



AcuityAds Holdings Inc.

Consolidated Interim Financial Statements
(in Canadian dollars)

Three and nine months ended September 30, 2017 and 2016

(Unaudited)

Notice of disclosure of non-auditor review of unaudited consolidated interim financial statements pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators.

The accompanying unaudited consolidated interim financial statements of AcuityAds Holdings Inc. for the three and nine months ended September 30, 2017 and 2016 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting as issued by the International Accounting Standards Board and are the responsibility of the Company's management. The Company's independent auditors have not performed an audit or a review of these unaudited consolidated interim financial statements.

ACUITYADS HOLDINGS INC.

Consolidated Interim Statements of Financial Position
(in Canadian dollars)
(Unaudited)

	September 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 1,595,713	\$ 7,271,408
Restricted cash (note 18(b))	25,000	25,000
Accounts receivable	13,848,570	15,308,235
Prepaid expenses	1,430,060	520,294
Investment tax credits receivable (note 4)	150,000	195,000
	<u>\$ 17,049,343</u>	<u>\$ 23,319,937</u>
Non-current assets		
Restricted cash (note 18(b))	100,000	100,000
Property and equipment (note 5)	2,652,254	1,897,030
Intangible assets (note 3 and 6)	11,517,772	3,350,050
Goodwill (note 3 and 7)	5,820,380	3,473,510
	<u>\$ 37,139,749</u>	<u>\$ 32,140,527</u>

Liabilities and Shareholders' Equity

Current liabilities		
Accounts payable and accrued liabilities	\$ 10,868,794	\$ 12,322,932
Term loans (note 20)	2,318,523	2,256,329
Revolving line of credit (note 19)	9,054,466	6,536,724
Earn out – acquisition (note 3 and 15)	–	2,566,689
Current portion of finance lease obligations (note 8)	1,068,828	748,075
	<u>\$ 23,310,611</u>	<u>\$ 24,430,749</u>
Non-current liabilities		
Term loans (note 20)	–	583,983
Earn out – acquisition (note 3 and 15)	748,800	3,355,063
Finance lease obligations (note 8)	1,256,236	925,439
	<u>\$ 2,005,036</u>	<u>\$ 4,864,485</u>
Total liabilities	\$ 25,315,647	\$ 29,295,234
Shareholders' equity	\$ 11,824,102	\$ 2,845,293
Total liabilities and shareholders' equity	<u>\$ 37,139,749</u>	<u>\$ 32,140,527</u>

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

Approved on Behalf of the Board

(Signed) "Sheldon Pollack"
Director

(Signed) "Tal Hayek"
Director

ACUITYADS HOLDINGS INC.

Consolidated Interim Statements of Comprehensive Loss
(in Canadian dollars)

Three and nine months ended September 30, 2017 and 2016
(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Revenue				
Managed services	\$ 10,050,099	\$ 5,334,858	\$ 26,605,351	\$ 11,688,357
Self-service	4,473,550	3,536,431	16,710,868	9,392,117
	14,523,649	8,871,289	43,316,219	21,080,474
Media cost	7,407,216	4,473,112	21,956,181	10,370,479
Gross profit	\$ 7,116,433	\$ 4,398,177	\$ 21,360,038	\$ 10,709,995
Operating expenses				
Sales and marketing	4,702,051	2,075,551	12,312,329	5,600,185
Research and development (note 4 and 10)	2,438,053	670,188	6,045,853	1,949,926
General and administrative	1,363,741	1,131,789	3,958,449	2,613,894
Share-based compensation (note 11(c))	541,697	98,457	1,134,572	431,377
Acquisition costs (note 3)	–	374,004	547,106	374,004
Fair value gain (note 15)	(3,316,080)	–	(3,316,080)	–
Impairment loss (note 6)	1,894,849	–	1,894,849	–
Depreciation and amortization	1,230,892	278,533	2,314,738	737,899
	\$ 8,855,203	\$ 4,628,522	\$ 24,891,816	\$ 11,707,285
Income (loss) from operations	\$ (1,738,770)	\$ (230,345)	\$ (3,531,778)	\$ (997,290)
Finance costs (note 12)	463,854	256,865	1,232,399	607,161
Foreign exchange loss (gain)	121,774	(9,193)	326,260	(177,187)
	\$ 585,628	\$ 247,672	\$ 1,558,659	\$ 429,974
Income (loss) before income taxes	\$ (2,324,398)	\$ (478,017)	\$ (5,090,437)	\$ (1,427,264)
Income taxes	21,665	1,155	137,780	7,750
Income (loss) for the period	\$ (2,346,063)	\$ (479,172)	\$ (5,228,217)	\$ (1,435,014)
Exchange differences on translating foreign operations	(743,624)	26,607	(1,282,016)	(7,453)
Comprehensive income (loss) for the period	\$ (1,602,439)	\$ (505,779)	\$ (3,946,201)	\$ (1,427,561)
Net income (loss) per share (note 13)				
Basic and diluted	\$ (0.07)	\$ (0.02)	\$ (0.17)	\$ (0.06)

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

ACUITYADS HOLDINGS INC.

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

Nine months ended September 30, 2017 and September 30, 2016
(Unaudited)

Nine months ended September 30, 2017	Common shares		Contributed surplus	Warrants	Other reserves	Deficit	Total
	Number	Amount					
Balance, December 31, 2016	28,119,009	\$ 13,202,580	\$ 1,982,221	\$ 768,564	\$ (180,783)	\$ (12,927,289)	\$ 2,845,293
Shares issued – options exercised	393,294	344,105	–	–	–	–	344,105
Equity financing (note 11(b))	3,444,000	10,467,880	–	426,612	–	–	10,894,492
Share-based compensation (note 11(c))	–	–	1,134,572	–	–	–	1,134,572
Shares issued – Warrants exercised	267,769	371,058	–	–	–	–	371,058
Shares issued – DSUs exercised (note 11(d))	70,600	56,597	(56,597)	–	–	–	–
Other comprehensive income	–	–	–	–	1,462,799	–	1,462,799
Net income (loss) for the period	–	–	–	–	–	(5,228,217)	(5,228,217)
Balance, September 30, 2017	32,294,672	\$ 24,442,220	\$ 3,060,196	\$ 1,195,176	\$ 1,282,016	\$ (18,155,506)	\$ 11,824,102

Nine months ended September 30, 2016	Common shares		Contributed surplus	Warrants	Other reserves	Deficit	Total
	Number	Amount					
Balance, December 31, 2015	25,090,519	\$ 8,466,458	\$ 1,525,686	\$ 409,559	\$ (98,762)	\$ (12,139,794)	\$ (1,836,853)
Shares issued – options exercised	99,999	49,150	–	–	–	–	49,150
Share-based compensation (note 11(c))	–	–	431,377	–	–	–	431,377
Shares issued – Warrants exercised	125,723	88,006	–	–	–	–	88,006
Shares issued – DSUs exercised (note 11(d))	92,299	102,117	(102,117)	–	–	–	–
Other comprehensive income	–	–	–	–	106,215	–	106,215
Net income (loss) for the period	–	–	–	–	–	(1,435,014)	(1,435,014)
Balance, September 30, 2016	25,408,540	\$ 8,705,731	\$ 1,854,946	\$ 409,559	\$ 7,453	\$ (13,574,808)	\$ (2,597,119)

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

ACUITYADS HOLDINGS INC.

