

**VoodooVox Inc.  
Consolidated Financial Statements  
For the years ended December 31, 2013 and 2012**

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
**VoodooVox Inc.**

We have audited the accompanying consolidated financial statements of **VoodooVox Inc.** and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the years ended December 31, 2013 and December 31, 2012, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management are 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 the auditors' 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, the auditor considers 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 financial position of **VoodooVox Inc.** and its subsidiaries, as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and December 31, 2012 in accordance with International Financial Reporting Standards.

### Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes the material uncertainties that may cast significant doubt about the company's ability to continue as a going concern.

*Collins Barrow Toronto LLP*

Licensed Public Accountants  
Chartered Accountants  
April 27, 2014  
Toronto, Ontario

## Consolidated Statements of Operations and Comprehensive Loss

(In thousands of Canadian dollars, except share data)

Years ended December 31,	Note	2013	2012
<b>Operating revenue</b>		<b>3,523</b>	3,988
<b>Operating expenses</b>			
Network and data costs		<b>(1,580)</b>	(1,230)
Labour costs	9(e)	<b>(3,280)</b>	(5,390)
Other operating costs	9(b),10	<b>(985)</b>	(3,048)
Acquisition earn-out	7,16	-	(313)
Amortization	4,5	<b>(1,041)</b>	(1,197)
<b>Operating loss before the undernoted</b>		<b>(3,363)</b>	(7,190)
Gain on extinguishment of debentures	8	-	242
Gain (loss) on settlement of debt	7,10(e)	<b>(1,770)</b>	76
Loss attributed to debenture conversion incentive program	8(s)	<b>(5,316)</b>	-
Loss on impairment of goodwill	17	-	(2,211)
Loss on impairment of intangible assets	5,17	-	(104)
Gain (loss) on sale of other asset	6	<b>(172)</b>	88
Gain on sale of property and equipment		<b>26</b>	-
Interest and accretion on debentures	8,10	<b>(1,647)</b>	(2,053)
<b>Loss before income taxes</b>		<b>(12,242)</b>	(11,152)
Recovery of income taxes	11	-	-
<b>Net loss and comprehensive loss for the year</b>		<b>(12,242)</b>	(11,152)
<b>Loss per share</b>			
<b>Basic and diluted loss per share</b>	18	<b>(0.48)</b>	(2.82)
<b>Weighted average number of shares outstanding – basic and diluted</b>	18	<b>25,629,644</b>	3,959,813

**VoodooVox Inc.**  
**Consolidated Statements of Financial Position**

(In thousands of Canadian dollars, except share data)

(See Continuance of Operations – Note 1)

(See Commitments and Contingencies – Note 12)

(See Subsequent Events – Note 19)

As at December 31,	Note	2013	2012
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	3	135	19
Accounts receivable		578	663
Prepaid expenses and deposits		68	85
Other asset	6	-	378
		<u>781</u>	1,145
<b>Non-current assets:</b>			
Property and equipment	4	4	16
Intangible assets	5	1,616	2,646
Goodwill	16	232	232
		<u>2,633</u>	<u>4,039</u>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities	10	1,743	2,066
Current portion of debentures	8	578	310
Current portion of other liabilities	7	121	629
Deferred revenue		158	105
Income taxes payable	11	295	295
		<u>2,895</u>	3,405
<b>Non-current liabilities:</b>			
Other liabilities	7	-	1,027
Debentures	8	562	9,925
		<u>3,457</u>	14,357
<b>Shareholders' deficiency:</b>			
Share capital		83,437	66,816
Shares to be issued	10(e)(f)	-	161
Contributed surplus		18,375	13,099
Deficit		<u>(102,636)</u>	<u>(90,394)</u>
		<u>(824)</u>	<u>(10,318)</u>
		<u>2,633</u>	<u>4,039</u>

These consolidated financial statements are authorized for issue by the Board of Directors on April 17, 2014. They are signed on the Company's behalf by:

          "signed"           Director  
Micky Tsui

          "signed"           Director  
S. Graeme Ross

**VoodooVox Inc.**  
**Consolidated Statements of Changes in Shareholders' Deficiency**

(In thousands of Canadian dollars, except share data)

	Note	Number of Common shares	Share capital	Shares to be issued	Contributed surplus	Shareholder s' Deficit	Shareholder s' deficiency
<b>Balance at January 1, 2013</b>		4,040,350*	66,816	161	13,099	(90,394)	(10,318)
Net loss		-	-	-	-	(12,242)	(12,242)
Settlement of debt	10(e)	151,434*	113	(113)	-	-	-
Debenture guarantee fee	10(f)	31,900*	48	(48)	-	-	-
Employee stock purchase plan	9(b)	6,119*	9	-	-	-	9
Rent for shares	9(b)	81,764*	180	-	-	-	120
Advisory agreement	9(b)	10,000*	2	-	-	-	2
Shares issued on debentures	8(p)	945*	1	-	-	-	1
Warrants issued on debentures	8(p)(q)	-	-	-	11	-	11
Debenture conversion	8(s)	52,924,759*	13,231	-	4,549	-	17,780
Share issue costs on debenture conversion	8(s)	-	(381)	-	-	-	(381)
Shares issued in private placement	9(b)	6,476,000	1,619	-	-	-	1,619
Share issue costs	9(b)	-	(306)	-	91	-	(215)
Settlement of debt	7	8,418,920	2,105	-	-	-	2,105
Stock-based compensation	9(e)	-	-	-	625	-	625
<b>Balance at December 31, 2013</b>		<b>72,142,191</b>	<b>83,437</b>	<b>-</b>	<b>18,375</b>	<b>(102,636)</b>	<b>(824)</b>
	Note	Common shares	Share capital	Shares to be issued	Contributed surplus	Shareholder s' Deficit	Shareholder s' deficiency
Balance at January 1, 2012		3,036,738*	61,699	-	13,908	(79,242)	(3,635)
Net loss		-	-	-	-	(11,152)	(11,152)
Modification of conversion feature on debentures	8	-	-	-	467	-	467
Employee stock purchase plan	9(b)	13,971*	53	-	-	-	53
Debentures converted	8(c)	483,355*	3,598	-	(1,903)	-	1,695
Shares issued on acquisition	16	225,000*	1,069	-	-	-	1,069
Broker shares	8(h)(k)(l)(o)	180,287*	175	-	-	-	175
Shares issued on debentures	8(f)(h)(k)(l)(o)	52,900*	72	-	-	-	72
Advisory agreement	9(b)	40,000*	140	-	157	-	297
Debenture guarantee fee	10(f)	8,100*	10	48	-	-	58
Settlement of debt	10(e)	-	-	113	-	-	113
Stock-based compensation	9(e)	-	-	-	470	-	470
<b>Balance at December 31, 2012</b>		<b>4,040,350*</b>	<b>66,816</b>	<b>161</b>	<b>13,099</b>	<b>(90,394)</b>	<b>(10,318)</b>

\* Effective September 4, 2013, the Company consolidated its shares on a 50:1 basis (Note 9(b)). The historical share amounts presented in these financial statements have been retroactively adjusted to reflect this change.

**VoodooVox Inc.**  
**Consolidated Statements of Cash Flows**

(In thousands of Canadian dollars, except share data)

Years ended December 31,	Note	2013	2012
<b>Cash flows from operating activities:</b>			
Loss before income taxes for the year		(12,242)	(11,152)
Adjustments for:			
Stock-based compensation	9(e)	625	470
Amortization	4,5	1,041	1,197
Acquisition earn-out	7	-	313
Gain on extinguishment of debentures	8	-	(242)
Loss (gain) on settlement of debt	7,10(e)	1,770	(76)
Loss on impairment of goodwill		-	2,211
Loss on impairment of intangible assets	5	-	104
Onerous contract	7	-	434
Interest on debentures		1,114	1,275
Accretion on debentures		533	778
Administrative fee on debentures	8(r)	49	-
Advisory agreement	9(b)	2	140
Debenture guarantee	6	96	58
Loss (gain) on disposal of property and equipment		(26)	20
Settlement of receivable for other asset	6	-	(450)
Loss (gain) on sale of other asset	6	172	(88)
Loss attributed to debenture conversion incentive program	8(s)	5,316	-
		<u>(1,550)</u>	<u>(5,008)</u>
Changes in non-cash working capital balances:			
Accounts receivable		85	284
Prepaid expenses and deposits		17	88
Accounts payable and accrued liabilities		(460)	564
Other liabilities		45	231
Deferred revenue		53	(212)
		<u>(1,810)</u>	<u>(4,053)</u>
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	4	(2)	(3)
Proceeds from sale of other asset	6	110	160
Net cash acquired on VoodooVox acquisition	16	-	117
		<u>108</u>	<u>274</u>
<b>Cash flows from financing activities:</b>			
Issuance of common shares, net of issuance costs	9(b)	1,437	67
Proceeds from debt issuance, net of issuance costs	8(p,q,r,t)	1,786	5,274
Repayment of debentures	8(d,f,r)	(935)	(1,085)
Fees paid on debenture conversion	8(s)	(116)	-
Interest paid on debentures		(354)	(840)
		<u>1,818</u>	<u>3,416</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>116</b>	<b>(363)</b>
Cash and cash equivalents, beginning of year		19	382
<b>Cash and cash equivalents, end of year</b>		<b>135</b>	<b>19</b>

(In thousands of Canadian dollars, except share data)

## 1. Nature of Operations and Continuance of Operations

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VoodooVox Inc. (the "Company" or "VoodooVox") was incorporated under the laws of Canada on October 17, 2000 and was continued into Alberta on February 5, 2003. The Company is domiciled in Canada and the head office is located at 100 Consilium Place, Toronto, Ontario, Canada.

