# AcuityAds Inc.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**

Dated June 30, 2014

5775 Yonge Street
Suite 1802
Toronto, ON  M2M 4J1
www.acuityads.com

This management's discussion and analysis ("MD&A") explains the variations in the consolidated operating results and financial position and cash flows of AcuityAds Inc. ("Acuity" or the "Company") as of and for the years ended December 31, 2013, 2012 and 2011. This analysis should be read in conjunction with the audited consolidated financial statements of the Company as of December 31, 2013, 2012, 2011, and January 1, 2011 and for the years ended December 31, 2013, 2012, and 2011 and related notes (the "consolidated financial statements"). The consolidated financial statements of Acuity, and extracts of those consolidated financial statements provided in this MD&A, were prepared in Canadian dollars and in accordance with International Financial Reporting Standards ("IFRS"). As a result of the rounding of dollar differences, certain total dollar amounts in this MD&A may not add exactly to their constituent amounts. Throughout this MD&A, percentage changes are calculated using numbers rounded as they appear. Readers are cautioned that this MD&A contains certain forward looking information. Please see the "Forward Looking Information" section which follows.

The information in this report is dated as of June 30, 2014.

## FORWARD-LOOKING STATEMENTS

*This MD&A contains "forward looking statements" that reflect the Company's current expectations and projections about its future results. When used in this MD&A, forward looking statements can be identified by the use of words such as "may", or by such words as "will", "intend", "believe", "estimate", "consider", "expect", "anticipate", and "objective" and similar expressions or variations of such words. Forward looking statements are, by their nature, not guarantees of the Company's future operational or financial performance, and are subject to risks and uncertainties and other factors that could cause the Company's actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward looking statements. No representation or warranty is intended with respect to anticipated future results, or that estimates or projections will be sustained.*

*In developing the forward-looking statements in the MD&A, the Company has applied several material assumptions, including the availability of financing on reasonable terms, the Company's ability and general business and economic conditions. Many risks, uncertainties and other factors could cause the actual results of Acuity to djffer materially from the results, performance, achievements or developments expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to the following: overall economic conditions, rapid technological changes, use of cookies, demand for our product, the introduction of competing technologies, competitive pressures, network restrictions, fluctuations in foreign currency exchange rates, and other similar factors that may cause the actual results, performance or achievements to differ materially from those expressed or implied in these forward-looking statements.*

*Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date of the MD&A or as of the date otherwise specifically indicated herein. Due to risks and uncertainties, including the risks and uncertainties elsewhere in this MD&A, actual events may differ materially from current expectations. The Company disclaims any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise. All forward-looking statements contained in the MD&A are expressly qualified in their entirety by this cautionary statement.*

## OVERVIEW

Acuity is a technology company that has developed a proprietary programmatic marketing platform (the "Programmatic Marketing Platform") to intelligently connect digital advertisers to consumers across online display, mobile, social and video advertising channels, and solve the key challenges that digital advertisers face. The Programmatic Marketing Platform is powered by Acuity's proprietary machine learning technology that uses Big Data to intelligently target and connect digital advertisers with consumers. Acuity has offices in Canada and the United States, and its customers include both large Fortune 500 enterprises and small to mid-sized businesses.

Acuity's technology developers use machine learning, the branch of artificial intelligence involving systems that learn from data. Large volumes of data are gathered, and Acuity's proprietary learning algorithms are designed to generalize from that data to other cases of interest. Rapidly shifting data combined with a large volume of data requires training algorithms which are the foundation of Acuity's Programmatic Marketing Platform.

The Programmatic Marketing Platform allows advertisers to manage their purchasing of online display advertising in real-time using real-time bidding ("RTB"). RTB is a method of buying online display advertising in which ad spots (called impressions) are released in an auction that occurs in 100 milliseconds. Acuity purchases impressions for advertisers through publishers, ad networks and exchanges. Our technology platform benefits advertisers by enabling them to manage their bid amounts, meet specific performance metrics and achieve consumer targeting goals.

We generate revenue by using our Programmatic Marketing Platform to deliver digital advertisements to consumers across online display, video, social and mobile channels. Since founding the Company in October, 2009, and launching our Programmatic Marketing Platform in 2011, we have expanded rapidly, with revenues of $10.2 million, $5.1 million and $1.1 million for the years ended December 31, 2013, 2012 and 2011 respectively, representing a compound annual growth rate ("CAGR") of 203%. For the years ended December 31, 2013, 2012 and 2011, our net loss was $97,784, $599,396 and $575,769, respectively. For the years ended December 31, 2013, 2012 and 2011, our adjusted EBITDA was $741,199, $(284,687) and $(376,849), respectively. Adjusted EBITDA is a non-IFRS financial measure. For a definition of adjusted EBITDA, an explanation of our management's use of this measure and a reconciliation of adjusted EBITDA to our net loss, see "Non-IFRS Financial Measures."