Consolidated Interim Statements of Cash Flows
(in Canadian dollars)

Nine months ended September 30, 2017 and 2016
(Unaudited)

	September 30, 2017	September 30, 2016
Cash flows used in operating activities:		
Net income (loss) for the period	\$ (5,228,217)	\$ (1,435,014)
Adjustments to reconcile net loss to net cash flows		
Depreciation and amortization	2,314,738	737,899
Finance costs (note 12)	1,232,399	607,161
Share-based compensation (note 11(c))	1,134,572	431,377
Fair value gain (note 15)	(3,316,080)	–
Impairment loss (note 6)	1,894,849	–
Change in non-cash operating working capital		
Accounts receivable	6,723,429	(1,790,418)
Other current assets	(172,023)	13,469
Investment tax credits receivable	45,000	450,000
Repayable government grant	–	(300,000)
Accounts payable and accrued liabilities	(8,018,698)	(52,132)
Interest paid, net	(939,922)	(498,026)
	\$ (4,329,953)	\$ (1,835,684)
Cash used in investing activities		
Additions to property and equipment (note 5)	(1,829,580)	(835,106)
Acquisition of 140 Proof, Inc. – net of cash acquired (note 3)	–	(3,103,468)
Proceeds from letter of credit (note 18(b))	–	125,000
Acquisition of Visible Measures Corp. – net of cash acquired (note 3)	(13,069,145)	–
	(14,898,725)	(3,813,574)
Cash flows from financing activities		
Amount drawn from revolving line of credit (note 19)	14,393,495	2,602,836
Repayment of line of credit (note 19)	(11,161,955)	–
Proceeds from term loans (note 20)	–	1,000,000
Repayment of term loans principal (note 20)	(750,000)	(178,571)
Additions to finance leases	1,441,242	252,051
Earn out – acquisition (note 3 and 15)	(1,369,053)	–
Repayment of finance leases	(610,402)	(138,901)
Net proceeds from equity financing (note 11(b))	10,894,492	–
Proceeds related to repayable government grant	–	75,000
Proceeds from the exercise of warrants	344,105	88,006
Proceeds from the exercise of stock options	371,059	49,150
	\$ 13,552,983	\$ 3,749,571
Decrease in cash and cash equivalents	(5,675,695)	(1,899,687)
Cash and cash equivalents, beginning of period	7,271,408	4,252,754
Cash and cash equivalents, end of period	\$ 1,595,713	\$ 2,353,067
Supplemental disclosure of non-cash transactions		
Additions to property and equipment under finance leases	\$ 1,528,212	\$ 711,778

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

ACUITYADS HOLDINGS INC.

Notes to Consolidated Interim Financial Statements
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1. Corporate information:

AcuityAds Holdings Inc. (“Acuity Holdings”), and its wholly owned subsidiaries AcuityAds Inc., AcuityAds US Inc., 140 Proof, Inc., Visible Measures Corp. (including its wholly owned subsidiaries), and 2422330 Ontario Inc., a company that holds certain technology assets, is a leading provider of targeted digital media solutions, enabling advertisers to connect intelligently with their audiences across online display, video, social and mobile campaigns. Acuity Holdings is a publicly traded company, incorporated in Canada, and its head office is located at 181 Bay Street, Suite 320, Brookfield Place, Toronto, Ontario M5J 2T3. The Company’s common shares are listed on the TSX Venture Exchange (“TSXV”) in Canada, under the trading symbol “AT” and under the OTC Exchange in the United States under the symbol “ACUIF”.

2. Significant accounting policies:

(a) Statement of compliance:

These consolidated interim financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board (“IASB”). The accounting policies applied in these consolidated interim financial statements are based on IFRS issued and outstanding as of September 30, 2017. The date the Board of Directors authorized the consolidated interim financial statements for issue is November 7, 2017.

(b) Basis of presentation:

These consolidated interim financial statements are prepared in Canadian dollars, which is the Company's functional and reporting currency and have been prepared mainly under the historical cost basis. Other measurement bases used are described in the applicable notes.

(c) Use of estimates and judgements:

The preparation of the consolidated interim 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.

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2. Significant accounting policies (continued):

Other results may be derived with different judgements or using different assumptions or estimates and events may occur that could require a material adjustment.

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

(i) Key sources of estimation uncertainty:

- (a) 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.
- (b) Investment tax credits receivable – The Company has claimed certain refundable Canadian investment tax credits for qualifying research and development activities performed in Canada, which are recognized in the consolidated interim statements of financial position when the Company estimates they are reliably estimable and realization is reasonably assured. The estimated amount recoverable is subject to review and approval by taxation authorities.
- (c) Share-based payments – The estimated fair value of stock options is determined using the Black-Scholes option pricing model. Inputs to the model are subject to various estimates related to volatility, interest rates, dividend yields and expected life of the stock options issued. Fair value inputs are subject to market factors, as well as internal estimates. In addition to the fair value calculation, the Company estimates the expected forfeiture rate with respect to equity-settled share-based payments based on historical experience.
- (d) Valuation – Business Combination – In accordance with IFRS 3, Business Combinations, accounting for an acquisition requires management to allocate the purchase price paid for an acquisition to the fair value of identified assets and liabilities acquired, with any residual recorded as goodwill. The identification of assets and liabilities requires both judgements and estimates regarding the assessment of balances acquired and the fair value thereon. The values of assets and liabilities are recorded at fair value based on management's best estimate. Key estimates and assumptions include: the forecasted financial performance of the acquired company; projected customer attrition; and the expected use of assets and

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2. Significant accounting policies (continued):

liabilities acquired among other considerations. Changes in certain estimates and assumptions could have a material impact on the valuation of assets and liabilities recognized on a business combination.

