



Unaudited Condensed Consolidated Interim Financial Statements of

EQ INC.

Three and nine months ended September 30, 2014 and 2013

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

The accompanying unaudited condensed consolidated interim financial statements of the Company for the three and nine months ended September 30, 2014 and 2013 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting as issued by the International Accounting Standards Board and are the responsibility of the Company's management. The Company's independent auditors have not performed an audit or a review of these unaudited condensed consolidated interim financial statements.

EQ INC.

Unaudited Condensed Consolidated Interim Statements of Financial Position
(In thousands of Canadian dollars)

September 30, 2014 and December 31, 2013

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 649	\$ 2,797
Accounts receivable	894	2,231
Other current assets	314	222
	<u>1,857</u>	<u>5,250</u>
Non-current assets:		
Investment	50	50
Property and equipment (note 8)	157	281
Domain properties and other intangible assets (note 9)	865	1,610
	<u>1,072</u>	<u>1,941</u>
Total assets	\$ 2,929	\$ 7,191
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,647	\$ 2,316
Deferred lease inducement	22	14
Finance leases	87	122
Deferred revenue	95	602
	<u>1,851</u>	<u>3,054</u>
Non-current liabilities:		
Deferred lease inducement	78	-
Finance leases	-	64
	<u>78</u>	<u>64</u>
Shareholders' equity (note 11)	1,000	4,073
Total liabilities and shareholders' equity	\$ 2,929	\$ 7,191

Going concern (note 2 (a))

See accompanying notes to unaudited condensed consolidated interim financial statements.

EQ INC.

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

Three and nine months ended September 30, 2014 and 2013

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenue (note 3)	\$ 1,006	\$ 1,906	\$ 4,103	\$ 5,452
Expenses:				
Publishing and advertising costs	450	1,018	1,943	2,890
Employee compensation and benefits	664	856	2,438	2,750
Other operating expenses	493	592	1,950	1,941
Depreciation of property and equipment	37	64	147	209
Amortization of domain properties and other intangible assets	269	293	813	862
	1,913	2,823	7,291	8,652
Loss from operations	(907)	(917)	(3,188)	(3,200)
Finance income (note 5)	2	81	12	26
Finance cost (note 5)	(42)	(6)	(98)	(163)
	(40)	75	(86)	(137)
Loss before income taxes	(947)	(842)	(3,274)	(3,337)
Income tax recovery (note 6):				
Current	22	2	22	2
Deferred	-	65	-	195
Loss for the period	(925)	(775)	(3,252)	(3,140)
Other comprehensive income (loss):				
Foreign currency translation adjustments to equity, net of tax	65	(124)	141	271
Total comprehensive loss for the period	\$ (860)	\$ (899)	\$ (3,111)	\$ (2,869)
Loss per share (note 7):				
Basic and diluted	\$ (0.06)	\$ (0.05)	\$ (0.20)	\$ (0.20)

See accompanying notes to unaudited condensed consolidated interim financial statements.

EQ INC.

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

Nine months ended September 30, 2014 and 2013

Nine months ended September 30, 2014	Common shares		Contributed surplus	Accumulated other comprehensive (loss)		Total equity
	Number of shares	Amount		Deficit		
Balances, January 1, 2014	15,857,225	\$ 66,278	\$ 2,395	\$ (2,022)	\$ (62,578)	\$ 4,073
Loss for the period	–	–	–	–	(3,252)	(3,252)
Share-based payments (note 12)	–	–	38	–	–	38
Foreign currency translation adjustments to equity	–	–	–	141	–	141
Balances, September 30, 2014	15,857,225	\$ 66,278	\$ 2,433	\$ (1,881)	\$ (65,830)	\$ 1,000

Nine months ended September 30, 2013	Common shares		Contributed surplus	Accumulated other comprehensive (loss)		Total equity
	Number of shares	Amount		Deficit		
Balances, January 1, 2013	126,858,304	\$ 66,278	\$ 2,338	\$ (2,458)	\$ (58,107)	\$ 8,051
Loss for the period	–	–	–	–	(3,140)	(3,140)
Share-based payments (note 12)	–	–	45	–	–	45
Share consolidation (note 2(c))	(111,001,079)	–	–	–	–	–
Foreign currency translation adjustments to equity	–	–	–	271	–	271
Balances, September 30, 2013	15,857,225	\$ 66,278	\$ 2,383	\$ (2,187)	\$ (61,247)	\$ 5,227

See accompanying notes to unaudited condensed consolidated interim financial statements.

EQ INC.

