



AcuityAds Holdings Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

Dated November 4, 2019

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AcuityAds Holdings Inc.

Management's Discussion and Analysis for the three and nine months ended September 30, 2019 and 2018

Management's discussion & analysis

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, 2019 and 2018. This analysis should be read in conjunction with AcuityAds' condensed interim consolidated financial statements for the three and nine months ended September 30, 2019 and 2018 and related notes (the "Condensed interim consolidated financial statements"). The Condensed interim consolidated financial statements and extracts of those Condensed interim consolidated financial statements provided in this MD&A, were prepared in Canadian dollars and in accordance with International Financial Reporting Standards ("IFRS"). As a result of the rounding of dollar differences, certain total dollar amounts in this MD&A may not add exactly to their constituent amounts. Throughout this MD&A, percentage changes are calculated using numbers rounded as they appear. Readers are cautioned that this MD&A contains certain forward-looking information. (Please see the "Forward Looking Statements" section below for a discussion of the use of such information in this MD&A).

The Condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries AcuityAds Inc. ("Acuity"), AcuityAds US Inc., 140 Proof Inc., ("140 Proof") Visible Measures Corp., ("Visible Measures"), ADman Interactive S.L. ("ADman"), AcuityAds MM Inc. ("Acuity MM"), 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 4, 2019.

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", "Adjusted EBITDA" and "Adjusted Net Income".

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 amount that "Revenue less media costs" represents as a percentage of total revenue for a given period.

"Adjusted EBITDA" refers to net income (loss) after adjusting for finance costs, income taxes, foreign exchange gain (loss), depreciation and amortization, share-based compensation, acquisition and related integration costs, severance expenses and adjustments to the carrying value of investment tax credits receivable and earnout 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 before taking into consideration how those activities are financed and taxed and also prior to taking into consideration depreciation of property and equipment and certain other items listed above. It is a key measure used by the Company's management (the "Management") and board of directors (the "Board of Directors") to understand and evaluate the Company's operating performance, to prepare annual budgets and to help develop operating plans.

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“Adjusted net income” refers to net income (loss) after adjusting for foreign exchange gain (loss), depreciation and amortization, and share-based compensation. The Company believes that Adjusted net income is useful supplemental information as it provides an indication of the results generated by the Company's main business activities before taking into consideration how those activities are affected by non-cash expenses. It is a key measure used by the Management and Board of Directors to understand and evaluate the Company's operating performance, to prepare annual budgets and to help develop operating plans.

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

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A that are not current or historical factual information may constitute “forward-looking” statements within the meaning of applicable securities laws, regarding, among other things, the beliefs, plans, objectives, strategies, estimates, intentions or expectations of the Corporation, including as they relate to its financial results and the ability to execute on its investing and business strategies. 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, 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 products and services, the introduction of competing technologies, competitive pressures, network restrictions, fluctuations in foreign currency exchange rates, and other similar factors that may cause the actual results, performance or achievements to differ materially from those expressed or implied in these forward-looking statements.

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

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OVERVIEW

AcuityAds is a technology company that enables marketers to connect intelligently with audiences across video, mobile, social and online display advertising campaigns. A programmatic marketing platform (“the Programmatic Marketing Platform”), powered by proprietary artificial intelligence (AI) technology, is at the core of the Company’s business, accompanied by patented solutions for analytics-led video and mobile targeting that leverages data. AcuityAds empowers marketers by offering near real-time reporting and analytics, bringing accountability to programmatic advertising to deliver business results and help solve the key challenges that digital advertisers face.

AcuityAds’ AI technology enables programmatic advertising, which is the automated buying and selling of advertising inventory electronically. The Programmatic Marketing Platform is based on proprietary machine learning technology, the branch of artificial intelligence involving systems that learn from data inputs and outputs and that can perform actions without the need for explicit programming. The Programmatic Marketing Platform has the capability to process billions of bid requests on a daily basis.

The Programmatic Marketing Platform allows advertisers to manage their purchasing of online display advertising in real-time using programmatic ad buying, a method of buying online display advertising in which ad spots (called impressions) are released in an auction that occurs in milliseconds. AcuityAds purchases impressions for advertisers through agreements with publishers, ad networks and ad exchanges. Its Programmatic Marketing Platform benefits advertisers by enabling them to target specific audiences based on demographic and psychographic parameters as well as manage their bid amounts to purchase the advertising inventory that is most relevant for their campaigns. Real-time reporting enables advertisers to monitor specific performance metrics and react and pivot quickly to optimize campaigns to help ensure they achieve consumer targeting goals and key performance indicators.