- (e) Goodwill – Impairment – The goodwill impairment test requires a calculation to determine the recoverable amount of goodwill. Management has determined the recoverable amount by determining the higher of fair value less costs of disposal of goodwill and value in use. Determining fair value and value in use requires the use of estimates and assumptions about factors which impact the valuation of goodwill. Such estimates and assumptions include the forecasted financial performance of the Company and market factors applied. Reasonable possible changes in key estimates and assumptions have the potential to cause the recoverable amount of goodwill to change.
 - (f) Earn out – Acquisition – The fair value of contingent consideration liabilities is based on the estimated future financial performance of the acquired business. Financial targets used in the estimation process include certain defined financial targets and realized internal rates of return.
- (ii) Critical judgements in applying accounting policies:
- (a) Revenue and cost recognition – For revenue from sales of third-party products or services, management's judgement is applied regarding the determination of whether the Company is a principal or agent to the transactions. In making this judgement, management places significant weight on the fact that the Company has the primary responsibility for providing access to the Company's Programmatic Marketing Platform, which is critical to the fulfilment of the customer deliverables, and bears the credit risk in respect of the amounts receivable from the customer.
 - (b) Impairment tests for non-financial assets other than goodwill – Judgement is applied in determining whether events or changes in circumstances during the period are indicators that a review for impairment should be conducted.

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2. Significant accounting policies (continued):

(d) Basis of consolidation:

(i) Subsidiaries:

These consolidated interim financial statements include the accounts of AcuityAds Holdings Inc. and its wholly-owned subsidiaries AcuityAds Inc., AcuityAds US Inc., 140 Proof, Inc., Visible Measures Corp. (including its wholly owned subsidiaries), and 2422330 Ontario Inc., a company that holds certain technology assets.

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

(ii) Transactions eliminated on consolidation:

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

(e) Foreign currency transactions:

(i) Transactions and balances in foreign currencies:

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

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2. Significant accounting policies (continued):

(ii) Group companies with a functional currency other than CAD:

The assets and liabilities of foreign subsidiaries are translated into CAD at the rate of exchange prevailing at the reporting date, and their income statements are translated at the average rates of exchange for the period.

Exchange rate adjustments arising on translation are recognized in other comprehensive income (loss). On disposal of a foreign subsidiary, the component of other comprehensive income (loss) relating to that particular foreign operation is recognized in net income (loss).

(f) Financial instruments:

(i) Non-derivative financial assets:

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

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

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

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

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

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

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2. Significant accounting policies (continued):

at amortized cost using the effective interest method, less any impairment losses. Accounts receivable comprise trade receivables, net of allowance for doubtful accounts.

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

The Company's non-derivative financial liabilities consist of accounts payable and accrued liabilities, revolving line of credit, term loans and amounts due to related parties.

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

(g) Property and equipment:

(i) Recognition and measurement:

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

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

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

(ii) Depreciation:

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

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2. Significant accounting policies (continued):

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

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

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

(iii) Research and development:

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in net 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 development expenditures have been capitalized primarily on the basis that the recognition of internally developed intangible assets from development activities is not met until shortly prior to when the related products are in a position to derive or generate economic benefits.

(h) Impairment:

(i) Financial assets (including accounts receivable):

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

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2. Significant accounting policies (continued):

An impairment loss on receivables is measured as the difference between the assets carrying amount and the present value of the future cash flows expected to be derived from the asset, discounted using the original effective interest rate. The carrying value is reduced through the use of an allowance for doubtful accounts, with the loss recognized in 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") ("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 is 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 net income (loss). Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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

(i) Share-based payments:

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

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2. Significant accounting policies (continued):

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' equity.

Deferred stock unit plan:

As part of the Company's long-term incentives for employees, officers, and independent directors, a Deferred Stock Unit ("DSU") plan was established on July 17, 2015 as a common share settled plan. DSU awards are settled with the issuance of common shares. The compensation expense for DSUs is based on the fair values at the time the award is granted. The expense is recognized as a component of share-based compensation expense with a corresponding increase to contributed surplus within shareholders' equity. Upon redemption, the fair value of the award is reclassified from contributed surplus to share capital.

(j) Provisions:

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

(k) Revenue:

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

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2. Significant accounting policies (continued):

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 purchases). 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 performs a credit check with an independent credit agency and checks credit references to determine creditworthiness. The Company only recognizes revenue when collection is reasonably assured. If collection is not considered reasonably assured, revenue is recognized only once all amounts are collected. Revenue is recorded net of trade discounts and volume rebates. If it is probable that discounts will be granted and amounts can be measured reliably, then the discount is recognized as a reduction of revenue as the related sales are recognized.

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

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

(l) Lease payments:

Leases are classified as either finance or operating. Leases that transfer substantially all the risks and benefits of ownership to the Company and meet the criteria of finance leases are accounted for as an acquisition of an asset and an assumption of an obligation at the inception of the lease, measured at the present value of minimum lease payments. Related assets are amortized on a straight-line basis over the term of the lease but not in excess of

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2. Significant accounting policies (continued):

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 a lease agreement, are included in accounts payable and accrued liabilities.

(m) Finance costs:

Finance costs comprise interest expense on the revolving line of credit, term loans 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 net loss using the effective interest method.

(n) Income taxes:

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

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

Deferred income taxes are not recognized if they arise from the initial recognition of goodwill, nor are they recognized on temporary differences arising from the initial recognition of an

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2. Significant accounting policies (continued):

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 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 interim statements of financial position dates.

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

(o) Investment tax credits:

The Company is entitled to certain refundable Canadian investment tax credits ("ITC") for qualifying research and development activities performed in Canada. The ITCs are accounted for as a reduction of the related expenditures for items expensed in the consolidated interim 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 consolidated interim statements of financial position when the amount is reliably estimable and realization is reasonably assured.

(p) Government grants:

Government grants are 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 grants are earned under the conditions of the grant prior to receipt of funds, the Company records a government grants receivable. Government grants related to operating expenses are reflected as a reduction of such expenses in the year when they are incurred. Government grants recognized as a reduction of research and development expense for the period ended September 30, 2017 totaled \$151,931 (2016 – \$36,422).

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2. Significant accounting policies (continued):

(q) Net income (loss) per share:

Basic income (loss) per share is calculated by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is calculated by dividing the net income (loss) for the period by the sum of the weighted average number of common shares outstanding and the dilutive common share equivalents outstanding during the period. 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 net income (loss) per share when the effect would be anti-dilutive.

(r) Media costs:

Media costs are considered the Company's cost of goods sold. The costs include the publishing and real time bidding costs to secure advertising space.

