# AcuityAds Inc.

*Prior to becoming a wholly-owned subsidiary of*
*AcuityAds Holdings Inc., (formerly Wildlaw Capital CPC 2 Inc.)*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013**

Dated August 20, 2014

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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 Inc. ("Acuity" or the "Company") as of and for the three and six months ended June 30, 2014 and 2013 prior to becoming a wholly-owned subsidiary of AcuityAds Holdings Inc. ("Acuity Holdings") formerly Wildlaw Capital CPC 2 Inc. ("Wildlaw"). This analysis should be read in conjunction with the audited consolidated financial statements of the Company as of December 31, 2013, 2012, 2011, and January 1, 2011 and for the years ended December 31, 2013, 2012, and 2011 and related notes (the "consolidated financial statements"). The consolidated financial statements of Acuity, and extracts of those consolidated financial statements provided in this MD&A, were prepared in Canadian dollars and in accordance with International Financial Reporting Standards ("IFRS"). As a result of the rounding of dollar differences, certain total dollar amounts in this MD&A may not add exactly to their constituent amounts. Throughout this MD&A, percentage changes are calculated using numbers rounded as they appear. Readers are cautioned that this MD&A contains certain forward looking information. Please see the "Forward Looking Statements" section that follows, for a discussion of the use of such information in this MD&A.

The information in this report is dated as of August 20, 2014.

## 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 Acuity to djffer materially from the results, performance, achievements or developments expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to the following: overall economic conditions, rapid technological changes, use of cookies, demand for our product, the introduction of competing technologies, competitive pressures, network restrictions, fluctuations in foreign currency exchange rates, and other similar factors that may cause the actual results, performance or achievements to differ materially from those expressed or implied in these forward-looking statements.*

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

## OVERVIEW

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

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

The programmatic marketing platform allows advertisers to manage their purchasing of 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 100 milliseconds. Acuity purchases impressions for advertisers through publishers, ad networks and exchanges. Our technology platform benefits advertisers by enabling them to manage their bid amounts, meet specific performance metrics and achieve consumer targeting goals.

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

We generate revenue by using our programmatic marketing platform to deliver digital advertisements to consumers across online display, video, social and mobile channels. We offer managed services, whereby we provide complete execution of a digital advertising campaign for advertising agencies and/or brands. We also offer access to our platform on a self-service technology basis, whereby advertisers can use our programmatic marketing platform to create and manage their own digital advertising campaigns and collect data and analysis, while we provide training and support services. Our managed services contracts are short-term in nature, with a term of less than one year, while our self-service technology contracts have terms of one year or longer. We recognize revenue as we deliver advertising impressions, subject to satisfying all other revenue recognition criteria. Our revenue recognition policies are discussed in more detail under "Critical Accounting Policies and Estimates."

For the three and six months ended June 30, 2014 revenues were $3,190,037 and $5,966,854, representing year-over-year growth of 14% and 19% respectively. Our net loss was $2,392,125 and $3,126,161 for three and six months ended June 30, 2014, compared to net income of $149,421 and $305,288 for the comparative periods in 2013. For the three and six months ended June 30, 2014, our adjusted EBITDA was $(1,419,164) and $(1,902,740), respectively (2013 – $56,930 and $178,283). The wider losses in adjusted EBITDA during the three and six months ended June 310, 2014 reflect accrued transaction costs as well as investments made for the long-term growth of the Company. We have added key senior management, and hired in sales and marketing to strengthen relationships with existing customers, acquire new customers, and increase our presence in the USA. As well we have invested in research and development to enhance our Programmatic Marketing Platform. We believe that these investments will contribute to our long-term growth; however, they will reduce our current and near-term profitability. Adjusted EBITDA is a non-IFRS financial measure. For a definition of adjusted EBITDA, an explanation of our management's use of this measure and a reconciliation of adjusted EBITDA to our net loss, see "Non-IFRS Financial Measures."

## RESULTS OF OPERATIONS

***Significant Developments for the three months ended June 30, 2014 and to the date of this report***

During the three months ended June 30, 2014, we continued to build our business by hiring new sales staff and technology developers. We established a presence in Chicago IL and transferred a key salesperson from Toronto ON to Los Angeles CA.