VoodooVox is a leader in performance based mobile advertising processing billions of transactions for a marquee list of global clients, agencies, advertisers and publishers. The Company's full service mobile ad network and campaign management platform drives precision-targeted local and national ad campaigns for brand promotion, brand engagement and lead-generation. Additionally, VoodooVox provides platform services for ad serving, analytics, call tracking, and hyper local campaign targeting to a growing list of mobile ecosystem partners.

The consolidated financial statements have been prepared on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company began commercial operations on October 17, 2000 and, to December 31, 2013, has accumulated a deficit amounting to \$102,636. The Company has a working capital deficiency of \$2,114 at December 31, 2013.

The Company's future operations are dependent upon its ability to secure additional funds or secure sales contracts (or both), which provide the Company with adequate funds to cover the cash flows projected for the next year. If the Company does not secure such contracts, or if it cannot secure additional financing, the Company will have to consider additional strategic alternatives which may include, among other strategies, exploring the monetization of certain intangible assets, modification of planned operating expenditures, or sale of the Company. It is not possible to predict whether the Company will be successful in securing new contracts or securing additional financing. These factors raise substantial doubt as to the Company's ability to continue as a going concern. These consolidated financial statements do not include adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

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## 2. Summary of Significant Accounting Policies

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(a) Statement of compliance to International Financial Reporting Standards

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee.

(b) Basis of preparation

The Company prepares its financial statements on a historical cost basis, except for certain financial instruments measured at fair value as described in the accounting policies below. Share-based payments are measured at fair value at the transaction date.

The accounting policies below have been applied consistently by the Company, and its subsidiaries, unless otherwise stated.

(In thousands of Canadian dollars, except share data)

## 2. Summary of Significant Accounting Policies (continued)

### (c) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its five wholly owned subsidiaries: (i) Call Genie (Ontario) Inc., (ii) VoodooVox Holding USA, Inc., (iii) Call Genie Europe B.V., (iv) VoodooVox Limited; and (v) BTS Logic Europe ApS. All intercompany transactions and balances have been eliminated on consolidation.

### (d) Use of estimates and key judgments

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates in the future. The most significant judgments and estimates include but are not limited to the following:

#### (i) Judgments

##### Arrangements with multiple deliverables

In revenue arrangements including more than one deliverable, the deliverables are assigned to one or more separate units of accounting and the arrangement consideration is allocated to each unit of accounting based on its relative fair value. Determining the fair value of each deliverable can require complex estimates due to the nature of the services provided. The Company generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a standalone basis after considering volume discounts where appropriate.

##### Contract accounting

When the delivery of multiple services and products involves significant production, modification or customization of software, the Company applies contract accounting. Revenue from long-term contracts is recognized using the percentage of completion method. The Company uses input measures (e.g., costs incurred) to estimate the amount of revenue to recognize.

##### Functional currency

Judgment is also used in the determination of the Company's functional currency and the functional currency of its subsidiaries.

##### Gross versus net revenue

In revenue arrangements where the Company acts as an intermediary in executing transactions with third parties, judgment is required to determine if the Company is acting as the principal or an agent in order to determine if revenue should be recognized on a gross or net basis.

#### (ii) Estimates

##### Long-term asset impairment

The process of testing for impairment begins with the identification of the appropriate asset or cash-generating unit ("CGU") for purposes of impairment testing. Identification and measurement of impairment is based on the asset's recoverable amount, which is the higher of its fair value less costs of disposal and value in use. Value in use is generally based on an estimate of discounted future cash flows using an appropriate discount rate. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The Company is considered a single CGU and the fair value of the Company as a whole is based on the market capitalization of the Company's shares using an appropriate control premium. The Company performed its annual impairment test as at October 1st.

(In thousands of Canadian dollars, except share data)

## 2. Summary of Significant Accounting Policies (continued)

### Useful lives of property and equipment and finite-life intangible assets

Property and equipment and finite-life intangible assets represent a significant proportion of the Company's total assets. Changes in technology or the intended use of these assets as well as changes in business prospects or economic and industry factors may cause the estimated useful lives of these assets to change. The Company reviews estimates of the useful lives of property and equipment and finite-life intangible assets on an annual basis and adjusts depreciation or amortization on a prospective basis, if necessary.

### Income taxes

Deferred tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment is required when assessing the timing of reversal of temporary differences to which future income tax rates are applied. Further, the amount of deferred tax assets, which is limited to the amount that is probable to be realized, is estimated with consideration given to the timing, sources and amounts of future taxable profit.

### Stock-based compensation

Determining the fair value of equity-settled stock-based compensation awards at the grant date requires judgment, including estimating the expected term of stock options, the expected volatility of the Company's stock and expected dividends. In addition, judgment is required to estimate the number of stock-based awards that are expected to be forfeited.

### Business combinations

The amount of goodwill initially recognized as a result of a business combination and the determination of the fair value of the identifiable assets acquired and the liabilities assumed is based, to a considerable extent, on management's judgment or estimate.

### Convertible debentures and debentures with detachable equity

Convertible debentures and debentures with detachable equity are accounted for in accordance with their substance and are presented in their component parts of debt and equity. The Company estimates the fair value of the debt component of convertible debentures by calculating the discounted cash flows of the debenture using an effective interest rate of a similar instrument but without the conversion feature. Similar instruments may have certain features that, while similar, may differ, such as the term, amount, security, and credit risk, and therefore management are required to exercise significant judgment or estimate in determining an appropriate discount rate.

### (e) Translation of foreign currencies

Items included in the consolidated financial statements of the Company and each of its subsidiaries are measured using the currency of the primary economic environment in which the individual entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and all of its subsidiaries.

Foreign currency transactions are generally translated into Canadian dollars at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are translated at period-end exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in operations in the period in which they arise.

(In thousands of Canadian dollars, except share data)

## 2. Summary of Significant Accounting Policies (continued)

(f) Classification of financial instruments

Financial instruments are classified into one of the following five categories: fair value through profit or loss ("FVTPL"), held-to-maturity, loans and receivables, available-for-sale financial assets and other financial liabilities. Financial instruments that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. Transaction costs on financial instruments classified as FVTPL are expensed as incurred. Transaction costs related to loans and receivables, available-for-sale financial assets and other financial liabilities are included in the carrying amounts of the financial instruments and amortized over the life of the instrument by the effective interest rate method.

(g) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term deposits that are readily convertible into a known amount of cash.

(h) Property and equipment

Property and equipment are recorded at cost, less accumulated amortization and any recognized impairment loss. The Company reviews the estimated useful lives of property and equipment on an annual basis and adjusts amortization on a prospective basis, if needed. Amortization is provided on a straight-line basis over the following estimated useful lives of the assets:

Leasehold improvements	Term of the lease
Furniture and equipment	5 years
Computer hardware	3 years

(i) Leases

Leases are classified as either finance or operating. Leases that transfer substantially all of the risks and rewards of ownership of a property to the Company are accounted for as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased equipment and the present value of the minimum lease payments. Equipment acquired under a finance lease is amortized over the shorter of the period of expected use on the same basis as other similar property and equipment and the lease term.

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Rental payments under operating leases are expensed to operations on a straight-line basis over the term of the lease.

(j) Lease inducements

Lease inducements comprise free rent and leasehold improvement incentives. Lease inducements are deferred and amortized to rent expense on a straight-line basis over the term of the related lease.

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(In thousands of Canadian dollars, except share data)

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## 2. Summary of Significant Accounting Policies (continued)

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(k) Intangible assets

Intangible assets are recorded at cost less accumulated amortization and less any recognized impairment loss. The Company reviews the estimated useful lives on an annual basis and adjusts amortization on a prospective basis, if needed. Amortization is provided on a straight-line basis over the following estimated useful lives of the assets:

Acquired technology	5-7 years
Customer lists	7 years
Software licenses	1 year

(l) Impairment of long-lived assets

Property and equipment and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In assessing value in use, the estimated pre-tax 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.

