



## **AcuityAds Holdings Inc.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **FOR THE PERIODS ENDED SEPTEMBER 30, 2017 AND 2016**

Dated November 7, 2017

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## **AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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This Management's Discussion and Analysis ("MD&A") explains the variations in the consolidated operating results and financial position and cash flows of AcuityAds Holdings Inc. ("AcuityAds" or the "Company") as at and for the three and nine months ended September 30, 2017 and 2016. This analysis should be read in conjunction with AcuityAds' Consolidated Interim Financial Statements for the three and nine months ended September 30, 2017 and 2016 and related notes (the "Consolidated Interim Financial Statements"). The consolidated interim financial statements of AcuityAds, and extracts of those consolidated interim 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 Statements" section below for a discussion of the use of such information in this MD&A.

The Consolidated Interim Financial Statements include the accounts of the Company and its wholly-owned subsidiary AcuityAds Inc. ("Acuity") and its wholly-owned subsidiaries AcuityAds US Inc., 140 Proof, Inc., ("140 Proof,") Visible Measures Corp., (Visible Measures) and 2422330 Ontario Inc. All inter-company balances and transactions have been eliminated on consolidation.

The information in this report is dated as of November 7, 2017.

### **FORWARD-LOOKING STATEMENTS**

*This MD&A contains "forward looking statements" that reflect the Company's current expectations, focus on areas of growth, 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 AcuityAds to differ 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 the company's 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.*

## **AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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*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**

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

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

Secondly, AcuityAds' Programmatic Marketing Platform allows advertisers to manage their purchasing of digital 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 50 milliseconds or less. AcuityAds purchases impressions for advertisers through publishers, ad networks and exchanges. The Company's technology platform benefits advertisers by enabling them to manage their bid amounts, meet specific performance metrics, and achieve consumer targeting goals.

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 AcuityAds'. The Company offers a platform for advertisers across all of these channels to compete for a larger share of advertisers' budgets.

The Company generates revenue by using its Programmatic Marketing Platform to deliver digital advertisements to consumers across mobile, social, video and online display channels. The Company offers two types of services, managed services, whereby AcuityAds provides complete execution of a digital advertising campaign for advertising agencies and/or brands. The Company also offers access to its platform on a self-service technology basis, whereby advertisers can use AcuityAds' Programmatic Marketing Platform to create and manage their own digital advertising campaigns and collect data and analysis, while the company provides training and support services. AcuityAds' managed services contracts are short-term in nature, with a term of generally less than one year, while the self-service technology contracts have terms of generally one year or longer. AcuityAds recognizes revenue as the company delivers advertising impressions, subject to satisfying all other revenue recognition criteria. AcuityAds' revenue recognition policies are discussed in more detail under "Critical Accounting Policies and Estimates."

## **AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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### **RESULTS OF OPERATIONS**

#### ***Financial and operating highlights for the three and nine months ended September 30, 2017 and to the date of this report***

Significant developments during the period ended September 30, 2017 and to the date of this report include the following:

On March 30, 2017 AcuityAds acquired Visible Measures Corp., purchasing all outstanding common stock in exchange for an upfront cash payment of US\$10.0 million. 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. No AcuityAds shares were issued with respect to the closing of this transaction.

On March 30, 2017, AcuityAds completed a private placement financing, (the "Offering"), for a total of 3,444,000 common shares (the "Shares") of the Company, at a price of \$3.40 per Share (the "Offering Price") for aggregate gross proceeds to AcuityAds of \$11,709,600.

Also on March 30, 2017, AcuityAds signed an addendum to the secured line of credit with Silicon Valley Bank, increasing the maximum borrowing amount to US\$10.0 million from US\$6.5 million.

On June 28, 2017, AcuityAds entered into a partnership with Newcap Radio. Leveraging the AcuityAds' Self-Serve programmatic marketing platform, Newcap Radio will now be able to offer digital advertising services to its radio advertisers. This enables Newcap Radio advertisers to target listeners using other channels such as desktop and mobile devices, providing a wider audience reach to spread their messages to consumers and the ability to use digital campaigning to reinforce radio advertising efforts.

## AcuityAds Holdings Inc.

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

### *Non-IFRS Financial Measures*

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

The Term "Revenue less Media Costs" refers to the net amount of revenue after deducting direct media costs. Revenue less Media Costs is used for internal management purposes as an indicator of the performance of the company's solution in balancing the goals of delivering excellent results to advertisers while meeting the company's margin objectives and, accordingly the company believes 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.

"Adjusted EBITDA" refers to net income (loss) after adjusting for finance costs, income taxes, foreign exchange (gain) loss, depreciation, share-based compensation expense, equity financings costs, acquisition costs, severance costs, and adjustments to the carrying value of investment tax credits receivable and earn out liabilities. The Company believes that Adjusted EBITDA is useful supplemental information as it provides an indication of the results generated by the company's 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 Management and the Company's Board of Directors ("Board") to understand and evaluate the company's operating performance, to prepare annual budgets, and to help develop Operating Plans.

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 (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.

### *Results for the three and nine months ended September 30, 2017 and 2016*

The following table provides selected financial information from the consolidated interim statements of comprehensive income (loss) for the three and nine months ended September 30, 2017 and 2016:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue	\$ 14,523,649	\$ 8,871,289	\$ 43,316,219	\$ 21,080,474
By line of service:				
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
By geography:				
Canada	3,101,443	3,000,404	8,058,988	8,480,547
US	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
Revenue less media costs <sup>1</sup> (gross profit)	7,116,433	4,398,177	21,360,038	10,709,995
Adjusted EBITDA <sup>1</sup>	2,076,002	559,164	2,852,837	673,534
Income (loss) from operations	(1,738,770)	(230,345)	(3,531,778)	(997,290)
Comprehensive income (loss)	(1,602,439)	(505,779)	(3,946,201)	(1,427,561)
Income (loss) per share (basic and diluted)	\$ (0.07)	\$ (0.02)	\$ (0.17)	\$ (0.06)

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

## AcuityAds Holdings Inc.

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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Revenue for the three and nine months ended September 30, 2017 increased \$5,652,360 and \$22,235,745 to \$14,523,649 and \$43,316,219 from \$8,871,289 and \$21,080,474 for the three and nine months ended September 30, 2016, an increase of 64% and 105%. Year-over-year revenue growth was attributable to growth in Canada, the US, and international, as well as very strong growth in the Company's self-service business services. Sales of the Company's "Programmatic Marketing Platform" on a self-service basis contributed revenue of \$4,473,550 and \$16,710,868 during the three and nine months ended September 30, 2017, increasing 26% and 78% compared to \$3,536,431 and \$9,392,117 in the same periods of 2016, an increase of \$937,119 and \$7,318,751.

Revenue generated in the US was \$8,756,502 and \$24,161,247 for the three and nine months ended September 30, 2017, an increase of \$4,898,526 or 127% and \$16,624,278 or 221% from the prior year period.

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 140 Proof as at September 30, 2017 and an impairment loss of \$1,894,849 was recognized. In addition, a fair value gain of \$3,316,080 was recognized due to the reduction in the earn out liability.

Adjusted EBITDA was \$2,076,002 and \$2,852,837 for the three and nine months ended September 30, 2017 compared to an EBITDA of \$559,164 and \$673,534 in the same period of 2016. The increase in Adjusted EBITDA is attributable primarily to the gain on earn out liability.

Net income (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2017 decreased \$1,096,660 and \$2,518,640 due to the increased costs related to the acquisition of 140 Proof and Visible Measures.

The Company's revenues and operating results may vary from quarter to quarter as a result of a variety of factors, some of which are outside of the Company's control, including seasonality and cyclicity. The third quarter ending September 30, reflects increased advertising activity during the summer season.