AcuityAds is headquartered in Toronto and has offices in the United States, Canada, Spain, and throughout Latin America. Its key customers include both agencies and brands, including large Fortune 500 enterprises and small to mid-sized businesses.

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RESULTS OF OPERATIONS

Significant developments during the three months ended September 30, 2019 and to the date of this report include the following:

On July 15, 2019 the Company signed a new \$5 million contract with a global hospitality company.

On August 29, 2019, the Company qualified to trade on the OTCQX® Best Market with DTC eligibility, allowing United States investors to clear their trades seamlessly. The OTCQX Best Market is for established, investor-focused U.S. and international companies. To qualify for the OTCQX market, companies must meet high financial standards, follow best practice for corporate governance, demonstrate compliance with U.S. securities laws, be current in their disclosures, and have a professional third-party sponsor introduction.

On September 23, 2019, the Company completed an extension and increase to its revolving line of credit with Silicon Valley Bank ("SVB") pursuant to a first loan modification agreement. The first loan modification agreement extends the maturity date of the existing loan from March 2020 to April 2021 as well as increased the availability on the line of credit to US\$18 million from US\$15 million.

On October 22, 2019, the Company provided an update to its enhanced artificial intelligence ("AI") algorithm. After several months of testing across 35% of active campaigns, the Company has seen an average 15% improvement in campaign ROI. The Company is now rolling out the new technology across all existing campaigns.

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Results for the three and nine months ended September 30, 2019 and 2018

The following table provides selected financial information from the consolidated statements of comprehensive income (loss) for the three and nine months ended September 30, 2019 and 2018:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Revenue	\$26,864,507	\$17,298,170	\$80,597,505	\$37,299,663
By line of service:				
Managed services	20,156,487	12,887,288	60,543,449	26,680,891
Self-service	6,708,020	4,410,882	20,054,055	10,618,772
By geography:				
US	18,376,582	10,978,490	56,629,931	22,947,871
Canada	3,346,852	4,257,643	10,500,956	9,167,285
Other	5,141,074	2,062,037	13,466,618	5,184,507
Revenue less media costs ¹ (gross profit)	13,017,468	9,312,594	37,859,235	19,834,859
Adjusted EBITDA ¹	\$1,613,770	\$1,097,707	\$3,702,321	\$(469,865)
Income (loss) from operations	(938,137)	(1,243,521)	(5,093,029)	(6,043,053)
Net income (loss)	(1,360,006)	(2,251,417)	(7,602,650)	(7,656,490)
Adjusted net income (loss) ¹	738,996	(137,312)	(428,518)	(3,356,787)
Loss per share (basic and diluted) ²	(0.03)	(0.06)	(0.17)	(0.20)

(1) As defined in "Non-IFRS Financial Measures"

(2) Exercisable options to purchase 2,060,721 (2018 – 1,677,025) common shares and 2,525,373 (2018 – 2,941,879) warrants were outstanding as at September 30, 2019. The weighted average number of options and warrants were excluded from the calculation of diluted loss per share for the periods ended September 30, 2019 and 2018 because their inclusion would have been anti-dilutive

Revenue for the three and nine months ended September 30, 2019 compared to the same period of the prior year increased by \$9,566,337 and \$43,297,842 respectively to \$26,864,507 and \$80,597,505 from \$17,298,170 and \$37,299,663. Sales of the Company's managed services platform for the three and nine months ended September 30, 2019 compared to the same period of the prior year increased by \$7,269,199 and \$33,862,558 to \$20,156,487 and \$60,543,449 from \$12,887,288 and \$26,680,891. Sales of the Company's self-service platform for the three and nine months ended September 30, 2019 compared to the same period of the prior year increased by \$2,297,138 and \$9,435,283 to \$6,708,020 and \$20,054,055 from \$4,410,882 and \$10,618,772. The increase in revenues for both the three and nine months was a result of both new and existing clients spending more with the Company and the inclusion of the Adman and Magnetic Media acquisitions that were completed in 2018.

Revenue generated in the United States for the three and nine months ended September 30, 2019 increased by \$7,398,092 and \$33,682,060 compared to the same period from the prior year.

Revenue generated in Canada for the three and nine months ended September 30, 2019 decreased by \$910,791 and increased \$1,333,671 compared to the same period from the prior year. The decrease during the three months ended September 30, 2019 was primarily due to the September 2018 Canadian Government's introduction of legalized cannabis and the one-time advertising spend related to this.