(m) Goodwill

Goodwill, being the excess of the purchase price over the assigned values of the net assets acquired, is stated at cost. The Company's goodwill is not amortized, but is tested for impairment at least annually in the fourth quarter. Goodwill is tested for impairment between annual tests when an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit below its carrying amount. Goodwill is allocated to a CGU or group of CGUs for the purpose of impairment testing based on the level at which it is monitored by management, and not at a level higher than an operating segment. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. Goodwill impairment is assessed based on the comparison of the recoverable amount of the asset to its carrying value. The recoverable amount is the higher of a CGU's or group of CGUs' fair value less costs of disposal and value in use. In assessing value in use, the estimated pre-tax 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 CGU for which the estimates of future cash flows have not been adjusted.

(n) Income taxes

Income tax expense comprises current and deferred taxes. Income tax expense is recognized in the consolidated statements of operations and comprehensive loss, except to the extent that it relates to items recognized directly in equity, in which case the tax is recognized in equity. An income tax asset or liability is the estimated tax receivable or payable on taxable earnings for the current and past periods, inclusive of any possible effect that could arise from a review by the tax authorities.

A deferred tax asset or liability is tax recoverable or payable in future periods as a result of past transactions or events. The Company uses the liability method to account for deferred tax assets or liabilities, which arise from temporary differences between the carrying amount of assets and liabilities recognized in the consolidated statements of financial position and their corresponding tax basis, or from the carryforward of unused tax losses and credits. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets are reviewed at each consolidated statement of financial position date and amended to the extent that it is no longer probable that the related tax benefit will be realized.

(In thousands of Canadian dollars, except share data)

## 2. Summary of Significant Accounting Policies (continued)

(o) 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 that obligation.

(p) Convertible debentures and debenture units with detachable equity

Convertible debentures and debenture units with detachable equity are accounted for in accordance with their substance and are presented in their component parts of debt and equity. The debt component is measured at the present value of the cash payments of interest and principal due over the term of the debentures using interest rates of comparable non-convertible debt. The difference between the face value of the debentures and the debt component value is allocated to the equity component, to the extent that the fair value of a detachable equity instrument does not exceed the fair value of the underlying common share. When the convertible debentures are distributed in conjunction with warrants, the fair value of the warrants and the conversion feature is estimated using the Black-Scholes option valuation model. The residual equity component is allocated pro rata between the conversion feature and the warrants based on their relative fair values.

If the terms of the convertible debentures are amended to induce early conversion, the fair value, at the date the terms are amended, of the incremental shares issuable under the revised terms as compared to the original terms is recognised as a loss in profit or loss.

Financing costs are allocated proportionally to the debt component and the equity component. The debt component, net of its proportional financing costs, is accreted to its face value through an interest charge over its term to maturity using the effective interest rate method. Upon conversion of the debentures, the debt portion related to the principal amount of debt converted is recognized as a charge to share capital.

(q) Loss per share

Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted loss per share considers the dilutive effect of the exercise of outstanding stock options, warrants and the conversion of convertible debentures, as if the events had occurred at the beginning of the year or at a time of issuance, if later. The dilutive effect on loss per share is recognized on the use of proceeds that would be obtained upon exercise of stock options and warrants. It assumes that proceeds would be used to purchase common shares at the average market price during the period. As the effect of all outstanding stock options, warrants and convertible debentures is anti-dilutive during a year when the Company incurs a loss, diluted earnings per share do not differ from basic loss per share.

(r) Revenue recognition

The Company enters into arrangements of three broad categories: (i) recurring multi-year service-oriented hosting arrangements, (ii) software license arrangements which include the provision of software licenses, implementation services and post-contract support, and (iii) services. Revenue from these arrangements is recognized when earned, specifically when all the following conditions are met: software licenses are delivered and services are provided (or either of them), there is clear evidence that an arrangement exists, amounts can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company.

The Company offers certain products and services as part of multiple deliverable arrangements. The Company divides multiple deliverable arrangements into separate units of accounting. Components of multiple deliverable arrangements are separately accounted for provided the delivered elements have standalone value to the customers and the fair value of any undelivered elements can be objectively and reliably determined. Consideration for these units is measured and allocated amongst the accounting units based upon their fair values and the Company's relevant revenue recognition policies are applied to them.

(In thousands of Canadian dollars, except share data)

## **2. Summary of Significant Accounting Policies (continued)**

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When the delivery of multiple services and products involves significant production, modification or customization of software, the Company applies contract accounting. Revenue from long-term contracts is recognized using the percentage-of-completion method based on a zero profit margin using input measures (e.g., costs incurred). Revenue is only recognized using the percentage-of-completion method where it is probable that the contract will be profitable.

The timing of revenue recognition sometimes differs from the contract payment schedule, resulting in revenues that have been earned but not billed. These amounts are recorded as accounts receivable. Amounts billed in accordance with customer contracts, yet not earned, are recorded as deferred revenue.

### Hosting arrangements

The Company enters into hosting arrangements under which the underlying software is maintained and operated in Company data centre facilities. The Company earns transaction automation fees, system maintenance fees, hosting fees and, in some cases, a share of customer advertising revenue from the service provided to the customer. The Company may also earn advertising revenue directly from advertising partners. Revenues for the fixed portion of these fees are recognized ratably over the contract period, while revenues for the variable portion of these fees are recognized as earned. In addition, the Company may charge fees for implementation or set-up in connection with the service provided. These fees are recognized ratably over the term of the contract, commencing upon completed delivery of the implementation and integration services.

### Software license arrangements

The Company also offers complete solutions integrated into the customers' data centres. These solutions may involve the delivery of multiple services and products, such as license fees, implementation fees and maintenance fees, occurring at different points in time and/or over different periods of time. Revenue recognition for these arrangements is determined based on an evaluation of the individual elements of the arrangements.

### Services

The Company also enters into annual standalone renewals of maintenance and support after the initial contract has been completed. The Company recognizes these revenues ratably over the term of the contract.

Revenue based on the activity of mobile users viewing ads through developer applications and mobile websites is recognized when advertising services are delivered based on the specific terms of the advertising contract, which are commonly based on the number of ads delivered, or views, clicks or actions by users on mobile advertisements. At that time, the services have been provided, the fees charged are fixed or determinable, persuasive evidence of an arrangement exists, and collectability is reasonably assured.

In the normal course of business, the Company acts as an intermediary in executing transactions with third parties. The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the Company is acting as the principal or an agent in these transactions with advertisers and involves judgment based on an evaluation of the terms of each arrangement. While none of the factors individually are considered presumptive or determinative, in reaching conclusions on gross versus net revenue recognition, management places the most weight on the analysis of whether or not the Company is the primary obligor in the arrangement. To date, management has determined that the Company is the primary obligor in all the advertising arrangements because the Company is responsible for identifying and contracting with third-party advertisers, establishing the selling prices of the advertisements sold, and performing all billing and collection activities, including retaining credit risk, and bearing sole responsibility for fulfillment of the advertising.

(In thousands of Canadian dollars, except share data)

## 2. Summary of Significant Accounting Policies (continued)

(s) Stock-based compensation

The Company accounts for its stock-based compensation programs using the fair value method, based on the number of stock options that are expected to vest. Under this method, stock-based compensation expense related to these programs is charged to operations with the corresponding amount increasing contributed surplus over the vesting period. On the exercise of options, consideration received and the related accumulated contributed surplus is credited to share capital. Compensation expense is adjusted for subsequent changes in management's estimate of the number of stock options that are expected to vest.

For equity-settled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which cases, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

(t) Segment reporting

The Company operates a single reportable operating segment, conducting business in two geographic areas of operations.

(u) Contributed surplus

Contributed surplus represents the fair value attributable to all unexercised and outstanding or expired stock options, warrants and equity component of convertible debentures.

(v) Changes to accounting standards

The following standards have been applied for periods beginning on or after January 1, 2013, and, unless otherwise indicated, have no effect on financial performance:

IFRS 10

In May 2011, the IASB issued IFRS 10 – Consolidated Financial Statements, which establishes principles for the presentation and preparation of consolidated financial statements. Under IFRS 10, control is identified as the single basis of consolidation for all types of entities.

IFRS 11

In May 2011, the IASB issued IFRS 11 – Joint Arrangements, which requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method.

IFRS 12

In May 2011, the IASB issued IFRS 12 – Disclosure of Interests in Other Entities, which integrates and enhances the disclosure requirements for entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. As required, the enhanced disclosures have been included in our annual financial statements for the year ended December 31, 2013.