Unaudited Condensed Consolidated Interim Statements of Cash Flows (In thousands of Canadian dollars)

Nine months ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Loss for the period	\$ (3,252)	\$ (3,140)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation of property and equipment	147	209
Amortization of domain properties and other intangible assets	813	862
Amortization of deferred lease inducement	(23)	(31)
Share-based payment (note 12)	38	45
Foreign exchange loss	91	153
Finance Income, net	(4)	(5)
Current income tax recovery	(22)	(2)
Deferred income tax recovery	–	(195)
Change in non-cash operating working capital (note 13)	239	457
Cash used in operating activities	(1,973)	(1,647)
Income taxes received	22	40
	(1,951)	(1,607)
Cash flows from financing activities:		
Repayment of finance leases	(99)	(114)
Interest paid	(8)	(21)
Net cash used in financing activities	(107)	(135)
Cash flows from investing activities:		
Interest income received	12	26
Addition to property and equipment	(11)	(65)
Additions to domain properties and other intangible assets	–	(25)
Net cash from (used in) investing activities	1	(64)
Foreign exchange loss on cash held in a foreign currency	(91)	(153)
Decrease in cash and cash equivalents	(2,148)	(1,959)
Cash and cash equivalents, beginning of period	2,797	5,419
Cash and cash equivalents, end of period	\$ 649	\$ 3,460

See accompanying notes to unaudited condensed consolidated interim financial statements.

EQ INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, except per share amounts)

Three and Nine Months ended September 30, 2014 and 2013

1. Corporate information:

EQ Inc. ("EQ Works" or the "Company") uses real-time technology and advanced analytics to improve performance for all web, mobile, social and video advertising initiatives. The Company balances the many components that comprise the complex advertising ecosystem and establishes equilibrium for reaching the right audience at the right time through any web or mobile device. 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. Basis of preparation:

(a) Statement of compliance and basis of presentation:

These unaudited condensed consolidated interim financial statements (the "interim financial statements") have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and on a basis consistent with the accounting policies disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2013 (the "2013 financial statements"). The accounting policies applied in these interim financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as of the date the Board of Directors authorized the statements for issue.

The notes presented in these interim financial statements include, in general, only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These interim financial statements should be read in conjunction with the 2013 financial statements, including the notes thereto.

The interim financial statements were authorized for issue by the Board of Directors on November 14, 2014.

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and using accounting principles applicable to a going concern. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize the carrying value of its assets and discharge its liabilities in the normal course of operations. However, there is significant doubt about the appropriateness of the use of the going concern

EQ INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Three and Nine Months ended September 30, 2014 and 2013

2. Basis of preparation (continued):

assumption because the Company has experienced losses and negative cash flows that exceeded expectations in the current period principally due to the loss of certain customers.

The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing from existing shareholders or other sources and/or generate cash flows from operations in the future. There is no certainty that the Company will be able to secure additional forms of financing which are not yet committed or generate cash flows from operations in the foreseeable future.

If the going concern assumption was not appropriate for these interim financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported net loss, and the classifications used in the statement of financial position. The condensed interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate.

These interim financial statements have been prepared mainly on a historical cost basis. Other measurement bases used are described in the applicable notes to these interim financial statements.

(b) Functional and presentation currencies:

These unaudited condensed consolidated interim 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.

(c) Common shares consolidation:

On June 13, 2013, the Company announced the consolidation of all of the outstanding common shares of the Company. The common shares were consolidated on the basis of one new common share for eight existing common shares. Following the common share consolidation, the number of outstanding common shares of the Company was approximately 15,857,225. Accordingly, income/ loss per share have been determined on a basis that is consistent with the effect of the share consolidation for all periods presented. Subsequent to the share consolidation on June 19, 2013, the Company also began trading on the Toronto Stock Exchange under the new symbol "EQ" due to the name change.

EQ INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Three and Nine Months ended September 30, 2014 and 2013

2. Basis of preparation (continued):

(d) Significant accounting policies:

These unaudited condensed consolidated interim financial statements follow the same accounting policies and methods of application as the annual audited consolidated financial statements for the year ended December 31, 2013, with the exception of the following new accounting standards and amendments which the Company adopted and are effective for the Company's interim and annual consolidated financial statements commencing January 1, 2014.