(s) Business combinations:

Business combinations are accounted for using the acquisition method whereby identifiable assets acquired and liabilities assumed, including contingent liabilities, are recorded at their fair values at the acquisition date. The acquisition date is the date at which the Company obtains control over the acquiree, which is generally the date that consideration is transferred and the Company acquires the assets and assumes the liabilities of the acquiree. The Company considers all relevant facts and circumstances in determining the acquisition date.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values of the assets at the acquisition date transferred by the Company, the liabilities, including contingent consideration, incurred and payable by the Company to former owners of the acquiree and the equity interests issued by the Company. The measurement date for equity interests issued by the Company is the acquisition date. Acquisition-related costs are expensed as incurred.

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2. Significant accounting policies (continued):

The IASB amended IFRS 3, Business Combinations, to provide clarification related to contingent consideration in a business combination effective for business combinations where the acquisition date is on or after July 1, 2014. The amendment clarified that where contingent consideration is within the scope of IAS 39, Financial Instruments - Recognition and Measurement, it shall be measured at fair value and changes in fair value shall be recognized in income (loss). The amendments to IFRS 3 was adopted by the Company for the acquisition of 140 Proof, Inc. (note 3).

(t) Intangible assets:

The useful life of an intangible asset is either finite or indefinite. Intangible assets are initially measured at fair value. Following the initial recognition, intangible assets are carried at the initial fair value less accumulated amortization and impairment losses, if any. Acquired intangible assets (see note 6) are recognized as intangible assets with finite lives. Amortization of customer relationships and technology is based on the estimated useful lives of these assets and is recognized on a straight-line basis over eight and five years, respectively. Amortization for the tradename is recognized on a straight-line basis over four years. Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

(u) Recently issued accounting pronouncements:

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

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

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

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2. Significant accounting policies (continued):

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

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

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

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

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3. Acquisition:

On September 1, 2016, the Company completed the purchase of 100% of the shares of 140 Proof, Inc. ("140 Proof"), a San Francisco based company. Pursuant to the purchase and effective upon closing, 140 Proof became a wholly owned subsidiary of AcuityAds Holdings and all issued and outstanding preferred and common shares of 140 Proof were transferred to AcuityAds Holdings. The total consideration was \$10,597,585, which included \$3,669,600 USD (\$4,812,994 CDN) cash less \$2,706,900 USD (\$3,549,965 CDN) of working capital received on closing. In addition to the cash consideration there is a performance based earn out of an estimated amount of \$4,410,600 USD (\$5,784,591 CDN) dependant on 140 Proof's future earnings over 36 months to a maximum amount of \$20,000,000 USD.

The acquisition has been accounted for as a business combination with AcuityAds Holdings as the acquirer. Transaction costs associated with the acquisition and incurred by 140 Proof were expensed in 2016 as well as transaction costs incurred by the Company relating to the acquisition.

The allocation of the purchase price is as follows:

Net Assets acquired and goodwill	
Cash and cash equivalents	\$ 1,709,526
Accounts receivable	3,238,190
Other current and non-current assets	72,115
Fixed assets	13,946
Intangible assets	3,574,110
Goodwill	3,473,510
Current liabilities	(1,483,812)
	\$ 10,597,585

Total transaction costs of \$400,904 were incurred relating to the acquisition and included in the statement of comprehensive income (loss) for the year ended December 31, 2016.

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3. Acquisition (continued):

On March 31, 2017, the Company completed the purchase of 100% of the shares of Visible Measures Corp. ("Visible Measures"), a Boston based company. Pursuant to the purchase and effective upon closing, Visible Measures became a wholly owned subsidiary of AcuityAds Holdings and all issued and outstanding preferred and common shares of Visible Measures were transferred to AcuityAds Holdings. In exchange for 100% of the shares of Visible Measures, the Company paid a total cash consideration of \$9,840,903 USD (\$13,087,417 CDN). The cash consideration paid at closing of the acquisition was adjusted to meet certain working capital requirements and standard hold-backs for representations and warranties provided on behalf of the sellers.

The acquisition has been accounted for as a business combination with AcuityAds Holdings as the acquirer. Transaction costs associated with the acquisition and incurred by Visible Measures are recognized in the consolidated interim statement of comprehensive loss for the three and nine months ended September 30, 2017 as well as transaction costs incurred by the Company relating to the acquisition. As at the date of these consolidated interim financial statements, allocation of the purchase price has not been finalized as management is still in the process of determining the fair values of identifiable assets and liabilities assumed and determining the value of goodwill.

A preliminary allocation of the purchase price in USD is as follows:

Net Assets acquired and goodwill	
Cash and cash equivalents	\$ 13,739
Accounts receivable	3,958,015
Other current and non-current assets	554,736
Intangible assets	8,499,100
Goodwill	1,764,696
Current liabilities	(4,949,383)
	\$ 9,840,903

Total transaction costs incurred relating to the acquisition and included in the consolidated interim statement of comprehensive loss for the three and nine months ended September 30, 2017 are \$nil and \$547,106 respectively.

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4. Investment tax credits receivable:

During the year ended December 31, 2016, the Canada Revenue Agency (“CRA”) issued a refund of \$1,095,534 for investment tax credits (“ITC”) relating to eligible Scientific Research and Experimental Development (“SRED”) claims for the years 2011, 2012, 2013, 2014 and 2015. The Company had previously accrued an ITC receivable of \$450,000 which was offset by the refund. The remaining funds, \$645,534, were applied against research and development expenses on the consolidated interim statement of comprehensive income (loss). An additional amount of \$195,000 was booked and reduced expenses during the year ended December 31, 2016. The amount relates to a stub period in 2014 SRED and 2016 SRED claims. Additionally, the Company has non-refundable SRED credits of \$653,000, which are available to reduce future taxable income and for which no benefit has currently been recognized in the consolidated interim financial statements.

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

During the nine months ended September 30, 2017, the CRA issued a refund of \$85,000 for ITC relating to eligible SRED claims for the stub period ending December 31, 2014. The amount was used to reduce the ITC receivable from \$195,000 to \$110,000. An additional amount of \$240,000 has been accrued relating to 2016 and 2017 SRED claims, bringing the total ITC receivable to \$350,000.

During the three months ended September 30, 2017 the CRA issued a refund of approximately \$200,000 relating to 2016, and as a result the ITC receivable has been reduced to \$150,000.