The market for buying and selling digital advertising is rapidly increasing in size, driven by the proliferation of display, mobile, social and video channels and the resulting increase in internet usage. Digital advertising is shifting to market-driven RTB systems such as Acuity's. We offer a platform for advertisers across all of these channels to compete for a larger share of advertisers' budgets.

Our contracts are short-term in nature, with a term of less than one year, and we recognize revenue as we deliver advertising impressions, subject to satisfying all other revenue recognition criteria. Our revenue recognition policies are discussed in more detail under "Critical Accounting Policies and Estimates."

We plan to invest in long-term growth of the Company. We anticipate that our operating expenses will increase as we hire new talent for sales and marketing to strengthen relationships with existing customers, acquire new customers, and increase our presence in the USA. As well we plan to invest in research and development to enhance our Programmatic Marketing Platform. We believe that these investments will contribute to our long-term growth; however, we expect to incur net losses in the near term.

## RESULTS OF OPERATIONS

### *Significant Developments for the year ended December 31, 2013 and to the date of this report*

During the year ended December 31, 2013, we continued to expand our geographic reach with the opening of Acuity's first international sales and marketing office in New York, New York and the hiring of sales staff or consultants in Dallas, Texas, and Montreal, Quebec. We have continued to expand in the USA in 2014, with the hiring of sales staff in California.

In April 2014, we hired Ms. Cathy Steiner as Chief Financial Officer. Prior to joining Acuity, she was chief financial officer of a publicly-traded company. Previously, she held the positions of Managing Director of Nucleus GC, an advisory services boutique, Executive Director Investment Banking for CIBC World Markets and Vice President Investment Banking for Yorkton Securities. Cathy holds an MBA (Schulich School of Business, York University), M.Sc. (McMaster University) and B.Sc. (University of Toronto), as well as the CPA, CA designation.

In April 2014, we completed a private placement of subscription receipts for gross proceeds of approximately $5.75 million and we entered into a binding agreement (the "Definitive Agreement") for a business combination (the "Transaction") with Wildlaw Capital CPC 2 Inc. ("Wildlaw"). Completion of the Transaction is subject to compliance with the terms and conditions set forth in the Definitive Agreement including, but not limited to: (i) the entering into of an amalgamation agreement and other agreements necessary for the Transaction; (ii) receipt of all required approvals, including TSXV approval, the approval of the shareholders of Acuity in respect of the Transaction and related matters, the approval of the shareholders of Wildlaw in respect of certain matters related to the Transaction, and all necessary consents of lenders and other third parties; and (iii) certain other customary conditions for a transaction of this nature. As a result of the Transaction, Acuity will complete a reverse takeover of Wildlaw and the resulting issuer will be publicly traded on the TSX Venture Exchange ("TSXV").

In May 2014, we hired Ms. Funke Fabunmi as Vice President, Ad Operations, in which capacity she is responsible for developing a leading team of professionals who manage media campaigns to ensure that advertiser goals are exceeded and campaigns are profitable to Acuity. Ms. Fabunmi has over 15 years of experience leading Ad Operations at publishers and networks including Olive Media, Corus Entertainment, and Quebecor.

In June 2014 we hired Mr. Raymond Reid as President, Ad Science, a new division of Acuity that will leverage our programmatic marketing platform to drive intelligent consumer targeting and segmentation insights while supporting automation of the media buy across all media types. Ray has almost twenty years of experience working at the intersection of digital media and advertising. He joins Acuity from OgilvyOne WorldWide, where he was Managing Director of Neo@Ogilvy responsible for building the digital media division. He is also co-founder of InsideDigital.org, an online interactive event series designed to inform, educate and connect advertisers with their peers and form a community focused on driving digital thinking.

We hired Mr. Ashley Bast as Vice President, Marketing in June 2014, following approximately six months of consulting to us in the same capacity and more than fifteen years at major consumer packaged goods brands including Procter & Gamble, Campbell Company, and Canada Bread Company. As Vice President, Marketing Ashley will lead our brand positioning and help establish Acuity as a trusted advisor to top brands and their advertising agencies.

***Results for the years ended December 31, 2013, 2012 and 2011***

The following table provides selected financial information from the statements of comprehensive loss for the years ended December 31, 2013, 2012 and 2011:

| | Year Ended December 31, 2013 | Year Ended December 31, 2012 | Year Ended December 31, 2011 |
|---|---|---|---|
| Revenue | $ 10,156,384 | $ 5,074,364 | $ 1,116,716 |
| Revenue less media costs[1] | 5,896,962 | 2,620,671 | 435,326 |
| Adjusted EBITDA[1] | 741,199 | (284,687) | (376,849) |
| Income (loss) from operations | 461,376 | (395,170) | (479,914) |
| Loss and comprehensive loss | (97,784) | (599,396) | (575,769) |
| Loss per share (basic and diluted) | (0.00) | (0.01) | (0.01) |