Adjusted EBITDA was \$1,613,770 and \$3,702,321 for the for the three and nine months ended September 30, 2019 compared to an Adjusted EBITDA of \$1,097,707 and \$(469,865) in the same periods of the prior year. The increase in Adjusted EBITDA from the prior year's periods is primarily attributable to the increase in revenue.

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Adjusted net income (loss) for the three and nine months ended September 30, 2019 was \$738,996 and \$(428,518) compared to \$(137,312) and \$(3,356,787) for the prior year periods. The increase in adjusted net income of \$876,308 and \$2,928,269 is primarily due to the increase of revenue and a focus on cost containment.

Net income (loss) for the three and nine months ended September 30, 2019 was \$(1,360,006) and \$(7,602,650) compared to \$(2,251,417) and \$(7,656,490) for the prior year periods. The decrease in net loss of \$891,411 and \$53,840 is primarily due to the increase in revenue.

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. 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		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Revenue	\$26,864,507	\$17,298,170	\$80,597,505	\$37,299,663
Media costs	13,847,039	7,985,576	42,738,270	17,464,804
Revenue less media costs	13,017,468	9,312,594	37,859,235	19,834,859
Revenue less media costs margin	48.5%	53.5%	47.0%	53.2%

Media costs comprise advertising impressions that the Company purchased from real-time advertising exchanges or through other third parties. For the three and nine months ended September 30, 2019, media costs were \$13,847,039 and \$42,738,270, compared to \$7,985,576 and \$17,464,804 for the three and nine months ended September 30, 2018, representing an increase of \$5,861,463 and \$25,273,466, which is attributable to the increased revenue during the periods. As a percentage of revenue, revenue less media costs were 48.5% and 47.0% for the for the three and nine months ended September 30, 2019 compared to 53.5% and 53.2% for the same periods of the prior year. For the three month period, the decrease in margin was attributable to an increase in Self-Serve revenue plus a new customer mix. For the nine month period, the decrease in margin was attributable to both an increase in Self-Serve revenue and a large \$7 million contract that ran in Q1'19. Management 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.

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Reconciliation of net income (loss) to Adjusted EBITDA for the three and nine months ended September 30, 2019 and 2018

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

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Net income (loss) for the period	\$(1,360,006)	\$(2,251,417)	\$(7,602,650)	\$(7,656,490)
Adjustments:				
Finance costs	546,446	586,735	1,922,019	1,430,987
Foreign exchange gain (loss)	(118,728)	421,161	471,477	163,749
Depreciation and amortization	1,865,521	1,470,995	5,513,663	3,238,215
Income taxes	(5,849)	-	116,125	18,701
Share-based compensation	352,209	221,949	1,188,992	897,739
Acquisition integration costs	0	748,252	1,289,920	1,261,706
Severance expenses	264,160	(99,968)	536,895	175,528
Other non-recurring expenses	70,018	-	265,880	-
Total adjustments	2,973,776	3,349,124	11,304,971	7,186,625
Adjusted EBITDA	\$1,613,770	\$1,097,707	\$3,702,321	\$ (469,865)

Adjusted EBITDA for the three and nine months ended September 30, 2019 was \$1,613,770 and \$3,702,321 compared to \$1,097,707 and \$(469,865) for the prior year periods. The increase of approximately \$516,063 and \$4,172,186 in Adjusted EBITDA for the three and nine months ended September 30, 2019 were attributable primarily to the increase in revenue.

Reconciliation of net income (loss) to Adjusted net income (loss) for the three and nine months ended September 30, 2019 and 2018

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Net income (loss) for the period	\$(1,360,006)	\$(2,251,417)	\$(7,602,650)	\$(7,656,490)
Adjustments:				
Depreciation and Amortization	1,865,521	1,470,995	5,513,663	3,238,215
Stock Based Compensation	352,209	221,949	1,188,992	897,739
Foreign Exchange	(118,728)	421,161	471,477	163,749
Total adjustments	2,099,001	2,114,105	7,174,132	4,299,703
Adjusted net income (loss)	\$738,996	(\$137,312)	(\$428,518)	(\$3,356,787)

Adjusted net income (loss) for the three and nine months ended September 30, 2019 was \$738,996 and \$(137,312) compared to \$(428,518) and \$(3,356,787) for the prior year periods. The increase of approximately \$876,308 and \$2,928,269 in Adjusted net income (loss) for the three and nine months ended September 30, 2019 were attributable primarily to the increase in revenue.