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5. Property and equipment:

	Furniture and fixtures	Data centre equipment	Office computer equipment	Equipment under finance leases	Total
Net book value, December 31, 2016	\$ 113,528	\$ 39,443	\$ 142,033	\$ 1,602,026	\$ 1,897,030
Additions	38,269	22,167	240,932	1,528,212	1,829,580
Depreciation	(27,336)	(36,734)	(173,317)	(836,969)	(1,074,356)
Net book value, September 30, 2017	\$ 124,461	\$ 24,876	\$ 209,648	\$ 2,293,269	\$ 2,652,254

	Furniture and fixtures	Data centre equipment	Office computer equipment	Equipment under finance leases	Total
Net book value, December 31, 2015	\$ 69,876	\$ 153,715	\$ 100,041	\$ 1,081,243	\$ 1,404,875
Additions	72,779	4,552	99,542	1,338,055	1,514,928
Depreciation	(29,127)	(118,824)	(57,550)	(817,272)	(1,022,773)
Net book value, December 31, 2016	\$ 113,528	\$ 39,443	\$ 142,033	\$ 1,602,026	\$ 1,897,030

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6. Intangible assets:

	Customer relationships	Tradenname	Technology	Total
Net book value, December 31, 2016	\$ 868,216	\$ 418,300	\$ 2,063,534	\$ 3,350,050
Additions	4,780,060	5,635,850	887,044	11,302,953
Amortization	(407,692)	(439,578)	(393,113)	(1,240,383)
Impairment	(737,348)	(217,299)	(940,202)	(1,894,849)
Net book value, September 30, 2017	\$ 4,503,236	\$ 5,397,273	\$ 1,617,263	\$ 11,517,772

	Customer relationships	Tradenname	Technology	Total
Net book value, December 31, 2015	–	–	–	–
Additions	905,004	465,618	2,203,488	3,574,110
Amortization	(36,788)	(47,318)	(139,954)	(224,060)
Net book value, December 31, 2016	\$ 868,216	\$ 418,300	\$ 2,063,534	\$ 3,350,050

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6. Intangible assets (continued):

Following the loss of a major contract in the 140 Proof operations, management has recalculated the recoverable amount of the customer relationships, tradename and technology pertaining to the 140 Proof as at September 30, 2017. An impairment loss of \$1,894,849 was recognized, and the customer relationships, tradename and technology pertaining to the 140 Proof were written down to their recoverable amounts of \$nil, \$97,249 and \$866,662, respectively. The recoverable amounts were determined by reference to the assets' value in use. The main valuation inputs used were discount rate of 22.5% and estimated cash flows projections (see note 7).

There were no reversals of prior periods' intangible assets impairment during the current period.

7. Goodwill:

Following the loss of a major customer contract in the 140 Proof operations, management has calculated the recoverable amount of the 140 Proof CGU as at September 30, 2017.

The recoverable amount of the CGU was determined based on value-in-use calculations using discounted cash flow (DCF) methodology. This approach requires assumptions about revenue growth rates, operating margins, tax rates and discount rates. The maintainable discretionary after-tax cash flows from operations are based on historical results and the Company's projected results. In arriving at its forecasts, the Company considered past experience, economic trends and inflation as well as industry and market trends. The assumptions used by the Company in its goodwill impairment testing are as follows: discount rate 22.5%, budgeted gross margin 60%, and terminal growth rate 2%.

The recoverable amount for the 140 Proof CGU was in excess of its carrying value. Management has considered and assessed reasonably possible changes for other key assumptions and have not identified any other instances that could cause the carrying amount of the 140 Proof CGU to exceed its recoverable amount.

As there were no indicators for impairment of any of the other CGUs, management has not updated any of the other impairment calculations.

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8. Finance lease obligations:

	September 30, 2017	December 31, 2016
Obligations under finance leases	\$ 2,325,064	\$ 1,673,514
Less: Current portion	1,068,828	748,075
	<u>\$ 1,256,236</u>	<u>\$ 925,439</u>

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

2017	\$ 317,126
2018	1,189,951
2019	874,066
2020	186,729
	<u>\$ 2,567,872</u>
Less interest	242,808
Present value of minimum lease payments	<u>\$ 2,325,064</u>

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9. Related party transactions and balances:

Directors and officers are eligible to participate in the Company's stock option plan. For the three and nine months ended September 30, 2017, nil and 50,000 stock options were granted to directors and officers of the Company (note 11(c)). For the three and nine months ended September 30, 2016, nil and nil stock options were granted to directors and officers of the Company (note 11(c)).

During the three and nine months ended September 30, 2017, the Company issued approximately 20,850 and 295,075 DSUs to directors and officers of the Company. Of those, 8,600 and 251,025 were granted to officers and 12,250 and 44,050 were granted to directors in lieu of cash bonuses and director fees, all vesting immediately. For the three and nine months ended September 30, 2016, 221,000 and 773,320 DSUs were issued to directors and officers of the Company. Of those options, 189,800 and 517,900 were granted to officers and 31,200 and 255,420 were granted to directors in lieu of cash bonuses and director fees, all vesting immediately.

\$1,692,857 of the current outstanding term loans (note 20) relates to amounts loaned by related parties.

Transactions with executive personnel:

The key management personnel of the Company are the officers and the directors. The remuneration of executive personnel during the three and nine months ended September 30, 2017 and 2016 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Executive compensation and benefits	\$ 256,669	\$ 289,648	\$ 1,018,090	\$ 890,092
Share-based compensation	21,906	8,762	65,718	26,287
Total	\$ 278,575	\$ 298,410	\$ 1,083,808	\$ 916,379

Ov2 Securities Inc. acted as an exclusive financial advisor to AcuityAds Holdings on the acquisition of Visible Measures, and received an advisory fee of \$100,000 USD (\$133,870 CDN). A director of AcuityAds Holdings is a principal of Ov2 Securities Inc.

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10. Repayable government grant:

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

During the year ended December 31, 2016, the remaining \$75,000 was received.

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 grant is non-refundable if commercialization is deemed unachievable.

For the year ended December 31, 2016, the commercialization of the resulting technology was deemed unsuccessful. The credit of \$300,000 was included as a reduction of research and development expenses in 2016.

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11. Share capital and share-based payments:

(a) Share capital:

At September 30, 2017, the Company had an unlimited number of common shares authorized for issuance and 32,294,672 common shares outstanding.

(b) Equity financing:

On December 21, 2016, the Company completed an equity financing, issuing 2,173,500 common shares at a price of \$2.12 per share for gross proceeds of \$4,607,820. The financing was underwritten by a syndicate of underwriters. As part of the share issuance costs, the underwriters received cash commissions of \$322,547 and broker warrants for 7% of the aggregate number of offered common shares. The warrants are exercisable for a period of 24 months following closing of the financing at a purchase price per share equal to the common share issuance price. The Company issued 152,145 warrants at the fair value of \$0.93 per warrant that was determined using the Black-Scholes model using the following assumptions: risk-free interest rate of 0.83%, expected volatility of 81%, expected life of 1.50 years and expected dividends of \$nil. The warrants' value of \$141,067 was recognized in contributed surplus with a corresponding reduction of the share capital. The Company incurred additional share issuance costs of \$131,231 in connection with the financing. The Company issued 40,000 additional shares at \$2.12 per share as compensation to the lead agents.