1 As defined in "Non-IFRS Financial Measures".

For the year ended December 31, 2013, revenue increased $5,082,020 or 100% to $10,156,384 compared to $5,074,364 for the year ended December 31, 2012. Revenue growth was driven primarily by an increase in active customers from 102 to 167. We launched sales of our Programmatic Marketing Platform on a self-service basis in 2013, contributing revenue of $270,570 during the year compared to nil in the prior year. Revenue generated in the USA was $933,340 for the year ended December 31, 2013, an increase of 130% from 2012. Income from operations of $461,376 for the year ended December 31, 2013 increased $856,546 from a loss of $395,170 million for the prior year, as revenue grew faster than our expenses. Loss and comprehensive loss for the year ended December 31, 2013 decreased $501,612 due to increased revenues moderated by increased expenses, as detailed below.

For the year ended December 31, 2012, revenue increased $3,957,648 compared to the year ended December 31, 2011, representing an increase of 354%. Active customers increased from 26 at December 31, 2011, the year our Programmatic Marketing Platform was launched, to 102 at December 31, 2012. Revenue generated in the USA was $405,166 for the year ended December 31, 2012, increasing 67% from 2011. Loss from operations for the 2012 fiscal year of $395,170 decreased $84,744 over the prior year's loss of $479,914. Loss and comprehensive loss for the year ended December 31, 2012 of $599,396 increased $23,827 from the previous year's loss of $575,769, with the addition of staff and infrastructure as described more fully below.

Our revenues have varied from quarter to quarter as a result of a variety of factors, some of which are outside of our control. Our third quarter ending September 30 has shown modest seasonal weakness in 2012 and 2013, as advertisers reduced their advertising activity during the summer. Quarterly increases in revenue throughout the rest of the year are mainly due to an increased number of advertisers.

Our rapid growth has led to uneven overall operating results due to changes in Acuity's investment in sales and marketing and research and development from quarter to quarter and increases in employee headcount. In the long-term, the seasonality and cyclicality of our revenues will depend upon the seasonality and cyclicality of our customers. For example, advertisers in the retail sector may spend the largest portion of their advertising budgets during the fourth quarter, in preparation for the holiday shopping season, whereas advertisers in the entertainment industry may concentrate their spending to coincide with the launch and display of content, such as television shows.

***Non-IFRS Financial Measures***

This MD&A includes certain measures which have not been prepared in accordance with IFRS such as Revenue less media costs, Revenue less media costs margin and Adjusted EBITDA.

Adjusted EBITDA and Revenue less Media Costs are not measures of performance under IFRS and should not be considered in isolation or as a substitute for net and comprehensive income or loss prepared in accordance with IFRS or as a measure of operating performance or profitability. Adjusted EBITDA or revenue less media costs do not have a standardized meaning prescribed by IFRS and is not necessarily comparable to similar measures presented by other companies.

Revenue Less Media Costs for the years ended December 31, 2013, 2012 and 2011

The Term "Revenue less media costs" refers to the net amount of revenue after deducting direct media costs. Media costs comprise costs for advertising impressions we purchase from real-time advertising exchanges or through other third parties. Revenue less media costs is used for internal management purposes as an indicator of the performance of our solution in balancing the goals of delivering excellent results to advertisers while meeting our margin objectives and, accordingly we believe it is useful supplemental information to include in this MD&A. The term "Revenue less media costs margin" refers to the percentage that Revenue Less Media Costs for any period represents as a percentage of total revenue for that period.

The following table sets out a reconciliation of revenue less media costs to revenue for each of the periods indicated:

| | Year Ended December 31, 2013 | Year Ended December 31, 2012 | Year Ended December 31, 2011 |
|---|---|---|---|
| Revenue | 10,156,384 | 5,074,364 | 1,116,716 |
| Media costs | 4,259,422 | 2,453,693 | 681,390 |
| Revenue less media costs | 5,896,962 | 2,620,671 | 435,326 |
| Revenue less media costs margin | 58% | 52% | 39% |

Reconciliation of Net Loss to Adjusted EBITDA for the years ended December 31, 2013, 2012 and 2011

"Adjusted EBITDA" refers to net loss before adjusting for finance costs, income tax (benefit) expense, foreign exchange (gain) loss, depreciation, and share-based compensation expense. We believe that adjusted EBITDA is useful supplemental information as it provides an indication of the results generated by our main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration depreciation of property and equipment and the other items listed above. It is a key measure used by our management and board of directors ("Board") to understand and evaluate our operating performance, to prepare our annual budget, and to develop our operating plans.