We made investments in key senior management during the second quarter to drive continued growth of the Company, including:

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

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

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

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

On July 16, 2014, the Company closed a reverse takeover transaction (the "Transaction") of Wildlaw Capital CPC 2 Inc. ("Wildlaw"). Wildlaw changed its name to AcuityAds Holdings Inc. ("Acuity Holdings") and, following completion of the Transaction, Acuity is now a wholly-owned subsidiary of Acuity Holdings. Prior to the Transaction, Wildlaw was a capital pool company as defined in the policies of the TSXV and had not commenced commercial operations and had no assets other than cash. The Transaction constituted Wildlaw's "Qualifying Transaction", as defined by the policies of the TSXV.

Prior to closing the Transaction and subsequent to July 31, 2014 the Company repaid aggregate amounts due to related parties of $616,657. The repayment was made pursuant to the conditions precedent to closing the Transaction and with the written consent of the Company's lender.

The Company completed a private placement (the "Offering") for aggregate gross proceeds of $5.75 million (net proceeds of $5.0 million), pursuant to an agency agreement dated April 24, 2014 with a syndicate led by Paradigm Capital Inc., and including Clarus Securities Inc. and Euro Pacific Canada Inc. All of the escrow release conditions were satisfied and, immediately prior to the closing of the Transaction, the net proceeds of the Offering were released to Acuity.

Common shares of AcuityAds Holdings Inc. began trading on the TSX Venture Exchange on July 22, 2014 under the symbol "AT".

***Results for the three and six months ended June 30, 2014 and 2013***

The following table provides selected financial information from the statements of comprehensive income (loss) for the three and six months ended June 30, 2014 and 2013:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenue | $ 3,190,037 | $ 2,787,744 | $ 5,966,854 | $ 5,001,609 |
| Managed services | 2,889,041 | 2,695,218 | 5,508,149 | 4,909,083 |
| Self-service technology | 300,996 | 92,526 | 458,705 | 92,526 |
| Revenue less media costs[1] | 1,534,431 | 1,559,374 | 2,996,154 | 2,911,366 |
| Adjusted EBITDA[1] | (1,419,164) | 56,930 | (1,902,740) | 178,283 |
| Income (loss) from operations | (2,244,649) | 224,657 | (2,687,406) | 476,505 |
| Income (loss) and comprehensive income (loss) | (2,392,125) | 149,421 | (3,126,161) | 305,288 |
| Income (loss) per share (basic and diluted) | $ (0.02) | $ 0.00 | $ (0.03) | $ 0.00 |

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

For the three months ended June 30, 2014, revenue increased $402,293 or 14% to $3,190,037 compared to $2,787,744 for the three months ended June 30, 2013. Year-over-year revenue growth was attributable to growth in Canada and the US, and sales of self-service technology and managed services. Sales of our programmatic marketing platform on a self-service technology basis contributed revenue of $300,996 during the current quarter compared to $92,526 in the same quarter of the prior year, when we first launched our technology on a self-service basis. Revenue generated in the USA was $371,979 for the three months ended June 30, 2014, an increase of $208,470 from the prior year quarter. Loss from operations of $2,244,649 for the three months ended June 30, 2014 increased $2,469,306 from income of $224,657 for the three months ended June 30, 2013. The loss was attributable to a reduction in the carrying amount of investment tax credits of $775,097 during the period, which is included as a charge to employee compensation and benefits, accrued transaction costs of $225,000 included with general and administrative expenses, and increased headcount and expenditures, mainly in sales, marketing and technology development. Loss and comprehensive loss for the three months ended June 30, 2014 increased $2,541,546 due to the wider loss from operations discussed above together with increased interest costs.

Revenue for the six months ended June 30, 2014 of $5,966,844 increased $965,244 over the prior year period. Growth in active customers, attributable to both new and existing customers, contributes to our revenue growth. Self-service revenue for the six months ended June 30, 2014 was $458,705, increasing $366,179 from the six months ended June 30, 2013. Revenue generated in the USA for the six months ended June 30, 2014 of $857,486 represented 14% of our total revenue, increasing $501,732 year-over-year.

Our revenues and operating results may vary from quarter to quarter as a result of a variety of factors, some of which are outside of our control, including seasonality and cyclicality. Generally the third quarter ending September 30 is affected by reduced advertising activity during the summer months while the fourth quarter ending December 31 reflects increased advertising activity during the period leading up to the holiday season. Seasonality may be affected by our customer mix, such that retail advertisers may concentrate their advertising spending with us 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. Our rapid growth has led to uneven overall operating results due to investments in Acuity's 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 subsequent quarter's operating results.