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(In thousands of Canadian dollars, except share data)

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## 2. Summary of Significant Accounting Policies (continued)

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### IFRS 13

In May 2011, the IASB issued IFRS 13 – Fair Value Measurement, which establishes a single source of guidance for fair value measurement under IFRS. IFRS 13 defines fair value, provides guidance on measurement and introduces certain disclosure requirements. As required, the enhanced disclosures have been included in our annual financial statements for the year ended December 31, 2013.

### IAS 19, Employee Benefits (“IAS 19”)

In June 2011, the IASB amended IAS 19 – Employee Benefits, which changes the basis for determining the income or expense related to defined benefit plans.

#### (w) Future Accounting Pronouncements

IAS 32 Financial Instruments: Presentation was amended by the IASB in December 2011. Offsetting Financial Assets and Financial Liabilities amendment addresses inconsistencies identified in applying some of the offsetting criteria. The amendment is effective for annual periods beginning on or after January 1, 2014. Earlier application is permitted.

IAS 36 Impairment of Assets was amended by the IASB in June 2013. Recoverable Amount Disclosures for Non-Financial Assets amended certain disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment is effective for annual periods beginning on or after January 1, 2014.

IFRS 9 Financial Instruments was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is available for application; however, previous mandatory effective date of January 1, 2015 has been removed as the IASB decided that this date would not allow sufficient time for entities to apply the new standard because the impairment phase of the IFRS 9 has not yet been completed. The IASB will decide upon a new date when the entire IFRS 9 project is closer to completion.

Management is currently assessing the impact of these amendments.

December 31, 2013 and 2012

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

**3. Cash and Cash Equivalents**

As at December 31,	<b>2013</b>	2012
Business and savings accounts	<b>115</b>	9
Cashable guaranteed investment certificates and bank deposits	<b>20</b>	10
	<b>135</b>	19

**4. Property and Equipment**

	Computer Hardware	Furniture and Fixtures	Leasehold Improvements	Total
<b>Cost</b>				
January 1, 2013	439	35	-	474
Additions	2	-	-	2
Disposal	(124)	(29)	-	(153)
<b>December 31, 2013</b>	<b>317</b>	<b>6</b>	<b>-</b>	<b>323</b>
<b>Accumulated Amortization</b>				
January 1, 2013	425	33	-	458
Amortization for the year	10	1	-	11
Disposal	(121)	(29)	-	(150)
<b>December 31, 2013</b>	<b>314</b>	<b>5</b>	<b>-</b>	<b>319</b>
<b>At December 31, 2013</b>	<b>3</b>	<b>1</b>	<b>-</b>	<b>4</b>

	Computer Hardware	Furniture and Fixtures	Leasehold Improvements	Total
<b>Cost</b>				
January 1, 2012	1,168	411	111	1,690
Additions	3	-	-	3
Acquisition (Note 16)	19	10	9	38
Disposal	(751)	(386)	(120)	(1,257)
December 31, 2012	439	35	-	474
<b>Accumulated Amortization</b>				
January 1, 2012	1,129	378	78	1,585
Amortization for the year	34	34	42	110
Disposal	(738)	(379)	(120)	(1,237)
December 31, 2012	425	33	-	458
<b>At December 31, 2012</b>	<b>14</b>	<b>2</b>	<b>-</b>	<b>16</b>

December 31, 2013 and 2012

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

## 5. Intangible Assets

Year ended December 31, 2013	Acquired Technology	Customer Lists	Software Licenses	Total
<b>Cost</b>				
January 1, 2013 and December 31, 2013	6,637	-	295	6,932
<b>Accumulated Amortization</b>				
January 1, 2013	3,991	-	295	4,286
Amortization for the year	1,030	-	-	1,030
December 31, 2013	5,021	-	295	5,316
<b>At December 31, 2013</b>	<b>1,616</b>	<b>-</b>	<b>-</b>	<b>1,616</b>
Year ended December 31, 2012	Acquired Technology	Customer Lists	Software Licenses	Total
<b>Cost</b>				
January 1, 2012	5,733	358	295	6,386
Acquisition (Note 16)	904	-	-	904
Impairment write-down (Note 17)	-	(358)	-	(358)
December 31, 2012	6,637	-	295	6,932
<b>Accumulated Amortization</b>				
January 1, 2012	2,955	203	295	3,453
Amortization for the year	1,036	51	-	1,087
Impairment write-down (Note 17)	-	(254)	-	(254)
December 31, 2012	3,991	-	295	4,286
<b>At December 31, 2012</b>	<b>2,646</b>	<b>-</b>	<b>-</b>	<b>2,646</b>

## 6. Other Asset

During 2011, the Company acquired a net 560,000 common shares of a private company for \$350 and sold 175,500 shares for \$350. The net cash flows were nil. The common shares were initially accounted for at exchange amount and subsequently measured at cost as the shares do not have a quoted market price in an active market and fair value cannot be reliably measured.

During the second quarter of 2012, the Company sold 166,667 shares for gross proceeds of \$100 and assigned the remaining 218,333 to a former director as consideration for debenture guarantees.

Subsequently, the Company received an additional 750,000 common shares of the same private company as settlement for amounts owing under and cancellation of a license and maintenance contract. The Company recognized revenue and a carrying value on the shares of \$450 respectively.

(In thousands of Canadian dollars, except share data)

**6. Other Asset (continued)**

As at December 31, 2012, the Company held 630,000 common shares of the private company with a carrying value of \$378 equal to their average cost as the fair value of the common shares could not be measured reliably as the private company did not have a quoted market price.

During the first quarter of 2013, the Company assigned 40,000 of these common shares to an arms-length party as consideration for advisory services, assigned 275,000 of these common shares with a fair value of \$96 to a former director as consideration for his on-going debenture guarantees, sold the remaining 315,000 common shares to the same former director for gross proceeds of \$110, and recorded a loss of \$172 on settlement of these transactions. As at December 31, 2013, the Company did not hold any common shares of the private company.

**7. Other Liabilities**

As at December 31,	<b>2013</b>	2012
Deferred salaries	<b>37</b>	53
Interest on debentures	<b>39</b>	649
Onerous contracts (i)	-	412
UpSNAP acquisition earn-out	<b>45</b>	45
VoodooVox acquisition earn-out (ii) (Note 16)	-	497
	<b>121</b>	1,656
Current portion	<b>(121)</b>	(629)
	-	1,027

- (i) During the third quarter, the Company agreed to settle all outstanding payables and commitments under the contract through the issuance of 2,000,000 common shares valued at \$500. In addition to the onerous contract, accounts payables of \$347 were also settled with the same vendor. The Company recorded a loss of \$10 on the settlement.
- (ii) During the third quarter, the Company agreed to settle the outstanding earn-out through the issuance of 6,418,920 common shares valued at \$1,605. The VoodooVox acquisition earn-out arose from the acquisition of assets and business operations in January 2012 from a Delaware company then operating as VoodooVox, Inc. and consisted of contingent consideration of USD \$1,800 in cash over a period of time subject to net income. The Company estimated the carrying value of the earn-out provision in accordance with IFRS3, whereby, the contingent consideration was fair valued using a probability based approach using likelihoods of reaching the operating profits target and positive cash flows. In settling the earn-out, the Company recorded a loss of \$1,072.

December 31, 2013 and 2012

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

## 8. Debentures and Notes

As at	Conversion Price (\$/share)	Principal Amount	Rate of Interest	Dec 31, 2013	Dec 31, 2012
May 2012 Convertible Debenture (g)(s)	25.00	-	10.0%	-	383
Oct 2012 Convertible Debenture (n)(s)	25.00	-	12.0%	-	1,585
Aug 2012 Convertible Debenture* (c)(i)(s)	5.00	70	15.0%	<b>65</b>	310
Aug 2012 Debenture* (j)(s)	-	-	10.0%	-	653
Feb 2012 Debenture (a)(s)	-	-	12.0%	-	300
Mar 2015 Convertible Debenture (b)(c)(s)	12.50	-	12.0%	-	2,033
Sep 2012 Debenture* (d)	-	-	15.0%	-	250
Mar 2013 Debenture* (e)(s)	-	-	15.0%	-	750
Sep 2012-II Debenture* (f)	-	-	12.0%	-	50
Jun 2014 Debenture* (h)(s)	-	-	17.5%	-	707
Aug 2015 Debenture (k)(s)	-	300	12.0%	<b>267</b>	1,664
Sep 2015 Debenture (l)(s)	-	180	12.0%	<b>151</b>	770
Oct 2015 Debenture* (m)(s)	-	-	12.0%	-	191
Nov 2015 Debenture (o)(s)	-	-	12.0%	-	589
Jan 2016 Debenture (p)(s)	-	-	12.0%	-	-
Mar 2015 Debenture (c)(q)	-	150	12.0%	<b>143</b>	-
Promissory notes (r)	-	103	10.0%	<b>103</b>	-
Promissory notes (t)	-	500	-	<b>411</b>	-
				<b>1,140</b>	10,235
Current portion				<b>(578)</b>	(310)
				<b>562</b>	9,925

\*These debentures are secured by certain assets owned by a company controlled by a former director.