The following table presents a reconciliation of adjusted EBITDA to net loss for the years then ended:

| | December 31, 2013 | December 31, 2012 | December 31, 2011 |
|---|---|---|---|
| Net loss | 97,784 | 599,396 | 575,769 |
| Adjustments: | | | |
| Finance costs | 516,276 | 227,832 | 81,111 |
| Foreign exchange loss (gain) | 42,884 | (23,606) | 14,744 |
| Depreciation of property and equipment | 88,539 | 14,262 | 2,004 |
| Share based compensation | 191,284 | 96,221 | 101,061 |
| Total adjustments | 838,983 | 314,709 | 198,920 |
| **Adjusted EBITDA** | **741,199** | **(284,687)** | **(376,849)** |

***Operating Expenses, Finance Costs, and Foreign Exchange***

The following table summarizes expenses for the years ended December 31, 2013, 2012 and 2011:

| | Year Ended December 31, 2013 | Year Ended December 31, 2012 | Year Ended December 31, 2011 |
|---|---|---|---|
| Media costs | 4,259,422 | 2,453,693 | 681,390 |
| Employee compensation and benefits | 3,308,319 | 1,330,022 | 274,930 |
| General and administrative | 2,038,728 | 1,671,557 | 638,306 |
| Depreciation of property and equipment | 88,539 | 14,262 | 2,004 |
| Finance costs | 516,276 | 227,832 | 81,111 |
| Foreign exchange loss (gain) | 42,884 | (23,606) | 14,744 |

Media costs

Media costs consist primarily of costs for advertising impressions we purchase from real-time advertising exchanges or through other third parties. For the year ended December 31, 2013 media costs were $4,259,422 compared to $2,453,693 for the year ended December 31, 2012, representing an increase of $1,805,729 attributable to the added cost of buying media for a greater number of advertising campaigns. As a percentage of revenue, media costs were 42% for the 2013 fiscal year compared to 48% for the prior year, reflecting certain economies of scale which were realized on the larger number of ad campaigns carried out during the year.

Media costs for the year ended December 31, 2012 increased $1,772,303 over the prior year, reflecting the additional media purchases to execute on a greater number of advertising campaigns. Media costs as a percentage of revenue decreased from 61% for 2011 to 48% for 2012, due to certain efficiencies which were realized on a greater number of active campaigns during the year.

Employee compensation and benefits

Employee compensation consists of salary and benefit costs, personnel costs, commissions and variable compensation, payroll taxes and employee health and related benefit expenses, and charges for share-based compensation. Employee compensation for the year ended December 31, 2013 increased $1,978,297 compared to the prior fiscal year. This increase was largely attributable to the hiring of sales staff for our new office opened in New York, New York and our office in Toronto, Ontario, and a sales director in Montreal, Quebec. The Company began to compensate the chief executive officer in 2013 (see "Transactions with Related Parties") and continued to recruit additional research and development, administrative, and accounting staff. The cost of certain research and development employees were eligible for tax refunds on qualified Scientific Research and Experimental Development ("SRED") expenditures, estimated at $600,000 in 2013 and $327,217 in 2012, and which offset employee compensation and benefits. Non-repayable grants from the Industrial Research Assistance Program ("IRAP") of $385,788 in 2013 and $40,585 in 2012 similarly reduced employee compensation and benefits expenses.

For the year ended December 31, 2012 employee compensation and benefits increased $1,055,092 over the year ended December 31, 2011. We launched our Programmatic Marketing Platform in 2011 and began to build our sales staff, hiring sales contractors in British Columbia and Alberta in the fourth quarter of 2011. Their compensation was included for the full year in 2012, and we continued to hire new sales staff through 2012. Employees were also added for product and technology development, further contributing to increased employee compensation and benefits for the year ended December 31, 2012. These expenses were offset by

SRED refunds of $327,217 in 2012 and $164,547 in 2011, and non-repayable IRAP grants of $40,585 and $17,800 in 2012 and 2011 respectively.

General and administrative

General and administrative expenses include occupancy costs, sales and marketing costs, data centre and operations costs, professional fees, travel, and supplies. General and administrative expenses for the year ended December 31, 2013 increased $367,171 over the prior year, which is representative of increased marketing activity to generate revenue from more customers and related ad campaigns. Increased data centre and operations costs increased due to more customer service resulting from an increased number of customers and ad campaigns.

General and administrative expenses in the year ended December 31, 2012 increased $1,033,251 over the prior year, due in part to greater marketing activity to increase our number of active customers. Data centre and operations increased due to the greater number of ad campaigns implemented during the year.

Depreciation of property and equipment

Depreciation for the year ended December 31, 2013 increased $74,277 over the previous year, due mainly to additions of equipment to our data centre and, to a lesser extent, computer equipment and office furniture.

December 31, 2012 depreciation increased $12,258 over the year ended December 31, 2011 given additions to computer equipment and furniture and fixtures.