Seasonality may be affected by customer mix, such that retail advertisers may concentrate their advertising spending with AcuityAds in the fourth quarter while entertainment advertisers may concentrate their spending to coincide with the launch and display of content, such as television shows or movies.

The Company's rapid growth has led to fluctuating overall operating results due to investments in AcuityAds' sales and marketing and research and development from quarter to quarter and increases in employee headcount. As a result of these factors, one quarter's operating results are not necessarily indicative of a future quarter's operating results.

### Revenue less Media Costs

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue	\$ 14,523,649	\$ 8,871,289	\$ 43,316,219	\$ 21,080,474
Media costs	7,407,216	4,473,112	21,956,181	10,370,479
Revenue less media costs	7,116,433	4,398,177	21,360,038	10,709,995
Revenue less media costs margin	49%	50%	49%	51%

## AcuityAds Holdings Inc.

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

Media costs comprise advertising impressions the Company purchased from real-time advertising exchanges or through other third parties. For the three and nine months ended September 30, 2017 media costs were \$7,407,216 and \$21,956,181 compared to \$4,473,112 and \$10,370,479 for the three and nine months ended September 30, 2016, representing an increase of \$2,934,104 and \$11,585,702 attributable to the added cost of buying media for a greater number of advertising campaigns. As a percentage of revenue, revenue less media costs were 49% and 49% for the three and nine months ended September 30, 2017 compared to 50% and 51% for the prior year periods. The Company's Management Team regularly evaluates the company's pricing strategy in order to optimize the Company's objectives of market penetration and profitability and, accordingly margins may fluctuate from quarter to quarter.

### Reconciliation of Income (Loss) to Adjusted EBITDA for the three and nine months ended September 30, 2017 and 2016

The following table presents a reconciliation of Adjusted EBITDA to Income (Loss) for the periods then ended:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net loss for the period	\$ (2,346,063)	\$ (479,172)	\$ (5,228,217)	\$ (1,435,014)
Adjustments:				
Finance costs	463,854	256,865	1,232,399	607,161
Impairment loss	1,894,849	-	1,894,849	-
Foreign exchange (gain) loss	121,774	(9,193)	326,260	(177,188)
Depreciation and amortization	1,230,892	278,533	2,314,738	737,899
Income/other taxes	21,665	9,670	137,780	33,295
Share-based compensation	541,697	98,457	1,134,572	431,377
Acquisition costs	-	374,004	547,106	374,004
Severance expense	147,334	30,000	493,350	102,000
Total adjustments	4,422,065	1,038,336	8,081,054	2,108,548
<b>Adjusted EBITDA</b>	<b>\$ 2,076,002</b>	<b>\$ 559,164</b>	<b>\$ 2,852,837</b>	<b>\$ 673,534</b>

Adjusted EBITDA for the three and nine months ended September 30, 2017 was \$2,076,002 and \$2,852,837 compared to \$559,164 and \$673,534 for the prior year periods. The increase in adjusted EBITDA is attributable primarily to gain on the earn out liability.

## AcuityAds Holdings Inc.

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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

The following table summarizes various expenses for the three and nine months ended September 30, 2017 and 2016:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Sales and marketing expenses	\$ 4,702,051	\$ 2,075,551	\$ 12,312,329	\$ 5,600,185
Research and development	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	541,697	98,457	1,134,572	431,377
Acquisition costs	-	374,004	547,106	374,004
Depreciation	1,230,892	278,533	2,314,738	737,899
Finance costs	463,854	256,865	1,232,399	6607,161
Foreign exchange (gain) loss	121,774	(9,193)	326,260	(177,187)

#### Sales and marketing expenses

Sales and marketing expenses consist of all costs associated with selling and marketing the Company's services and products. The costs contain all the salary and benefit costs, personnel costs, commissions and variable compensation, travel, and marketing, payroll taxes and employee health and related benefit expenses, for the sales and marketing teams. Sales and marketing expenses for the three and nine months ended September 30, 2017 increased \$2,626,500 and \$6,712,144 compared to the same periods of the prior year. Increased costs were a result of increases in revenue, and the acquisition of 140 Proof, Inc and Visible Measures. As a percentage of gross revenue sales and marketing expenses are 32% and 28% of revenue for the three and nine months ending September 30, 2017 compared to 23% and 27% for the prior year period.

#### Research and development

Research and development expenses consist of all costs associated with increasing the Company's Programmatic Marketing Platform's effectiveness and efficiency. The salary and benefit costs as well as the costs associated with housing the needed computer equipment make up the majority of the research and development costs. Technology is changing at a rapid pace, and the Company is always adapting to the changing technological landscape.

Excluding SRED and grants, during the three and nine months ending September 30, 2017 research and development expenses increased by \$1,333,250 and \$3,499,913 compared to the prior year periods partly due to the acquisition of 140 Proof, Inc and Visible Measures.

For the three and nine months ended September 30, 2017 research and development expenses as a percentage of gross revenue are 17% and 14% compared to 8% and 9% from the prior year periods.

## **AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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### General and administrative

General and administrative expenses include salaries and benefits of the administrative staff, occupancy costs, public company fees, insurance, professional fees, and supplies. General and administrative expenses increased \$231,952 and \$1,344,555 over the three and nine months ended September 30, 2017. The increased expense is attributable to the growth of the Company's operations and the expenses relating to 140 Proof and Visible Measures operations. As a percentage of revenue general and administrative expenses are 9% and 9% compared to 13% and 12% for the prior year periods.

### Share based compensation

Share-based compensation expense was \$541,697 and \$1,134,572 for the three and nine months ended September 30, 2017 compared to \$98,457 and \$431,377 in the comparable prior year periods.

### Acquisition costs

During the nine months ended September 30, 2017, the Company completed an acquisition of Visible Measures. As a result, acquisition costs were incurred during the three and nine months ended September 30, 2017. The total costs associated with the acquisition were nil and \$547,106.

### Depreciation of property and equipment

Depreciation for the three and nine months ended September 30, 2017 increased \$952,359 and \$1,576,839 respectively from the comparable periods in the prior year, due mainly to additions of equipment to the Company's data centres and, to a lesser extent, computer equipment and office furniture.

### Finance costs

For the three and nine months ended September 30, 2017 finance costs were \$463,854 and \$1,232,399, increasing \$206,989 and \$625,238 from the prior year periods. Increased finance costs are primarily due to the increased term loan amount together with the revolving line of credit balance outstanding.

### Foreign exchange

Foreign exchange gains or losses consist of the realized and unrealized exchange differences due to fluctuations between the Canadian and the U.S. dollar. The Company recorded a net foreign exchange loss of \$121,774 and \$326,260 for the three and nine months ended September 30, 2017 compared to a gain of \$9,193 and \$177,187 for the three and nine months ended September 30, 2016. The balance of net financial assets carried in U.S. dollars decreased year over year which resulted in a foreign exchange loss for the three and nine months ended September 30, 2017 compared to the prior year period.

To date the Company does not hedge foreign currency transactions but may elect to do so in the future if it is determined to be advantageous.

## AcuityAds Holdings Inc.

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

### LIQUIDITY AND CAPITAL RESOURCES

Selected financial information from the statements of financial position as at September 30, 2017 and December 31, 2016 are as follows:

	September 30, 2017	December 31, 2016
Cash and restricted cash	\$ 1,720,713	\$ 7,396,408
Working capital <sup>(1)</sup>	(6,261,268)	(1,110,812)
Total assets	37,139,749	32,140,527
Current liabilities	23,310,611	24,430,749
Other non-current liabilities	2,005,036	4,864,485
Shareholders' equity	\$ 11,824,102	\$ 2,845,293

<sup>(1)</sup> Working capital is defined as current assets less current liabilities.