### *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 our solution in balancing the goals of delivering excellent results to advertisers while meeting our margin objectives and, accordingly we believe it is useful supplemental information to include in this MD&A. The term "Revenue less media costs margin" refers to the percentage that Revenue less Media Costs for any period represents as a percentage of total revenue for that period.

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

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

<u>Revenue less Media Costs</u>

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenue | $ 3,190,037 | $ 2,787,744 | $ 5,966,844 | $ 5,001,609 |
| Media costs | 1,655,606 | 1,228,371 | 2,970,700 | 2,090,244 |
| Revenue less media costs | 1,534,431 | 1,559,373 | 2,996,154 | 2,911,366 |
| Revenue less media costs margin | 48% | 56% | 50% | 58% |

Media costs comprise advertising impressions we purchase from real-time advertising exchanges or through other third parties. For the three months ended June 30, 2014 media costs were $1,655,606 compared to $1,228,371 for the three months ended June 30, 2013, representing an increase of $427,235 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 48% for first quarter of 2014 compared to 56% for the prior year quarter. The cost to purchase high quality impressions increased this quarter, and we make strategic decisions about how much of that increase to pass onto our clients. Our senior management team regularly evaluates our pricing strategy in order to optimize the Company's objectives of market penetration and profitability and, accordingly our margins may fluctuate from quarter to quarter.

Reconciliation of Net Loss to Adjusted EBITDA for the three and six months ended June 30, 2014 and 2013

The following table presents a reconciliation of adjusted EBITDA to net income (loss) for the periods then ended:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net income (loss) | $ (2,392,125) | $ 149,421 | $ (3,126,161) | $ 305,288 |
| Adjustments: | | | | |
| Finance costs | 180,316 | 83,898 | 394,449 | 163,355 |
| Foreign exchange loss | (35,725) | (8,662) | 33,035 | 7,862 |
| Depreciation of property and equipment | 52,569 | 21,823 | 88,862 | 35,293 |
| Income taxes | 2,885 | - | 11,271 | - |
| Share-based compensation | 31,152 | 29,826 | 54,040 | 59,652 |
| Net (addition) reduction in carrying value of ITC receivable | 741,764 | (219,376) | 641,764 | (393,167) |
| Total adjustments | 972,961 | (92,491) | 1,233,421 | (127,005) |
| **Adjusted EBITDA** | **$ (1,419,164)** | **$ 56,930** | **$ (1,902,740)** | **$ 178,283** |

Year-over-year, adjusted EBITDA for the three and six months ended June 30 decreased from $56,930 and $178,283 in 2013 to losses of $1,419,164 and $1,902,740 respectively, in 2014. The increase is attributable in part to accrued costs of $225,000 in respect of the Transaction that closed subsequent to June 30, 2014, which have been included with general and administrative expenses. We also made key additions to our senior management team, and to employees in sales, marketing and technology development. These investments were partially offset by increased revenues, as described more fully below. We believe these investments will contribute to our long-term growth, while reducing profitability in the near-term.

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

The following table summarizes expenses for the three and six months ended June 30, 2014 and 2013:

| | Three months ended June 30 | | Six months ended | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Media costs | $ 1,655,606 | $ 1,228,371 | $ 2,970,700 | $ 2,090,244 |
| Employee compensation and benefits | 2,460,455 | 778,881 | 3,738,591 | 1,428,484 |
| General and administrative | 1,266,056 | 534,012 | 1,856,107 | 971,083 |
| Depreciation of property and equipment | 52,569 | 21,823 | 88,862 | 35,293 |
| Finance costs | 180,316 | 83,898 | 394,449 | 163,355 |
| Foreign exchange (gain) loss | (35,725) | (8,662) | 33,035 | 7,862 |

Employee compensation and benefits

Employee compensation consists of salary and benefit costs, personnel costs, commissions and variable compensation, payroll taxes and employee health and related benefit expenses, charges for share-based compensation and estimated investment tax credits in respect of eligible expenditures. Employee compensation for the three and six months ended June 30, 2014 increased $1,681,574 $2,310,107 compared to the same periods of the prior fiscal year. This increase was attributable in part to the hiring of sales staff, campaign managers and technology developers as well as strategic senior management hires to enable us to drive future growth.

