Consolidated Financial Statements of

CYBERPLEX INC.

Years ended December 31, 2012 and 2011

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING DECEMBER 31, 2012 AND 2011

The accompanying consolidated financial statements of Cyberplex Inc. and its subsidiaries (the "Company") and all the information in Management's Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The consolidated financial statements include certain amounts that are based on the best estimates and judgments of management and in their opinion present fairly, in all material respects, the Company's consolidated financial position, consolidated financial performance and consolidated cash flows. Management has prepared the financial information presented elsewhere in Management's Discussion and Analysis and has ensured that it is consistent with the consolidated financial statements.

Management of the Company, in furtherance of the integrity of the consolidated financial statements, has developed and maintains a system of internal controls. Management believes the internal controls provide reasonable assurance that transactions are properly authorized and recorded, financial records are reliable and form a proper basis for the preparation of consolidated financial statements and that the Company's assets are properly accounted for and safeguarded. The internal control processes include management's communication to employees of policies that govern ethical business conduct.

The Board of Directors is responsible for overseeing management's responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility through its Audit Committee.

The Audit Committee meets periodically with management, as well as the internal and external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues; to satisfy itself that each party is properly discharging its responsibilities; and to review Management's Discussion and Analysis, the consolidated financial statements and the external auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited by KPMG LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. KPMG LLP has full and free access to the Audit Committee.

March 28, 2013

"Geoffrey Rotstein"
Chief Executive Officer

"Peter Kanniah"
Vice President, Finance

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cyberplex Inc.

We have audited the accompanying consolidated financial statements of Cyberplex Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, the consolidated statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Cyberplex Inc. as at December 31, 2012 and 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 28, 2013
Toronto, Canada

CYBERPLEX INC.

Consolidated Statements of Financial Position
(In thousands of Canadian dollars)

December 31, 2012 and 2011

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents (note 10)	$ 5,419	$ 4,050
Accounts receivable (note 19)	2,425	8,769
Other current assets (note 11)	303	6,907
Income tax recoverable	40	31
	8,187	19,757
Non-current assets:		
Restricted cash (note 10)	–	2,357
Investment	50	–
Property and equipment (note 12)	460	1,998
Domain properties and other intangible assets (note 13)	2,889	22,069
Goodwill (note 13)	357	365
	3,756	26,789
Total assets	$ 11,943	$ 46,546
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 11)	$ 2,703	$ 13,707
Current portion of loans and borrowings (note 14)	–	4,634
Current portion of deferred lease inducements	41	71
Current portion of finance leases (note 14)	155	63
Deferred revenue	549	498
Income taxes payable	–	348
	3,448	19,321
Non-current liabilities:		
Loans and borrowings (note 14)	–	20,732
Finance leases (note 14)	186	104
Deferred lease inducements	14	114
Deferred tax liabilities (note 8)	244	603
	444	21,553
Shareholders' equity (note 15)	8,051	5,672
Commitments (note 20)		
Total liabilities and shareholders' equity	$ 11,943	$ 46,546

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Vernon Lobo" Director "Geoffrey Rotstein" Director

CYBERPLEX INC.

Consolidated Statements of Comprehensive Income (Loss)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

	2012	2011
Revenue	$ 13,506	$ 13,353
Expenses:		
Publishing and advertising costs	7,809	7,155
Employee compensation and benefits	5,139	5,561
Other operating expenses	2,972	3,610
Depreciation of property and equipment	283	358
Amortization of domain properties and other intangible assets	1,118	1,150
Impairment of goodwill and intangible assets (note 13(c))	–	4,854
Acquisition and restructuring costs (note 6)	86	250
	17,407	22,938
Loss from operations	(3,901)	(9,585)
Finance income (note 7)	50	4,279
Finance cost (note 7)	(94)	(39)
Loss before income taxes	(3,945)	(5,345)
Income tax recovery (expense) (note 8):		
Current	21	(38)
Deferred	357	497
	378	459
Loss for the year from continuing operations	(3,567)	(4,886)
Discontinued operation:		
Income (loss) for the year from discontinued operation, net of tax (note 4)	5,129	(4,251)
Income (loss) for the year	1,562	(9,137)
Other comprehensive income (loss):		
Net change in fair value of available-for-sale financial assets	–	761
Amount reclassified to income	–	(753)
Foreign currency translation adjustments to equity	(69)	103
Other comprehensive income (loss) for the year, net of tax	(69)	111
Total comprehensive income (loss) for the year	$ 1,493	$ (9,026)
Income (loss) per share (note 9):		
Basic	$ 0.01	$ (0.07)
Diluted	0.01	(0.07)
Loss per share from continuing operations (note 9):		
Basic	(0.03)	(0.04)
Diluted	(0.03)	(0.04)

See accompanying notes to consolidated financial statements.

CYBERPLEX INC.

Consolidated Statements of Changes in Shareholders' Equity
(In thousands of Canadian dollars)

Years ended December 31, 2012 and 2011

	Common shares					
	Number of shares	Amount	Contributed surplus	Accumulated other comprehensive loss	Retained earnings (deficit)	Total equity
Balances, January 1, 2012	133,839,896	$ 65,452	$ 2,278	$ (2,389)	$ (59,669)	$ 5,672
Income for the year	–	–	–	–	1,562	1,562
Share-based payments (note 16)	–	–	60	–	–	60
Transfer of share purchase loans (note 15(c))	–	1,185	–	–	–	1,185
Cancellation of common shares (note 15(c))	(6,314,545)	(324)	–	–	–	(324)
Repurchase and cancellation of common shares (note 15(b))	(667,047)	(35)	–	–	–	(35)
Foreign currency translation adjustments to equity	–	–	–	(69)	–	(69)
Balances, December 31, 2012	126,858,304	$ 66,278	$ 2,338	$ (2,458)	$ (58,107)	$ 8,051

	Common shares					
	Number of shares	Amount	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total equity
Balances, January 1, 2011	133,839,896	$ 65,452	$ 1,944	$ (2,500)	$ (50,532)	$ 14,364
Loss for the year	–	–	–	–	(9,137)	(9,137)
Share-based payments (note 16)	–	–	334	–	–	334
Net change in fair value of available-for-sale financial assets, net of tax	–	–	–	761	–	761
Amount reclassified to income for the year	–	–	–	(753)	–	(753)
Foreign currency translation adjustments to equity	–	–	–	103	–	103
Balances, December 31, 2011	133,839,896	$ 65,452	$ 2,278	$ (2,389)	$ (59,669)	$ 5,672

See accompanying notes to consolidated financial statements.

CYBERPLEX INC.

Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)

Years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Income (loss) for the year	$ 1,562	$ (9,137)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation of property and equipment	551	1,322
Amortization of domain properties and other intangible assets	3,291	7,994
Amortization of deferred lease inducements	(65)	(115)
Share-based payments (note 16)	60	334
Foreign exchange gain	(23)	(4)
Finance cost (income), net	718	(3,246)
Current income tax recovery	(21)	(1,351)
Deferred tax recovery	(357)	(497)
Impairment of goodwill and intangible assets	–	4,854
Transaction expenses	–	200
Gain on sale of property & equipment	(17)	–
Gain on sale of domain properties and other intangible assets	(59)	–
Gain on sale of discontinued operations (note 4)	(7,402)	–
Restructuring costs	307	–
Change in non-cash operating working capital (note 22)	(3,292)	4,229
Cash from (used in) operating activities	(4,747)	4,583
Income taxes paid (received)	(26)	406
Net cash from (used in) operating activities	(4,773)	4,989
Cash flows from financing activities:		
Proceeds from term loans	–	800
Repayment of term loans	–	(6,122)
Repayment of finance lease	(89)	(33)
Repurchase of common shares under normal course issuer bid	(35)	–
Interest paid	(330)	(3,419)
Net cash used in financing activities	(454)	(8,774)
Cash flows from investing activities:		
Sale of short-term investments	–	1,551
Purchase of long-term investment	(50)	–
Interest income received	53	31
Net proceeds on sale of available for sale investments	200	901
Purchase of available-for-sale investments	–	(500)
Acquisition of EQ Advertising Group Ltd., net of cash acquired (note 3)	–	(100)
Proceeds on sale of discontinued operations, net of cash disposed of (note 4)	6,293	–
Decrease in restricted cash and short-term investments	201	1,703
Net proceeds from disposal of property & equipment	17	–
Net proceeds from disposal of domain properties	82	–
Additions to property and equipment	(221)	(164)
Additions to intangible assets	(2)	(783)
Net cash from investing activities	6,573	2,639
Foreign exchange gain on cash held in foreign currency	23	4
Increase (decrease) in cash and cash equivalents	1,369	(1,142)
Cash and cash equivalents, beginning of year	4,050	5,192
Cash and cash equivalents, end of year	$ 5,419	$ 4,050

See accompanying notes to consolidated financial statements.

