

Management of the Company is required to make certain estimates, judgments and assumptions during the preparation of its consolidated financial statements in accordance with GAAP. These estimates, judgments and assumptions impact the reported amounts of assets, liabilities, revenue and expenses and the related disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

On an ongoing basis, the Company evaluates its estimates and judgments including those related to: the carrying value of accounts receivable, including the determination of the allowance for doubtful accounts and revenue reserves; the useful lives and recovery of property and equipment; and the liabilities for uncertain tax positions. The Company bases its estimates and judgments on historical experience, its forecasts and budgets and other factors that the Company considers relevant.

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Fair value measurement and financial instruments

The Company categorizes its financial instruments measured at fair value into a fair value hierarchy that prioritizes the inputs used in pricing the asset or liability. The three levels of the fair value hierarchy are:

- Level 1: Observable inputs obtained from independent sources, such as quoted prices for identical assets and liabilities in active markets.
- Level 2: Other inputs, which are observable directly or indirectly, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are derived principally from or corroborated by observable market data. The fair values of the Company's Level 2 financial assets are obtained from observable market prices for identical underlying securities that may not be actively traded.
- Level 3: Unobservable inputs for which there is little or no market data and require the Company to develop its own assumptions, based on the best information available in the circumstances, about the assumptions market participants would use in pricing the assets or liabilities.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

The Company's financial instruments consist of cash and cash equivalents, time deposits, accounts receivable, prepaid and other current assets, accounts payable, and accrued expenses and other current liabilities. The carrying values of these financial instruments approximate their fair values due to the immediate or short-term maturity of these instruments.

Cash and cash equivalents are valued based on Level 1 inputs and time deposits are valued based on Level 2 inputs. There are no assets or liabilities that are measured at fair value on a recurring basis using Level 3 inputs.

The Company's non-financial assets, such as property and equipment are adjusted to fair value only when an impairment charge is recognized. Such fair value measurements are based predominantly on Level 3 inputs.

Recent accounting pronouncement

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and develops a common standard for all industries. The new guidance is effective for reporting periods beginning after December 15, 2017. Entities have the option of using either a full retrospective or cumulative effect approach to adopt ASU No. 2014-09. In July 2015, the FASB decided to defer the effective date by one year, with early adoption on the original effective date permitted. The Company is currently evaluating the new guidance and has not yet determined whether the adoption of the new standard will have a material impact on its consolidated financial statements or the method and timing of adoption.

Note 2—Income taxes

At the end of each interim period, the Company makes its best estimate of the annual expected effective income tax rate and applies that rate to its ordinary year-to-date earnings or loss. The income tax provision or benefit related to significant, unusual, or extraordinary items, if applicable, that will be separately reported or reported net of their related tax effects are individually computed and recognized in the interim period in which they occur. In addition, the effect of changes in enacted tax laws or rates, tax

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status, judgment on the realizability of a beginning-of-the-year deferred tax asset in future years or income tax contingencies is recognized in the interim period in which the change occurs.

The computation of the annual expected effective income tax rate at each interim period requires certain estimates and assumptions including, but not limited to, the expected pre-tax income (or loss) for the year, permanent and temporary differences, and the likelihood of the realizability of deferred tax assets generated in the current year. The accounting estimates used to compute the provision or benefit for income taxes may change as new events occur, more experience is acquired, additional information is obtained or our tax environment changes. To the extent that the expected annual effective income tax rate changes during a quarter, the effect of the change on prior quarters is included in income tax provision in the quarter in which the change occurs.

For the six months ended June 30, 2014, the Company recorded an income tax provision of \$4.1 million, which represents an effective income tax rate of 26%. For the six months ended June 30, 2015, the Company recorded an income tax provision of \$7.2 million, which represents an effective income tax rate of 26%. The effective income tax rates are higher than the Canadian federal statutory rate of 15% due primarily to provincial taxes.

Various jurisdictions are open to examination for various tax years beginning with 2011. Income taxes payable include reserves considered sufficient to pay assessments that may result from examination of prior year tax returns. Changes to reserves from period to period and differences between amounts paid, if