We reduced the carrying amount of previously estimated tax refunds on qualified Scientific Research and Experimental Development ("SRED") expenditures, in respect of employee compensation costs regarding eligible research and development. Subsequent to June 30, 2014, we received notification from the Canada Revenue Agency ("CRA") that the investment tax credits that were claimed in respect of eligible scientific research and experimental development for fiscal years 2011 and 2012 were being disallowed. We expect a Notice of Assessment reflecting this disallowance to be forthcoming in due course. After consulting with our professional advisors, management disagrees with the position taken by CRA and intends to file an objection following receipt of the Notice of Assessment. There can be no assurance regarding the outcome of the objection, when a resolution may be reached, or the likelihood that similar claims for 2013 and 2014 will not be similarly challenged by CRA. The Company has reduced the carrying amount of investment tax credits by $775,097 during the period, which is included as a charge to employee compensation and benefits for the three and six months ended June 30, 2014. In the event that the Company's objection for 2011 and 2012 is unsuccessful, no further charges against the Company's profit or loss will be required in respect of claims for those years. We accrued estimated refundable investment tax credits of $219,376 and $393,167 in the three and six months ended June 30, 2013. In prior periods we received SRED refunds of $111,520 in respect of eligible expenditures incurred in the years ended December 31, 2009 and December 31, 2010.

Acuity became a public company as a result of the Transaction (see "Transactions Completed After June 30, 2014)) and accordingly, the Federal portion of any SREDs claimed on eligible expenses following the Transaction will no longer be refundable but will be carried forward for up to 20 years to reduce future income taxes payable.

Non-repayable grants received from the Industrial Research Assistance Program ("IRAP") of $13,297 and $91,943 for the three and six months ended June 30, 2014 respectively (2013 - $34,661 and $78,843) reduced employee compensation and benefits expenses.

General and administrative

General and administrative expenses include occupancy costs, sales and marketing costs, data centre and operations costs, professional fees, travel, and supplies. General and administrative expenses increased $732,044 over the three months and $885,024 over the six months ended June 30, 2013. The increased expense is largely attributable to $225,000 of accrued transaction costs in respect of the Transaction, as well as a higher level of sales and marketing activity to grow the number of ad campaigns from existing customers and develop new business.

Depreciation of property and equipment

Depreciation for the three months and six months ended June 30, 2014 increased $30,743 and $53,569 respectively from the comparable periods in the prior year, due mainly to additions of equipment to our data centre and, to a lesser extent, computer equipment and office furniture.

Finance costs

For the three months and six months ended June 30, 2014 finance costs were $180,316 and $394,449 respectively, increasing $96,418 and $232,094 from the comparable periods in the prior year. The increases are due to interest on promissory notes payable, accretion of deferred transaction costs associated with the promissory notes, and interest on amounts due to related parties. In February 2014, we borrowed the remaining $1,000,000 that was available under a credit agreement (the "Credit Agreement") that we entered into in July 2013. The initial draw under the agreement amounted to promissory notes payable of $3,000,000. In 2013, we incurred interest related to a factoring arrangement where certain receivables of the Company were financed or factored for related interest and fees. This agreement was terminated in July 2013.

Foreign exchange

Foreign exchange gains or losses consists of the realized and unrealized exchange differences due to fluctuations between the Canadian and the U.S. dollar exchange rates primarily, or another foreign currency. We recorded a net foreign exchange gain of $35,725 for the three months ended June 30, 2014 compared to a gain of $8,662 for the three months ended June 30, 2013. For the six months ended June 30, 2014 we recorded a net loss of $33,035 compared to a net loss of $7,862 for the prior year period. The balance of net financial liabilities carried in U.S. dollars increased year over year which, combined with a strengthening Canadian dollar through the second quarter of 2014, resulted in a greater foreign exchange gain for the second quarter of 2014 compared to the prior year. The increased foreign exchange loss in the first half of 2014 is attributable to an increased balance of net financial liabilities together with a weakening Canadian dollar through the period. To date we have not hedged our foreign currency exposure but we may elect to do so in the future if it is determined to be advantageous.