On March 30, 2017, the Company completed an equity financing, issuing 3,444,000 common shares at a price of \$3.40 per share for gross proceeds of \$11,709,600. The financing was underwritten by a syndicate of underwriters. As part of the share issuance costs, the underwriters received cash commissions of \$702,576 and broker warrants for 6% of the aggregate number of offered common shares. The warrants are exercisable for a period of 24 months following closing of the financing at a purchase price per share equal to the common share issuance price. The Company issued 206,640 broker warrants at a fair value of \$2.05 per warrant that was determined using the Black-Scholes model using the following assumptions: risk-free interest rate of 1.35%, expected volatility of 95%, expected life of 1.50 years and expected dividends of \$nil. The warrants' value of \$426,612 was recognized in contributed surplus with a corresponding reduction of share capital. The Company incurred additional share issuance costs of \$73,966 in connection with the financing.

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

(c) Stock Option Plan:

Under the Company's Stock Option Plan, the Board of Directors may grant stock options to employees, officers, directors and consultants of the Company. As at September 30, 2017, the Company was entitled to issue 3,229,467 stock options under the Plan. The maximum number of common shares which may be issued under the Plan is a rolling fixed maximum percentage of 10% of the common shares issued and outstanding at a point in time. The expiry date of options granted under the Plan typically does not exceed five years from the grant date. The vesting schedule is at the discretion of the Board and is generally annually over a three-year period. The exercise price of options is based on a determination of the fair market value per share on the day preceding the grant date.

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

	September 30, 2017		September 30, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	2,333,135	\$ 1.01	2,316,852	\$ 0.95
Granted	1,007,500	\$ 4.26	220,000	\$ 1.05
Forfeited or cancelled	(100,013)	\$ 1.54	(50,385)	\$ 1.22
Exercised	(393,295)	\$ 0.87	(99,999)	\$ 0.49
Outstanding, end of period	2,847,327	\$ 2.16	2,386,468	\$ 0.98
Options exercisable, end of period	1,490,880	\$ 1.01	1,606,793	\$ 0.98

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

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

September 30, 2017:

Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average number of options exercisable
\$0.60	50,000	0.25	50,000
\$0.75	35,083	2.17	30,083
\$0.78	90,000	2.67	90,000
\$0.83	280,166	3.17	133,500
\$0.94	90,000	2.92	90,000
\$0.95	33,333	3.50	—
\$0.98	926,078	2.54	807,130
\$1.00	75,000	3.50	75,000
\$1.08	75,000	3.50	75,000
\$1.34	10,001	3.42	1
\$1.59	93,434	1.92	93,436
\$1.94	125,000	3.83	37,500
\$2.15	9,232	0.25	9,232
\$4.12	392,500	4.50	—
\$4.60	435,000	4.25	—
\$4.47	127,500	4.92	—
	2,847,327		1,490,880

September 30, 2016:

Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average number of options exercisable
\$0.60	150,000	1.33	150,000
\$0.75	46,750	3.17	33,417
\$0.78	171,077	0.25	171,077
\$0.83	20,000	4.17	—
\$0.89	320,000	4.17	75,000
\$0.94	135,000	3.92	135,000
\$0.98	1,188,230	3.35	811,974
\$1.00	75,000	4.50	37,500
\$1.08	75,000	4.50	18,750
\$1.34	20,000	4.67	—
\$1.59	173,102	3.00	164,845
\$1.63	3,077	0.75	3,077
\$2.15	9,232	1.25	6,153
	2,386,468		1,606,793

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

During the three and nine months ended September 30, 2017, the Company recorded share-based compensation expense related to stock options granted to employees, officers, directors and consultants of the Company of \$541,697 and \$1,134,572 (2016 – \$98,457 and \$431,377).

During the three and nine months ended September 30, 2017, the Company granted 130,000 and 1,007,500 stock options respectively with a weighted average exercise price of \$4.47 and \$4.26 (2016 – nil and 220,000 stock options) to employees, officers, directors and consultants of the Company. Of those options, 125,000 and 812,500 options were granted to officers or employees of the Company (2016 – nil and 20,000 stock options were granted). 5,000 and 195,000 options were granted to consultants as compensation for services rendered at a weighted average price of \$4.47 and \$4.23 all expiring during 2022 (2016 – nil and 200,000 stock options were granted).

During the three and nine months ended September 30, 2017, 57,999 and 393,295 options were exercised at a weighted average exercise price of \$1.15 and \$0.87 per option, for gross proceeds of \$66,947 and \$343,925 (2016 – 92,307 and 99,999 options were exercised at a weighted average exercise price of \$0.51 and \$0.49 per option, for gross proceeds of \$47,250 and \$49,150).

Share-based compensation expense was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model with the weighted average assumptions for options granted during the periods ended September 30 as follows:

	2017	2016
Weighted average grant date fair value of options granted	\$1.53	\$0.90
Weighted average assumptions used:		
Expected option life	5 years	5 years
Risk-free interest rate	1.31%	1.39%
Dividend yield	–	–
Expected volatility	98%	81%

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 22, 2014.

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

(d) Deferred Share Units (“DSUs”)

During the three and nine months ended September 30, 2017, the Company issued 22,650 and 361,600 DSUs to employees, officers, independent directors, and consultants of the Company all vesting immediately. During the three and nine months ended September 30, 2017, 31,250 and 70,600 DSUs have been exercised.

12. Finance costs:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Finance costs:				
Interest on finance leases and other interest	\$ 115,643	\$ 34,880	\$ 347,533	\$ 72,373
Interest and fees on revolving line of credit (note 19)	176,076	99,235	335,047	199,006
Interest and fees on term loans (note 20)	172,135	122,750	549,819	335,782
Total finance costs	\$ 463,854	\$ 256,865	\$ 1,232,399	\$ 607,161

13. Net income (loss) per share:

The computations for basic and diluted net income (loss) per share for the three and nine months ended September 30, 2017 and 2016 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net income (loss) for the period	\$ (2,346,063)	\$ (479,172)	\$ (5,228,217)	\$ (1,435,014)
Weighted average number of shares outstanding, basic and diluted	32,220,657	25,381,559	31,373,024	25,246,708
Net income (loss) per share, basic and diluted	\$ (0.07)	\$ (0.02)	\$ (0.17)	\$ (0.06)

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13. Net loss per share (continued):

Exercisable options to purchase 1,490,880 common shares (2016 – 1,606,793) and 1,283,467 warrants (2016 – 1,133,501) were outstanding as at September 30, 2017. The weighted average number of options and warrants were excluded from the calculation of diluted loss per share for the periods ended September 30, 2017 and 2016 because their inclusion would have been anti-dilutive.