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Operating Expenses, Finance Costs, and Foreign Exchange

The following table summarizes various expenses for the three and nine months ended September 30, 2019 and 2018:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Sales and marketing expenses	\$6,274,375	\$5,235,354	\$18,823,479	\$12,160,569
Technology	3,597,898	1,495,077	10,608,441	4,070,141
General and administrative	1,865,603	1,384,488	5,527,769	4,249,542
Share-based compensation	352,209	221,949	1,188,992	897,739
Acquisition integration costs	-	748,252	1,289,920	1,261,706
Depreciation and amortization	1,865,521	1,470,995	5,513,663	3,238,215
Finance costs	546,446	586,735	1,922,019	1,430,987
Foreign exchange (gain) loss	(118,728)	421,161	471,477	163,749

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, marketing, payroll taxes and employee health and related benefit expenses, for the sales, marketing, and account management teams. Sales and marketing expenses for the three and nine months ended September 30, 2019 increased \$1,039,021 and \$6,662,910 compared to the same periods of the prior year. The increased costs were realized primarily from the increase in revenue in the three and nine month periods as well as the addition of the sales team from the Magnetic Media acquisition completed in Q3 2018. As a percentage of revenue, sales, and marketing expenses represented 23% and 23% of the Company's revenue for the three and nine months ended September 30, 2019 compared to 30% and 33% for the same periods of the prior year.

Technology

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

During the three and nine months ended September 30, 2019, the Company capitalized \$350,000 and \$1,200,000 of development costs relating to revenue generating technology.

Excluding capitalization, investment tax credits, and other grants, during the three and nine months ended September 30, 2019, technology expenses increased by \$1,914,553 and \$6,256,365 compared to the same periods from the prior year.

For the three and nine months ended September 30, 2019, technology expenses as a percentage of revenue were 13% and 13% compared to 9% and 11% for the same periods of the prior year.

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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 for the three and nine months ended September 30, 2019 increased \$481,115 and \$1,278,227 compared to the same periods of the prior year. The increased expenses were primarily attributable to the acquisitions of Adman and Magnetic Media in 2018. As a percentage of revenue, general and administrative expenses were 7% and 7% compared to 8% and 11% for the same periods of the prior year.

Share based compensation

Share-based compensation expense was \$352,209 and \$1,188,992 for the three and nine months ended September 30, 2019 compared to \$221,949 and \$897,739 for the same periods of the prior year.

Acquisition integration costs

On June 15, 2018, the Company completed the Adman Media Acquisition and on September 1, 2018, the Company completed the Magnetic Media Transaction. As a result, total acquisition integration expenses of Nil and \$1,289,920 were incurred during the three and nine months ended September 30, 2019, compared to \$748,252 and \$1,261,706 from the prior year periods.

Depreciation and amortization

Depreciation and amortization for the three and nine months ended September 30, 2019 increased \$394,526 and \$2,275,448 from the comparable period in the prior year, due mainly to additions of equipment at the Company's data centers and as a result of the adoption of IFRS 16 depreciation on ROU assets. In addition, intangible assets increased due to the acquisitions of Adman Media.

Finance costs

For the three and nine months ended September 30, 2019, finance costs were \$546,446 and \$1,922,019, a decrease of \$40,289 and an increase of \$491,032 from the prior year periods. Increased finance costs were primarily due to the increased term loan and operating line balances.

Foreign exchange gain (loss)

Foreign exchange gain (loss) consists of the realized and unrealized exchange differences due to fluctuations between the Canadian dollar and the U.S. dollar. The Company recorded a net foreign exchange gain of \$118,728 and a loss of \$471,477 for the three and nine months ended September 30, 2019 compared to a loss of \$421,161 and \$163,749 for the three and nine months ended September 30, 2018.

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.

