, 2014	$	–

Executive Officers and Directors are eligible to participate in the Company's stock option plan. As of the date hereof 46,154 options have been granted to Officers and 135,000 options to Directors of the Company (note 10(c)).

Transactions with key management personnel:

The key management personnel of The Company are the members of The Company's executive management team and Board of Directors. The remuneration of key management personnel during the years ended December 31, 2014 and 2013 was as follows:

	2014	2013
Key Management compensation and benefits	$1,213,969	$ 392,400

9. Repayable government grant:

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.

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. The Agreement has a term of 18 months. The Company has recorded the funding received in the year as a non-current liability.

10. Share capital and share-based payments:

(a) Share capital:

At December 31, 2014, the Company had an unlimited number of common shares authorized for issuance, and 20,756,264 common shares outstanding.

(b) Private placement:

Acuity 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., and 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 comprise $170,771 in respect of compensation options issued to the private placement agents, together with cash expenses of $625,442, resulting 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.

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

(c) 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, 2014, the Company was entitled to issue 2,075,626 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 and 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.

(in Canadian dollars)

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

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

	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	6,469,310	0.08	7,713,150	0.05
Prior to Qualifying Transaction:				
Granted	20,000		1,490,000	0.21
Forfeited or cancelled	-		(300,000)	0.15
Exercised	(3,724,310)		(2,433,840)	0.05
Impact of 6.5:1 share consolidation	(2,339,616)		-	
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	510,768		-	-
Forfeited or cancelled	(93,548)		-	-
Exercised	(10,989)		-	-
Outstanding, end of year	1,097,339		6,469,310	0.08
Options exercisable, end of year	603,492	1.34	2,309,615	0.05

(in Canadian dollars)

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:

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	18,462	3.00	6092
$2.28	3,077	4.17	–
$3.18	12,579	7.58	12,579
	1,097,339		643,292

2013:

Range of exercise prices	Number of options	Weighted Average remaining contractual life (years)	Number of options exercisable
$0.04	3,876,310	3.00	3,968,679
$0.07	735,000	3.56	594,000
$0.12	284,500	3.00	32,000
$0.15	883,500	2.00	132,000
$0.25	570,000	3.83	–
$0.33	120,000	4.00	–
	6,469,310		4,826,679

During the year ended December 31, 2014, the Company recorded share-based compensation expense related to stock options granted to employees and Directors of the Company of $337,298 (2013 - $119,304). Share-based compensation expense is included in employee compensation and benefits.

During the year ended December 31, 2014, the Company granted 779,569 options (post consolidation basis), respectively with a weighted average exercise price of $1.58 (2013 – 210,769 (post consolidation basis) to employees and Directors of the Company. Of those options, 135,000 were granted to Directors of the Company and vested on the grant date.

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

The remaining options were granted to employees and vest annually over three years. During the year ended December 31, 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 ((2013 – 292,591 and 354,130 options (post consolidation basis), at $0.26 and $0.27 for gross proceeds of $77,550 and $93,550 respectively).

An additional 253,145 options were granted to the Agents in the private placement, as compensation for services rendered. Each compensation option vested on the grant date, is exercisable at $1.59 and expires on July 22, 2016. A charge of $170,771 was included in share issue costs and contributed surplus.

In addition to the above, the Company re-issued 12,579 options to former Wildlaw option-holders with an exercise price of $3.18. A charge of $5,174 was included in the calculation of the fair value of the Qualifying Transaction based on the estimated fair value of the options re-issued.

During the year the Company issued common shares (post consolidation basis) from treasury at $0.0001 per share to a company controlled by a finance consultant as payment for services rendered. A charge of $43,888 was included in share-based compensation expense based on the estimated fair value of the shares issued.

In addition to the above, during the year ended December 31, 2013 the Company granted 200,000 options with an exercise price of $0.25 and 219,433 common shares were issued from treasury at $0.0001 per share to a company controlled by a finance consultant as payment for services rendered. Charges totalling $28,092 and $43,888 were included in share-based compensation expense based on the estimated fair value of the options granted and shares issued, respectively. The consultant received no other direct or indirect compensation for his services.