1. Corporate information:

Cyberplex Inc. (the "Company"), is a North American leader in data and analytics platforms for targeting mobile, social and online audiences and customer acquisition strategies. The Company uses advertising technology and marketing expertise to efficiently connect advertisers to their targeted audiences through online, mobile, and social media channels. By focusing on building targeted, loyal audiences, Cyberplex delivers measurable results that improve advertiser return on investment ("ROI"). The Company is governed by the Ontario Business Corporations Act and is domiciled in Canada. The address of the Company's registered office is 1255 Bay Street, Suite 400, Toronto, ON M5R 2A9. The Company is a publicly listed company on the Toronto Stock Exchange ("TSX").

2. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The accounting policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 28, 2013, the date the Board of Directors authorized the consolidated financial statements for issue.

(b) Basis of presentation:

The consolidated financial statements have been prepared mainly under the historical cost basis. Other measurement bases used are described in the applicable notes.

The Company's financial year corresponds to the calendar year. The consolidated financial statements are prepared on a going-concern basis.

On April 24, 2012, the Company disposed of a material portion of its business, being its on-line publishing division (note 4). The results of operations from this division have been reclassified to discontinued operations in the consolidated statements of comprehensive income (loss) for the years ended December 31, 2012 and 2011. Note disclosures relating to components of comprehensive income (loss) exclude balances from discontinued operations except where noted.

2. Significant accounting policies (continued):

(c) Functional and presentation currencies:

These consolidated financial statements are presented in Canadian dollars. The Company's functional currency is the U.S. dollar. The Company has elected its presentation currency to be the Canadian dollar as it is listed on the TSX and its shareholders are primarily Canadian.

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ materially from these estimates and assumptions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The Company has applied significant estimates and assumptions to estimates of the lives of intangible assets, impairment tests for non-financial assets, utilization of tax losses and valuation allowances for deferred income taxes, valuing its financial instruments, intangibles and goodwill, share-based payments, provisions and contingencies. The Company has applied significant estimates and assumptions to the classification of the current and non-current portion of the term loans as at December 31, 2011. The Company also made judgments in applying accounting policies to revenue and cost recognition. See the significant accounting policies described below:

(e) Basis of consolidation:

(i) Business combinations:

Acquisitions:

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Transaction costs, other than those associated with the issuance of debt and equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

2. Significant accounting policies (continued):

The acquisition method of accounting is used to account for the acquisition of subsidiaries as follows:

- consideration transferred is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, and acquisition transaction costs are expensed as incurred;

- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;

- the excess of the fair value of consideration transferred including the recognized amount of any non-controlling interest of the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill; and

- if the fair value of the consideration transferred is less than the fair value of the net assets acquired, the difference is recognized directly in income.

(ii) Transactions eliminated on consolidation:

Intercompany balances are eliminated upon consolidation.

(f) Foreign currency transactions:

Transactions in foreign currencies are translated to the respective functional currencies of Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in finance cost (income). Non-monetary assets and liabilities and related depreciation and amortization are translated at historical exchange rates. Revenue and expenses, other than depreciation and amortization, are translated at the average rates of exchange for the period. Exchange gains and losses resulting from the translation of functional to presentation currency are recorded to other comprehensive income (loss) ("OCI") in the period in which they occur.

2. Significant accounting policies (continued):

(g) Financial instruments:

(i) Non-derivative financial assets:

The Company initially recognizes loans and receivables and deposits on the date they originate. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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

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

Financial instruments are, for measurement purposes, grouped into categories. The classification depends on the purpose and is determined upon initial recognition. The Company has the following categories of non-derivative financial assets: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

(a) Financial assets at fair value through profit or loss:

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Company's short-term investments, if any, are classified as held for trading.

2. Significant accounting policies (continued):

(b) Loans and receivables:

Loans and receivables, which include cash and cash equivalents and accounts receivable, are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Accounts receivable comprise trade receivables, net of allowance for doubtful accounts.

Cash and cash equivalents comprise cash balances and cash deposits with original maturities of three months or less and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statements of cash flows. Restricted cash consists of deposits with major financial institutions to secure credit card facilities, letters of credit and escrowed funds. Restricted cash is classified as current or long term based on the nature of the restriction.

(c) Available-for-sale financial assets:

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories, and include private company investments. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in OCI and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in OCI is transferred to profit or loss.

(ii) Non-derivative financial liabilities:

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

2. Significant accounting policies (continued):

The Company's non-derivative financial liabilities consist of accounts payable and accrued liabilities, provisions and loans and borrowings. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition and measurement, these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Derivative financial assets and liabilities:

The Company holds derivative financial instruments from time to time to hedge its foreign currency exposures. Derivatives are recognized initially at fair value and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value with any gains or losses being recognized in finance income or finance cost when they occur.

(h) Property and equipment:

(i) Recognition and measurement:

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

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

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within operating income.

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

(ii) Depreciation:

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

2. Significant accounting policies (continued):

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

Furniture and fixtures	4 years
Computer equipment	3 years
Leasehold improvements	Over the term of the lease

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

(i) Intangible assets:

(i) Goodwill:

For measurement of goodwill at initial recognition see note 2(e)(i). Subsequently goodwill is measured at cost less accumulated impairment losses.

(ii) Research and development:

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

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

2. Significant accounting policies (continued):

(iii) Domain properties and other intangible assets:

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

(iv) Amortization:

Amortization is calculated over the cost of the asset less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Useful lives, residual values and amortization methods for intangible assets with finite lives are reviewed at least annually.

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

Customer relationships-related intangibles	1 - 5 years
Technology-related intangibles	4 years
Domain properties and content-related intangibles	7 years
Computer software-related intangibles	2 years

(j) Impairment:

(i) Financial assets (including accounts receivable):

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

2. Significant accounting policies (continued):

An impairment loss on loans and receivables is measured as the difference between the assets carrying amount and the present value of the future cash flows expected to be derived from the asset. The carrying value is reduced through the use of an allowance for doubtful accounts, with the loss recognized in net income.

An impairment loss on available-for-sale financial assets is recognized by reclassifying the losses accumulated in the fair value reserve in equity to the consolidated statements of comprehensive income (loss). The cumulative loss that is reclassified from equity to net income (loss) is the difference between the acquisition cost less any impairment loss previously recognized and the current fair value. An impairment loss in respect of an equity-accounted investment is measured by comparing the recoverable amount of the investment with its carrying amount.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year during the fourth quarter in alignment with the Company's annual planning cycle.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

2. Significant accounting policies (continued):

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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

(k) Share-based payments:

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

The grant date fair value of share-based payment awards granted to employees is recognized as a compensation cost, with a corresponding increase in contributed surplus, over the vesting period of the award. The amount recognized is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that vest. Upon exercising the options, the fair value of the options exercised that has been expensed to contributed surplus is reclassified to common shares.

2. Significant accounting policies (continued):

(l) Provisions:

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

(m) Restructuring:

A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

(n) Revenue:

The Company recognizes revenue when persuasive evidence exists, usually in the form of an executed agreement, that it is probable the economic benefits of the transaction will flow to the Company and revenue and costs can be measured reliably. If collection is not considered probable, revenue is recognized only once fees are collected. Revenue is recorded net of returns, trade discounts and volume rebates. If it is probable that discounts will be granted and amounts can be measured reliably, then the discount is recognized as a reduction of revenue as the related sales are recognized. Out-of-pocket expenses that are contractually reimbursable from customers are recorded as gross revenue and expenses.

2. Significant accounting policies (continued):

The Company offers certain of its products and services as part of multiple element arrangements. Where multiple transactions or contracts are linked such that the individual transactions have no commercial effect on their own, the transactions are evaluated as a combined customer arrangement for purposes of revenue recognition. When two or more revenue-generating activities or deliverables are sold under an arrangement, each deliverable that is considered a separate component is accounted for separately. A deliverable is separately accounted for when a delivered item has standalone value from undelivered items based on the substance of the arrangement. Where an arrangement includes multiple components, revenue is allocated to the different components based on their relative fair values or using the residual method, as applicable. Under the residual method, revenue is allocated to undelivered components of the arrangement based on their fair values and the residual amount of the arrangement revenue is allocated to delivered components.

Revenue from sales of third-party supplier products or services is recorded on a gross basis when the Company is a principal to the transaction and net of costs when the Company is acting as an agent between the customer and supplier. Several factors are considered to determine whether the Company is an agent or principal, most notably whether the Company is the primary obligor to the customer, has credit risk and adds meaningful value to the supplier's product or service. Consideration is also given to whether the Company was involved in the selection of the supplier's product or service, has latitude in establishing the sales price and has inventory risk.

The Company recognizes revenue from advertisers or their agencies based upon the execution or completion of agreed upon events, as defined in advance by both parties.

Events are defined by the parties based on a variety of performance oriented models including for targeted advertisements as they are displayed, consumers clicking on those display advertisements, or in some cases for each "action" by a consumer (which may include qualified leads, registrations, downloads, inquiries or actual sales). These payment models are commonly referred to as "CPM" (cost per impression), "CPC" (cost per click) and "CPA" (cost per action). For certain campaigns, the Company is also paid based on a percentage of the cost of advertising placements, or "Cost Plus".

2. Significant accounting policies (continued):

The Company recognizes revenue on a gross basis, based on the number of defined events performed during the year.