All of the Company's debentures grant a security interest in and to all of the Company's present and future property as collateral for the debt.

- (a) Effective February 14, 2011, the Company completed a non-brokered private placement of 300 units of debentures, in denominations of one thousand dollars, in the aggregate principal amount of \$300. The debentures bear interest at a rate of 12% per annum, payable monthly, and were scheduled to mature on February 14, 2012 (the "Feb 2012 Debentures"). The Company incurred financing costs of \$50 in connection with the debentures. On maturity the Company entered into an agreement with the debenture holder to defer repayment of principal to February 14, 2013. In November 2012, the Company entered into a further agreement to defer the repayment of principal and interest to May 14, 2014.

(In thousands of Canadian dollars, except share data)

## 8. Debentures and Notes (continued)

- (b) Effective March 2, 2011, the Company completed a brokered private placement of 5,000 non-redeemable, secured convertible debentures, in denominations of one thousand dollars, in the aggregate principal amount of \$5,000 (the "Mar 2015 Convertible Debentures"). The debentures bear interest at a rate of 12% per annum, payable semi-annually on March 2 and September 2, and mature on March 2, 2015. Holders may convert principal into common shares of the Company at any time prior to their maturity at a conversion price of \$12.50 per share. The debentures were not redeemable by the Company prior to maturity.

These debentures had characteristics of both debt and equity. Accordingly, \$3,179 of the fair value was ascribed to the debt component and \$1,102 was ascribed to the equity component, net of financing costs. Fair value was determined by reference to similar debt instruments without conversion feature and market transactions. The Company incurred financing costs of \$719 in connection with this placement of convertible debentures, of which \$446 was paid in cash, \$25 was paid through the issuance of 3,000 common shares, and the remainder was paid through the issuance of 500 broker warrants. These costs have been pro-rated against the debt and equity components.

- (c) On December 29, 2011, the shareholders and directors of the Company approved an incentive program, effective from December 29, 2011 to January 31, 2012, in an effort to encourage holders of outstanding debentures to convert outstanding principal and interest into common shares. To promote the conversion of the principal amount of debentures and the accrued but unpaid interest thereon, management and directors of the Company offered debentures holders the following options:

For the Aug 2012 Convertible Debentures, the Company offered to issue 100 share purchase warrants for each one thousand dollars converted, each warrant entitling the holder to purchase one common share, at any time and from time to time until December 31, 2013, at an exercise price of \$6.00 per common share. In January 2012, the Company converted \$5 aggregate principal convertible debentures with a carrying value on conversion of \$4 and \$1 accrued interest in exchange for 1,050 common shares. In connection with the conversions, the Company issued 45,500 warrants in January 2012 with an estimated fair value of \$393.

For the Mar 2015 Convertible Debentures, the Company amended the conversion price from \$12.50 to \$5.00. In January 2012, the Company converted \$2,320 aggregate principal convertible debentures with a carrying value of \$1,691 and \$92 accrued interest in exchange for 482,305 common shares and allocated \$1,903 from contributed surplus to share capital.

- (d) Effective March 1, 2012, the Company completed a non-brokered private placement of 250 debentures, in denominations of one thousand dollars, in the aggregate principal amount of \$250 (the "Sep 2012 Debentures"). The debentures bear interest at the rate of 15% per annum, payable quarterly in June and September, and matured on September 2, 2012. The Company incurred financing costs of \$13 in connection with this placement of debentures. On maturity, the Company entered into an agreement with the debenture holder to defer the repayment of principal and interest to September 2, 2014 or earlier subject to financing goals. During the first quarter, the Company met the financing goals and renegotiated the agreement to repay the principal and interest before September 30, 2013. The Company redeemed \$50 in the first quarter and the remaining \$200 in the third quarter.

(In thousands of Canadian dollars, except share data)

## 8. Debentures and Notes (continued)

- (e) Effective March 1, 2012, the Company completed a non-brokered private placement of 750 debentures, in denominations of one thousand dollars, in the aggregate principal amount of \$750 (the "Mar 2013 Debentures"). The debentures bear interest at the rate of 15% per annum, payable semi-annually in September and March, and mature on March 1, 2013. Two officers of the Company purchased a total of 60 debentures and two directors purchased a total of 35 debentures for a total aggregate principal of \$95. In September 2012, the Company entered into agreements with the debenture holders to defer repayment of principal and interest on \$330 in debentures until March 1, 2014 and \$420 until March 1, 2015.
- (f) Effective May 20, 2012, the Company completed a non-brokered private placement of 100 units. Each unit, in denominations of one thousand dollars, consisted of a non-convertible debenture and 40 common shares. The debentures, in the aggregate principal of \$100 (the "Sep 2012-II Debentures"), bear interest at a rate of 12.0% per annum, payable at maturity, and matured on September 20, 2012. The Company determined the fair value of the debentures was \$95 and allocated the difference of \$5 to the 4,000 common shares. The Company incurred no financing costs in connection with the private placement. On maturity, the Company entered into agreements with the debenture holder to redeem \$50 and defer repayment of principal and interest on the remainder. The Company redeemed \$25 in the first quarter, \$6 in the second quarter and the remaining \$19 in the third quarter.
- (g) On May 30, 2012, a total of \$475 of convertible debentures matured (the "May 2012 Convertible Debenture"). The Company redeemed \$10 in convertible debentures and entered into agreements with debenture holders of \$165 and \$300 par value to defer repayment of principal and interest and to extend the conversion feature to August 31, 2012 and October 12, 2012, respectively. Upon these maturities, the Company entered into new agreements with the debentures holders to further extend the maturity to October 31, 2014. As a result of these renegotiations, the Company recorded the convertible debentures and conversion features at their new fair values and allocated \$107 to contributed surplus.
- (h) Effective June 28, 2012, the Company completed a non-brokered private placement of 815 units. Each unit, in denominations of one thousand dollars, consisted of a non-convertible debenture with a par value of nine hundred and eighteen dollars (the "Jun 2014 Debentures") and 60 common shares. The debentures bear interest at a rate of 17.5% per annum, payable quarterly, and mature on June 27, 2014. The Company determined the fair value of the debentures was \$748 and allocated the difference of \$67 to the 48,900 common shares. The Company issued 46,000 common shares valued at \$58 for costs related to this financing. The Company allocated \$5 of financing costs to the common shares.
- (i) On August 12, 2012, a total of \$1,170 of convertible debentures matured (the "Aug 2012 Convertible Debenture"). The Company redeemed \$820 in convertible debentures and entered into agreements with the remaining debenture holders to defer repayment of principal and interest to October 12, 2014. As a result of these renegotiations, the Company recorded the convertible debentures and conversion features at their new fair values and allocated \$44 to contributed surplus.
- (j) On August 12, 2012, a total of \$875 of debentures matured (the "Aug 2012 Debenture"). The Company entered into agreements with the debenture holders to defer repayment of principal and interest to August 12, 2015 and to change the interest rate on the debenture to 10%. As a result of these renegotiations, the Company recorded the debentures at their new fair values and reflected \$242 as a gain on extinguishment of debentures on the consolidated statements of operations and comprehensive loss.

(In thousands of Canadian dollars, except share data)