Finance costs

For the year ended December 31, 2013 finance costs were $516,276, reflecting an increase of $288,444 from the year ended December 31, 2012. The increase is due to interest on $3 million of promissory notes payable, borrowed on July 9, 2013, accretion of transaction costs associated with the promissory notes, and interest on amounts due to related parties. In addition, we incurred interest related to a factoring arrangement where certain receivables of the Company were financed or factored for related interest and fees. This agreement was terminated in July 2013.

Finance costs increased $146,721 in the year ended December 31, 2012 compared to the prior year, reflecting interest costs on increased borrowings from related parties. In addition, we entered into a factoring arrangement in June 2012, and incurred related interest and fees during the year ended December 31, 2012.

Foreign exchange

Foreign exchange loss (gain) consists of the realized and unrealized exchange differences due to fluctuations between the Canadian and the U.S. dollar exchange rates primarily, or another foreign currency. We recorded a net foreign exchange loss of $42,884 for the year ended December 31, 2013 compared to a gain of $23,606 for the prior year. We carry net financial liabilities denominated in U.S. dollars which, combined with a weaker Canadian dollar relative to the U.S. dollar in 2013, resulted in a foreign exchange loss for the year. To date we have not hedged our foreign currency exposure but we may elect to do so in the future if it is determined to be advantageous.

The foreign exchange gain of $23,606 for the year ended December 31, 2012 increased $38,350 from the loss of $14,744 in 2011. The Canadian dollar strengthened relative to the U.S. dollar in 2012, which produced a gain on our net financial liabilities denominated in U.S. dollars.

## LIQUIDITY AND CAPITAL RESOURCES

Selected financial information from the statements of financial position as at December 31, 2013, 2012 and 2011 follows:

| | December 31, 2013 | December 31, 2012 | December 31, 2011 | January 1, 2011 |
|---|---|---|---|---|
| Cash or bank indebtedness | $ 120,467 | $ 60,498 | $ (93,379) | (7,273) |
| Working capital[1] | (824,860)[2] | (1,521,935) | (957,667) | (472,501) |
| Total assets | 4,884,332 | 2,591,034 | 916,887 | 48,742 |
| Promissory notes payable | 2,913,133 | -- | -- | -- |
| Current liabilities | 5,272,960 | 4,040,518 | 1,863,176 | 521,243 |
| Non-current liabilities | 608,249 | -- | -- | -- |
| Shareholders' deficiency | 996,877 | 1,449,484 | 946,309 | 472,501 |

[1] Working capital is defined as current assets less current liabilities.

[2] Working capital for the year ended December 31, 2013 includes promissory notes payable in the amount of $2,913,133, which were classified as part of current liabilities because Acuity was in breach of one of the financial covenants as of December 31, 2013. The promissory notes are due January 2016. Subsequent to the year end, the Company received an acknowledgement from the lender that the default has been waived. However, as a result of not having received the waiver on or before December 31, 2013, the amounts owing have been classified as current liabilities.

As at December 31, 2013 the Company had cash of $120,467 compared to $60,498 at the prior year end date. The increase in cash was attributable to cash flows from financing activities, comprising proceeds of promissory notes described below, the issuance of common shares and warrants, and the exercise of stock options. Cash flows used in operations were $2,413,898 in 2013, compared to cash flows provided by operations of $575,232 in 2012, primarily due to the increased level of business activity in 2013 and greater use of non-cash operating working capital.

The cash balance of $60,498 at December 31, 2012 increased from bank indebtedness of $93,379 at December 31, 2011, mainly due to positive changes in non-cash working capital. As well, the Company repaid $346,000 to related parties in 2012 compared to advances of $685,100 received in 2011.

Working capital at December 31, 2013 includes investment tax credits receivable of $1,091,764 (2012 - $491,764), in respect of estimated tax refunds on qualified scientific research and experimental development ("SRED") expenditures. Management assessed the value of the receivable and determined that there was no indication of impairment of the recoverable amount as at the year-end date. To date we have received SRED refunds of $111,520 in respect of eligible expenditures incurred in the years ended December 31, 2009 and December 31, 2010. The estimated amount recoverable is subject to review by taxation authorities and, while there is no certainty of realization of the amounts recognized for financial reporting purposes, we believe there is reasonable assurance that such amounts will be received. Acuity will become a public company as a result of the Proposed Transaction (described below) and accordingly, the Federal portion of any SREDs claimed on eligible expenses will no longer be refundable but will be carried forward up to 20 years to reduce future income taxes payable.

At December 31, 2013 other current assets included government assistance receivables of $92,861 (2012 – Nil) in respect of non-repayable IRAP grants. Management assessed the value of the amount recoverable at the period end and determined there was no indication of impairment. We have received seven IRAP grants since our inception in 2009.