14. Segment information:

The Company's assets and operations are substantially located in Canada; however, the Company has employees and customers in the United States, Europe, Middle East and Africa and generates revenue in each region. Revenue by region for the periods ended September 30 is as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Canada	\$ 3,101,443	\$ 3,000,404	\$ 8,058,988	\$ 8,480,547
United States	8,756,502	3,857,976	24,161,247	7,536,969
Europe, Middle East & Africa	2,665,704	2,012,909	11,095,984	5,062,958
	\$ 14,523,649	\$ 8,871,289	\$ 43,316,219	\$ 21,080,474

During the three and nine months ended September 30, 2017, the Company had one customer that represented 6% and 12% of total revenue. The customer is an advertising agency representing multiple brands. In 2016, the Company had one customer that represented 14% and 12% of total revenue. The 2016 customer was an advertising agency representing multiple brands.

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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:

September 30, 2017	Loans and receivables/ financial liabilities
Measurement basis	Amortized cost
Financial assets	
Cash and cash equivalents	\$ 1,595,713
Restricted cash	125,000
Accounts receivable	13,848,570
Investment tax credits receivable	150,000
Government grants receivable	119,000
	\$ 15,838,283
Financial liabilities	
Accounts payable and accrued liabilities	\$ 10,868,794
Revolving line of credit	9,054,466
Term loans	2,318,523
Finance lease obligations	2,325,064
Earn out – acquisition	748,800
	\$ 25,315,647
December 31, 2016	
Measurement basis	
Amortized cost	
Financial assets	
Cash and cash equivalents	\$ 7,271,408
Restricted cash	125,000
Accounts receivable	15,308,235
Investment tax credits receivable	195,000
Government grants receivable	135,000
	\$ 23,034,643
Financial liabilities	
Accounts payable and accrued liabilities	\$ 12,322,932
Revolving line of credit	6,581,111
Term loans	2,840,312
Finance lease obligations	1,673,514
Earn out – acquisition	5,921,752
	\$ 29,339,621

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15. Fair value of financial instruments (continued):

(b) Fair value measurements:

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

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

There were no transfers of financial assets during the periods ended September 30, 2017 and 2016 between any of the levels.

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15. Fair value of financial instruments (continued):

The following table presents changes in Level 3 items for the period ending September 30, 2017

	Earn out acquisition
Opening balance, January 1, 2017	\$ 5,921,752
Acquisitions	–
Re-measurement of the fair value	(3,316,080)
Payments	(1,369,053)
Foreign exchange impact	(487,819)
Closing balance, September 30, 2017	\$ 748,800

The Company has recognized a contingent consideration classified as a liability within the consolidated interim statements of financial position. The liability is recorded as the fair value of future deferred consideration associated with the company acquired during the period. Fair value is determined based on management's estimate of the present value of the amounts expected to be paid subject to the contingent performance targets for the respective acquisition.

Re-measurement of the fair value of contingent consideration is performed by the Company at each financial reporting period. Key unobservable inputs comprise management's best estimate of probability that the acquired business will achieve specified gross margin and contribution margin targets in specified time frames following the respective acquisition. The estimated fair value increases as the estimated probability associated with the gross margin and contribution margin targets increase and vice versa for decreases in fair value.

During the period ending September 30, 2017, the Company recognized a fair value gain of \$3,316,080 when reviewing the estimate of the amount and timing of the future payments based on further information available regarding the operating performance of the acquired company.

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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 revolving line of credit as described in note 19.

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. Management identifies and evaluates financial risks and is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises from the Company's accounts receivable and cash. As at September 30, 2017, two customers represented 10%, and 6% of the gross accounts receivable balance of \$14,109,358, respectively. As at December 31, 2016, three customers represented 26%, 13% and 9% of the gross accounts receivable balance of \$15,550,235, respectively.

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

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17. Financial risk management (continued):

The accounts receivable balances due from these significant customers were current as at September 30, 2017. No other individual customers represented more than 5% of accounts receivable. As at September 30, 2017, the allowance for doubtful accounts was \$260,788 (December 31, 2016 – \$242,000). In establishing the appropriate allowance for doubtful accounts, management makes assumptions with respect to the future collectability of the receivables. Assumptions are based on an individual assessment of a customer's credit quality as well as subjective factors and trends. Overdue accounts as at September 30, 2017 were \$2,394,170, which is in the normal course of business. Management believes that the allowance is adequate.

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 September 30, 2017 is not subject to external restrictions, except for \$125,000 that is currently held as collateral for a letter of credit. Investments must be rated at least investment grade by recognized rating agencies. Given these high credit ratings, the Company does not expect any counterparties to these investments to fail to meet their obligations.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company manages its liquidity risk by continually monitoring forecasted and actual revenue and expenditures and cash flows from operations. Management is also actively involved in the review and approval of planned expenditures. The Company's principal cash requirements are for principal and interest payments on its debt, capital expenditures and working capital needs. The Company uses its operating cash flows, loans and borrowings and cash balances to maintain liquidity. In the event that future cash flows from operations are lower than expected, the Company may need to seek additional financing, either by issuing additional equity or by undertaking additional borrowings. There is no certainty that additional financing will be available or that it will be available on attractive terms.

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17. Financial risk management (continued):

The following are the contractual maturities for the financial liabilities:

September 30, 2017	Carrying amount	Total contractual cash flows	Less than 1 year	1 to 3 years	> 3 years
Accounts payable and accrued liabilities	\$ 10,868,794	\$ 10,868,794	\$ 10,868,794	\$ –	\$ –
Revolving line of credit	9,054,466	9,054,466	9,054,466	–	–
Earn out – acquisition	748,800	748,800	–	748,800	–
Term loans	2,318,523	2,571,429	2,571,429	–	–
	\$ 22,990,583	\$ 23,243,489	\$ 22,494,689	\$ 748,800	\$ –

December 31, 2016	Carrying amount	Total contractual cash flows	Less than 1 year	1 to 3 years	> 3 years
Accounts payable and accrued liabilities	\$ 12,322,932	\$ 12,322,932	\$ 12,322,932	\$ –	\$ –
Revolving line of credit	6,536,724	6,536,724	6,536,724	–	–
Earn out – acquisition	5,921,752	5,921,752	2,566,689	3,355,063	–
Term loans	2,840,312	3,142,858	2,499,998	642,860	–
	\$ 27,621,720	\$ 27,924,266	\$ 23,926,343	\$ 3,997,923	\$ –

(c) Interest rate risk:

Interest rate risk is the risk of financial loss to the Company if interest rates increase on interest-bearing instruments. The revolving line of credit bears interest at a rate of prime plus 2.25%. The term loans bear interest at a fixed rate of 15.25%, which the Company believes is consistent with market interest rates for this type of debt.