In circumstances where the criteria for revenue recognition are not met, direct and incremental campaign costs are deferred, up to the amount of contractual revenue, to the extent deemed recoverable.

CX Interactive revenue is based on either time and material arrangements or fixed fee arrangements. Revenue related to time and materials arrangements is recognized as services are performed. Revenue from fixed fee arrangements is recognized using the percentage-of-completion method, based on the ratio of total labour hours incurred to date to total estimated labour hours. Changes in job performance, job conditions, estimated profitability and final settlement may result in revisions to costs and income and are recognized in the year in which the revisions are determined. Costs include direct material and labour costs. Provisions for estimated losses on incomplete arrangements are made in the year in which such losses are determined.

Revenue from hosting services is recognized on a straight-line basis over the term of the hosting arrangement.

Amounts billed in excess of revenue recognized to date on a contract-by-contract basis are classified as deferred revenue, whereas revenue recognized in excess of amounts billed is classified as accrued income within other current assets.

(o) Lease payments:

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for in the period in which they are incurred.

2. Significant accounting policies (continued):

(p) Finance income and finance cost:

Finance income comprises interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance cost comprises interest expense on loans and borrowings, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Subsequent to initial recognition, changes in the liability for contingent consideration that is part of the consideration transferred in a business combination are recognized in finance cost (income).

Foreign currency gains and losses are reported on a net basis within finance cost (income).

(q) Income taxes:

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

2. Significant accounting policies (continued):

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

Deferred income taxes are not recognized if they arise from the initial recognition of goodwill, nor are they recognized on temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred income taxes are also not recognized on temporary differences relating to investments in subsidiaries to the extent that it is probable that the temporary differences will not reverse in the foreseeable future.

The Company records current income tax expense or recovery based on taxable income earned or loss incurred for the period in each tax jurisdiction where it operates, and for any adjustment to taxes payable in respect of previous years, using tax laws that are enacted or substantively enacted at the consolidated statements of financial position dates.

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

2. Significant accounting policies (continued):

(r) Income (loss) per share:

Basic income (loss) per share is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted net income (loss) per share is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. The Company uses the treasury stock method for calculating diluted net income (loss) per share. The diluted net income (loss) per share calculation considers the impact of employee stock options and other potentially dilutive instruments.

(s) Government grants:

Government grants are recognized at fair value when there is reasonable assurance the grants will be received and that the Company will comply with the conditions attached to them. Government grants related to the acquisition of assets are recognized in the consolidated statements of financial position as a reduction in the carrying value of the asset and are recognized in profit or loss as the asset is depreciated. Government grants received as compensation for costs are accrued and recognized in the consolidated statements of comprehensive income (loss) as a deduction from the related expenses during the same period expenditures are incurred.

2. Significant accounting policies (continued):

(t) Recent accounting pronouncements yet to be adopted:

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

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

In October 2010, the IASB issued IFRS 9, which replaces International Accounting Standard ("IAS") 39, Financial Instruments - Recognition and Measurement, and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2015. The Company is assessing the impact of this new standard on its consolidated financial statements.

IFRS 10, Consolidated Financial Statements ("IFRS 10"):

In May 2011, the IASB issued IFRS 10, which replaces the consolidation requirements of Standing Interpretations Committee - 12, Consolidation - Special Purpose Entities, and IAS 27, Consolidated and Separate Financial Statements, and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"):

In May 2011, the IASB issued IFRS 12, which establishes new and comprehensive disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

2. Significant accounting policies (continued):

IFRS 13, Fair Value Measurement ("IFRS 13"):

In May 2011, the IASB issued IFRS 13, which replaces the fair value guidance contained in individual IFRS with a single source of fair value measurement guidance. The standard also requires disclosures that enable users to assess the methods and inputs used to determine fair value measurement. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

IAS 1, Presentation of Financial Statements ("IAS 1"):

In June 2011, the IASB amended IAS 1. This amendment retains the 'one or two statement' approach to presenting the statements of income (loss) and comprehensive income (loss) at the option of the entity and only revises the way other comprehensive income (loss) is presented. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

IAS 27, Separate Financial Statements ("IAS 27"):

In May 2011, the IASB amended IAS 27. This amendment removes the requirements for consolidated statements from IAS 27, and moves it over to IFRS 10. The amendment mandates that when a company prepares separate financial statements, investment in subsidiaries, associates, and jointly controlled entities are to be accounted for using either the cost method or in accordance with IFRS 9. In addition, this amendment determines the treatment for recognizing dividends, the treatment of certain group reorganizations, and some disclosure requirements. This amendment is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. The Company is assessing the impact of this amended standard on its consolidated financial statements.

(In thousands of Canadian dollars, except per share amounts)

3. Acquisitions and investments:

(a) EQ Advertising Group Ltd.:

On December 31, 2010, the Company acquired 100% of the issued and outstanding shares of EQ Advertising Group Ltd. ("EQADS"), a Toronto-based firm that has developed a real-time buying platform in the internet advertising space for consideration of $3,607 plus potential future performance-based payments. EQADS also has an advertising solutions business, whereby the Company acquires internet advertising space from publishers at auction prices and then resells the space to advertisers directly or through media agencies at a mark-up. The Company expects the EQADS real-time buying platform to expand the breadth of on-line services that the Company can offer, introducing new customers to the Company and expanding value-added sales opportunities with current customers.

The acquisition was accounted for using the acquisition method. Details of the final allocation of the purchase price completed during the year ended December 31, 2011 is as follows:

Purchase consideration:	
Cash	$ 900
Transfer of monetary asset	2,607
Contingent consideration liability	3,346
	6,853
Post-closing adjustments	100
	$ 6,953

(In thousands of Canadian dollars, except per share amounts)

3. Acquisitions and investments (continued):

Fair value of consideration transferred	$	6,953
Assets:		
Current assets:		
Cash		17
Accounts receivable		687
Prepaid expenses and other assets		68
Property and equipment		2
Customer relationships-related intangibles		550
Technology-related intangibles		3,672
Domain properties and content-related intangibles		170
Liabilities:		
Accounts payable and accrued liabilities		(1,725)
Income taxes payable		(201)
Deferred income tax liabilities		(1,100)
Fair value of net identifiable assets acquired and liabilities assumed		2,140
Goodwill	$	4,813

The goodwill is not expected to be tax deductible. Goodwill of $4,444 was allocated to the EQADS CGU, and $369 was allocated to the Bootcamp Media Inc. ("Bootcamp Media") CGU.

The acquisition agreement provided for contingent consideration payments of 50% of the earnings before interest, tax, depreciation and amortization ("EBITDA") generated by the EQADS real-time buying platform in the two-year period following the closing of the acquisition. The estimated fair value of the contingent consideration liability of $3,346 was recognized at December 31, 2010 based on management's best estimate of the probability-adjusted expected cash outflow from the arrangement. The Company projected a range of possible EBITDA outcomes of $2,000 to $4,500 based upon different assumptions of adoption, growth and profitability. At December 31, 2011, the Company adjusted the projected range of EBITDA outcomes to reflect the current performance of EQADS. The revised projection indicated that EQADS would not achieve the EBITDA levels required to trigger payment of the contingent consideration. The Company reversed the provision and recorded the gain of $3,346 in finance income. The goodwill recorded at December 31, 2010, in conjunction with the initial set up of the contingent consideration provision, was also considered impaired at December 31, 2011 (note 13(c)). In 2012, the contingent consideration was finalized at nil (note 7).

3. Acquisitions and investments (continued):

(b) In July 2012, the Company acquired an available-for-sale equity investment in a private company for $50.

4. Discontinued operation:

On April 24, 2012, the Company reached an agreement to sell 100% of the shares of its subsidiary Orion Foundry (Canada) Inc. ("Tsavo") in a transaction valued at approximately $33,000. The Company received cash proceeds of $7,220, with additional defined payments totalling $100 to be received within the first year following closing. The purchaser of Tsavo assumed the term loans owing to American Capital (successor by merger to America Capital Financial Services Inc.) of $24,338 as well as $530 of additional term loans owing by the Company. The Company also received certain domain properties and content intangible assets valued at $150. As part of the transaction, 6,314,545 common shares of the Company, which were held by current and former management of Tsavo, were returned to the Company for no consideration except for the transfer of related share purchase loans of $1,185 to the purchaser.