## LIQUIDITY AND CAPITAL RESOURCES

Selected financial information from the statements of financial position as at June 30, 2014 and December 31, 2013 are as follows:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Cash | $ 139,912 | $ 120,467 |
| Working capital[1] | (77,353) | (824,860)[2] |
| Total assets | 5,003,913 | 4,884,332 |
| Promissory notes payable | 3,925,255 | 2,913,133 |
| Current liabilities | 4,428,549 | 5,272,960 |
| Non-current liabilities | 4,230,662 | 608,249 |
| Shareholders' deficiency | $ 3,653,298 | $ 996,877 |

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

[2] Working capital at December 31, 2013 includes promissory notes payable in the amount of $2,913,133. The notes were classified as part of current liabilities because Acuity was in breach of one of the financial covenants at December 31, 2013 and received an acknowledgement from the lender subsequent to December 31, 2014 that the default has been waived. With the waiver in place and received prior to June 30, 2014, the notes have been reclassified to non-current liabilities.

As at June 30, 2014 we had cash of $139,912 compared to $120,467 at the prior year end date. The increase in cash was attributable to cash flows from financing activities, comprising proceeds from promissory notes described below, and the exercise of warrants and stock options. Cash flows used in operations were $1,469,464 in the first half of 2014, compared to cash flows provided by operations of $423,334 in the first half of 2013, primarily due to increased costs.

Working capital at June 30, 2014 includes investment tax credits receivable of $450,000 (December 31, 2013 – $1,091,764), in respect of estimated tax refunds on qualified SRED expenditures. As described more fully under "Operating Expenses, Finance Costs, and Foreign Exchange – Employee Compensation and Benefits" we reduced the carrying amount of investment tax credits by $775,097 during the period.

At June 30, 2014 other current assets included government assistance receivables of $17,298 (December 31, 2013 – $92,861) in respect of non-repayable IRAP grants. Management assessed the value of the amount recoverable at the period end and determined there was no indication of impairment. We have received seven IRAP grants since our inception in 2009.

We were awarded a repayable, non-interest bearing government grant to fund a research and development project pursuant to a Cooperation and Project Funding Agreement. The maximum financial assistance receivable is $300,000 or 50% of the actual expenditures on the project, of which $150,000 was received during the three months ended June 30, 2014. The grant is repayable upon successful commercialization or sale of any resulting technology or product, at a rate of 2.5% of annual gross sales of the relevant product, until 90% to 100% of the grant is repaid, depending on the year of repayment following the first commercial transaction. The Agreement has a term of 18 months. The Company has recorded the funding received in the period as a non-current liability.

On July 9, 2013, the Company entered into a credit agreement (the "Credit Agreement") with a Canadian lender in the amount of $3,000,000, due January 2016. In January 2014 we borrowed the remaining $1,000,000 that was available under the Credit Agreement, and all amounts are due January 2016. Upon the mutual agreement of the parties, the interest rate for all amounts outstanding under the Credit Agreement increased to 17% from 16.5% commencing February 2014. Under certain circumstances, the Company may repay any or the entire outstanding principal prior to the maturity date and retain its ability to re-borrow under the agreement. The notes payable are secured by a guarantee from the Company and a general security agreement over specified assets of the Company and the Company is subject to certain financial and non-financial covenants. The refundable investment tax credits claimed by the Company have been assigned to the lender and must be applied against amounts owing under the arrangement upon receipt by the Company. No amounts were received in the period in respect of refundable investment tax credits.

Transaction costs incurred on the initial draw of $3,000,000 of promissory notes were $108,584. Additional transaction costs of $15,991 were incurred when we borrowed the remaining $1,000,000 in January 2014. The transaction costs have been capitalized as deferred transaction costs and will be amortized over the term of the arrangement under the effective interest method and included as part of finance costs.

Historically, our growth has been funded by contributions from Acuity's co-founders, an investment beneficially made by the Chair of our Board, the exercise of stock options and warrants, government grants, and, more recently, by the promissory notes described above. Pursuant to an Agency Agreement dated April 24, 2014 we completed a private placement of subscription receipts for gross proceeds of approximately $5.75 million. On July 16, 2014 we satisfied all of the escrow release conditions and we received net proceeds of $5.0 million.