## 8. Debentures and Notes (continued)

- (k) Effective August 13, 2012, the Company completed a brokered private placement of 1,837 units. Each unit, in denominations of one thousand dollars, consisted of a non-convertible debenture and 60 warrants. The debentures, in aggregate principal of \$1,837 (the "Aug 2015 Debentures"), bear interest at a rate of 12% per annum, payable quarterly, and mature on August 13, 2015. The warrants have an exercise price of \$1.00 and expire on August 13, 2015. The Company determined the fair value of the debentures was \$1,754 and allocated the difference of \$83 to the 110,220 warrants. The Company incurred financing costs of \$280 in connection with this debenture, consisting of \$93 in cash, \$37 on the issuance of 26,677 common shares to the broker and \$150 on the issuance of 150 units to an agent with similar terms. The Company determined the \$150 fair value of the units issued to the agent was attributable \$143 to the debentures and \$7 to the 9,000 warrants. The Company allocated \$13 of financing costs to the warrants.
- (l) Effective September 19, 2012, the Company completed a brokered private placement of 1,000 units. Each unit, in denominations of one thousand dollars, consisted of a non-convertible debenture and 60 warrants. The debentures, in aggregate principal of \$1,000 (the "Sep 2015 Debentures"), bear interest at a rate of 12% per annum, payable quarterly, and mature on September 19, 2015. The warrants have an exercise price of \$1.00 and expire on September 19, 2015. One officer of the Company purchased 50 units. The Company determined the fair value of the debentures was \$925 and allocated the difference of \$75 to the 60,000 warrants. The Company incurred financing costs of \$186 in connection with this debenture, consisting of \$109 in cash, \$2 on the issuance of 1,710 common shares to the broker and \$75 on the issuance of 100,000 common shares to an agent. The Company allocated \$14 of financing costs to the warrants.
- (m) Effective October 25, 2012, the Company completed a non-brokered private placement of 200 units. Each unit, in denominations of one thousand US dollars, consisted of a non-convertible debenture and 60 warrants. The debentures, in aggregate principal of USD \$200 (the "Oct 2015 Debentures"), bear interest at a rate of 12% per annum, payable quarterly, and mature on October 25, 2015. The warrants have an exercise price of \$1.00 and expire on October 25, 2015. The Company determined the fair value of the debentures was \$191 and allocated the difference of \$9 to the 12,000 warrants. The Company incurred no financing costs in connection with this private placement.
- (n) On October 31, 2012, a total of \$2,090 in convertible debentures matured (the "Oct 2012 Convertible Debenture"). The Company redeemed \$105 in convertible debentures and entered into agreements with a \$100 debenture holder to defer repayment of principal and interest until December 31, 2012, a \$10 debenture holder to defer repayment of principal and interest until April 30, 2013, \$250 debenture holders to defer repayment of principal until October 31, 2014 with interest due semi-annually, and the remaining \$1,625 debenture holders to defer repayment of principal and interest to October 31, 2014. On April 30, 2013, the Company redeemed \$10 in convertible debentures which had matured.
- (o) Effective November 30, 2012, the Company completed a brokered private placement of 625 units. Each unit, in denominations of one thousand dollars, consisted of a non-convertible debenture and 60 warrants. The debentures, in aggregate principal of \$625 (the "Nov 2015 Debentures"), bear interest at a rate of 12% per annum, payable quarterly, and mature on November 19, 2015. The warrants have an exercise price of \$1.00 and expire on November 19, 2015. One officer of the Company purchased 50 units and one director of the company purchased 25 units. The Company determined the fair value of the debentures was \$615 and allocated the difference of \$10 to the 37,500 warrants. The Company incurred financing costs of \$63 in connection with this debenture, consisting of \$20 in cash, \$8 on the issuance of 5,900 common shares to the broker and \$35 on the issuance of 35 units to an agent with similar terms. The Company determined the \$35 fair value of the units issued to the agent was attributable \$34 to the debentures and \$1 to the 2,100 warrants. The Company allocated \$1 of financing costs to the warrants.

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(In thousands of Canadian dollars, except share data)

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## 8. Debentures and Notes (continued)

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- (p) Effective January 30, 2013, the Company completed a brokered private placement of 525 units. Each unit, in denominations of one thousand dollars, consisted of a non-convertible debenture and 60 warrants. The debentures, in aggregate principal of \$525 (the "Jan 2016 Debentures"), bear interest at a rate of 12% per annum, payable quarterly, and mature on January 30, 2016. The warrants have an exercise price of \$1.00 and expire on January 30, 2016. The Company determined the fair value of the debentures was \$517 and allocated the difference of \$8 to the 31,500 warrants. The Company incurred financing costs of \$53 in connection with this debenture, consisting of \$52 in cash and \$1 on the issuance of 945 common shares to the broker. The Company allocated \$1 of financing costs to the warrants.
- (q) Effective March 18, 2013, the Company completed a brokered private placement of 150 units. Each unit, in denominations of one thousand dollars, consisted of a non-convertible debenture and 60 warrants. The debentures, in aggregate principal of \$150 (the "Mar 2015 Debentures"), bear interest at a rate of 12% per annum, payable quarterly, and mature on March 18, 2015. The principal and interest amounts may be repaid by the Company through the provision of certain services to the holder. The warrants have an exercise price of \$1.00 and expire on March 18, 2015. The Company determined the fair value of the debentures was \$145 and allocated the difference of \$5 to the 9,000 warrants. The Company incurred financing costs of \$6 in connection with this debenture. The Company allocated \$1 of financing costs to the warrants.
- (r) During the second quarter, the Company received a series of promissory notes totalling \$650. Each promissory note bears interest at 10% until June 28, 2013 and 39% thereafter. The Company incurred financing costs of \$49 in connection with the promissory note. The financing costs were added to the outstanding balance on the promissory notes. On August 21, 2013, the Company agreed to settle the outstanding principal and accrued interest through the payment of \$625 and the issuance of a new promissory note of \$103 bearing interest at 10% until November 1, 2013. No gain or loss was recorded on settlement as the promissory notes were fully accreted. Subsequently, the note holder agreed to extend the maturity date to February 6, 2014.
- (s) On June 14, 2013, the shareholders and directors of the Company approved an incentive program in an effort to encourage holders of outstanding debentures to convert outstanding principal and interest into common shares, excluding certain short term promissory notes and a debenture from a strategic investor where the principal and interest amounts may be repaid by the Company through the provision of certain services to the holder. The incentive program offered debenture holders the option to convert the principal amount of debentures and the accrued but unpaid interest thereon into common shares at the weighted average market price of the Company's common shares at the date of conversion. Effective August 30, 2013, the Company converted an aggregate of \$11,865 principal amount of debentures and \$1,366 accrued interest thereon into 52,924,759 common shares at a conversion price of \$0.25 per share. The original conversion price on the convertible debentures ranged from \$5 to \$25. The Company incurred financing costs of \$381 on the conversion. Included in the conversion were a total of \$355 principal amount of debentures which were held by officers and directors of the Company, and a total of \$850 principal amount of debentures held by a holder of more than 10% of the Common Shares immediately prior to the completion of the conversion.

The Company recorded a loss on the settlement of the Company's non-convertible debentures of \$688, calculated as the difference between the carrying value of the Company's non-convertible debentures and the fair value of the equity issued. On the Company's pre-existing convertible debentures, the Company recorded a loss on the amendment of the conversion terms of \$5,316, equal to the number of incremental common shares that could have been distributed to debenture holders under the new conversion terms as compared to the number of common shares under the original conversion terms of the debentures, and an adjustment to contributed surplus of \$767.

(In thousands of Canadian dollars, except share data)

## **8. Debentures and Notes (continued)**

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- (t) Effective October 2, 2013, the Company issued a series of short term notes for gross proceeds of \$500. The notes bear no interest and have a one year term after which they convert into a 12% convertible debenture. The Company incurred financing costs of \$115 in connection with the notes. In the event that the Company completes a financing transaction prior to maturity, the notes will be automatically substituted for such securities and included in the financing transaction on a pari passu basis. The proceeds will be used by the Company solely to service existing advertising campaigns and acquire new advertising campaigns. The \$500 short term notes along with \$75 in costs were converted to common shares on February 6, 2014.
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## **9. Equity Instruments**

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- (a) Authorized  
Unlimited common shares without par value  
Unlimited preferred shares without par value, non cumulative, redeemable and non-voting
- There are no issued and outstanding preferred shares.
- (b) Issued and outstanding common shares
- (i) The Company has established an employee stock purchase plan for the benefit of all eligible employees. Under the plan, common shares of the Company may be purchased at three-month intervals at 85% of the weighted average trading price of such shares for the applicable three-month period. Employees may contribute from 3% to 20% of their gross base salary. During the year ended December 31, 2013, the Company issued 6,119 (2012 – 13,971) common shares at an average price of \$1.46 (2012 – \$3.85) per share.
- (ii) The Company had a “shares for rent” agreement with one of its landlords. Under the terms of the agreement, at the Company’s option the landlord was required to subscribe for a number of common shares in exchange for the value of quarterly net rent. The number of common shares, calculated on the first day of each quarter, was equal to the net rent due divided by a denominator equal to the previous five-day weighted average closing price of the common shares (as reported by the TSX). The agreement commenced on July 1, 2009 and ended on September 30, 2013. During the year, the Company issued 81,764 shares for \$180 in rent payments.
- (iii) On September 7, 2012, the Company issued 40,000 common shares to an advisor in connection with a general financial advisory agreement executed on May 10, 2012. The Company estimated the fair value of these common shares to be \$140 based on the share price in effect on the date the advisory agreement was signed. The transaction was measured based on the fair value of equity instruments granted as the fair value of the services cannot be reliably measured.
- (iv) On January 18, 2013, the Company issued 10,000 common shares to an advisor in connection with a general financial advisory agreement executed on November 26, 2012. The Company estimated the fair value these common shares to be \$2 based on the share price in effect on the date the advisory agreement was signed. The transaction was measured based on the fair value of equity instruments granted as the fair value of the services cannot be reliably measured.