(In thousands of Canadian dollars, except per share amounts)

4. Discontinued operation (continued):

On April 24, 2012, the Company sold Tsavo. Tsavo was not a discontinued operation nor classified as held for sale as at December 31, 2011 and March 31, 2012 Management committed to a plan to sell Tsavo on April 18, 2012. On April 18, 2012, the Company agreed upon the sale price and received required lender approval for the sale of the segment. The comparative statement of comprehensive income (loss) has been reclassified to show results from discontinued operation separately from the continuing operations. Results of the discontinued operation for the years presented through to the date of sale are as follows:

	2012	2011
Revenue	$ 16,355	$ 42,193
Expenses:		
Publishing and advertising costs	11,970	26,796
Employee compensation and benefits	2,007	7,599
Other operating expenses	1,461	3,996
Depreciation of property and equipment	267	964
Amortization of intangible assets	2,173	6,844
Restructuring costs	221	213
	18,099	46,412
Loss from operations	(1,744)	(4,219)
Finance income	22	1,762
Finance cost	(690)	(3,183)
Loss before income taxes	(2,412)	(5,640)
Current income tax recovery	139	1,389
Loss for the year, net of income tax	(2,273)	(4,251)
Gain on sale of discontinued operation	7,402	–
Income (loss) for the year	$ 5,129	$ (4,251)
Income (loss) per share:		
Basic	$ 0.04	$ (0.03)
Diluted	0.04	(0.03)

(In thousands of Canadian dollars, except per share amounts)

4. Discontinued operation (continued):

Cash flows from (used in) discontinued operation:

	2012	2011
Net cash from (used in) operating activities	$ (2,809)	$ 7,778
Net cash from investing activities	42	1,466
Net cash used in financing activities	(234)	(9,525)
Net cash used in discontinued operation	$ (3,001)	$ (281)

Consideration received:

Consideration received from purchaser:	
Cash consideration received	$ 7,220
Deferred sales proceeds	100
Promissory note assumed by purchaser (note 14(b)(i))	530
Intangible assets transferred to the Company	150
	8,000
Fair value of common shares returned and cancelled (note 15(c))	324
Total consideration received on sale of Tsavo	$ 8,324

Effect of disposal on the financial position of the group:

Cash and cash equivalents	$ 927
Accounts receivable	8,406
Prepaid expenses	504
Other current assets	5,801
Restricted cash	2,156
Property and equipment	1,435
Intangible assets	15,534
Accounts payable and accrued liabilities	(10,339)
Income taxes payable	(171)
Current portion of deferred rent	(8)
Current portion of term loans	(6,757)
Long-term portion of term loans	(17,581)
Long-term portion of deferred rent	(57)
Net liabilities	$ (150)

4. Discontinued operation (continued):

Gain on disposal of Tsavo

Consideration received	$	8,324
Net liabilities of Tsavo disposed of		150
Promissory notes transferred to purchaser		200
Share purchase loans transferred		(1,185)
Transaction costs		(87)
Gain on disposal	$	7,402

Net cash inflow on disposal of Tsavo

Consideration received, satisfied in cash	$	7,220
Cash disposed of		(927)
Net cash inflow	$	6,293

5. Segment information:

The Company's chief operating decision maker is its Chief Executive Officer. Management reviews the operations of the Company by business segments. These business segments are the primary operating segments and are described as follows:

(a) EQ Advertising ("EQ") - EQ, formerly called Performance Based Marketing Solutions (PBMS), operates an on-line network connecting advertisers and publishers to execute advertising. EQ delivers mobile, web, social and video advertising solutions that enable advertisers to target their intended audiences in real-time. EQ also engages in other forms of targeted advertising to provide comprehensive media buying solutions that work together to ensure optimal campaign results, including search engine marketing and optimization and targeted media buys from networks and publishers.

(In thousands of Canadian dollars, except per share amounts)

5. Segment information (continued):

(b) CX Interactive - This segment provides internet-based consulting services which develop and drive on-line business strategies for its clients.

(c) Corporate - Includes costs associated with business activities which are not specific to the Company's operational segments.

2012	EQ Advertising	CX Interactive	Corporate	Consolidated
Revenue	$ 10,322	$ 3,184	$ –	$ 13,506
Operating costs:				
Publishing and advertising costs	7,417	392	–	7,809
Employee compensation and benefits	2,161	2,494	441	5,096
Other operating expenses	1,067	1,311	594	2,972
	10,645	4,197	1,035	15,877
	(323)	(1,013)	(1,035)	(2,371)
Share-based payments	–	–	43	43
Depreciation of property and equipment	208	1	74	283
Amortization of intangible assets	1,047	1	70	1,118
Acquisition and restructuring costs	–	86	–	86
Loss from operations	(1,578)	(1,101)	(1,222)	(3,901)
Finance cost (income), net	19	(9)	34	44
Loss before income taxes	(1,597)	(1,092)	(1,256)	(3,945)
Income tax recovery:				
Current	21	–	–	21
Deferred	357	–	–	357
	378	–	–	378
Loss from continuing operations	$ (1,219)	$ (1,092)	$ (1,256)	$ (3,567)

(In thousands of Canadian dollars, except per share amounts)

5. Segment information (continued):

2011	EQ Advertising	CX Interactive	Corporate	Consolidated
Revenue	$ 9,440	$ 3,913	$ –	$ 13,353
Operating costs:				
Publishing and advertising costs	6,670	485	–	7,155
Employee compensation and benefits	2,631	2,376	413	5,420
Other operating expenses	1,288	1,652	670	3,610
	10,589	4,513	1,083	16,185
	(1,149)	(600)	(1,083)	(2,832)
Share-based payments	98	10	33	141
Depreciation of property and equipment	303	16	39	358
Amortization of intangible assets	1,096	1	53	1,150
Impairment of goodwill and intangible assets	4,854	–	–	4,854
Acquisition and restructuring costs	50	–	200	250
Loss from operations	(7,550)	(627)	(1,408)	(9,585)
Finance cost (income), net	(110)	–	(4,130)	(4,240)
Income (loss) before income taxes	(7,440)	(627)	2,722	(5,345)
Income tax recovery (expense):				
Current	(38)	–	–	(38)
Deferred	497	–	–	497
	459	–	–	459
Net income (loss) from continuing operations	$ (6,981)	$ (627)	$ 2,722	$ (4,886)

Tsavo was the sole operation in the Company's on-line publishing business segment and its results have been presented as a discontinued operation (note 4).

(In thousands of Canadian dollars, except per share amounts)

5. Segment information (continued):

The accounting policies of the segments are the same as those described in note 2 to the Company's consolidated financial statements. The Company discloses segment operating results based on income from continuing operations before depreciation and amortization, share-based payments, income (loss) on disposal of assets, impairment of assets, acquisition and restructuring costs, other charges, finance cost, finance income, and income taxes, consistent with internal management reporting. This measure of segment operating results differs from operating loss in the consolidated statements of comprehensive income (loss). The Company's assets and operations are substantially all located in Canada; however, the Company services many customers in the United States.

The Company generates revenue across three geographical regions, revenue by region is as follows:

	Years ended December 31, 2012	2011
Canada	$ 5,447	$ 5,208
Outside North America	395	449
U.S.	7,664	7,696
	$ 13,506	$ 13,353

In 2012, there were two clients that comprised 13% and 11% of the Company's total revenue from continuing operations. No other clients exceeded 10% of revenue from continuing operations. There were no clients that exceeded 10% of revenue from continuing operations in 2011.

(In thousands of Canadian dollars, except per share amounts)

6. Acquisition and restructuring costs:

Acquisition and restructuring charges incurred during the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Restructuring costs	$ 86	$ 50
Acquisition-related transaction expenses	–	200
	$ 86	$ 250

7. Finance income and finance cost:

	2012	2011
Finance income:		
Interest income on cash and cash equivalents and restricted cash	$ (50)	$ (40)
Gain on sale of available-for-sale investment	–	(753)
Fair value adjustment to contingent consideration liability for acquisition of EQADS (a)	–	(3,346)
Foreign exchange gain	–	(140)
Total finance income	$ (50)	$ (4,279)
Finance cost:		
Other interest expense	$ 55	$ 39
Foreign exchange loss	39	–
Total finance cost	$ 94	$ 39

(a) On December 31, 2010, the Company acquired all of the issued and outstanding shares of EQADS. The purchase price included contingent consideration based on EQADS EBITDA over a two-year term. The Company measured the estimated fair value of the contingent consideration on the acquisition date and recorded a provision liability in the amount of $3,346 as at December 31, 2010. The Company remeasured the liability to its current estimated fair value as at December 31, 2011. The remeasurement adjustment reduced the liability by $3,346 and was recognized within finance income (note 3(a)).

(In thousands of Canadian dollars, except per share amounts)

8. Income taxes:

(a) Income tax recovery:

The Company recorded a deferred income tax recovery of $358 and a current income tax recovery of $21 in the year ended December 31, 2012 as compared to a current tax expense of $38 and a deferred income tax recovery of $497 in the year ended December 31, 2011. The deferred income tax recovery is primarily due to the amortization of the intangible assets recognized on acquisitions and the related deferred tax liability that was recorded at that time. The liability is drawn down as that portion of the asset value is amortized. No other deferred tax recovery on losses is recorded in comprehensive loss and will not be until, in the opinion of management, it is probable that the deferred tax assets will be realized.

The major components of income tax recovery:

	2012	2011
Current income tax:		
Current income tax expense (recovery)	$ (21)	$ 38
Deferred tax:		
Relating to the origination and reversal of temporary differences	(1,651)	(684)
Relating to the changes in unrecognized tax losses and deductible temporary differences	1,294	187
Income tax recovery reported in the consolidated statements of comprehensive (loss)	$ (378)	$ (459)

The statutory income tax rate was 26.5% for 2012 compared to 28.3% for 2011. The decrease in the statutory rate was a result of reductions in the federal and provincial Canadian income tax rates.