As at September 30, 2017 the Company had cash and cash equivalents of \$1,720,713 compared to \$7,396,408 at the prior year end date. The decrease in cash was primarily attributable to the acquisition of Visible Measures and reducing accounts payable and the term loan.

Cash flows used in operations were (\$4,329,953) during the nine months ended September 30, 2017, compared to cash flows used by operations of (\$1,835,684) in the prior year period.

### Common Shares

Changes in the number of issued common shares from December 31, 2016 to September 30, 2017 are as follows:

	Number of Common Shares
Balance December 31, 2016	28,119,009
Options exercised	393,294
Warrants exercised	267,769
DSU's exercised	70,600
Equity financing	3,444,000
<b>Common shares outstanding September 30, 2017</b>	<b>32,294,672</b>

### Stock Options

Under the Company's Stock Option Plan, the Board of Directors may grant options to Employees, Officers, Independent 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 and the vesting schedule is at the discretion of the Board and is generally annually over a three-year period. The exercise price of options is based on a determination of the fair market value per share on the day preceding the grant date.

## AcuityAds Holdings Inc.

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

The following table reflects the activity of the options from December 31, 2016 to September 30, 2017:

	Number of Options	Weighted Average Exercise Price
Balance outstanding December 31, 2016	2,333,135	\$1.01
Granted	1,007,500	\$4.26
Forfeited or cancelled	(100,013)	\$1.54
Exercised	(393,295)	\$0.87
<b>Options outstanding September 30, 2017</b>	<b>2,847,327</b>	<b>\$2.16</b>

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, and Directors of the Company of \$541,697 and \$1,134,572 compared to \$98,457 and \$431,377 for the same period of the prior year. During the three and nine months ended September 30, 2017 the Company granted 130,000 and 1,007,500 stock options with a weighted average exercise price of \$4.47 and \$4.26. Of those, nil and 50,000 options were granted to Officers or Directors of the Company. 5,000 and 195,000 options were granted to Consultants, as compensation for services rendered and vest over a 36-month period and are exercisable at a weighted average price of \$4.47 and \$4.23 all expiring during 2022.

### Deferred Share Units ("DSU's")

For the three and nine months ended September 30, 2017 the Company issued 22,650 and 361,600 DSU's to Employees, Officers, Directors, and Consultants of the Company. Of those amounts, 8,600 and 309,075 were granted to Executives in lieu of bonuses and 12,250 and 44,050 were granted to Directors in lieu of director fees, all vesting immediately.

### CONTRACTUAL OBLIGATIONS

The contractual obligations as at September 30, 2017 are summarized below:

	Less than 1 year	Between 1 and 5 years	Total
Office leases	1,469,617	1,246,672	2,716,289
Revolving line of credit	9,054,466	-	9,054,466
Term loans	2,571,429	-	2,571,429
Earn out – acquisition	-	748,800	748,800
Finance lease obligations	1,068,828	1,256,236	2,325,064
<b>Total</b>	<b>\$ 14,164,340</b>	<b>\$ 3,251,708</b>	<b>\$ 17,416,048</b>

### TRANSACTIONS WITH RELATED PARTIES

The key management personnel of the Company are the members of the Company's Executive Management Team and Board.

Executive Officers of the Company received compensation in the aggregate amount of \$242,950 and \$1,048,182 during the three and nine months ended September 30, 2017 (three and nine months ended September 30, 2016 – \$298,410 and \$916,379).

Executive Officers own directly or beneficially 41.43% of the issued common shares of the Company as at September 30, 2017.

## **AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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Executive Officers and Directors are eligible to participate in the Company's Stock Option Plan. Nil and 50,000 stock options were granted to Officers or Directors of the company during the three and nine months ended September 30, 2017.

During the three and nine months ended September 30, 2017, the Company paid \$23,750 and \$35,625 cash compensation to its Board of Directors (2016 – \$17,500 and \$37,500).

Directors own directly or beneficially 3.98% of the common shares of the Company.

During the three and nine months ended September 30, 2017 the Company issued 8,600 and 309,075 DSU's to Executives in lieu of bonuses and 12,250 and 44,050 to Directors, in lieu of director fees, respectively.

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

During the year ended December 31, 2016 a \$1.0 million Term Loan advance was added via an addendum to the Credit Agreement dated November 10, 2015. The addendum included individuals that are non-arm's length to the Corporation (the "NAL Lenders"). The NAL Lenders included several Officers and one Independent Director of the Company who funded an aggregate of \$500,000 of the advance.

During the nine months ended September 30, 2017 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.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of consolidated interim 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 the Company's consolidated interim financial statements.

## **CHANGES IN ACCOUNTING POLICIES**

### **Recently adopted accounting pronouncements**

Amendments to IAS 32, Offsetting Financial Assets and Liabilities ("Amendments to IAS 32"). The adoption of the amendments to this standard did not have an impact on the Company's consolidated interim financial statements.

International Financial Reporting Interpretations Committee 21, Levies ("IFRIC 21"). The adoption of this standard did not have an impact on the Company's financial statements.

## **AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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### **RISK FACTORS**

The following risk factors should not be considered to be exhaustive and may not be all of the risks that AcuityAds may face. Management of the Company believes that the factors set out below could cause actual results to be different from expected and historical results.

#### **Business Risks**

##### ***Limited Operating History***

AcuityAds was founded in 2009 and commenced sales in 2011. As a result, it has a limited operating history upon which its business and future prospects may be evaluated. To date, AcuityAds has incurred losses and may never maintain profitability. See Note 1 to AcuityAds consolidated interim financial statements

“Significant Accounting Policies”. Although AcuityAds has experienced substantial revenue growth during its limited history, it may not be able to sustain this rate of growth or maintain current revenue levels. In order for AcuityAds to meet future operating and debt service requirements, it will need to continue to be successful in its marketing and sales efforts. AcuityAds may not gain customer acceptance of any of its offerings in new markets due to its lack of an established track record, its financial condition, competition, price or a variety of other factors. If sales are increased, AcuityAds' current operational infrastructure may require changes to scale AcuityAds' business efficiently and effectively to keep pace with demand, and achieve long-term profitability. AcuityAds' future revenues and expenses are subject to conditions that may change to an extent that cannot be determined at this time. If AcuityAds' offerings are not accepted by new customers, or if new and existing customers do not purchase AcuityAds' offerings at anticipated levels, AcuityAds' operating results may be materially and adversely affected.

##### ***Fluctuation of Financial Results***

AcuityAds' quarterly and annual operating results have fluctuated in the past. AcuityAds is a relatively new company that is rapidly expanding. Thus, revenues may be materially affected by the decisions of its management and/or customers, or due to a variety of other factors, many of which may be beyond the Company's control. In addition, expenses may exceed estimates or be incurred in the expectation of sales that do not occur or that occur later than expected. General economic conditions or conditions in the industries in which AcuityAds' customers compete, technological innovations and the adoption of technical standards can also be expected to affect operating results. Management expects its operating expenses to continue to increase in the foreseeable future as it continues to expand its business, including adding employees and contractors in existing and new territories, to support continued investments in AcuityAds' technology and to support its growth and expansion. Fluctuating results could cause significant, unanticipated quarterly losses and cause AcuityAds' performance to fall below the expectations of investors, which could adversely affect the price of the Common Shares. In addition, because AcuityAds' business is changing and evolving rapidly, historical operating results may not be useful in predicting future operating results.