- *IFRS 10, Consolidated Financial Statements ("IFRS 10")*
- *IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12")*
- *IFRS 13, Fair Value Measurement ("IFRS 13")*
- *IAS 1, Presentation of Financial Statements ("IAS 1")*
- *IAS 27, Separate Financial Statements ("IAS 27")*
- *IFRS 9, Financial Instrument ("IFRS 9")*
- *IAS 32, Financial Instruments: Disclosures ("IAS 32")*
- *IAS 36, Recoverable Amount Disclosures for Non-Financial Assets ("IAS 36")*
- *IFRIC 21, Levies (IFRIC 21")*

The accounting standards and amendments to standards adopted by the Company that had an impact on financial results or require further explanation are explained as follows:

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 International Accounting Standards ("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 assessed the accounting pronouncement and concluded there is no impact.

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

EQ INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Three and Nine Months ended September 30, 2014 and 2013

2. Basis of preparation (continued):

commencing January 1, 2013. The Company assessed the accounting pronouncement and concluded there is no impact.

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 assessed the accounting pronouncement and concluded there is no impact other than for the expanded disclosures required and included in the Company's condensed consolidated interim 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 assessed the accounting pronouncement and concluded there is no impact.

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, investments 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 assessed the accounting pronouncement and concluded there is no impact.

EQ INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Three and Nine Months ended September 30, 2014 and 2013

2. Basis of preparation (continued):

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

In October 2010, the IASB issued IFRS 9, which replaces IAS 39, Financial Instruments - Recognition and Measurement, and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's 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.

IAS 32, Financial Instruments: Disclosures ("IAS 32"):

In December 2011, the IASB issued new disclosure requirements in IAS 32 to clarify the requirements for offsetting financial assets and liabilities. The new disclosure requirements are effective for the Company's interim and annual consolidated financial statements commencing January 1, 2014 and is to be applied retrospectively. The Company is assessing the impact of this new standard on its consolidated financial statements.

IAS 36, Recoverable Amount Disclosures for Non-Financial Assets ("IAS 36"):

In May 2013, the IASB issued Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36). The new disclosure requirements are effective for the Company's interim and annual consolidated financial statements commencing January 1, 2014 and is to be applied retrospectively. The Company is assessing the impact of this new standard on its consolidated financial statements.

International Financial Reporting Interpretations Committee 21, Levies ("IFRIC 21"):

In May 2013, the IASB issued IFRIC 21 which provides guidance on accounting for levies in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2014 and is to be applied retrospectively. The Company is assessing the impact of this new standard on its consolidated financial statements.

EQ INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Three and Nine Months ended September 30, 2014 and 2013

3. Revenue:

The Company sub-classifies revenue into the following components: advertising and marketing services revenue.

Advertising revenue is derived from the on-line network connecting advertisers and publishers to execute advertising. Marketing services revenue is derived from fully integrated digital marketing solutions. We work with agencies and clients to define, create, and deliver return on investment ("ROI") focused digital strategies. Our skilled team uses its deep marketing and technology expertise to achieve specific client objectives.

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Advertising	\$ 769	\$ 1,430	\$ 3,154	\$ 3,774
Marketing Services	237	476	949	1,678
	\$ 1,006	\$ 1,906	\$ 4,103	\$ 5,452

4. Segment information:

The Company has one operating segment and reports as such. EQ's business focused on targeted advertising and incorporates the most sophisticated advertising technologies, data analytics and programmatic media buying capabilities into a single system. The chief operating decision maker evaluates the Company performance, makes operating decisions, and allocates resources based on financial data consistent with the presentation in these interim financial statements.

The Company's assets and operations are substantially all located in Canada; however, the Company services many customers in the United States and internationally.

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Canada	\$ 726	\$ 924	\$ 2,794	\$ 2,551
U.S.	264	966	1,231	2,804
Outside North America	16	16	78	97
	\$ 1,006	\$ 1,906	\$ 4,103	\$ 5,452

EQ INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Three and Nine Months ended September 30, 2014 and 2013

4. Segment information (continued):

For the three months ended September 30, 2014, there was one customer that comprised 11% of the Company's total revenue and three customers that comprised 22%, 18% and 10% of the Company's total revenue for the same period in 2013. For nine months ended September 30, 2014, there was one customer that comprised 15% of the Company's total revenue. For the same period in 2013, two customers comprised 20% and 14% of the Company's total revenue.

5. Finance income and finance cost:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Finance income:				
Interest income on cash and cash equivalents	\$ 2	\$ 5	\$ 12	\$ 26
Foreign exchange gain, net	–	76	–	–
Total finance income	2	81	12	26
Finance cost:				
Other interest expense	(2)	(6)	(8)	(21)
Foreign exchange loss, net	(40)	–	(90)	(142)
Total finance cost	(42)	(6)	(98)	(163)
Net finance income (cost) recognized in profit or loss	\$ (40)	\$ 75	\$ (86)	\$ (137)

6. Income taxes:

The Company recorded a current income tax recovery of \$22 in three and nine months ended 2014 and \$2 in the three and nine months ended September 30, 2013.