(In thousands of Canadian dollars, except per share amounts)

8. Income taxes (continued):

A reconciliation between tax expense and the product of accounting profit multiplied by the Group's domestic tax rate for the years ended December 31, 2012 and 2011 is as follows:

	2012	2011
Loss from continuing operations before income taxes	$ (3,945)	$ (5,345)
Income tax at Cyberplex's statutory rate of tax 26.5% (2011 - 28.25%)	$ (1,046)	$ (1,510)
Increase (decrease) in income taxes resulting from:		
Permanent differences	207	(166)
Changes in unrecognized tax losses and deductible temporary differences	1,295	187
Difference due to tax rates in other jurisdictions	(15)	13
Differences in effected tax rates	(438)	(86)
Reversal of earnout provisions	–	(945)
Write-down of goodwill, not deductible for tax purposes	–	1,658
Effects of functional currency differences and other	(381)	390
Effective income tax rate of 26.5% (2011 - 28.25%)	$ (378)	$ (459)

(In thousands of Canadian dollars, except per share amounts)

8. Income taxes (continued):

(b) Deferred taxes:

Recognized deferred income tax assets and deferred income tax liability:

Deferred income tax assets and liabilities are attributable to the following:

	Intangible assets	Financing costs	Non-capital losses	Capital assets	Other	Set-off of tax	Total
Deferred income tax asset:							
January 1, 2011	$ 296	$ 56	$ –	$ 193	$ 56	$ (601)	$ –
Recognized in profit or loss	13	119	113	33	(56)	–	222
Other	–	–	–	–	–	(222)	(222)
December 31, 2011	309	175	113	226	–	(823)	–
Recognized in profit or loss	(261)	(117)	225	51	–	–	(102)
Other	–	–	–	–	–	102	102
December 31, 2012	$ 48	$ 58	$ 338	$ 277	$ –	$ (721)	$ –

	Intangible assets	Financing costs	Non-capital assets	Capital assets	Unrealized foreign exchange	Other	Set-off of tax	Total
Deferred income tax liability:								
January 1, 2011	$ (1,100)	$ –	$ –	$ –	$ (601)	$ –	$ 601	$ (1,100)
Other	–	–	–	–	–	–	222	222
Recognized in profit or loss	391	–	–	(10)	145	(251)	–	275
December 31, 2011	(709)	–	–	(10)	(456)	(251)	823	(603)
Recognized in profit or loss	144	–	–	(11)	78	247	–	458
Other	–	–	–	–	–	3	(102)	(99)
December 31, 2012	$ (565)	$ –	$ –	$ (21)	$ (378)	$ (1)	$ 721	$ (244)

(In thousands of Canadian dollars, except per share amounts)

8. Income taxes (continued):

(c) Unrecognized deferred tax asset:

Deferred tax assets have not been recognized in respect of the following items:

	2012	2011
Deductible temporary differences	$ 6,899	$ 25,813
Tax losses	80,262	40,783
	$ 87,161	$ 66,596

Deferred tax assets have not been recognized in respect of the above items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits there from.

Inherent in the unrecognized deferred tax assets are non-capital losses of $20,727 and capital losses of $59,535.

The losses carried forward will expire as follows:

Canada:

	Amount
2027	$ 509
2030	12,360
2031	3,885
2032	4,001
	$ 20,755

United States:

	Amount
2020	$ 37
2021	327
2022	308
2023	16
2029	127
2030	330
2032	109
	$ 1,254

The capital losses carried forward do not expire.

(In thousands of Canadian dollars, except per share amounts)

9. Loss per share:

The computations for basic and diluted loss per share for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Income (loss) for the year	$ 1,562	$ (9,137)
Loss for the year from continuing operations	(3,567)	(4,886)
Weighted average number of shares outstanding:		
Basic	129,303,521	133,839,896
Diluted	129,303,521	133,839,896
Income (loss) per share:		
Basic	$ 0.01	$ (0.07)
Diluted	0.01	(0.07)
Loss per share from continuing operations:		
Basic	(0.03)	(0.04)
Diluted	(0.03)	(0.04)

Options to purchase 2,089,500 common shares were outstanding during 2012 but were not included in the computation of diluted income per common share because the options' exercise price was greater than the average market price of the common shares. The total number of options that were excluded from the calculation of diluted loss per share, because their inclusion would have been anti-dilutive for the year ended December 31, 2011, was 3,430,017.

10. Cash and cash equivalents and restricted cash:

(a) Cash and cash equivalents:

The major component of cash and cash equivalents is as follows:

	2012	2011
Cash on deposit	$ 2,391	$ 4,050
Cashable Guaranteed Investment Certificate (1.4% yield)	3,028	–
	$ 5,419	$ 4,050

All cash and cash equivalents are with major financial institutions.

(In thousands of Canadian dollars, except per share amounts)

10. Cash and cash equivalents and restricted cash (continued):

(b) Restricted cash:

As at December 31, 2011, the Company's subsidiary, Tsavo, had $2,357 in long-term restricted marketable securities on reserve at financial institutions as security for credit card facilities. The restricted marketable securities include $17 in accrued interest, included as a component of restricted marketable securities.

11. Other current assets and accounts payable and accrued liabilities:

(a) Other current assets:

The major components of other current assets are as follows:

	2012	2011
Prepaid expenses	$ 188	$ 1,091
Other assets:		
Tax credits receivable	115	5,584
Other receivables	–	232
	$ 303	$ 6,907

(b) Accounts payable and accrued liabilities:

The major components of accounts payable and accrued liabilities are as follows:

	2012	2011
Trade accounts payable	$ 1,759	$ 3,060
Accrued liabilities	944	4,341
Due to American Capital (i)	–	1,938
Accrued Yahoo! refund (ii)	–	4,368
	$ 2,703	$ 13,707

11. Other current assets and accounts payable and accrued liabilities (continued):

(i) As at December 31, 2011, $1,938 in recognized tax credits receivable had an equivalent amount recorded in due to American Capital as they related to pre-acquisition tax filing periods of Tsavo.

(ii) In February 2012, the Company announced that Tsavo was engaged in discussions with Yahoo! to address concerns regarding the quality of traffic provided to the Yahoo! advertising base, and Tsavo's reliance on Yahoo!'s traffic quality reporting system. Tsavo was informed that it would be required to pay to Yahoo! approximately $4,600 over a reasonable time period, notwithstanding prior information that indicated the traffic was of good quality traffic at that time. The present value of the amount of $4,368 was recorded as at December 31, 2011, and $2,728 was transferred in 2012 as part of the sale of Tsavo (note 4), and the balance was repaid in the year.

(In thousands of Canadian dollars, except per share amounts)

12. Property and equipment:

	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Cost				
Balance at January 1, 2011	$ 1,112	$ 4,337	$ 1,855	$ 7,304
Additions	26	338	–	364
Effect of movements in exchange rates	40	113	34	187
Balance at December 31, 2011	$ 1,178	$ 4,788	$ 1,889	$ 7,855
Cost				
Balance at January 1, 2012	$ 1,178	$ 4,788	$ 1,889	$ 7,855
Additions	51	415	24	490
Disposal of Tsavo	(538)	(2,490)	(1,602)	(4,630)
Effect of movements in exchange rates	(146)	(118)	(49)	(313)
Balance at December 31, 2012	$ 545	$ 2,595	$ 262	$ 3,402
Depreciation				
Balance at January 1, 2011	$ 719	$ 2,805	$ 859	$ 4,383
Depreciation for the year	185	886	251	1,322
Effect of movements in exchange rates	34	111	7	152
Balance at December 31, 2011	$ 938	$ 3,802	$ 1,117	$ 5,857
Depreciation				
Balance at January 1, 2012	$ 938	$ 3,802	$ 1,117	$ 5,857
Depreciation for the year	28	466	57	551
Disposal of Tsavo	(370)	(1,944)	(881)	(3,195)
Effect of movements in exchange rates	(57)	(181)	(33)	(271)
Balance at December 31, 2012	$ 539	$ 2,143	$ 260	$ 2,942
Carrying amounts				
At January 1, 2011	$ 393	$ 1,532	$ 996	$ 2,921
At December 31, 2011	240	986	772	1,998
At December 31, 2012	6	452	2	460

Included in property and equipment is equipment acquired under finance leases with an original cost of $469 and a net book value of $329.