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. The arrangement contains an option to increase the available lending capacity by an additional $1,000,000 within six months from the closing date of the Credit Agreement. The debt under the Credit Agreement, evidenced by promissory notes, originally bore interest at an annual rate of 16.5% with interest payments due monthly. Under certain circumstances, the Company may repay any or the entire outstanding principal prior to the maturity date and retain its ability to re-borrow under the agreement. The notes payable are secured by a guarantee from the Company and a general security agreement over specified assets of the Company and the Company is subject to certain financial and non-financial covenants. The refundable investment tax credits claimed by the Company have been assigned to the lender and must be applied against amounts owing under the arrangement upon receipt by the Company.

Subsequent to December 31, 2013, the Company borrowed the remaining $1,000,000 under the Credit Agreement and incurred additional transaction fees of $15,991, which were deferred and will be amortized on the same basis as those incurred on closing of the Credit Agreement. Upon the mutual agreement of the parties the interest rate for all amounts outstanding under the Credit Agreement increased to 17%.

The Company paid a management fee of 1.5% of the amount drawn on closing. This fee is included in deferred transaction costs and will be amortized over the term of the arrangement under the effective interest method and included in interest expense. The amounts due to related parties, discussed below under the heading "Transactions with Related Parties", are subordinate to the promissory notes payable and cannot be settled while the promissory notes are outstanding without the lender's prior written consent.

The following table outlines the activity of the promissory notes during the year ended December 31, 2013 and up to the date of this MD&A:

| | |
|---|---|
| Balance, December 31, 2012 | $-- |
| Principal amount drawn on note | 3,000,000 |
| Accrued interest on promissory note | 237,329 |
| Repayment of interest on promissory note | (237,329) |
| Deferred finance charges | (86,867) |
| Balance, December 31, 2013 | 2,913,133 |
| Additional principal amount drawn on note | 1,000,000 |
| Accrued interest on promissory note | 291,890 |
| Repayment of interest on promissory note | (291,890) |
| Deferred finance charges incurred | (15,993) |
| Amortization of deferred finance charges | 15,657 |
| Balance, June 30, 2014 | $3,912,797 |

Historically, our growth has been funded by contributions from Acuity's co-founders, an investment beneficially made by the Chair of our Board, the exercise of stock options, investment tax credits and government grants, and, more recently, by the promissory notes described above. Subsequent to the year end, we completed a private placement of subscription receipts for gross proceeds of approximately $5.75 million and we entered into the Definitive Agreement in respect of the Transaction with Wildlaw. As a result of the Transaction, Acuity will complete a reverse takeover of Wildlaw and the resulting issuer will be publicly traded on the TSXV. Management believes the public capital markets will offer an alternative source of financing in the future but there can be no assurance that it will be successful in obtaining financing on favorable terms. See "Risk Factors". These transactions are more fully described below under "Proposed Transactions."

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. In addition, management has determined that additional financing will be required to support operating and investing activities for the foreseeable future as the Company continues to expand its operations. Management believes that working capital subsequent to completion of the Transaction will be adequate to fund the Company for at least the next 18 months. We intend to seek new funding from equity financings, lenders and other sources which will optimize our cost of capital; however, there is no assurance that these funding initiatives will be successful. See "Risk Factors".

Subsequent to December 31, 2013 we completed a private placement of subscription receipts for gross proceeds of approximately $5.75 million, subject to the satisfaction of certain escrow release conditions which are described above and in Note 16 to our consolidated financial statements. However, there is no certainty that the Company will meet these escrow release conditions and as a result we may have to seek alternative forms of financing which are not yet committed.

## Common Shares

Changes in the number of issued common shares from January 1, 2011 to the date of this report are as follows:

| | Number of Common Shares |
|---|---|
| Balance, January 1, 2011 | 10,000,000 |
| Shares issued – cash | 90,000,000 |
| Balance, December 31, 2011 and 2012 | 100,000,000 |
| Shares and warrants issued – cash | 2,071,407 |
| Shares issued – options exercised | 2,433,840 |
| Share based compensation[1] | 219,433 |
| Balance December 31, 2013 | 104,724,680 |
| Shares issued – options exercised | 3,724,310 |
| Shares issued – warrants exercised | 2,071,407 |
| Balance June 30, 2014 | 110,520,397 |

[1] Common shares were issued from treasury at $0.0001 per share to a company controlled by a finance consultant as payment for services rendered.

## Warrants

The following table reflects the activity of the warrants from January 1, 2011 to the date of this report:

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| Balance outstanding December 31, 2011 and December 31, 2012 | -- | -- |
| Warrants issued – cash | 2,071,407 | $0.120691 |
| Balance outstanding December 31, 2013 | 2,071,407 | $0.120691 |
| Warrants exercised – cash | (2,071,407) | $0.120691 |

| | | |
|---|---|---|
| Balance outstanding June 30, 2014 | -- | -- |

The warrants were issued to a company controlled by a director of the Company.

**Incentive Stock Options**

The Company has a stock option plan (the "Plan"), pursuant to which the Board of Directors may grant options to employees, officers, directors and consultants of the Company. The maximum number 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- to four-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. Further details of the Plan are provided in note 10 to the consolidated financial statements.