The Company recorded a deferred income tax recovery of nil in 2014 and \$65 in the three months ended September 30, 2013. For the nine months ended September 30, 2014 the Company recorded nil deferred income tax recovery and \$195 in the nine months ended September 30, 2013. The deferred income tax recovery relates to the reversal of a temporary difference on account of amortization of intangible assets recognized in respect of historical acquisitions and the related deferred tax liability that was recorded at that time. The deferred tax liability is drawn down as that portion of the intangible asset value is amortized. No other deferred tax recovery on losses is recorded in loss and comprehensive loss and will not be until, in the opinion of management, it is probable that the deferred tax assets will be realized.

EQ INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Three and Nine Months ended September 30, 2014 and 2013

7. Loss per share:

On June 13, 2013, the Company announced the consolidation of all the outstanding common shares of the Company. The common shares were consolidated on the basis of one new common share for eight existing common shares. Following the common share consolidation, the number of outstanding common shares of the Company was 15,857,225. Subsequent to the share consolidation on June 19, 2013, the Company also began trading on the Toronto Stock Exchange under the new symbol "EQ" due to the name change.

The computations for basic and diluted loss per share for the three and nine months ended September, 2014 and 2013 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Loss for the period	\$ (925)	\$ (775)	\$ (3,252)	\$ (3,140)
Weighted average number of shares outstanding:				
Basic	15,857,225	15,857,225	15,857,225	15,857,225
Diluted	15,857,225	15,857,225	15,857,225	15,857,225
Loss per share:				
Basic and diluted	\$ (0.06)	\$ (0.05)	\$ (0.20)	\$ (0.20)

The total number of anti-dilutive options that were excluded from the calculation of diluted loss per share, because their inclusion would have been anti-dilutive for the three and nine months ended September 30, 2014, were 1,037,498 (2013 – 1,030,626).

EQ INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Three and Nine Months ended September 30, 2014 and 2013

8. Property and equipment:

	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Cost				
Balance at January 1, 2014	\$ 662	\$ 3,001	\$ 303	\$ 3,966
Additions	1	10	–	11
Effect of movements in exchange rates	94	286	34	414
Balance at September 30, 2014	\$ 757	\$ 3,297	\$ 337	\$ 4,391
Depreciation				
Balance at January 1, 2014	\$ 655	\$ 2,727	\$ 303	\$ 3,685
Depreciation for the period	2	145	–	147
Effect of movements in exchange rates	93	275	34	402
Balance at September 30, 2014	\$ 750	\$ 3,147	\$ 337	\$ 4,234
Carrying amounts				
December 31, 2013	7	274	–	281
September 30, 2014	7	150	–	157

EQ INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Three and Nine Months ended September 30, 2014 and 2013

9. Domain properties and other intangible assets:

Domain properties and other intangible assets by category are as follows:

	Customer relationships	Technology	Domain and content	Computer software	Total
Cost					
Balance at January 1, 2014	\$ 18,032	\$ 9,998	\$ 7,800	\$ 1,119	\$ 36,949
Effect of movements in exchange rates	31	195	68	52	346
Balance at September 30, 2014	\$ 18,063	\$ 10,193	\$ 7,868	\$ 1,171	\$ 37,295
Amortization					
Balance at January 1, 2014	\$ 18,032	\$ 9,068	\$ 7,121	\$ 1,118	\$ 35,339
Amortization for the period	–	691	121	1	813
Effect of movements in exchange rates	31	163	32	52	278
Balance at September 30, 2014	\$ 18,063	\$ 9,922	\$ 7,274	\$ 1,171	\$ 36,430
Carrying amounts					
December 31, 2013	–	930	679	1	1,610
September 30, 2014	–	271	594	–	865

10. 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 September 30, 2014, no amounts were outstanding under the revolving demand facility and there was \$37 outstanding under the business credit card facility (2013 - \$72) included in accounts payable. The aggregate of available borrowings under all facilities described below cannot exceed \$250 at any time.

The revolving demand facility is up to \$100 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 \$150 business credit card allocation must not exceed 75% of accounts receivable with an aging less than 90 days, as defined in the credit agreement. Amounts outstanding are repayable upon demand.