(In thousands of Canadian dollars, except per share amounts)

13. Domain properties and other intangible assets:

(a) Intangible assets by category are as follows:

	Customer relationships	Technology	Domain and content	Computer software	Total
Cost					
Balance at January 1, 2011	$ 37,350	$ 15,046	$ 14,495	$ 1,655	$ 68,546
Additions	–	–	741	43	784
Effect of movements in exchange rates	840	414	261	(16)	1,499
Balance at December 31, 2011	$ 38,190	$ 15,460	$ 15,497	$ 1,682	$ 70,829
Cost					
Balance at January 1, 2012	$ 38,190	$ 15,460	$ 15,497	$ 1,682	$ 70,829
Additions	–	–	150	2	152
Disposal of Tsavo	(19,714)	(5,513)	(7,725)	(602)	(33,554)
Disposals	–	–	(28)	–	(28)
Effect of movements in exchange rates	(482)	(235)	(175)	(25)	(917)
Balance at December 31, 2012	$ 17,994	$ 9,712	$ 7,719	$ 1,057	$ 36,482
Amortization and impairment loss					
Balance at January 1, 2011	$ 22,875	$ 7,395	$ 7,540	$ 1,578	$ 39,388
Amortization for the year	4,754	2,061	1,099	80	7,994
Impairment loss	–	277	–	–	277
Effect of movements in exchange rates	645	270	196	(10)	1,101
Balance at December 31, 2011	$ 28,274	$ 10,003	$ 8,835	$ 1,648	$ 48,760
Amortization					
Balance at January 1, 2012	$ 28,274	$ 10,003	$ 8,835	$ 1,648	$ 48,760
Amortization for the year	1,582	1,206	488	15	3,291
Disposal of Tsavo	(11,930)	(3,067)	(2,445)	(578)	(18,020)
Disposals	–	–	(5)	–	(5)
Effect of movements in exchange rates	(257)	(90)	(53)	(33)	(433)
Balance at December 31, 2012	$ 17,669	$ 8,052	$ 6,820	$ 1,052	$ 33,593
Carrying amounts					
At January 1, 2011	$ 14,475	$ 7,651	$ 6,955	$ 77	$ 29,158
At December 31, 2011	9,916	5,457	6,662	34	22,069
At December 31, 2012	325	1,660	899	5	2,889

(In thousands of Canadian dollars, except per share amounts)

13. Domain properties and other intangible assets (continued):

(b) Goodwill:

	CX Digital ("CXD")	EQADS	Bootcamp Media	Total
Balance at January 1, 2011	$ –	$ 4,444	$ 369	$ 4,813
Impairment losses	–	(4,577)	–	(4,577)
Effect of movements in exchange rates	–	133	(4)	129
Balance at December 31, 2011	$ –	$ –	$ 365	$ 365
Balance at January 1, 2012	$ –	$ –	$ 365	$ 365
Impairment losses	–	–	–	–
Effect of movements in exchange rates	–	–	(8)	(8)
Balance at December 31, 2012	$ –	$ –	$ 357	$ 357

(c) Impairment:

(i) Goodwill and indefinite life intangible assets:

The Company has identified four CGUs, which are defined by operating segments based on product line, which represent the lowest level within the Company that generates cash inflows for continuing use independent of other CGUs, which are not higher than the Company's operating segments. The Company tested CGUs with allocated goodwill and indefinite life intangible assets for impairment during 2012 and 2011 as at December 31 of each calendar year. In assessing whether or not there is impairment, the Company used a discounted cash flows approach to assess the value in use for each CGU. The Company estimated the discounted future cash flows for five years and a terminal value. The future cash flows are based on the Company's estimates and include consideration for expected future operating results, economic conditions and a general outlook for the industry in which the CGU operates. The discount rates used by the Company consider debt to equity ratios and certain risk premiums. The terminal value is the value attributed to the CGUs operations beyond the projected time period of the cash flows, using a perpetuity rate based on expected economic conditions and a general outlook for the industry. The Company has made certain assumptions for the discount and terminal growth rates to reflect variations in expected future cash flows. These assumptions may differ or change quickly depending on economic conditions or other events. Therefore, it is possible that future changes in assumptions may negatively impact future valuations of CGUs and goodwill, which would result in further goodwill impairment loss.

(In thousands of Canadian dollars, except per share amounts)

13. Domain properties and other intangible assets (continued):

The following table gives an overview of the periods for which the Company has provided cash flow projections, the growth rate used and the basis for the cash flow projections, and the pre-tax discount rate applied to the cash flow projections for CGUs with allocated goodwill.

	Goodwill
Bootcamp Media CGU	
Balance at December 31, 2012	$ 357
Period used (years)	5
Growth rate (%)	5
Pre-tax discount rate (%)	24

(ii) Impairment losses:

During the year ended December 31, 2011, the Company recorded a goodwill impairment of $4,577 and an impairment of technology assets of $277 in the performance-based marketing segment relating to the EQADS CGU. Using the discounted cash flows approach, the Company determined the recoverable amount of this CGU to be lower than its carrying value. The recoverable amount of the CGU declined during 2011 because it is taking longer than previously forecasted to attain a sustainable level of revenue and operating income.

14. Bank credit facilities, loans and borrowings:

(a) Bank credit facilities:

The Company has a revolving demand facility and credit card facility with a Canadian chartered bank, to be used for general operating requirements. As at December 31, 2012, nil amounts were outstanding under the revolving demand facility and there was $73 outstanding under the business credit card facility (2011 - $74) included in accounts payable. The aggregate of available borrowings under all facilities described below cannot exceed $1,500 at any time.

The revolving demand facility is up to $1,000 by way of Canadian and U.S. dollar currency loans. The facility bears interest at the bank's prime rate plus 2.35%. Borrowings outstanding under this facility plus a $500 business credit card allocation must not exceed 75.0% of accounts receivable with an aging less than 90 days, as defined in the credit agreement. Amounts outstanding are repayable upon demand.

At June 30, 2012, the Company was not in compliance with certain financial covenants associated with its demand revolving facility. The Company was granted waivers from its lenders relating to the non-compliance to cover the period until December 31, 2012. The Company has since commenced negotiations with the lenders to establish new covenants for 2013 and continues to access the facility pending finalization of new covenants, subject to the rights of the lenders to demand repayment.

(b) Loans and borrowings (other than finance leases):

(i) On September 15, 2011, the Company's subsidiary, Tsavo, signed an amended and restated credit agreement with American Capital (note 4). Under the amended and restated agreement, Tsavo committed to monthly payments based on monthly defined EBITDA generated by Tsavo through the revised maturity date of December 31, 2015. The amended term loans bore interest at a reduced rate of LIBOR plus 4.5% to 5.5% per annum, with LIBOR being a minimum of 3% per annum. The commencement date for these payments was retroactive to April 1, 2011.

American Capital agreed to a reduction in outstanding principal obligations in the amount of $2,454 (U.S. $2,500). The reduction in principal was previously recorded in finance income in the consolidated statements of comprehensive income (loss) for the year ended December 31, 2011 and has been reclassified for results from discontinued operations.

14. Bank credit facilities, loans and borrowings (continued):

In conjunction with the signing of the amended term loan agreements, Tsavo made a payment of $5,894 (U.S. $6,005) which was applied to outstanding interest and principal. Subsequent to September 15, 2011, Tsavo made principal and interest payments totalling $698 (U.S. $683).

The Company determined, based on quantitative and qualitative factors, that the amendments to the credit facility constituted a substantial modification of terms. Accordingly, the Company has recorded the amendment as an extinguishment of the original liability and recognized a new liability at fair value. The Company recognized in profit or loss a gain for the reduction in outstanding principal obligations less transaction costs and fees for the original and amended liability.

On April 24, 2012, the purchaser of Tsavo assumed the term loans, eliminating any liability for the Company.

(ii) On September 30, 2011, the Company entered into a promissory note with a Canadian lender in the amount of $800, due September 30, 2013. The note bears interest at an annual rate of 12% with principal and interest payments due quarterly. The note is secured by a guarantee from the Company and a general security agreement over specified intangible assets of the Company. As part of the Tsavo sale transaction, the Company repaid $100 of the principal outstanding and the purchaser assumed liability for the remaining principal and interest of $730.

(In thousands of Canadian dollars, except per share amounts)

14. Bank credit facilities, loans and borrowings (continued):

The following table outlines the activity for term loans and borrowings for the year ended December 31, 2012:

Balance, December 31, 2010 (U.S. $33,163)	$ 32,985
Repayment of term loans (U.S. $6,194)	(6,122)
Amortization of transaction costs (U.S. $37)	36
Term loan principal forgiven on extinguishment (U.S. $2,500)	(2,454)
Write down of remaining deferred transaction costs on extinguishment (U.S. $135)	133
Realized foreign exchange gains on repayment of term loans and extinguishment	(583)
Accrued interest on term loans (U.S. $2,927)	2,885
Payment of interest on term loans (U.S. $3,435)	(3,394)
Unrealized foreign exchange loss on term loans	1,057
Term loan balance (U.S. $24,133)	24,543
Principal amount of promissory note	800
Accrued interest on promissory note	23
Balance, December 31, 2011	25,366
Term loan extinguished on sale of Tsavo (U.S. $24,493)	(24,338)
Realized foreign exchange gains on term loan extinguishment	(563)
Accrued interest on term loan (U.S. $632)	630
Interest payment on term loan (U.S. $272)	(272)
Settlement of promissory note	(100)
Promissory note assumed by purchaser of Tsavo	(730)
Accrued interest on promissory note	32
Repayment of interest on promissory note	(25)
Total loans and borrowings, as at December 31, 2012	$ –

(In thousands of Canadian dollars, except per share amounts)

14. Bank credit facilities, loans and borrowings (continued):

(c) The following table outlines the activity for finance leases for the year ended December 31, 2012:

Principal amount of finance lease	$ 200
Repayment of finance lease	(33)
Balance, December 31, 2011	167
Additions of finance lease	263
Repayment of finance lease	(89)
Balance, December 31, 2012	341
Less current portion	155
	$ 186

15. Shareholders' equity:

(a) Common shares:

The authorized share capital of the Company comprises an unlimited number of common shares without par value. The holders of common shares are entitled to receive dividends when declared and are entitled to one vote per share at annual meetings of the Company.