(in Canadian dollars)

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

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 in the year ended December 31 as follows:

	2014
Weighted average grant date fair value of options granted	$1.11
Weighted average assumptions used:	
Expected option life	4.9 years
Risk-free interest rate	1.57%
Dividend yield	–
Expected volatility	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.

(d) Warrants:

During the year ended December 31, 2013, the Company issued 318,678 units (post consolidation basis), each unit comprising one common share and one warrant to purchase common shares, to a company controlled by the Chairman of the Company for proceeds of $250,000. Each warrant allows the holder to purchase one common share of the Company at an exercise price of $0.78 per share, has no vesting requirements, and expires five years from the issue date. These warrants were fully exercised during the year ended December 2014 for proceeds of $250,000. The estimated fair value of the warrants on issuance of $157,935 was also allocated to share capital upon exercise.

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.

(in Canadian dollars)

11. Finance income and finance costs:

	2014	2013
Finance income:		
Interest income on cash and cash equivalents	$ 17,921	-
Total finance income	$ 17,921	-
Finance costs:		
Interest on capital leases and other interest	$ 25,919	$ 42,240
Interest and charges on promissory notes (note 6)	743,604	259,046
Interest and fees on accounts receivable factoring	-	128,197
Interest on amounts due to related parties (note 8)	(4,464)	86,793
Total finance costs	$ 765,059	$ 516,276

12. Net income (loss) per share:

The computations for basic and diluted net income (loss) per share for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Net loss for the year	$ (6,579,564)	$ (97,784)
Weighted average number of shares outstanding, basic and diluted	18,489,251	15,820,766
Net income (loss) per share, basic and diluted	$ (0.36)	$ 0.00

Options to purchase 1,097,339 common shares (2013 – 995,278) and nil warrants (2013 – 318,678) were outstanding at December 31, 2014. 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, 2014 and 2013 because their inclusion would have been anti-dilutive.

(in Canadian dollars)

13. 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, 2014 and 2013 is as follows:

	2014	2013
Income (loss) before income taxes	$ (6,579,564)	$ (97,784)
Income tax recovery at the Company's statutory tax rate of 26.5% (2012 - 26.5%)	$ (1,743,584)	$ (30,181)
Increase (decrease) in income taxes resulting from:		
Permanent differences	272,872	64,152
Changes in unrecognized SRED pool and temporary differences	61,181	251,129
Taxable Income of US Subsidiary	11,271	–
Utilization of previously unrecognized tax losses	–	(285,101)
Current year loss for which no benefit recognized	1,409,532	–
Income tax expense	$ 11,271	$ –

(in Canadian dollars)

13. 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	
	2014	2013	2014	2013
Non-capital loss carry-forwards	$ 37,445	$ 152,656	$ (37,445)	$ -
Property and Equipment	-	-	-	(22,935)
Tax credits	-	-	-	(129,721)
Tax assets (liabilities)	37,445	152,656	(37,445)	(152,656)
Reclassification	(37,445)	(152,656)	37,445	152,656
Net tax assets (liabilities)	$ -	$ -	$ -	$ -

Unrecognized deferred tax asset:

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

	2014	2013
Non capital loss carryforwards	$7,200,000	$ -
SRED expenditure pool	154,587	1,486,061
Deductible temporary differences	52,246	-
	$7,406,833	$1,486,061

At December 31, 2014 the Company had non-capital losses of approximately $7,200,000 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: 2030 - $692,000; 2031 - $137,000; 2032 - $40,000; 2033 - $944,000; 2034 - $5,387,000

(in Canadian dollars)

13. 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 totalled $450,000 in 2014 (2013 - $600,000).

14. 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. Revenue by region for the years ended December 31 is as follows:

	2014	2013
Canada	$ 10,693,009	$ 9,196,695
United States	2,959,238	933,340
Other	--	26,349
	$ 13,652,246	$ 10,156,384

In 2014, the Company had one customer that represented 17.1% of total revenue. The customer is an advertising agency representing multiple brands that the Company works with. In 2013 the Company had one customer that represented 20% of total revenue. This customer comprised two entities which are part of a consolidated group under common control (each entity individually representing 14% and 6% of revenue, respectively). Accordingly, revenue from these related entities has been aggregated for this purpose.