##### ***Reliance on Key Customers***

Historically, a majority of AcuityAds' sales have been to relatively few customers. For the three and nine months ended September 30, 2017, approximately 35% and 34% of the Company's revenues were derived from its top ten customers. While it is expected that this reliance will decrease over time,

## **AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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AcuityAds will continue to depend upon a relatively small number of customers for a significant portion of its revenue for the foreseeable future. The loss of a significant customer or failure to attract new customers could harm AcuityAds' business and severely impact the future financial success of Acuity.

### ***Retaining and Attracting Customers***

To sustain or increase AcuityAds' existing revenue, the Company must add new advertisers and encourage existing advertisers, which may be represented by advertising agencies, to purchase additional offerings. As the digital advertising industry matures and as competitors introduce lower cost or differentiated products or services that compete with, or are perceived to compete with, AcuityAds', its ability to complete sales with new and existing advertisers based on AcuityAds' current offerings, pricing, technology platform and functionality could be impaired. If AcuityAds fails to retain or cultivate the spending of newer, lower-spending advertisers, it will be difficult for it to sustain and grow its revenue. Even with long-time advertisers, AcuityAds may reach a point of saturation at which it cannot continue to

grow revenue from those advertisers because of internal limits that advertisers may place on the allocation of their advertising budgets to digital media, to particular campaigns, to a particular provider or for other reasons not known to management.

AcuityAds has invested significant resources in its sales and marketing teams to educate potential and prospective advertisers and advertising agencies about the value of its platform. Sales often are required to explain how AcuityAds' platform can optimize advertising campaigns in real time. AcuityAds' business depends in part upon advertisers' confidence, and the confidence of the advertising agencies that represent those advertisers, that use of real-time advertising exchanges to purchase inventory is superior to other methods of purchasing digital advertising.

AcuityAds often spends substantial time and resources responding to requests for proposals from potential advertisers and their advertising agencies, including developing material specific to the needs of such potential advertisers. AcuityAds may not be successful in attracting new advertisers despite its investment in business development, sales and marketing.

AcuityAds continues to be substantially dependent on its sales team to obtain new customers and to drive sales from existing customers. Management of AcuityAds believes that there is significant competition for sales personnel with the skills and technical knowledge that it requires. AcuityAds' ability to achieve significant revenue growth will depend, in large part, on its success in recruiting, training, integrating and retaining sufficient numbers of sales personnel to support its growth. New hires require significant training and it may take significant time before they achieve full productivity. Recent hires and planned hires may not become productive as quickly as expected, and AcuityAds may be unable to hire or retain sufficient numbers of qualified individuals in the markets where it does business or plans to do business. In addition, if AcuityAds continues to grow rapidly, a large percentage of its sales team will be new to the company and its offerings. If AcuityAds is unable to hire and train sufficient numbers of effective sales personnel, or the sales personnel are not successful in obtaining new customers or increasing sales to its existing customer base, its business will be adversely affected.

### ***No Long-Term Customer Commitments***

AcuityAds' customers do business with AcuityAds by placing insertion orders ("IO") for particular advertising campaigns. If AcuityAds performs well on a particular campaign, then the advertisers or the advertising agency representing such advertisers may place new insertion orders with AcuityAds for additional advertising campaigns. AcuityAds generally has no commitment from an advertiser beyond the campaign governed by a particular insertion order. Insertion orders may be cancelled by

## **AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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advertisers or their advertising agencies prior to the completion of the campaign without penalty. As a result, AcuityAds' success is dependent upon its ability to outperform competitors and win repeat business from existing advertisers, while continually expanding the number of advertisers for whom it provides services. In addition, it is relatively easy for advertisers and the advertising agencies that represent them to seek an alternative provider for their advertising campaigns because there are no significant switching costs, and agencies often have relationships with many different providers, each of whom may be running portions of the same advertising campaign. Because AcuityAds does not have long-term contracts, management may not accurately predict future revenue streams and there can be no assurance that current advertisers will continue to use AcuityAds' platform, or that AcuityAds will be able to replace departing advertisers with new advertisers that provide AcuityAds with comparable revenue.

### ***Failure to Properly Manage Growth***

AcuityAds' business has grown rapidly since its inception. Continued rapid growth may strain AcuityAds' management, financial, and other resources. AcuityAds relies heavily on information technology systems to manage critical functions such as advertising campaign management and operations, data storage and retrieval, revenue recognition, budgeting, forecasting and financial reporting. To manage any future growth effectively, AcuityAds must expand its sales, marketing, technology and operational staff, invest in research and development of the Programmatic Marketing Platform and/or new offerings, enhance its financial and accounting systems and controls, integrate new personnel or contractors, and successfully manage expanded operations. If AcuityAds continues its rapid growth, it will incur additional expenses, and its growth may continue to place a strain on resources, infrastructure and ability to maintain the quality of its offering. Accordingly, AcuityAds may not be able to effectively manage and coordinate growth so as to achieve or maximize future profitability.

### ***Acquisitions by Acuity***

As part of its business strategy, AcuityAds may attempt to acquire businesses or technologies that it believes are a strategic fit with its business. AcuityAds currently has no commitments for any acquisition and furthermore, it has not made any acquisitions to date. Accordingly, AcuityAds' ability as an organization to acquire and integrate other companies, products or technologies in a successful manner is unproven. It may not be possible to find suitable acquisition candidates, and AcuityAds may not be able to complete such acquisitions on favorable terms, if at all. Any future acquisition may result in unforeseen operating difficulties and expenditures, and may absorb significant management attention that would otherwise be available for ongoing development of its business. Since AcuityAds may not be able to accurately predict these difficulties and expenditures, these costs may outweigh the value it realizes from a future acquisition, and any acquisitions AcuityAds completes could be viewed negatively by its advertisers. Future acquisitions could result in issuances of securities that would dilute shareholders' ownership interest, the incurrence of debt, contingent liabilities, amortization of expenses related to other intangible assets and the incurrence of large, immediate write-offs.

### ***Reliance on Third Parties***

AcuityAds anticipates that it will continue to depend on various third-parties in order to grow its business. AcuityAds continues to pursue additional third parties, such as technology and content providers, real-time advertising exchanges, market research companies, co-location facilities and other strategic parties. Identifying, negotiating and documenting with third parties requires significant time and resources as does utilizing third-party data and services. AcuityAds' channel partners and providers of technology, computer hardware, co-location facilities, content and consulting services and real-time

## **AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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advertising exchanges are typically non-exclusive, do not prohibit them from working with AcuityAds' competitors or from offering competing services. These third parties may terminate at any time. AcuityAds' competitors may be effective in providing incentives to third parties to favor their products or services or to prevent or reduce purchases of AcuityAds' offerings. In addition, these third parties may not perform as expected with Acuity, and AcuityAds may have disagreements or disputes with such third parties, which could negatively affect AcuityAds' brand and reputation. In particular, AcuityAds' continued growth depends on its ability to source computer hardware, including servers built to its specifications, and the ability to locate those servers and related hardware in co-location facilities in the most desirable locations to facilitate the timely delivery of its services. Similarly, disruptions in the services provided at co-location facilities that AcuityAds relies upon can degrade the level of services that it can provide, which may harm

AcuityAds' business. AcuityAds also relies on its utilization with many third-party technology providers to execute its business on a daily basis. AcuityAds must efficiently direct a large amount of network traffic to and from its servers to consider billions of bid requests per day, and each bid typically must take place in approximately 50 milliseconds or less. AcuityAds relies on a third-party domain name service, or DNS, to direct traffic to its closest data center for efficient processing. If AcuityAds' DNS provider experiences disruptions or performance problems, this could result in inefficient balancing of traffic across AcuityAds' servers as well as impairing or preventing web browser connectivity to AcuityAds' platform, which may harm its business.