(b) Normal Course Issuer Bid ("NCIB"):

On April 24, 2012, the Company announced a NCIB under which it could purchase up to 11,913,232 of its common shares, representing approximately 10% of the "public float" of common shares as of that date, commencing on May 14, 2012 for a period of one year. During the year ended December 31, 2012, the Company repurchased and cancelled 667,047 of its common shares under the NCIB. A charge of $35 was recorded in common stock for the consideration paid for the common shares.

On November 14, 2012, the Company instituted an Automatic Share Purchase Plan in connection with the NCIB, whereby M Partners Inc. as broker is authorized and directed to effect stock purchases during the term of the NCIB subject to the price limits, maximum number of shares and other terms set forth in the Automatic Share Purchase Plan, all as approved by the TSX.

15. Shareholders' equity (continued):

(c) Cancellation of common shares:

On April 24, 2012, the Company obtained 6,314,545 common shares of the Company held by former management of Tsavo as part of the consideration for the sale of Tsavo. The fair value of these common shares was $324 on the day of the transaction and the shares were cancelled on the same date. The Company forgave $1,185 of related share purchase loans owed by former management of Tsavo as part of this sale transaction.

16. Share-based payments:

The Company's stock option plan (the "Plan") provides for the granting of options to employees, officers, directors and consultants of the Company. The maximum number of common shares which may be set aside for issuance under the Plan is a rolling fixed maximum percentage of 10% of the common shares issued and outstanding from time-to-time and automatically reloaded after the exercise of an option provided the number of common shares issuable does not then exceed the maximum percentage. Options issued under the Plan may be exercised during a period not exceeding five years from the grant date and typically vest annually over a three- or four-year period.

The common shares issuable, upon exercise of any option that is cancelled or terminated prior to its exercise, will become available again for grant under the Plan. In accordance with the Plan, the exercise price of options is determined based on the fair market value per share on the day preceding the grant date.

Options granted under the Plan may be exercised during a period not exceeding five years from the date of grant, subject to earlier termination if the optionee ceases to be an employee, officer or director of the Company. Options issued under the Plan are non-transferable.

(In thousands of Canadian dollars, except per share amounts)

16. Share-based payments (continued):

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

	2012		2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	6,532,101	$ 0.61	7,475,768	$ 0.61
Granted (a)	6,650,000	0.10	–	–
Forfeited or cancelled	(4,309,267)	0.54	(943,667)	0.57
Exercised	–	–	–	–
Outstanding, end of year	8,872,834	0.26	6,532,101	0.61
Options exercisable, end of year	2,089,500	$ 0.68	3,430,017	$ 0.63

During 2012, the Company granted 4,850,000 stock options to executives. The terms of these options provide for accelerating vesting if the Company's shares achieve a stated price on the TSX. This price was not obtained as at December 31, 2012.

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

	2012			2011		
Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Number of options exercisable	Number of options	Weighted average remaining contractual life (years)	Number of options exercisable
$0.10	6,350,000	4.50	–	–	–	–
$0.34	150,000	1.00	150,000	150,000	2.00	100,000
$0.40 - $0.46	–	–	–	536,667	0.06	536,667
$0.51 - $0.59	783,334	1.97	600,000	3,308,334	3.33	1,052,083
$0.70	–	–	–	522,600	0.61	522,600
$0.76	1,245,000	1.23	995,000	1,670,000	2.23	874,167
$0.80	344,500	0.24	344,500	344,500	1.24	344,500
	8,872,834		2,089,500	6,532,101		3,430,017

During the year ended December 31, 2012, the Company recorded compensation expense related to stock options granted to employees of $60 (2011 - $334).

During the year ended December 31, 2012, 6,650,000 stock options were granted and no stock options were exercised. During the year ended December 31, 2011, no stock options were granted or exercised.

(In thousands of Canadian dollars, except per share amounts)

16. Share-based payments (continued):

The average grant date fair value of options granted during the year was $0.28. The fair value of each option granted has been estimated on the date of grant using the Black-Scholes fair value option pricing model with the following weighted average assumptions used for grants for the year ended December 31, 2012: dividend yield of nil, expected volatility of 99.85%, weighted average risk-free interest rate of 1.00%, and expected lives of 2.5 years.

17. Fair value of financial instruments:

Financial instruments classified as fair value through profit or loss or available-for-sale are carried at fair value on the consolidated statements of financial position. Changes in fair values of financial instruments classified as fair value through profit or loss and available-for-sale are recognized in net income and other comprehensive income, respectively. The cumulative changes in the fair values of available-for-sale securities previously recognized in accumulated other comprehensive income ("AOCI") are reclassified to net income when the security is sold or there is a significant or prolonged decline in fair value. During the year ended December 31, 2012, no deferred gains (2011 - $753) previously recognized in AOCI were reclassified to net income as a result of a sale or a change in the fair value.

(a) Classification of financial instruments:

The following table provides the allocation of financial instruments and their associated financial instrument classifications as at December 31, 2012:

	Fair value through profit or loss	Loans and receivables/ other financial liabilities	Available-for-sale securities	Total
Measurement basis	Fair value	Amortized cost	Fair value	
Financial assets:				
Cash and cash equivalents	$ –	$ 5,419	$ –	$ 5,419
Accounts receivable	–	2,425	–	2,425
Other current assets	–	303	–	303
Investments	–	–	50	50
	$ –	$ 8,147	$ 50	$ 8,197
Financial liabilities:				
Accounts payable and accrued liabilities	$ –	$ 2,703	$ –	$ 2,703
Finance leases	–	341	–	341
	$ –	$ 3,044	$ –	$ 3,044

(In thousands of Canadian dollars, except per share amounts)

17. Fair value of financial instruments (continued):

The following table provides the allocation of financial instruments and their associated financial instrument classifications as at December 31, 2011:

	Fair value through profit and loss	Loans and receivables/ other financial liabilities	Total
Measurement basis	(Fair value)	(Amortized cost)	
Financial assets:			
Cash and cash equivalents	$ –	$ 4,050	$ 4,050
Restricted cash	–	2,357	2,357
Accounts receivable	–	8,769	8,769
Income taxes recoverable	–	31	31
Other current assets	1,452	5,455	6,907
	$ 1,452	$ 20,662	$ 22,114
Financial liabilities:			
Accounts payable and accrued liabilities	$ –	$ 13,707	$ 13,707
Loans and borrowings	–	25,533	25,533
Income taxes payable	–	348	348
	$ –	$ 39,588	$ 39,588

(In thousands of Canadian dollars, except per share amounts)

17. Fair value of financial instruments (continued):

(b) Carrying value and fair value of financial instruments:

The following table provides the carrying value and fair value of financial instruments as at December 31, 2012 and 2011:

	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Cash and cash equivalents	$ 5,419	$ 5,419	$ 4,050	$ 4,050
Restricted cash	–	–	2,357	2,357
Accounts receivable	2,425	2,425	8,769	8,769
Income taxes recoverable	40	40	31	31
Other current assets	303	303	6,907	6,907
Long-term investments	50	50	–	–
	$ 8,237	$ 8,237	$ 22,114	$ 22,114
Financial liabilities:				
Accounts payable and accrued liabilities	$ 2,703	$ 2,703	$ 13,707	$ 13,707
Loans and borrowings	–	–	25,366	25,366
Income taxes payable	–	–	348	348
Finance leases	341	341	167	167
	$ 3,044	$ 3,044	$ 39,588	$ 39,588

(c) Fair value measurements:

The Company provides disclosure of the three-level hierarchy that reflects the significance of the inputs used in making the fair value measurement. The three levels of fair value hierarchy based on the reliability of inputs are as follows:

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

(In thousands of Canadian dollars, except per share amounts)

17. Fair value of financial instruments (continued):

In the tables below, the Company has segregated all financial assets and financial liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy, based on the inputs used to determine the fair value at the measurement date. The Company has no financial liabilities measured at fair value.

Financial assets measured at fair value as at December 31, 2012 and 2011 in the consolidated financial statements are summarized below.

2012	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	$ 5,419	$ –	$ –	$ 5,419
Available-for-sale equity securities (i)	–	–	50	50
	$ 5,419	$ –	$ 50	$ 5,469

2011	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	$ 4,050	$ –	$ –	$ 4,050

There have been no transfers of assets between levels during the years ended December 31, 2012 or December 31, 2011.

(i) The Company initially measured the available-for-sale equity investment purchased in Q3 2012 based on the cash exchanged between the parties. The investment is being accounted for at fair value. No significant change in fair value was determined through December 31, 2012.

18. Capital risk management:

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to provide returns to its shareholders. The Company defines capital that it manages as the aggregate of its shareholders' equity, which comprises issued capital, contributed surplus, AOCI and retained earnings (deficit). The Company manages its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may issue shares, repurchase shares, pay dividends or undertake other activities as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements.