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Summary of Quarterly Results

The following unaudited table sets out selected financial information for the Company on a consolidated basis:

	Quarter Ended							
	Sept 30, 2019	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sept. 30, 2018	June. 30, 2018	Mar. 31, 2018	Dec. 31, 2017
Revenue	\$26,864,507	\$25,811,114	\$27,921,884	\$32,936,353	\$17,298,170	\$11,964,920	\$8,036,573	\$15,143,262
Adjusted EBITDA	\$1,613,770	\$1,072,326	\$1,016,224	\$3,310,807	\$1,097,707	\$417,835	(\$1,985,407)	\$650,099
Adjusted net income (loss)	\$738,996	(\$662,372)	(\$505,141)	\$2,537,943	(\$137,312)	(\$811,846)	(\$2,407,629)	(\$20,614)
Net income (loss)	(\$1,360,006)	(\$3,259,475)	(\$2,532,309)	(\$3,921,006)	(\$2,251,417)	(\$2,244,217)	(\$3,370,933)	(\$1,782,628)
Net income (loss) per share:	(0.03)	(\$0.07)	(\$0.07)	(\$0.10)	(\$0.06)	(\$0.06)	(\$0.10)	(\$0.06)
Weighted average number of shares outstanding ('000'S)	47,744,143	46,931,380	41,252,050	40,906,079	40,881,982	39,256,165	35,398,870	31,589,084

LIQUIDITY AND CAPITAL RESOURCES

Selected financial information from the statements of financial position as at September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
Cash and restricted cash	\$5,895,406	\$8,114,668
Working capital ⁽¹⁾	(905,620)	(4,505,269)
Total assets	65,112,663	67,599,068
Current liabilities	39,590,012	48,641,236
Other non-current liabilities	12,100,947	8,813,530
Shareholders' equity	13,421,704	10,144,301

⁽¹⁾ Working capital is defined as current assets less current liabilities.

As at September 30, 2019, the Company had cash and cash equivalents and restricted cash of \$5,895,406 compared to \$8,114,668 as at December 31, 2018.

Cash flows used in operations were \$5,030,356 during the nine months ended September 30, 2019 as compared to \$2,422,102 in the prior year period. The increase in cash flows used in operations was primarily a result of increased working capital due to increased revenue.

Cash flows used in investing activities were \$8,163,950 during the nine months ended September 30, 2019, compared to \$5,278,438 in the prior year period. The increase was primarily due to the increase in property plant and equipment during the period.

Cash flows generated from financing activities were \$11,075,044 during the nine months ended September 30, 2019, compared to \$7,015,369 in the prior year period. The increase was primarily due to the increase in financial lease obligations and the April 2019 equity financing.

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Common Shares

Changes in the number of issued common shares from December 31, 2018 to September 30, 2019 are as follows:

	Number of Common Shares
Balance December 31, 2018	40,951,002
Shares issued – Equity financing	5,936,300
Shares issued – Warrants exercised	555,885
Shares issued – Options exercised	240,167
Shares issued – DSU's exercised	66,319
Balance September 30, 2019	47,749,673

Stock Options

Under the Company's stock option plan (the "Plan"), the Board of Directors may grant options to employees, officers, directors and consultants of the Company. As at September 30, 2019, the Company had 3,404,886 stock options outstanding out of a maximum allowable number of stock options of 4,774,967. 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 from time-to-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 of Directors 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 reflects the activity with respect to options from December 31, 2018 to September 30, 2019:

	Number of Options	Weighted Average Exercise Price
Balance outstanding December 31, 2018	3,097,220	\$1.63
Granted	1,133,500	\$1.61
Forfeited or cancelled	(585,667)	\$2.87
Exercised	(240,167)	\$0.96
Options outstanding September 30, 2019	3,404,886	\$1.46

During the three and nine months ended September 30, 2019, the Company recorded share-based compensation expense related to stock options granted to employees, officers, and directors of the Company of \$352,209 and \$1,188,992 compared to \$221,949 and \$897,739 for the same periods of the prior year. During the nine months ended September 30, 2019, the Company granted 1,113,500 stock options with a weighted average exercise price of \$1.61. Of those, 1,106,000 options were granted to officers, directors, and employees of the Company and 7,500 options were granted to a consultant, as compensation for services rendered. These options vest annually over a three-year period and are exercisable at a weighted average price of \$1.61, all expiring in 2024.

Deferred Share Units ("DSU's")

For the three and nine months ended September 30, 2019, the Company issued 67,500 and 222,500 DSU's to employees of the Company. During the three and nine months ended September 30, 2019, 33,126 and 66,319 DSUs were exercised. As of September 30, 2019, the Company had 2,174,053 DSU's outstanding. The Company has 1,245,186 DSU's available to be issued.

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Warrants

For the three and nine months ended September 30, 2019, the Company issued nil and 356,178 warrants. During the three and nine months ended September 30, 2019, nil and 555,885 warrants were exercised. As a result, as of September 30, 2019, the Company had 2,525,373 warrants outstanding.