December 31, 2013 and 2012

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

## 9. Equity Instruments (continued)

- (v) On June 14, 2013, the shareholders and directors of the Company approved the consolidation of the Company's common shares (or reverse-split) on the basis of 50 (old) common shares for 1 (new) common share. The Company completed the share consolidation on September 4, 2013. The historical share amounts presented in these financial statements have been retroactively adjusted to reflect this change.
- (vi) On September 5, 2013, the Company completed a brokered private placement for 6,476,000 common shares, at a price of \$0.25 per share, for aggregate gross proceeds of \$1,619. The Company incurred financing costs of \$215 and issued 438,880 warrants to the broker. The broker warrants have an exercise price of \$0.25 and expire on September 5, 2015. The Company determined the fair value of the broker warrants of \$91 using the Black-Scholes option valuation model assuming a share price of \$0.25, a risk-free interest rate of 1.2%, an expected volatility of 194% and an expected life of 2.0 years.

## (c) Issued and outstanding warrants

	Weighted Average Exercise Price (\$)	Number
<b>Outstanding, January 1, 2012</b>	7.23	245,771
Issued on debt conversion (Note 8(c))	6.00	45,500
Issued on debentures (Note 8(k)(l)(m)(o))	1.00	230,820
Expired	11.25	(57,771)
<b>Outstanding, December 31, 2012</b>	3.31	464,320
Issued on debentures (Note 8(p)(q))	1.00	40,500
Issued on private placement (Note 9(b))	0.25	438,880
Expired	6.00	(45,500)
<b>Outstanding, December 31, 2013</b>	<b>1.68</b>	<b>898,200</b>

Warrants outstanding as of December 31, 2013 are as follows:

Exercise Price (\$)	Weighted Average Remaining Contractual Life in Years	Outstanding
6.00	0.8	188,000
1.00	1.7	271,320
0.25	1.7	438,880

December 31, 2013 and 2012

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

## 9. Equity Instruments (continued)

(d) Issued and outstanding broker warrants

	Weighted Average Exercise Price of Convertible Debenture (thousand)	Number
<b>Outstanding, December 31, 2013 and 2012</b>	<b>\$1</b>	<b>637.25</b>

As part of the March 2, 2011 brokered private placement (Note 8(b)), the Company issued 500 broker warrants, each warrant entitling the holder to acquire one thousand dollars principal amount secured convertible debenture. Holders may convert principal into common shares of the Company at any time prior to March 2, 2015 at a conversion price of \$12.50 per share.

The weighted average remaining contractual life for broker warrants outstanding as of December 31, 2013 is 0.9 years.

(e) Options

Under the Company's current Stock Option Plan (the "Plan"), the Company's directors may approve the issuance of stock options to directors, officers, employees and consultants of the Company and its affiliates. The aggregate number of shares reserved for issuance under the Plan is up to 15% of the number of outstanding common shares. As at December 31, 2013, 8,597,200 stock options remain outstanding at exercise prices ranging from \$0.10 to \$12.00 per share. Options for the Company's directors, officers and consultants vest immediately, while options for employees generally vest ratably over a period of three years, except for 9,000,000 options granted on November 7, 2013, which vest ratably over a period of two years. All options have a life of five years and have expiry dates ranging from September 2, 2014 to November 7, 2018.

The Company measures compensation costs associated with stock-based compensation using the fair value method and the cost is recognized over the vesting period of the underlying security. Expected volatilities are based on the historical volatility of VoodooVox's share price. The fair value of each option is determined at the grant date using the Black-Scholes option valuation model with the following weighted average assumptions:

	2013	2012
Risk-free rate	1.2%	1.0%
Expected dividend yield	0.0%	0.0%
Expected volatility rate	194%	119%
Expected option life	3 years	3 years
Forfeiture rate	15.0%	15.0%
Share price (per share)	0.10	2.80
Exercise price (per share)	0.10	2.80
Fair value (per share)	0.09	2.15

(In thousands of Canadian dollars, except share data)

**9. Equity Instruments (continued)**

During the year ended December 31, 2013, \$625 (2012 - \$470) was included in labour costs as stock-based compensation related to options with the corresponding amount charged to contributed surplus.

The following table sets out information concerning stock options issued to employees, consultants, directors and officers that were outstanding at December 31, 2013 and 2012:

	Weighted Average Exercise Price (\$)	Number of Options
<b>Outstanding, January 1, 2012</b>	5.55	254,700
Granted	2.79	567,000
Forfeited	4.80	(236,500)
<b>Outstanding, December 31, 2012</b>	3.17	585,200
Granted	0.10	9,071,200
Forfeited	0.38	(1,059,200)
<b>Outstanding, December 31, 2013</b>	<b>0.28</b>	<b>8,597,200</b>

The following table summarizes information about the stock options outstanding at December 31, 2013:

Range of Exercise Prices per Share (\$)	Number of Options Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price (\$)	Number of Options Vested/ Exercisable	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price (\$)
0 to 2.50	8,328,000	4.8	0.12	4,733,297	4.8	0.12
2.50 to 5.00	210,900	2.1	4.28	141,381	1.6	4.17
5.00 to 7.50	10,400	1.8	5.87	9,600	1.7	5.92
7.50 to 12.50	47,900	1.4	8.06	43,666	1.3	8.07
<b>0 to 12.50</b>	<b>8,597,200</b>	<b>4.7</b>	<b>0.28</b>	<b>4,927,944</b>	<b>4.7</b>	<b>0.31</b>

(In thousands of Canadian dollars, except share data)

**10. Related Party Transactions**

The Company had the following related party transactions:

- (a) Included in other operating costs for the year ended December 31, 2013 are \$nil (2012 - \$247) of consulting services paid to companies controlled or influenced by directors and management contractors of the Company.
- (b) Included in accounts payable and accrued liabilities at December 31, 2013 are \$63 (2012 - \$63) due to companies controlled or influenced by directors, management and management contractors of the Company, all of which are for services rendered and reimbursement of expenses.
- (c) For the year ended December 31, 2013, the Company made interest payments on debentures of \$57 (2012 - \$23) to directors and management of the Company.
- (d) As part of the March 1, 2012 private placement of debentures (note 8(d)), two officers and two directors purchased \$95 in total debentures. As part of the June 28, 2012 private placement of debentures (note 8(h)), one director purchased \$45 in units. As part of the September 19, 2012 private placement of debentures (note 8(l)), one officer purchased \$50 in units. As part of the November 30, 2012 private placement of debentures (note 8(o)), one officer and one director purchased \$75 in total units. As part of the September 5, 2013 private placement of common shares, two officers, a former officer and one director purchased \$180 in total common shares.
- (e) In October 2012, the Company entered into an arrangement with a company influenced by a former director to settle \$189 in accounts payable through the issuance of 151,434 common shares of the Company with a fair value of \$113. The shares were issued in the first quarter.
- (f) During 2012, the Company issued 8,100 common shares to a former director as compensation for debenture guarantees. During the first quarter, the Company issued an additional 31,900 common shares to the same former director. The Company estimated the total fair value of these common shares to be \$48 based on the share price in effect on the date the agreement was signed. The transaction was measured based on the fair value of equity instruments granted as the fair value of the services cannot be reliably measured. In addition, the Company paid insurance on the personal assets pledged by the former director as part of the debenture guarantees in the amount of \$45 (2012 – \$96).

All the related party transactions have been measured at the exchange amounts, which is the amount agreed upon between the related parties.

**Key management compensation**

<b>Compensation</b>	<b>2013</b>	<b>2012</b>
Salaries	1,136	1,014
Stock-based compensation	437	219
	<b>1,573</b>	<b>1,233</b>

The key management includes the senior officers of the Company.

December 31, 2013 and 2012

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

## 11. Income Taxes

The effective rates of income tax vary from the statutory tax rates as follows:

At December 31,	2013	2012
Combined statutory tax rates	<u>25%</u>	<u>25%</u>
Expected income tax recovery at statutory tax rates	(3,060)	2,783
Permanent differences	1,845	(946)
Share issue costs	(205)	
Expiry of non-capital losses	225	
Effect of jurisdictional tax rates	(508)	55
Resolution of uncertain tax positions	277	-
Unrecognized deferred tax assets	<u>1,426</u>	<u>(1,892)</u>
<b>Recovery of income taxes</b>	<u>-</u>	<u>-</u>

Deferred income taxes reflect the net effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. Significant components of the deferred income tax assets that have not been recognized include the following:

At December 31,	2013	2012
Carrying value of long-term assets in excess of tax value	2,035	2,059
Financing costs deductible in the future	291	212
Unused tax loss carryforwards	<u>17,435</u>	<u>16,063</u>
<b>Unrecognized deferred income tax assets</b>	<u>19,761</u>	<u>18,334</u>

As at December 31, 2013, subject to confirmation from the respective income tax authorities, the Company has a total of \$65,640 of Canadian non-capital losses and \$2,117 of US non-capital losses that are available for carryforward to offset future years' taxable income expiring as follows:

Non-Capital Losses	Canadian	US
2014	118	-
2015	1,279	-
2026	5,421	26
2027	11,267	1,110
2028	17,474	-
2029	8,412	56
2030	6,719	198
2031	4,403	84
2032	8,188	-
2033	<u>2,359</u>	<u>643</u>
	<u>65,640</u>	<u>2,117</u>

(In thousands of Canadian dollars, except share data)

## **12. Commitments and Contingencies**

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(a) Leases

The Company has no significant obligations under long-term operating leases. The Company incurred operating lease costs of \$46 for the year ended December 31, 2013 (2012 - \$799).