19. Financial risk management:

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Audit Committee reviews the Company's risk management policies on an annual basis. The finance department identifies and evaluates financial risks and is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

19. Financial risk management (continued):

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises from the Company's accounts receivable and cash and cash equivalents. The majority of the Company's customers are located in the United States and Canada. At December 31, 2012, three customers represented 22%, 13% and 11% of the gross accounts receivable balance of $2,486, respectively. At December 31, 2011, one customer, Yahoo!, represented 60% of the gross accounts receivable balance of $9,225. The accounts receivable balances due from the significant customers was current at December 31, 2012. No other individual customers represented more than 10% of accounts receivable. As at December 31, 2012 the allowance for doubtful accounts was $49 (2011 - $449). In establishing the appropriate allowance for doubtful accounts, management makes assumptions with respect to the future collectability of the receivables. Assumptions are based on an individual assessment of a customer's credit quality as well as subjective factors and trends. As at December 31, 2012, approximately 91% of accounts receivable balances over 90 days were not provided for. Management believes that the allowance is adequate. The Company from time to time invests its excess cash in cash equivalents and other short-term investments, with the objective of maintaining safety of the principal and providing adequate liquidity to meet current payment obligations and future planned capital expenditures and with the secondary objective of maximizing the overall yield of the portfolio. The Company's cash as at December 31, 2012 is not subject to external restrictions. Investments must be rated at least investment grade by recognized rating agencies. Given these high credit ratings, the Company does not expect any counterparties to these investments to fail to meet their obligations.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company manages its liquidity risk by continually monitoring forecasted and actual revenue and expenditures and cash flows from operations. Management is also actively involved in the review and approval of planned expenditures. The Company's principal cash requirements are for principal and interest payments on its debt, capital expenditures and working capital needs. The Company uses its operating cash flows, operating facilities and cash balances to maintain liquidity.

(In thousands of Canadian dollars, except per share amounts)

19. Financial risk management (continued):

The following are the contractual maturities for the financial liabilities:

2012	Carrying amount	Contractual cash flow	On demand	Less than 1 year	1 to 3 years	>3 years
Trade and other payables (i)	$ 2,703	$ 2,703	$ –	$ 2,703	$ –	$ –
Finance leases	341	341	–	155	186	–
	$ 3,044	$ 3,044	$ –	$ 2,858	$ 186	$ –

2011	Carrying amount	Contractual cash flow	On demand	Less than 1 year	1 to 3 years	>3 years
Trade and other payables (i)	$ 13,707	$ 13,707	$ –	$ 13,707	$ –	$ –
Loans and borrowings and finance leases	25,533	25,533	–	4,697	14,729	6,107
	$ 39,240	$ 39,240	$ –	$ 18,404	$ 14,729	$ 6,107

(i) Trade and other payables excludes sales tax payable and other non-contractual liabilities.

19. Financial risk management (continued):

(c) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and the Company's share price, will affect the Company's income or the value of its financial instruments.

(i) Interest rate risk:

Interest rate risk is insignificant on the Company's cash and cash equivalents due to the short-term maturity of the investments held.

(ii) Currency risk:

The Company operates internationally with the U.S. dollar as its functional currency and is exposed to foreign exchange risk from purchase transactions, as well as recognized financial assets and liabilities denominated in Canadian dollars. In addition, the Company is exposed to exchange gains or losses on translation from its U.S. dollar functional currency to its Canadian dollar presentation currency. The Company's main objective in managing its foreign exchange risk is to maintain Canadian cash on hand to support Canadian forecasted obligations and cash flows. To achieve this objective, the Company monitors forecasted cash flows in foreign currencies and attempts to mitigate the risk by modifying the nature of cash and cash equivalents held. The Company also utilizes foreign currency derivative instruments to hedge against currency fluctuations. During the years ended December 31, 2012 and 2011, the Company maintained a portion of its cash resources in both U.S. and Canadian dollar cash and cash equivalents. The Company does not have any foreign currency derivative instruments outstanding as at December 31, 2012.

(In thousands of Canadian dollars, except per share amounts)

19. Financial risk management (continued):

The Company has performed a sensitivity analysis model for foreign exchange exposure over fiscal 2012. The analysis used a modeling technique that compares the U.S. dollar equivalent of all expenses incurred in Canadian dollars, at the actual exchange rate, to a hypothetical 10% adverse movement in the foreign currency exchange rates against the U.S. dollar, with all other variables held constant. Foreign currency exchange rates used were based on the market rates in effect during fiscal 2012. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in a decrease in net income for fiscal 2012 of approximately $300. There can be no assurances that the above projected exchange rate decrease will materialize.

If a shift in foreign currency exchange rates of 10% were to occur, the foreign exchange gain or loss on the Company's net monetary assets could change by approximately $200 due to the fluctuation and this would be recorded in the consolidated statements of comprehensive income (loss).

Balances held in Canadian dollars are as follows:

	2012	2011
Cash and cash equivalents	$ 4,757	$ 149
Restricted cash	–	6
Accounts payable and accrued liabilities	1,044	4,660
Accounts receivable	1,408	1,898
Tax credit receivable	–	5,648
Finance lease	341	167

(In thousands of Canadian dollars, except per share amounts)

20. Commitments and contingencies:

Non-cancellable operating lease rentals are payable as follows:

	2012	2011
Less than 1 year	$ 507	$ 950
Between 1 and 5 years	207	2,344
More than 5 years	28	1,493
	$ 742	$ 4,787

The Company leases a number of office facilities under operating leases. The lease terms are between 5 and 10 years, with an option to renew the lease after that date. Some leases provide for additional rent payments that are based on changes in the local price index.

One of the leased properties has been sublet by the Company. The sublease will expire in 2014. Sublease payments of $155 are expected to be received during 2013, and total future sublease payments expected are $208.

During the year ended December 31, 2012, an amount of $281 was recognized as an expense in profit or loss in respect of operating leases (2011 - $894).

The commitments disclosure above as at December 31, 2011 include those related to Tsavo, which the purchaser assumed as part of the sale transaction (note 4).

During the fourth quarter of 2012, the Company received a settlement of $93, net of legal costs, related to a claim made against a former employee.

21. Related party transactions and balances:

(a) Transactions with American Capital:

Pursuant to the terms of the credit agreement between Tsavo and American Capital entered into in connection with the acquisition of Tsavo in June 2010, a nominee from American Capital was appointed by the Board of Directors of the Company to serve as a director of the Company, which appointment was duly made in accordance with the Ontario Business Corporations Act.

(In thousands of Canadian dollars, except per share amounts)

21. Related party transactions and balances (continued):

During the year ended December 31, 2012, Tsavo made principal and interest payments of $272 (2011 - $9,502) on the term loans to American Capital as administrative and collateral agent for the lenders (note 14). During the year ended December 31, 2012, Tsavo paid administration and legal fees of nil (2011 - $242) to American Capital and paid nil (2011 - $344) of tax credits received, pertaining to the period prior to the acquisition of Tsavo, and owing to American Capital.

Tsavo also paid American Capital nil (2011 - $480) related to funds released from escrow owing from prior to the acquisition of Tsavo by the Company and paid nil (U.S. nil) in loan origination fees to American Capital.

(b) Transactions with key management personnel:

The remuneration of directors and other key management personnel of the Company during the years ended December 31, 2012 and 2011 was as follows:

	2012	2011
Short-term employee benefits	$ 828	$ 1,872
Share-based payments	53	227
	$ 881	$ 2,099

Amounts for 2011 include all amounts for key management personnel of the discontinued operation.

(c) Subsidiaries:

The Company has the following wholly owned subsidiaries:

Subsidiaries	Jurisdiction of incorporation	Ownership interest 2012	Ownership interest 2011
CX Digital Media Inc.	Ontario	100%	100%
EQ Advertising Group LTD	Ontario	100%	100%
Cyberplex Services Inc.	Ontario	100%	100%
Cyberplex Ontario Holdings Inc.	Ontario	100%	100%
2270238 Ontario Inc.	Ontario	100%	100%
2300076 Ontario Inc.	Ontario	100%	100%
CX U.S.A. Southwest Inc.	Texas	100%	100%
CX U.S.A. Pacific, Inc.	California	100%	100%
Bootcamp Media Inc.	Ontario	100%	100%
Digital Media USA Inc.	Delaware	100%	100%

(In thousands of Canadian dollars, except per share amounts)

22. Consolidated statements of cash flows:

The change in non-cash operating working capital comprises the following:

	2012	2011
Accounts receivable	$ (2,319)	$ 5,164
Other current assets	388	(4,424)
Accounts payable and accrued liabilities	(1,170)	3,654
Deferred revenue	52	(165)
Income taxes payable	(143)	–
Current portion of loans and borrowings	(100)	–
	$ (3,292)	$ 4,229

Supplementary disclosure of non-cash investing and financing activities:

	2012	2011
Acquisition of property and equipment through finance leases	$ (263)	$ (200)
Repayment of promissory note	(100)	–
Property and equipment acquired during the period not yet paid for	(6)	–
	$ (369)	$ (200)