The following table reflects the activity of the options from January 1, 2011 to the date of this report:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Balance outstanding January 1, 2011 | -- | -- |
| Granted | 6,913,150 | $ 0.04 |
| Balance outstanding December 31, 2011 | 6,913,150 | 0.04 |
| Granted | 800,000 | 0.14 |
| Balance outstanding December 31, 2012 | 7,713,150 | 0.05 |
| Granted | 1,490,000 | 0.21 |
| Forfeited or cancelled | (300,000) | 0.15 |
| Exercised | (2,433,840) | 0.05 |
| Balance outstanding December 31, 2013 | 6,469,310 | 0.08 |
| Exercised | (3,704,310) | 0.04 |
| Balance outstanding June 30, 2014 | 2,765,000 | $ 0.14 |

During the year ended December 31, 2013, the Company recorded stock-based compensation expense related to stock options granted to employees and shares issued to consultants of $119,304 (2012 - $96,221; 2011 - $101,061). Stock-based compensation expense is included as part of employee compensation and benefits.

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 totaling $28,092 and $43,888 have been included in stock-based compensation expense based on the estimated fair value of the options granted and share issued, respectively. The consultant received no other direct or indirect compensation for his services.

**Proposed transactions**

On April 24, 2014 the Company entered into a binding agreement to complete the Transaction with Wildlaw. The Transaction is subject to a number of terms and conditions as set forth in the Definitive Agreement, including (among other things) the approval of the TSXV. If completed, the Transaction will constitute Wildlaw's "Qualifying Transaction" (as such term is defined in TSXV Policy 2.4 - Capital Pool Companies).

In connection with the Transaction, Acuity completed a private placement (the "Offering") of subscription receipts (the "Subscription Receipts") for gross proceeds of approximately $5.75 million, inclusive of an overallotment, pursuant to an agency agreement dated April 24, 2014 (the "Agency Agreement") with a syndicate of investment banks led by Paradigm Capital Inc. and including Clarus Securities Inc. and Euro Pacific Canada Inc. (collectively, the "Agents"). Each Subscription Receipt was sold at a price of $1.59 and entitles the holder thereof to one post-Consolidation (as defined below) common share of Acuity upon the satisfaction of certain escrow release conditions.

As part of the Transaction, Wildlaw and Acuity will complete a "three-cornered" amalgamation under the provisions of the Business Corporation Act (Ontario), pursuant to which Acuity will amalgamate with a wholly-owned subsidiary of Wildlaw (the "Amalgamation"). The amalgamated entity will be a wholly-owned subsidiary of Wildlaw CPC 2 post-Transaction and Wildlaw CPC 2 on a post-Transaction basis will be the "Resulting Issuer" (as such term is defined under the rules of the TSXV).

Immediately prior to the closing of the Amalgamation, (i) Wildlaw will complete a consolidation (the "Wildlaw Consolidation") of the common shares of Wildlaw on the basis of 31.8 pre-consolidation shares for one post-consolidation share and (ii) Acuity will complete a consolidation (the "Acuity Consolidation") of the common shares of Acuity on the basis of 6.5 pre-consolidation shares for one post-consolidation share. The Wildlaw Consolidation reflects a deemed Transaction value of $0.05 per Wildlaw common share (on a pre-Wildlaw Consolidation basis).

Pursuant to the Amalgamation, the outstanding common shares of Acuity will be exchanged for common shares of Wildlaw on a 1:1 basis, resulting in the existing holders of common shares of Acuity (including investors under the Offering) becoming holders of common shares of Wildlaw 2 post-Transaction. Subject to TSXV approval, the outstanding convertible securities of Acuity will be exchanged pursuant to the Amalgamation for comparable securities of Wildlaw, having substantially the same terms and conditions (and, for greater certainty, being economically equivalent to the exchanged convertible securities of Acuity).

Upon completion of the Acuity Consolidation, Acuity's existing shareholders will own 16,995,522 post-Acuity Consolidation common shares. A total of 16,995,522 Resulting Issuer common shares will be issued to existing Acuity shareholders at a deemed issue price of $1.59 per share. A total of 479,153 Resulting Issuer options (at a weighted average exercise price of $0.93) will be issued Acuity's existing option holders.

## CONTRACTUAL OBLIGATIONS

As at December 31, 2013 the Company had no debt guarantees, significant capital leases, off-balance sheet arrangements or long term obligations other than those noted below.

We have operating leases for office, research and development and sales and marketing space that expire at various dates, both in Canada and the USA. One of our leases is due to expire April 2015 and we are assessing renewal and relocation options.

In July 2013 we entered into a Credit Agreement in the amount of $3,000,000 due January 2016, with an option to increase the lending capacity by $1,000,000 within six months after closing. As described in "Liquidity and Capital Resources", these promissory notes have been classified as current liabilities.