### ***Personnel***

The loss of any member of AcuityAds' Management Team, and in particular, its co-founders, could have a material adverse effect on its business and results of operations. In addition, an inability to hire, or the increased costs of new personnel, including members of executive management, could have a material adverse effect on AcuityAds' business and operating results.

At present and for the near future, AcuityAds will depend upon a relatively small number of employees and contractors to develop, market, sell and support its platform. The expansion of technology, marketing and sales of its platform will require AcuityAds to find, hire, and retain additional capable employees or subcontractors who can understand, explain, market, and sell its technology. There is intense competition for capable personnel in all of these areas, and AcuityAds may not be successful in attracting, training, integrating, motivating, or retaining new personnel, vendors, or subcontractors for these required functions. New employees often require significant training and, in many cases, take significant time before they achieve full productivity. As a result, AcuityAds may incur significant costs to attract and retain employees, including significant expenditures related to salaries and benefits and compensation expenses related to equity awards, and may lose new employees to its competitors or other companies before it realizes the benefit of its investment in recruiting and training them.

In addition, as AcuityAds moves into new geographies, it will need to attract and recruit skilled employees in those areas. AcuityAds has little experience with recruiting in geographies outside of Canada and the United States, and may face additional challenges in attracting, integrating and retaining international employees.

### ***Conflicts of Interest***

Certain of the Directors and Officers of AcuityAds are or may become Directors or Officers of, or have significant shareholdings in, other companies and, to the extent that such other companies may participate in ventures in which AcuityAds may participate, the Directors and Officers of AcuityAds may have a conflict of interest in negotiating and concluding terms respecting the extent of such

## **AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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participation. Such other companies may also compete with Acuity. In the event that any such conflict of interest arises, a Director who has such a conflict will disclose the conflict to a meeting of the Board of Directors of AcuityAds and will abstain from voting for or against the approval of such participation or such terms.

In accordance with applicable laws, the Directors of AcuityAds are required to act honestly, in good faith and in the best interests of Acuity. In determining whether or not AcuityAds will participate in a particular transaction, the Directors will primarily consider the potential benefits to Acuity, the degree of risk to which AcuityAds may be exposed and its financial position at that time.

### ***Dependence on Display and Mobile Advertising***

Historically, AcuityAds' customers have predominantly used the Programmatic Marketing Platform for display advertising, and the substantial majority of AcuityAds' revenue is derived from advertisers that use the Programmatic Marketing Platform for display advertising. AcuityAds expects that the online advertising channels it supports will continue to be a primary channel used by its customers. Should customers lose confidence in the value or effectiveness of these channels, the demand for the Programmatic Marketing Platform may decline. While revenues from mobile, social and video advertising have grown rapidly, AcuityAds' failure to achieve market acceptance of the Programmatic Marketing Platform for social and video advertising would harm its growth prospects, operating results and financial condition.

### **Financial and Accounting Risks**

#### ***Additional Financing***

There can be no certainty that AcuityAds' financial resources and revenue from sales will be sufficient for its future needs. AcuityAds may need to incur significant expenses for growth, operations, research and development, as well as sales and marketing of AcuityAds' Programmatic Marketing Platform. In addition, other unforeseen costs could also require additional capital. The ability of AcuityAds to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of Acuity. It may be difficult or impossible for AcuityAds to obtain debt financing or equity financing on commercially acceptable terms. This may be further complicated by the limited market liquidity for shares of smaller companies such as Acuity, restricting access to some institutional investors. There is a risk that interest rates will increase given the current historical low level of interest rates. An increase in interest rates could result in a significant increase in the amount that AcuityAds pays to service future debt incurred by AcuityAds and affect AcuityAds' ability to fund ongoing operations. If additional financing is raised by the issuance of shares or other forms of convertible securities, control of AcuityAds may change and shareholders may suffer dilution. If adequate funds are not available, or not available on acceptable terms, AcuityAds may not be able to take advantage of opportunities, or otherwise respond to competitive pressures and continue operations. Any debt financing that is secured in the future could involve restrictive covenants relating to AcuityAds' future capital raising activities and other financial and operational matters, including the ability to pay dividends. This may consequently make it more difficult for AcuityAds to obtain additional capital and to pursue business opportunities, including potential acquisitions.

## **AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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### ***Existing Debt***

AcuityAds has granted a security interest in its assets, including its intellectual property, to a Lender as security for the loan. The loan also requires AcuityAds to comply with certain financial covenants, which are tested on a monthly basis, and contains a number restrictive covenants, which would, among other things, prevent AcuityAds from: (i) disposing of or selling its assets; (ii) making any changes in its debt or capital structure or amending its bylaws, (iii) consolidating or merging with other entities; (iv) entering into contracts outside of the normal course of business; (v) purchasing or redeeming any shares; (vi) paying dividends; or (vii) incurring lease obligations or capital expenditures above defined thresholds. A failure by AcuityAds to repay the Loan in accordance with its terms would entitle the Lender to, among other things, foreclose on AcuityAds' assets, which would likely terminate its ability to continue operations.

### ***Foreign Sales***

AcuityAds currently has certain foreign sales that are denominated in US dollars and may, in the future, have sales denominated in the currencies of additional countries in which it establishes sales offices such as Europe. In addition, AcuityAds incurs a portion of its operating expenses in US dollars. In the future, AcuityAds' international sales may increase. Such sales may be subject to unexpected regulatory requirements and other barriers. Any fluctuation in the exchange rates of foreign currencies may negatively impact AcuityAds' business, financial condition and results of operations. AcuityAds has not previously engaged in foreign currency hedging. If AcuityAds decides to hedge its foreign currency exposure, it may not be able to hedge effectively due to lack of experience, unreasonable costs or illiquid markets. In addition, those activities may be limited in the protection they provide AcuityAds from foreign currency fluctuations and can themselves result in losses.

### ***Estimates or Judgments Relating to Critical Accounting Policies***

The preparation of financial statements in conformity with International Financial Reporting Standards, or IFRS, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. AcuityAds bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue and expenses that are not readily apparent from other sources. AcuityAds' operating results may be adversely affected if the assumptions change or if actual circumstances differ from those in the assumptions, which could cause AcuityAds' operating results to fall below the expectations of securities analysts and investors, resulting in a decline in the share price of Acuity. Significant assumptions and estimates used in preparing the financial statements include those related to the credit quality of accounts receivable, income tax credits receivable, share-based payments, impairment tests for non-financial assets, as well as revenue and cost recognition.

### ***Internal Controls over Financial Reporting***

As a result of AcuityAds' limited administrative staffing levels, internal controls which rely on segregation of duties in many cases are not possible. AcuityAds does not have the resources, size and scale to warrant the hiring of additional staff to address this potential weakness at this time. To help mitigate the impact of this, AcuityAds is highly reliant on the performance of compensating procedures and senior management's review and approval.

## **AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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As a venture issuer, AcuityAds will not be required to certify the design and evaluation of its disclosure controls and procedure ("DC&P") and internal controls over financial reporting ("ICFR"), and as such AcuityAds has not completed such an evaluation. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in National Instrument 52-109 Certification of Disclosure In Issuers' Annual and Interim Filings may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

### **Industry Risks**

#### *Competition*

The existing and anticipated markets for AcuityAds' Programmatic Marketing Platform are highly competitive. Barriers to enter the market are low and additional companies may enter the market with competing offerings as the size and visibility of the market opportunity continues to increase. Existing industry participants may also develop or improve their own offerings to achieve cost efficiencies and deliver additional value. In addition, AcuityAds' customers could develop their own solutions. Many of AcuityAds' competitors have longer operating histories, greater name recognition, substantially greater financial, technical, marketing, management, service, support, and other resources than does Acuity. They may be able to respond more quickly than AcuityAds can to new or changing opportunities, technologies, standards, or customer requirements.