On July 16, 2014 we completed the Transaction with Wildlaw and became a public company listed on the TSX Venture Exchange. Management believes the public capital markets will offer an additional source of financing in the future but there can be no assurance that we will be successful in obtaining financing or that it will be available on favorable terms. These transactions are more fully described below under "Transactions Completed After June 30, 2014."

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on the assumption that the Company is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the Company has neither the intention nor the need to liquidate and is able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company has experienced losses since inception and has a shareholders' deficiency. In addition, management has determined that additional financing will be required to support operating and investing activities for the foreseeable future as the Company continues to expand its operations. Management believes that working capital subsequent to completion of the Transaction will be adequate to fund the Company for at least the next year. We intend to seek new funding from equity financings, lenders and other sources which will optimize our cost of capital; however, there is no assurance that these funding initiatives will be successful.

## Common Shares

Changes in the number of issued common shares from December 31, 2013 to the date of this report are as follows:

| | Number of Common Shares |
|---|---|
| Balance December 31, 2013 | 104,724,680 |
| Shares issued – options exercised | 3,724,310 |
| Shares issued – warrants exercised | 2,071,407 |
| Balance June 30, 2014 | 110,520,397 |
| Common shares outstanding after 6.5:1 share consolidation | 17,003,138 |
| Shares issued on conversion of subscription receipts | 3,616,352 |
| Shares issued to Wildlaw common shareholders | 125,786 |
| **Common shares outstanding August 20, 2014** | **20,745,276** |

## Warrants

The following table reflects the activity of the warrants from December 31, 2013 to the date of this report:

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| Balance outstanding December 31, 2013 | 2,071,407 | $0.120691 |
| Warrants exercised – cash | (2,071,407) | $0.120691 |
| **Balance outstanding June 30, 2014 and August 20, 2014** | **--** | **--** |

The warrants and, subsequent to exercise, the common shares were issued to a company controlled by a director of the Company.

## Incentive Stock Options

The Company has a stock option plan (the "Plan"), pursuant to which the Board of Directors may grant options to employees, officers, directors and consultants of the Company. The maximum number common shares which may be issued under the Plan is a rolling fixed maximum percentage of 10% of the common shares issued and outstanding at a point in time. The expiry date of options granted under the Plan typically does not exceed five years from the grant date and the vesting schedule is at the discretion of the Board and is generally annually over a three-year period. The exercise price of options is based on a determination of the fair market value per share on the day preceding the grant date. Further details of the Plan are provided in note 7 to the condensed consolidated interim financial statements.

The following table reflects the activity of the options from December 31, 2013 to the date of this report:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Balance outstanding December 31, 2013 | 6,469,310 | 0.08 |
| Granted | 20,000 | $0.35 |
| Exercised | (3,724,310) | 0.04 |
| Balance outstanding June 30, 2014 | 2,765,000 | $ 0.14 |
| Options outstanding after 6.5:1 share consolidation | 425,385 | $0.91 |
| Options granted to Agents at closing of Transaction | 253,144 | $1.59 |
| Options granted to holders of Wildlaw options | 12,579 | $3.18 |
| **Options outstanding August 20, 2014** | **691,108** | **$1.19** |

During the three and six months ended June 30, 2014, the Company recorded share-based compensation expense related to stock options granted to employees of $27,020 and $54,040 respectively (three and six months ended June 30, 2013 - $29,826 and $59,652). Share-based compensation expense is included as part of employee compensation and benefits.

During the three and six months ended June 30, 2014 the Company granted nil and 20,000 options with an exercise price of $0.35 to employees of the Company (three and six months ended June 30, 2013 - 370,000 and 1,170,000 respectively).

## Transactions completed after June 30, 2014

On July 16, 2014 AcuityAds Holdings Inc. ("Acuity Holdings"), formerly Wildlaw Capital CPC 2 Inc. ("Wildlaw"), closed its qualifying transaction (the "Transaction") with the Company. Following the completion of the Transaction, the Company is now a wholly-owned subsidiary of Acuity Holdings.

Prior to the Transaction, Wildlaw was a capital pool company as defined in the policies of the TSXV and had not commenced commercial operations and had no assets other than cash. The Transaction constituted Wildlaw's "Qualifying Transaction", as defined by the policies of the TSXV.