(in Canadian dollars)

15. 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:

December 31, 2014	Loans and receivables/ financial liabilities
Measurement basis	Amortized cost
Financial assets:	
Cash and cash equivalents	$ 1,428,642
Accounts receivable	4,173,788
ITC receivable	450,000
Government assistance receivables	104,301
	$ 6,156,731
Financial liabilities:	
Accounts payable and accrued liabilities	$ 4,032,656
Promissory notes payable	3,950,169
Obligations under capital lease	361,818
Repayable government grant	150,000
	$ 8,494,643

(in Canadian dollars)

15. Fair value of financial instruments (continued):

December 31, 2013	Loans and receivables/ financial liabilities
Measurement basis	Amortized cost
Financial assets:	
Cash	$ 120,467
Accounts receivable	3,057,764
ITC receivable	1,091,764
Government assistance receivable	92,861
	$ 4,362,856
Financial liabilities:	
Accounts payable and accrued liabilities	$ 2,359,827
Due to related parties	608,249
Promissory notes payable	2,913,133
	$ 5,881,209

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

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

	December 31, 2014		December 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Cash and cash equivalents	$ 1,428,642	$ 1,428,642	$ 120,467	$ 120,467
Accounts receivable	4,173,788	4,173,788	3,057,764	3,057,764
Government assistance receivables	104,301	104,301	92,861	92,861
ITC receivable	450,000	450,000	1,091,764	1,091,764
	$ 6,156,731	$ 6,156,731	$ 4,362,856	$ 4,362,856
Financial liabilities:				
Accounts payable and accrued liabilities	$ 4,032,656	$ 4,032,656	$ 2,359,827	$ 2,359,827
Promissory notes payable	3,950,169	3,950,169	2,913,133	2,913,133
Due to related parties	–	–	608,249	608,249
Repayable government grant	150,000	150,000	–	–
Obligations under capital lease			–	–
	$ 8,132,825	$ 8,132,825	$ 5,881,209	$ 5,881,209

15. Fair value of financial instruments (continued):

(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 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.

The Financial Assets measured at fair value include cash and cash equivalents. There were no transfers of financial assets during the year between any of the levels.

16. 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 Credit Agreement as described in note 6.

17. 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 finance 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.

17. Financial Risk Management (continued):

(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. All of The Company's customers are located in Canada and The United States. At December 31, 2014, four customers represented 21%, 6%, 5%, and 5% of the gross accounts receivable balance of $4,173,788 respectively.

The accounts receivable balances due from these significant customers was current at December 31, 2014. No other individual customers represented more than 5% of accounts receivable. As at December 31, 2014 the allowance for doubtful accounts was $132,839 and it related entirely to one client who is currently going through bankruptcy protection. 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, 2014 were $930,892 respectively. Management believes that the allowance is adequate.

The Company reviews the components of these accounts on a regular basis to evaluate and monitor this risk. The Company's customers are generally large 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, 2014 is not subject to external restrictions. 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.

(in Canadian dollars)

17. Financial Risk Management (continued):

(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 2(a).

The following are the contractual maturities for the financial liabilities:

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	–	–
Due to related parties	–	–	–	–	–
	$ 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. Promissory notes payable bear interest at a fixed rate, which the Company believes is consistent with fair value, and accordingly the Company has no floating rate exposure.

17. Financial Risk Management (continued):

(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, 2014, 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, 2014.

The Company has performed a sensitivity analysis in respect of foreign exchange exposure in fiscal 2014. 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 fiscal 2014. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in an increase in net loss for fiscal 2014 of approximately $93,000. 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 $93,000 due to the fluctuation and this would be recorded in the consolidated statements of comprehensive loss.

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

	December 31, 2014
Cash	$ 61,050
Accounts receivable	591,329
Accounts payable	1,588,653

18. Commitments and contingencies:

Non-cancellable operating lease rentals are payable as follows:

	December 31, 2014
Less than 1 year	$ 95,222
Between 1 and 5 years	–

The Company leases a number of office facilities under operating leases. The lease terms are between 1 and 5 years, and currently expire no later than April 29, 2015, with an option to renew the lease after that date.

During the year ended December 31, 2014, an amount of $277,940 was recognized as an expense in comprehensive income (loss) in respect of operating leases.