In addition to other companies offering Programmatic and real time bidding solutions, AcuityAds also competes with services offered through large online portals that have significant brand recognition, such as Yahoo and Google. These large portals have substantial proprietary digital advertising inventory that may provide them with competitive advantages, including far greater access to internet user data, and the ability to significantly influence pricing for digital advertising inventory. AcuityAds also competes for a share of advertisers' total advertising budgets with online search advertising, for which AcuityAds does not offer a solution, and with traditional advertising media, such as direct mail, television, radio, cable and print.

Some of the competitors mentioned above also act as suppliers of Acuity, putting them in a potential conflict of interests position. There is a risk that such competitors may, in the future, constrain or entirely cut off AcuityAds from its sources of supply of inventory in order to improve their own competitive position in the markets targeted by Acuity.

New products or technologies will likely increase competitive pressures and competition could result in pricing pressures, reduced margins, or the failure of AcuityAds' offerings to achieve or maintain acceptance in existing or anticipated markets. The development of competing offerings or technologies by market participants or the emergence of new industry or government standards may adversely affect AcuityAds' competitive position.

As a result of these and other factors, AcuityAds may be unable to compete effectively with current or future competitors. Such inability would likely have a material adverse effect on AcuityAds' business, financial condition and results of operations.

#### *Use of Third Party Cookies*

AcuityAds uses "cookies" (small text files) in connection with its Programmatic Marketing Platform. AcuityAds' cookies are known as "third party cookies" because they are placed on individual browsers when internet users visit a website owned by a publisher, advertiser or other first party that has given

## **AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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AcuityAds permission to place cookies. These cookies are placed through an internet browser on an internet user's computer and correspond with a data set that is kept on AcuityAds' servers. AcuityAds' cookies record certain information, such as when an internet user views an ad, clicks on an ad, or visits one of AcuityAds' advertiser's websites through a browser while the cookie is active. AcuityAds uses these cookies to help it achieve advertisers' campaign goals, to help it ensure that the same internet user does not unintentionally see the same advertisement, to report aggregate information to advertisers regarding the performance of their advertising campaigns and to detect and prevent fraudulent activity. AcuityAds' also uses data from cookies to help it decide whether to bid on, and how to price, an opportunity to place an

advertisement in a certain location, at a given time, in front of a particular internet user. Without cookie data, AcuityAds may bid on advertising without as much insight into activity that has taken place through an internet user's browser. A lack of cookie data may detract from AcuityAds' ability to make decisions about which inventory to purchase for an advertiser's campaign, and undermine the effectiveness of the Programmatic Marketing Platform.

Cookies may easily be deleted or blocked by internet users. Most commonly used internet browsers allow internet users to modify their browser settings to prevent cookies from being accepted by their browsers. Internet users can also delete cookies from their computers at any time. Certain internet users also download free or paid "ad blocking" software that prevents third party cookies from being stored on a user's computer. If more internet users adopt these settings or delete their cookies more frequently than they currently do, AcuityAds' business could be harmed. In addition, some internet browsers block third party cookies by default, and other internet browsers may implement similar features in the future. Unless such default settings in browsers are altered by internet users to accept third party cookies, fewer of AcuityAds' cookies may be set in browsers, adversely affecting its business.

Certain international jurisdictions have adopted and implemented legislation that negatively impacts the use of cookies for online advertising, and additional jurisdictions may do so in the future. Currently, although the Canadian Anti-Spam Legislation ("CASL") requires consent to install a computer program, CASL provides a deemed express consent for the installation of a cookie. Limitations on the use or effectiveness of cookies may impact the performance of the Programmatic Marketing Platform. AcuityAds may be required to, or otherwise may determine that it is advisable to, develop or obtain additional tools and technologies to compensate for the lack of cookie data. AcuityAds may not be able to develop or implement additional tools that compensate for the lack of cookie data. Moreover, even if AcuityAds is able to do so, such additional tools may be subject to further regulation, time consuming to develop or costly to obtain, and less effective than AcuityAds' current use of cookies.

### ***Potential "Do Not Track" Standards***

As the use of cookies has received ongoing media attention in recent years, some government regulators and privacy advocates have suggested creating a "Do Not Track" standard that would allow internet users to express a preference, independent of cookie settings in their browser, not to have website browsing recorded. In 2010, the United States Federal Trade Commission, or FTC, issued a staff report criticizing the advertising industry's self-regulatory efforts as too slow and lacking adequate consumer protections. The FTC emphasized a need for simplified notice, choice and transparency to the consumer regarding collection, use and sharing of data, and suggested implementing a "Do Not Track" browser setting that allows consumers to choose whether to allow "tracking" of their online browsing activities. All major internet browsers have implemented some version of a "Do Not Track" setting. Microsoft's Internet Explorer 10 includes a "Do Not Track" setting that is selected by default. However, there is no definition of "tracking," no consensus regarding what message is conveyed by a "Do Not Track" setting and no industry standards regarding how to respond to a "Do Not Track" preference. The World Wide

## **AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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Web Consortium chartered a "Tracking Protection Working Group" in 2011 to convene a multi-stakeholder group of academics, thought leaders, companies, industry groups and consumer advocacy organizations, to create a voluntary "Do Not Track" standard for the web. The group has yet to agree upon a standard. The "Do-Not-Track Online Act of 2013" was introduced in the United States Senate in February 2013. If a "Do Not Track" browser setting is adopted by many internet users, and the standard either imposed by legislation or agreed upon by standard setting groups, prohibits AcuityAds from using non-personal information as it currently does, then that could hinder growth of advertising and content production on the web generally, cause AcuityAds to change its business practices and adversely affect its business.

### ***Legislation and Regulation***

Government regulation may increase the costs of doing business online. The Canadian and certain foreign governments have enacted or are considering legislation related to online advertising and management of AcuityAds expects to see an increase in legislation and regulation related to advertising online, the use of geo-location data to inform advertising, the collection and use of anonymous internet user data and unique device identifiers, such as IP address or mobile unique device identifiers, and other data protection and privacy regulation. Such legislation could affect the costs of doing business online, and may adversely affect the demand for AcuityAds' offerings or otherwise harm its business, results of operations and financial condition. For example, a wide variety of provincial, state, national and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer and other processing of personal information. The Personal Information Protection and Electronic Documents Act and substantially similar provincial privacy laws in Canada provide that IP addresses are personal information. Currently, AcuityAds collects and stores IP addresses. While AcuityAds takes measures to protect the security of information that it collects, uses and discloses in the operation of its business, if there is a data breach, there is a potential for claims for damages by consumers whose personal information has been disclosed without authorization. Evolving and changing definitions of personal information, within the Canada, the United States and elsewhere, especially relating to classification of machine or device identifiers, location data and other information, have in the past, and may cause AcuityAds to, in the future, change business practices, or limit or inhibit AcuityAds' ability to operate or expand its business. Data protection and privacy-related laws and regulations are evolving and may result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions. While AcuityAds takes measures to protect the security of information that it collects, uses and discloses in the operation of its business, and to offer certain privacy protections with respect to such information, such measures may not always be effective.