EQ INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Three and Nine Months ended September 30, 2014 and 2013

10. Bank credit facilities (continued):

The Company renegotiated the revolving demand facility with the lender during the period ended September 30, 2014 and under the amended credit agreement, the Company is required to maintain a minimum cash balance of \$275. As at September 30, 2014, the Company was in compliance with the covenants. The Company did not draw against the line of credit as at September 30, 2014.

11. Shareholders' equity:

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.

12. Share-based payments:

The following table summarizes the continuity of options issued under the Company's stock option plan:

	September 30, 2014		December 31, 2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	1,106,871	\$ 1.75	1,109,104	\$ 2.08
Granted	200,000	0.54	95,000	0.55
Forfeited or cancelled	(269,373)	3.91	(97,228)	4.73
Adjustment to consolidation	—	—	(5)	—
Outstanding, end of period	1,037,498	0.99	1,106,871	1.75
Options exercisable, end of period	302,080	\$ 1.63	347,286	\$ 3.89

EQ INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Three and Nine Months ended September 30, 2014 and 2013

12. Share-based payments (continued):

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

Range of exercise prices	September 30, 2014			December 31, 2013		
	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
\$0.54-\$0.55	200,000	4.35	–	95,000	4.85	–
\$0.80	768,750	2.75	233,332	787,500	3.50	122,915
\$4.08-\$4.72	68,748	0.79	68,748	68,748	1.54	68,748
\$6.08-\$6.40	–	–	–	155,623	0.23	155,623
	1,037,498		302,080	1,106,871		347,286

During the three months ended September 30, 2014, the Company recorded share-based compensation expense related to stock options granted to employees of \$13 (2013 – \$10). During the nine months ended September 30, 2014, the Company recorded a share-based compensation expense of \$38 (2013 – \$45).

During the three months ended September 30, 2014 and 2013, no stock options were granted and no stock options were exercised.

During the nine months ended September 30, 2014, the Company granted 200,000 stock options and no stock options were exercised. During the nine months ended September 30, 2013, no stock options were granted or exercised.

13. Consolidated statements of cash flows:

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

	Nine months ended September 30,	
	2014	2013
Change in non-cash operating working capital:		
Accounts receivable	\$ 1,368	\$ 1,059
Other current assets	(90)	(15)
Accounts payable and accrued liabilities	(653)	(571)
Deferred revenue	(495)	(16)
Deferred lease inducement	109	–
	\$ 239	\$ 457

EQ INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Three and Nine Months ended September 30, 2014 and 2013

14. 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 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.

15. 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.

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 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.

EQ INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Three and Nine Months ended September 30, 2014 and 2013

15. Fair value of financial instruments (continued):

Financial assets measured at fair value as at September 30, 2014 and December 31, 2013 in the consolidated financial statements are summarized below.

September 30, 2014	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	\$ 649	\$ –	\$ –	\$ 649
Available-for-sale equity securities (i)	–	–	50	50
	\$ 649	\$ –	\$ 50	\$ 699

December 31, 2013	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	\$ 2,797	\$ –	\$ –	\$ 2,797
Available-for-sale equity securities (i)	–	–	50	50
	\$ 2,797	\$ –	\$ 50	\$ 2,847

There have been no transfers of assets between levels between September 30, 2014 and December 31, 2013.

- (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 September 30, 2014.

16. 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.

Customer concentration risk is the risk of financial loss to the Company due to reliance on one or a small number of customers for significant portions of its total revenues. If a customer that represents a significant portion of revenues reduces its activity or ceases to transact with the Company, there could be a material negative impact on the Company's financial stability.

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Notes to Unaudited Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Three and Nine Months ended September 30, 2014 and 2013

16. Financial risk management (continued):

For the three months ended September 30, 2014, there was one customer that comprised 11% of the Company's total revenue and three customers that comprised 22%, 18% and 10% of the Company's total revenue for the same period in 2013. For nine months ended September 30, 2014, there was one customer that comprised 15% of the Company's total revenue. For the same period in 2013, two customers comprised 20% and 14% of the Company's total revenue.

(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 September 30, 2014, five customers represented 17%, 16%, 13%, 12% and 10% of the accounts receivable balance of \$894, respectively. At December 31, 2013, three customers represented 27%, 17% and 11% of the accounts receivable balance of \$2,231. The accounts receivable balances due from the significant customers were current at September 30, 2014.

(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.

(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.

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Notes to Unaudited Condensed Consolidated Interim Financial Statements (continued)
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Three and Nine Months ended September 30, 2014 and 2013

16. Financial risk management (continued):

(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 nine months ended September 30, 2014, 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 of September 30, 2014.