(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 period ended September 30, 2017, 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 September 30, 2017.

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17. Financial risk management (continued):

The Company has performed a sensitivity analysis in respect of foreign exchange exposure in 2017. 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 2017. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in an increase in net loss for 2017. 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 \$982,613 due to the fluctuation and this would be recorded in the consolidated interim statement of comprehensive income (loss).

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

	September 30, 2017	December 31, 2016
Cash	\$ 924,370	\$ 2,886,899
Accounts receivable	9,100,846	13,029,908
Accounts payable	10,048,075	3,468,642
Earn out – acquisition	748,800	5,921,752
Line of credit	9,054,466	6,536,274

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18. Commitments and contingencies:

(a) Non-cancellable operating lease rentals:

Non-cancellable operating lease rentals are payable as follows:

	September 30, 2017	December 31, 2016
Less than 1 year	\$ 1,469,617	\$ 712,992
Between 1 and 5 years	1,246,672	1,653,263
	\$ 2,716,289	\$ 2,366,255

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

During the period ended September 30, 2017, an amount of \$802,014 was recognized as an expense in comprehensive income (loss) in respect of operating leases (2016 – \$454,324).

(b) Restricted cash:

On July 21, 2015 the Company entered into a letter of credit. The letter of credit is security that relates to an office lease in Toronto. The letter of credit was backed up by \$250,000 that is held at a Canadian financial institution and is drawn down by the landlord over the term of the lease. \$125,000 was returned back to the Company in August 2016. \$25,000 is scheduled to be returned to the Company in 2017.

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19. Revolving line of credit:

On November 13, 2015, the Company secured a US\$3.5 million (approximately CDN\$4.6 million) revolving line of credit from Silicon Valley Bank ("SVB"). On September 1, 2016, the Company secured an addendum to the revolving line of credit increasing the total borrowing limit to US\$6.5 million (approximately CDN\$8.5 million). On March 30, 2017, the Company secured an addendum to the revolving line of credit increasing the total borrowing limit to US\$10.0 million (approximately CDN\$13.3 million). The SVB facility has a maturity date 364 days from closing and interest accrues at prime plus 2.25% per annum. At September 30, 2017, the prime rate was 4.25%. The revolving line of credit is calculated based on a maximum total amount of 80% of the Company's accounts receivable and 80% of investment tax credits receivable. The proceeds are for working capital purposes.

The following table outlines the activity of the revolving line of credit during the periods ended September 30, 2017 and December 31, 2016:

Amortized cost, January 1, 2017	\$ 6,536,724
Amount drawn from revolving line of credit	14,393,495
Accrued interest on revolving line of credit	335,047
Payment of interest on revolving line of credit	(270,781)
Exchange differences	(778,064)
Principal amount repaid	(11,161,955)
Amortized cost, September 30, 2017	\$ 9,054,466
Amortized cost, January 1, 2016	\$ 3,374,820
Amount drawn from revolving line of credit	11,774,731
Accrued interest on revolving line of credit	370,512
Payment of interest on revolving line of credit	(230,949)
Exchange differences	(25,327)
Principal amount repaid	(8,727,063)
Amortized cost, December 31, 2016	\$ 6,536,724

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19. Revolving line of credit (continued):

Transaction costs incurred securing the revolving line of credit were \$59,787 (2016 – \$145,163). All transaction costs have been capitalized and deferred. These deferred transaction costs are being amortized over the term of the agreement under the effective interest method and included in finance costs.

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

20. Term loans:

During the year ended December 31, 2015, a \$2,500,000 term loan was made pursuant to a credit agreement dated November 10, 2015, between the Company, its subsidiaries and various lenders (the “Lenders”), including several individuals that are non-arm’s length to the Company (the “NAL Lenders”). The NAL Lenders included several officers and directors of the Company who funded an aggregate of \$1,600,000 of the loan.

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

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

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

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20. Term loans (continued):

During the year ended December 31, 2016, two separate waivers were signed to defer \$357,142 in principal repayments under the Company's \$2,500,000 term loan facility. As a result of the signed waivers by the Lenders, the first and second principal repayment installments of the loan have now been deferred and added to the principal repayment due in November 2017.

As of September 30, 2017, \$535,714 of the principal portion of the Term Loan (tranche 1) was repaid as per the original agreement.

During the year ended December 31, 2016, a second term loan (tranche 2) of \$1,000,000 was made pursuant to a credit agreement dated September 1, 2016, between the Company, its subsidiaries and various lenders (the "Lenders"), including several individuals that are non-arm's length to the Company (the "NAL Lenders"). The NAL Lenders included several officers and one director of the Company who funded an aggregate of \$500,000 of the loan.

The Company received TSX-V Exchange approval to issue one bonus warrant to each Lender for each \$3.00 of principal amount of loan advanced to the Company. The Company issued 333,333 warrants exercisable for a period of two years. The exercise price of the warrants is \$1.84 per common share and the fair value was \$0.65 per warrant. The fair value of the warrants was determined using the Black-Scholes model using the following assumptions: risk-free interest rate of 0.51%, expected volatility of 81%, expected life of 1.50 years and expected dividends of \$nil.

Transaction costs incurred securing tranche 2 of the term loan were \$20,000. All transaction costs have been capitalized and deferred. These deferred transaction costs are being amortized over the term of the agreement under the effective interest method and included in finance costs.

50% of the principal portion of term loan tranche 2 is to be repaid in seven equal quarterly installments beginning January 1, 2017. The remaining 50% of the term loan tranche 2 is to be paid at maturity.

As of September 30, 2017, \$214,286 of the principal portion of the term loan tranche 2 was repaid as per the original agreement.

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20. Term loans (continued):

The following table outlines the activity of the term loans during the periods ended September 30, 2017 and December 31, 2016:

Amortized cost, January 1, 2017	\$ 2,840,312
Accrued interest	549,819
Payment of interest	(321,608)
Principal amount repaid	(750,000)
Balance, September 30, 2017	\$ 2,318,523
<hr/>	
Amortized cost, January 1, 2016	\$ 2,143,075
Amounts drawn, net of transaction costs and warrants	762,066
Accrued interest	695,125
Payment of interest	(402,812)
Principal amount repaid	(357,142)
Balance, December 31, 2016	\$ 2,840,312