In addition, while AcuityAds takes steps to avoid collecting personally identifiable data about consumers (other than IP addresses), it may inadvertently receive this information from advertisers or advertising agencies or through the process of delivering advertising and may inadvertently release this information in contravention of applicable privacy legislation. AcuityAds' failure to comply with applicable laws and regulations, or to protect personal information, could result in enforcement action against Acuity, including fines, imprisonment of its officers and public censure, claims for damages by consumers and other affected individuals, damage to the company's reputation and loss of goodwill, any of which could have a material adverse impact on operations, financial performance and business. Even the perception of privacy concerns, whether or not valid, may harm AcuityAds' reputation and inhibit adoption of its offerings by current and future advertisers and advertising agencies.

## **AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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### ***Ability to Protect AcuityAds' Proprietary Offering***

Any failure to protect AcuityAds' proprietary Programmatic Marketing Platform could harm its business and competitive position. There can be no assurance that any steps AcuityAds has taken or intends to take will be adequate to defend and prevent misappropriation of technology, including the possibility of reverse engineering and the possibility that potential competitors will independently develop technologies that are designed around and are substantially equivalent or superior to AcuityAds' technology.

AcuityAds may use a combination of trade secret, copyright law, nondisclosure agreements, passing-off laws, other common law intellectual property protections and technical measures to protect its proprietary technology. AcuityAds has generally entered into confidentiality agreements with and obtains assignments of intellectual property and waivers of moral rights from its employees and contractors and has worked to limit access to and distribution of its technology, documentation and other proprietary information. However, the steps taken may not be adequate to deter misappropriation or independent third-party development of AcuityAds' technology. In addition, the laws of some foreign countries do not protect proprietary technology rights to the same extent as do the laws of Canada and the United States. If AcuityAds resorts to legal proceedings to enforce its intellectual property rights, the proceedings could be burdensome and expensive and could involve a high degree of risk to AcuityAds' proprietary rights if it is unsuccessful in such proceedings. Moreover, AcuityAds' financial resources may not be adequate to enforce or defend its rights in its technology. Additionally, any patents that AcuityAds may apply for or obtain in the future may not be broad enough to protect all of the technology important to its business, and its ownership of patents would not in itself prevent others from securing patents that may prevent AcuityAds from engaging in actions necessary to its business, products, or services.

### ***Infringement of Intellectual Property Rights***

If AcuityAds' proprietary Programmatic Marketing Platform violates or is alleged to violate third party proprietary rights, AcuityAds may be required to reengineer its technology or seek to obtain licenses from third parties to continue offering its technology without substantial reengineering. Any such efforts may not be successful or if successful could require payments that may have a material adverse effect on profitability and financial condition. Any litigation involving infringement claims would be expensive and time-consuming, and an adverse outcome may result in payment of damages or injunctive relief that could materially and adversely affect AcuityAds' business.

AcuityAds does not independently verify whether it is permitted to deliver advertising to its advertisers' internet users or that the content of the advertisements it delivers is legally permitted. AcuityAds receives representations from advertisers that the content of the advertising that AcuityAds places on their behalf is lawful. AcuityAds also relies on representations from its advertisers that they maintain adequate privacy policies that allow AcuityAds to place pixels on their websites and collect valid consents from users that visit those websites to collect and use such user's information to aid in delivering AcuityAds' product. If any of these representations are untrue and AcuityAds' advertisers do not abide by laws governing their content or privacy practices, AcuityAds may become subject to legal claims and exposed to potential liability and expense (for which it may or may not be indemnified), and its reputation may be damaged.

## **AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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### ***Use of Open Source Software Components***

AcuityAds' Programmatic Marketing Platform, including its computational infrastructure, relies on software licensed to it by third-party authors under "open source" licenses. The use of open source software may entail greater risks than the use of third-party commercial software, as open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. Some open source licenses contain requirements that AcuityAds make available source code for modifications or derivative works AcuityAds creates based upon the type of open source software AcuityAds uses. If AcuityAds combines its proprietary software with open source software in a certain manner, AcuityAds could, under certain open source licenses, be required to release the source code of its proprietary software to the public. This would allow AcuityAds' competitors to create similar solutions with lower development effort and time and ultimately put AcuityAds at a competitive disadvantage.

Although AcuityAds monitors its use of open source software to avoid subjecting its products to conditions it does not intend, the terms of many open source licenses have not been interpreted by Canadian courts, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on AcuityAds' ability to commercialize its services. Moreover, AcuityAds cannot guarantee that its processes for controlling its use of open source software will be effective. If AcuityAds is held to have breached the terms of an open source software license, it could be required to seek licenses from third parties to continue operating its platform on terms that are not economically feasible, to re-engineer its platform or the supporting computational infrastructure to discontinue use of certain code, or to make generally available, in source code form, portions of its proprietary code, any of which could adversely affect AcuityAds business, operating results and financial condition.

### ***Unanticipated Problems Associated with the Programmatic Marketing Platform***

AcuityAds depends upon the sustained and uninterrupted performance of its platform to operate a number of campaigns at any given time; manage its inventory supply; bid on inventory for each campaign; serve or direct a third party to serve advertising; collect, process and interpret data; and optimize campaign performance in real time and provide billing information. Because AcuityAds' technology is complex, undetected errors and failures may occur, especially when new versions or updates are made. AcuityAds' Programmatic Marketing Platform may contain undetected errors or "bugs", which result in system failures, or failure to perform in accordance with industry or customer expectations. Despite AcuityAds' plans for quality control and testing measures, its Programmatic Marketing Platform, including any enhancements, may contain such bugs or exhibit performance degradation, particularly during periods of rapid expansion. In such an event, AcuityAds may be required or choose to expend additional resources to help mitigate any problems resulting from errors in its technology. Product or system performance problems could result in loss of or delay in revenue, loss of market share, failure to achieve market acceptance, adverse publicity, diversion of development resources and claims against AcuityAds by its customers and other parties.

### ***Social Data***

AcuityAds' social data offering is currently based on publicly available social data signals from users on social media platforms. Acuity, via its 140 Proof Inc. acquisition in September 2016, is able to access this social user data for audience targeting. As a result, AcuityAds' ability to grow its revenue in this channel is closely tied to the availability and access to this social data signal from these social media platforms. These social media platforms may restrict AcuityAds' access to their publicly available data, intentionally or unintentionally. Additionally, the performance of this type of data in a

## **AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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particular scenario cannot be predicted. Also, data obtained in this way may not always correlate precisely with the target audience resulting in distorted insights. Another risk is that social media companies may cease to exist or become less relevant, based on the size and reach of their platforms which could harm AcuityAds' social data offering and revenues.

Additionally, other players in the market could potentially develop competing tools potentially limiting AcuityAds' market penetration which in turn could negatively impact revenues.

### ***Mobile Advertising***

AcuityAds' success in the mobile advertising channel depends upon the ability of its Programmatic Marketing Platform to integrate with mobile inventory suppliers and provide advertising for most mobile connected devices, as well as the major operating systems that run on them and the thousands of applications that are downloaded onto them. The design of mobile devices and operating systems is controlled by third parties with whom AcuityAds does not have any formal relationships. These parties frequently introduce new devices, and from time to time they may introduce new operating systems or modify existing ones. Network carriers may also impact the ability to access specified content on mobile devices. If AcuityAds' platform is unable to work on these devices or operating systems, either because of technological constraints or because a maker of these devices or developer of these operating systems wished to impair AcuityAds' ability to provide advertisements on them or AcuityAds' ability to fulfill advertising space, or inventory, from developers whose applications are distributed through their controlled channels, AcuityAds' ability to generate revenue could be significantly harmed.