CONTRACTUAL OBLIGATIONS

On September 23, 2019, the Company completed an extension and increase to its revolving line of credit with SVB pursuant to a first loan modification agreement. The first loan modification agreement extends the maturity date of the existing loan from March 2020 to March 2021 as well as increased the availability on the line of credit to US\$18 million from US\$15 million.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

TRANSACTIONS WITH RELATED PARTIES

Other than executive compensation paid in the ordinary course to members of the Company's management, and directors fees paid in the ordinary course to the Company's independent directors, the Company did not engage in any transactions with related parties during the three and nine months ended September 30, 2019.

During the year ended December 31, 2018, the Company obtained a \$7,263,000 subordinated term loan (the "Loan") from a group of private lenders. The Loan was made pursuant to a credit agreement dated as of June 15, 2018, between the Company, its subsidiary and various lenders, including certain non-arm's length lenders. The non-arm's length lenders included several officers and directors of the Company who funded an aggregate of \$2,263,000 of the Loan of which \$1,791,542 remains outstanding as at September 30, 2019. On March 31, 2019, the Company and the lenders agreed to extend the maturity date of the Loan from June 15, 2020 to June 15, 2021.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Condensed interim consolidated financial statements and application of IFRS often involve Management's judgment and the use of estimates and assumptions deemed to be reasonable at the time they are made. Significant assumptions and estimates used in preparing the financial statements include those related to 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. 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. 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 3 of the Company's Condensed Interim Consolidated Financial Statements.

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CHANGES IN ACCOUNTING POLICIES

Recently adopted accounting pronouncements

IFRS 16, Leases ("IFRS 16"):

On January 1, 2019, Acuity adopted the provisions of IFRS 16 Leases ('IFRS 16') using the modified retrospective approach. As such, comparative information has not been restated and continues to be reported under IAS 17 Leases ('IAS 17') and International Financial Reporting Interpretation Committee 4, Determining Whether an Arrangement Contains a Lease ('IFRIC 4'). The transitional impact of the change in accounting policy and additional disclosures is disclosed in note 4. Acuity's new accounting policy for leases is as follows:

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either: (a) the Company has the right to operate the asset; or (b) the Company designed the asset in a way that predetermines how and for what purpose it will be used.
- if the contract contains a lease, a right-of-use asset and a corresponding lease liability are set-up at the date at which the leased asset is available for use by the Company. The lease payments are discounted using either the interest rate implicit in the lease, if available, or the Company's incremental borrowing rate. Each lease payment is allocated between the liability and the finance cost (i.e. accretion) so as to produce a constant rate of interest on the remaining lease liability balance. The Company accounts for the lease and non-lease components separately. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management of Acuity is responsible for establishing and maintaining disclosure controls and procedures for the Company as defined under National Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such disclosure controls and procedures, or caused them to be designed under its supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the Chief Executive Officer and the Chief Financial Officer by others within those entities on a timely basis, particularly during the period in which the annual filings are being prepared, so that appropriate decisions can be made regarding public disclosure.

Management of the Company is responsible for designing and evaluating the effectiveness of internal controls over financial reporting for the Company as defined under National Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such internal controls over financial reporting using the Integrated Control - Integrated Framework: 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. In designing such controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Additionally, Management is required to use judgment in evaluating controls and procedures.

There has been no change in Acuity's internal controls over financial reporting that occurred during the most recently completed interim period that has materially affected, or is reasonably likely to materially affect, Acuity's internal control over financial reporting.

OUTSTANDING SHARE DATA

As of November 1, 2019, 47,751,339 Common Shares were issued and outstanding. In addition, as of November 1, 2019, there were 3,404,886 stock options outstanding with exercise prices ranging from \$0.64 to \$4.60 per share.

As at November 1, 2019, there were 2,172,387 DSUs outstanding under the Company's deferred share unit plan, each of which represents the right to acquire one common share when the participant is no longer rendering service to the Company.

As at November 1, 2019, there were 2,525,373 warrants outstanding, each of which represents the right to acquire one Common Share with exercise prices ranging from \$1.00 to \$1.55 per share.

RISK FACTORS

For a detailed description of risk factors associated with the Company, refer to the "Risk Factors" section of the AIF, which is available under the Company's profile on SEDAR at www.sedar.com and on the Company's website at www.acuityads.com.

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ADDITIONAL INFORMATION

Additional information relating to the Company is posted on SEDAR at www.sedar.com.