Certain shareholders and officers of the Company were owed an aggregate of $608,249 as at December 31, 2013. The terms of these promissory notes are detailed in "Transactions with Related Parties".

Our contractual obligations as at December 31, 2013 are summarized below:

| | Less than 1 year | Between 1 and 5 years | Total |
|---|---|---|---|
| Office leases | 233,546 | 54,826 | 288,372 |
| Promissory notes payable | 3,000,000 | -- | 3,000,000 |
| Due to related parties | -- | 608,249 | 608,249 |
| Total | 3,233,546 | 663,075 | 3,896,621 |

## TRANSACTIONS WITH RELATED PARTIES

The key management personnel of the Company are the members of the Company's executive management team and Board.

The Company has entered into promissory note agreements 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 borrowed and repaid on the notes during the years presented. The amounts due to related parties are subordinated to the promissory notes payable 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 during the term to maturity of the promissory notes without the prior written consent of the lender. Accordingly, the amounts due to related parties have been classified as non-current as of December 31, 2013.

| | | |
|---|---|---|
| Balance, January 1, 2011 | $ | 339,074 |
| Principal amount repaid | | 685,100 |
| Accrued interest | | 80,207 |
| Repayment of interest | | (18,552) |
| Balance, December 31, 2011 | | 1,085,829 |
| Principal amount repaid | | (346,000) |
| Accrued interest | | 129,768 |
| Repayment of interest | | (20,743) |
| Balance, December 31, 2012 | | 848,854 |
| Principal amount repaid | | (324,336) |
| Accrued interest | | 86,793 |
| Repayment of interest | | (3,062) |
| Balance, December 31, 2013 | $ | 608,249 |

During the years ended December 31, 2013, 2012 and 2011, no compensation was paid or accrued for any of the Company's Directors. Executive officers of the Company received salaries and consulting fees in the aggregate amount of $390,000 during the year ended December 31, 2013 (2012 - $45,000; 2011 - $100,000). Executive officers and directors are eligible to participate in the Company's option plan, but as of the date hereof no options have been granted to any officers or directors of the Company. Executive officers control 91% of the issued common shares of the Company as at December 31, 2013.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated financial statements and application of IFRS often involve management's judgment 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. Significant accounting policies and estimates under IFRS are found in Note 2 of our audited consolidated financial statements for the year ended December 31, 2013 and are summarized below.

The following are critical accounting policies subject to such judgments 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.

*Key sources of estimation uncertainty*

(i) Accounts receivable – 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.

(ii) 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.

(iii) 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.

*Critical judgments in applying accounting policies:*

(i) 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.

(ii) 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 principal or agent to the transactions.

(a) Basis of consolidation:

(i) Subsidiaries – The consolidated financial statements include the accounts of AcuityAds Inc. and its wholly-owned subsidiary AcuityAds US Inc.

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 tractions, and any unrealized income and expenses arising from such transactions, are eliminated upon consolidations.

(b) Foreign currency transactions:

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.

Foreign currency differences arising on translation are recognized in finance cost (income).

(c) 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 net within operating income.

The costs of the day-to-day servicing of property and equipment are recognized in operating income 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 |

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

(iii) Research and development – Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in operating income as incurred.

Expenditures on development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is 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.

(d) 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, regardless of how the equity instruments are obtained by the Company.
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.

(e) Revenue:

The Company generates revenue from the services involving the targeted delivery of digital advertisements to advertisers 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 basis. Revenue is recognized when all four of the following criteria are met: (i) evidence of an arrangement exists, which is usually in the form of an executed agreement; (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 the 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 returns, 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 or enters into self-service arrangements, 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) purchasing impressions and fulfilling the advertisement delivery and involved in the selection of the supplier's product or service, (ii) establishing the selling prices for delivery of the advertisements, and (iii) performing all billing and collection activities including retaining credit risk, ; and adds meaningful value to the supplier's product or service and has inventory risk related to its publisher suppliers 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.

(f) 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 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.

(g) Loss per share:

Basic loss per share is calculated by dividing the net loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated by dividing the 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 loss per share when the effect would be anti-dilutive.

## CHANGES IN ACCOUNTING POLICIES

### Recently issued accounting pronouncements not yet effective

The Company is analyzing the following recent accounting pronouncements to determine their effect on our consolidated financial statements. The full description of each of these recent pronouncements is available in our consolidated financial statements.

IFRS 9, Financial Instruments ("IFRS 9")
IAS 32, Financial Instruments: Disclosures ("IAS 32")
IAS 36, Recoverable Amount Disclosures for Non-Financial Assets ("IAS 36")
International Financial Reporting Interpretations Committee 21, Levies ("IFRIC 21")

## ADDITIONAL INFORMATION

Following the Transaction, additional information relating to the Company will be posted on SEDAR at www.sedar.com.