### ***Obsolescence***

AcuityAds' business is characterized by rapid technological change, frequent new product and service introductions and enhancements, uncertain product life cycles, changes in customer requirements, and evolving industry standards. The introduction of new products embodying new technologies, the emergence of new industry standards, or improvements to existing technologies could render AcuityAds' platform obsolete or relatively less competitive. AcuityAds' future success will depend upon its ability to continue to develop and expand its Programmatic Marketing Platform and to address the increasingly sophisticated needs of its customers. AcuityAds may experience delays in releasing new offerings or enhancements in the future. Material delays in introducing new offerings or enhancements may cause customers to forego purchases of AcuityAds' offering to purchase offerings of competitors instead.

### ***Catastrophic Events***

AcuityAds maintains servers at co-location facilities in the US that it uses to deliver advertising campaigns for its advertisers. Any of its existing and future facilities may be harmed or rendered inoperable by attack or security intrusion by a computer hacker, natural or man-made disasters, including earthquakes, tornadoes, hurricanes, wildfires, floods, nuclear disasters, war, acts of terrorism or other criminal activities, infectious disease outbreaks and power outages, any of which may render it difficult or impossible for AcuityAds to operate its business for some period of time. One co-location facility where AcuityAds maintains data used in its business operations is located in the Greater Los Angeles Area, a region known for seismic activity. If AcuityAds were to lose the data stored in its California co-location facility, it could take several days, if not weeks, to recreate this data from multiple sources, which could result in significant negative impact on its business operations, and potential damage to its advertiser and advertising agency relationships. Any disruptions in AcuityAds' operations could negatively impact its business and results of operations, and harm its reputation. In addition, AcuityAds may not carry sufficient business interruption insurance to compensate for the

## **AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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losses that may occur. Any such losses or damages could have a material adverse effect on AcuityAds' business, financial condition and results of operations.

### ***Economic, Political and Market Conditions***

AcuityAds' business depends on the overall demand for advertising and on the economic health of its current and prospective advertisers. Economic downturns or instability in political or market conditions may cause current or new advertisers to reduce their advertising budgets. Adverse economic conditions and general uncertainty about continued economic recovery are likely to affect AcuityAds' business prospects. This uncertainty may cause general business conditions in the United States and elsewhere to deteriorate or become volatile, which could cause advertisers to delay, decrease or cancel purchases of AcuityAds' offering; and expose AcuityAds to increased credit risk on advertiser orders, which, in turn, could negatively impact its business, financial condition and results of operations. In addition, continued geopolitical turmoil in many parts of the world have and may continue to put pressure on global economic conditions, which could lead to reduced spending on advertising.

### **Risks Related to the Common Shares**

#### ***Market for Common Shares***

There can be no assurance that an active trading market for the Common Shares will be sustained. Technology stocks have historically experienced high levels of volatility and AcuityAds cannot predict the prices at which the Common Shares will trade. Fluctuations in the market price of the Common Shares could cause an investor to lose all or part of its investment in Common Shares. Factors that could cause fluctuations in the trading price of the Common Shares include (i) announcements of new offerings, products, services or technologies, commercial relationships, acquisitions or other events by AcuityAds or its competitors; (ii) price and volume fluctuations in the overall stock market from time to time; (iii) significant volatility in the market price and trading volume of technology companies in general and of companies in the digital advertising industry in particular; (iv) fluctuations in the trading volume of the Common Shares or the size of AcuityAds' public float; (v) actual or anticipated changes or fluctuations in AcuityAds' results of operations; (vi) whether AcuityAds' results of operations meet the expectations of securities analysts or investors; (vii) actual or anticipated changes in the expectations of investors or securities analysts; (viii) litigation involving Acuity, its industry, or both; (ix) regulatory developments in Canada, the United States, and foreign countries; (x) general economic conditions and trends; (xi) major catastrophic events; (xii) escrow releases, sales of large blocks of the Common Shares; (xiii) departures of key employees or members of management; or (xiv) an adverse impact on AcuityAds from any of the other risks cited herein.

#### ***Substantial Control by Insiders***

AcuityAds' Directors, Officers and Control Persons, in the aggregate, beneficially own approximately 45.41% of the common shares. As a result, these insiders will be able to influence or control matters requiring approval by AcuityAds' shareholders, including the election of Directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from those of investors and may vote in a manner that is adverse to investors' interests. This concentration of ownership may have the effect of deterring, delaying or preventing a change of control of Acuity, could deprive AcuityAds' shareholders of an opportunity to receive a premium for their Common Shares as part of a sale of AcuityAds and might ultimately affect the market price of the common shares.

## **AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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### ***Significant Sales of Common Shares***

Although the Company's common shares are freely tradable, the common shares held by AcuityAds' Control Persons are subject to contractual lock-up restrictions for periods of up to 180 days and will also be subject to escrow pursuant to the policies of the TSXV. Sales of a substantial number of the common shares in the public market after the expiry of lock-up or escrow restrictions, or the perception that these sales could occur, could adversely affect the market price of the common shares and may make it more difficult for investors to sell common shares at a favorable time and price.

### ***Dividend Policy***

AcuityAds may, in its discretion, retain any earnings to finance the operation and expansion of its business, and accordingly, may not pay any dividends in the future. As a result, an investor may only receive a return on its investment in the common shares if the market price of such shares increases. In addition, the Loan Agreement contains restrictions on AcuityAds' ability to pay dividends.

### ***Analyst Coverage***

The trading market for the common shares will, to some extent, depend on the research and reports that securities or industry analysts publish about AcuityAds or its business. AcuityAds will not have any control over these analysts. If one or more of the analysts who covers AcuityAds should downgrade the Common Shares or change their opinion of AcuityAds' business prospects, AcuityAds' share price would likely decline. If one or more of these analysts ceases coverage of AcuityAds or fails to regularly publish reports on Acuity, AcuityAds could lose visibility in the financial markets, which could cause AcuityAds' share price or trading volume to decline.

### ***Tax Issues***

There may be income tax consequences in relation to the common shares, which will vary according to circumstances of each investor. Prospective investors should seek independent advice from their own tax and legal advisers.

### ***Fraud***

AcuityAds operates as a technology and services provider in a dynamic eco-system where fraud exists. Typical forms of fraud include robotic traffic, where robots mimic the behavior of users in order to inflate the number of impressions, clicks, post clicks actions or other metrics associated with the ad; ads that have no potential to be viewed by a human; and activities designed to trick mechanisms for user data collection or attribution models. AcuityAds employs reasonable measures to detect and eliminate fraud to the best of its ability. However, despite its efforts, AcuityAds is not in the fraud detection business and there are no guarantees as to the degree to which fraud can be minimized.

### ***Publisher Protection***

AcuityAds offers managed media campaign services and licenses its technology to third parties who use it to carry out media buys. Despite AcuityAds' efforts to protect its suppliers from unwanted buying activities and ads, misuse of the system by advertising parties cannot be ruled out.

**AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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***Ad Blockers***

Ad blockers represent an increased risk to the online advertising industry as a whole, as their use has lately risen. Ad blockers prevent ads from being displayed and can interfere with the collection and transmission of data required for the normal operation of the online advertising ecosystem, including user data, measurement and attribution. The industry is taking steps to combat ad blocking and tools have been created to detect ad blockers for use by publishers. These tools allow publishers who rely on ad revenue to withhold content from users with ad blockers. Additionally, in order to discourage the use of ad blockers, the industry is initiating a shift towards ads that are less disruptive to the user experience. Nevertheless, there are no guarantees that these measures will be sufficient to eliminate all ad blocking activities and that AcuityAds will not experience loss of potential revenue as a result of ad blocking.

**AcuityAds Holdings Inc.**

Management's Discussion and Analysis for the three and nine months ended September 30, 2017 and 2016

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**ADDITIONAL INFORMATION**

Additional information relating to the Company is posted on SEDAR at [www.sedar.com](http://www.sedar.com).