The Company completed a private placement (the "Offering") of 3,616,352 subscription receipts of Acuity (the "Subscription Receipts"), each entitling the holder to one common share of Acuity Holdings in connection with the completion of the Transaction, at $1.59 per Subscription Receipt for aggregate gross proceeds of $5.75 million, pursuant to an agency agreement dated April 24, 2014 with a syndicate led by Paradigm Capital Inc., and including Clarus Securities Inc. and Euro Pacific Canada Inc. All of the escrow release conditions were satisfied and immediately prior to the closing of the Transaction, the Subscription Receipts were exchanged for common shares of Acuity on a 1 to 1 basis and the net proceeds of the Offering were released to Acuity.

As part of the Transaction, Wildlaw changed its name to Acuity Holdings and consolidated its common shares on the basis of 31.8 to 1. Acuity consolidated its common shares on the basis of 6.5 to 1, and subsequently amalgamated with a wholly-owned subsidiary of Acuity Holdings (the "Amalgamation"), with all shares of Acuity (including those issued to former holders of the Subscription Receipts) being exchanged for shares of Acuity Holdings. Following the completion of the Transaction, Acuity Holdings had an aggregate of 20,745,275 common shares outstanding, comprising 17,003,137 common shares issued to former holders of Acuity common shares and 3,616,352 common shares to investors in the Offering. Acuity Holdings has reserved an aggregate of 691,109 common shares for issuance pursuant to the exercise of options, including 678,530 for former holders of Acuity options.

Common shares of Acuity Holdings began trading on the TSX Venture Exchange on July 22, 2014 under the symbol "AT".

## CONTRACTUAL OBLIGATIONS

As at June 30, 2014 the Company had no debt guarantees, off-balance sheet arrangements or long term obligations other than those noted below.

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

In July 2013 we entered into a Credit Agreement in the amount of $3,000,000 and in January we borrowed the remaining $1,000,000, all of which is due January 2016.

Certain shareholders and officers of the Company were owed an aggregate of $616,657 as at June 30, 2014. The terms of these promissory notes are detailed in "Transactions with Related Parties".

Our contractual obligations as at June 30, 2014 are summarized below:

| | Less than 1 year | Between 1 and 5 years | Total |
|---|---|---|---|
| Office leases | 194,622 | - | 194,622 |
| Promissory notes payable | - | 4,000,000 | 4,000,000 |
| Due to related parties | 616,657 | - | 616,657 |
| Obligations under capital lease | 84,333 | 225,975 | 310,308 |
| **Total** | **$ 895,612** | **$ 4,225,975** | **$ 5,121,587** |

## TRANSACTIONS WITH RELATED PARTIES

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

The Company has entered into promissory note agreements with certain shareholders and officers of the Company, whereby the Company borrowed from these lending parties. The amounts borrowed bear interest at 12% and are due on demand. Amounts have been borrowed and repaid on the notes during the periods presented. The amounts due to related parties are subordinated to the promissory notes payable and, according to the terms of the Company's Credit Agreement, amounts due to these related parties cannot be settled by the Company in whole or in part during the term to maturity of the promissory notes without the prior written consent of the lender.

Subsequent to June 30, 2014 and prior to closing of the Transaction described above (see "Transactions Completed After June 30, 2014"), the Company repaid the amounts due to related parties in full. The repayment was made pursuant to the conditions precedent to closing the Qualifying Transaction. The lender provided their written consent to the loan repayment.

During the three months ended June 30, 2014 and 2013, no compensation was paid or accrued for any of the Company's Directors. Executive officers of the Company received salaries and bonuses in the aggregate amount of $280,076 and $440,076 during the three and six months ended June 30, 2014 (three and six months ended June 30, 2013 – $135,300, $195,300). Executive officers and directors are eligible to participate in the Company's option plan, but as of the date hereof no options have been granted to any officers or directors of the Company. Executive officers control 90% of the issued common shares of the Company as at June 30, 2014.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated financial statements and application of IFRS often involve management's judgment and the use of estimates and assumptions deemed to be reasonable at the time they are made. The Company reviews estimates and underlying assumptions on an ongoing basis. Revisions are recognized in the period in which estimates are revised and may impact future periods as well. Other results may be derived with different judgments or using different assumptions or estimates and events may occur that could require a material adjustment. Significant accounting policies and estimates under IFRS are found in Note 2 of our consolidated 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 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 interim financial statements.

## ADDITIONAL INFORMATION

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