(b) General

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims from customers, suppliers and former employees. On an ongoing basis, the Company assesses the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after analysis of each individual matter. The required provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy in dealing with these matters.

Management believes that adequate provisions have been recorded in the accounts, where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes, but can provide no assurances, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position or results of operations of the Company.

(In thousands of Canadian dollars, except share data)

**13. Financial Instruments and Risk Management****Classification of financial instruments**

Upon initial recognition, all financial instruments are recorded on the statements of consolidated financial position at their fair value. After initial recognition, the financial instruments are measured at their fair value, except for held-to-maturity investments, loans and receivables and other financial liabilities, which are measured at amortized cost using the effective interest rate method and available for sale instruments whose fair value cannot be measured reliably are held at cost. Changes in the fair value of FVTPL financial instruments are recognized in operations for the year. The Company does not hold any held-to-maturity investments.

The Company holds various forms of financial instruments as follows:

	Designation	Measurement	2013	2012
Cash and cash equivalents	FVTPL	Fair value	135	19
Accounts receivable (excluding commodity tax)	Loans and receivables	Amortized cost	494	634
Other asset	Available for sale	Cost	-	378
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	1,743	2,066
Interest on debentures	Other financial liabilities	Amortized cost	39	649
Debentures	Other financial liabilities	Amortized cost	1,140	10,235
Other liabilities (excluding interest on debentures)	Other financial liabilities	Amortized cost	82	1,007

(In thousands of Canadian dollars, except share data)

**13. Financial Instruments and Risk Management (continued)****Financial risk management**

The nature of these financial instruments and the Company's operations expose the Company to a number of financial risks, including credit risk, liquidity risk, foreign currency risk and interest rate risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

*Credit risk*

The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable.

At December 31, 2013 and 2012, primarily all of the Company's cash and cash equivalents were held at three major Canadian and U.S. banks.

The Company, in the normal course of business, is exposed to credit risk from its customers. The accounts receivable are subject to normal credit risks. Any amounts not provided for are considered fully collectible.

The following table provides the details of the aged receivables (excluding commodity tax) and the related allowance for doubtful accounts:

At December 31,	<b>2013</b>	2012
Current	<b>238</b>	311
Past due but not impaired		
31 to 60 days	<b>212</b>	239
61 to 90 days	<b>21</b>	78
Over 90 days	<b>23</b>	6
Past due and impaired		
Over 90 days	<b>321</b>	252
Less: allowance for doubtful accounts	<b>(321)</b>	(252)
Total accounts receivable, net	<b>494</b>	634

The Company reflected bad debt expense of \$69 in the consolidated statements of operations and comprehensive loss for the year ending December 31, 2013 (2012 - \$235).

(In thousands of Canadian dollars, except share data)

**13. Financial Instruments and Risk Management (continued)***Liquidity risk*

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they become due. The Company manages liquidity risk through cash flow forecasting including anticipated investing and financing activities. Further discussion with regard to the Company's liquidity management is described in Note 1 to the consolidated financial statements.

The contractual cash flows of the Company's financial liabilities, as at December 31, 2013 are as follows:

	2014	2015
Accounts payable and accrued liabilities	1,743	-
Debentures	578	562
Interest on debentures	39	-
	2,360	562

*Foreign currency risk*

The Company operates internationally and is exposed to risk from changes in foreign currency rates. Foreign currency risk arises from the fluctuation of foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Company sells software and services in both Canadian and foreign currencies. The sale of software and services in foreign currencies gives rise to the risk that the Company's income and cash flows may be adversely impacted by fluctuations in foreign exchange rates. Certain purchases of services and equipment are also made in non-Canadian currencies. The Company does not actively manage this risk and uses its natural hedge to mitigate, to the extent possible, the impact of foreign exchange fluctuations.

The most significant exposure arises from U.S. dollar revenue and costs. For the year ended December 31, 2013, approximately 69% of revenue and 33% of costs were transacted in U.S. dollars. As a result, the Company may experience transaction exposure because of volatility in the exchange rate between the Canadian and U.S. dollar. Based on the Company's current U.S. denominated net inflows, as at December 31, 2013, an increase in the value of the U.S. dollar versus the Canadian dollar of 10% would, everything else being equal, have an effect of increasing revenue by 6.9%, increasing costs by 3.5% and decreasing loss from operations by 1.5%. A decrease in the value of the U.S. dollar would result in a corresponding decrease by these percentages.

The Company is also exposed to foreign exchange risk from transactions in British pounds, Euros and Danish kroner. Fluctuations of 10% in the exchange rates for these currencies, when compared to the Canadian dollar, are not expected to individually have a material effect on the Company's results of financial performance.

(In thousands of Canadian dollars, except share data)

### **13. Financial Instruments and Risk Management (continued)**

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#### **Fair values of financial instruments**

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and other liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments.

The fair value of other asset cannot be measured reliably as it does not have a quoted market price. See Note 6 for further information.

The fair value of the debentures and accrued interest on debentures, which are estimated by discounting their future cash flows at a rate of 22%, are \$1,289 (2012 – \$10,531).

Financial assets and liabilities that are carried at fair value are measured using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy of inputs is summarized below.

Level 1 – Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2 – Fair value is based on inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 – Fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Cash and cash equivalents carried on the consolidated statements of financial position at fair value are classified as Level 1.

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### **14. Capital Management**

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The Company's objective when managing capital is to ensure that it has adequate financial resources to maintain liquidity necessary to fund its operations and provide returns for shareholders and benefits to other stakeholders. The capital structure of the Company consists of share capital and debentures and notes. At December 31, 2013, the Company has share capital of \$83,437 (2012 - \$66,816) and debentures and notes of \$1,140 (2012 - \$10,235).

The Company manages its capital structure and makes adjustments to it based on the level of funds available to the Company to manage its operations. Upon approval of the Board of Directors, the Company balances its overall capital through new share, debenture, and warrant issuances or by undertaking other activities as deemed appropriate in the circumstances. The Company is not subject to externally imposed capital requirements.

There have been no changes in the Company's approach to capital management during the year.

(In thousands of Canadian dollars, except share data)

**15. Segmented Information****Operating segment**

The Company operates in the sale and service of software and hosting solutions segment and all sales are made in this segment. Management assesses performance and makes decisions about allocating resources based on the one operating segment.

**Product category information**

The Company earned revenue attributed to the following product categories based on the main product or service sold to the customer:

	<b>2013</b>	2012
Mobile Advertising	<b>2,261</b>	1,736
Mobile Platform	<b>430</b>	906
Voice and Data Search	<b>832</b>	1,346
Total	<b>3,523</b>	3,988

For the year ended December 31, 2013, the Company earned 14% of its revenue from one advertising agency, 12% from one directory publisher and 12% from one carrier. For the year ended December 31, 2012, the Company earned 12% of its revenue from one carrier.

**Geographic information**

The Company earned revenue attributed to the following regions based on the geographical location of the customer:

	<b>2013</b>	2012
North America	<b>2,364</b>	2,509
Rest of world	<b>1,159</b>	1,479
Total	<b>3,523</b>	3,988

Substantially all of the Company's non-current assets are located in North America.

(In thousands of Canadian dollars, except share data)

**16. Business Combinations****UpSnap**

On October 25, 2011, the Company acquired the assets of UpSNAP Services LCC, including \$70 of goodwill.

**VoodooVox**

On January 6, 2012, the Company acquired the assets and business operations from a Delaware company then operating as VoodooVox, Inc. ("Old VoodooVox"). Old VoodooVox, located in Massachusetts, provided real-time demographic information on phone calls and mobile ad traffic. Working with proprietary information developed by Old VoodooVox and data provided by third party aggregators, the acquired assets enable companies to gain valuable insight into their call volume and mobile game/application activity. In consideration, the Company issued 225,000 common shares valued at \$1,069, paid USD \$35 in cash and agreed to pay contingent consideration of USD \$1,800 in cash over a period of time subject to net income. The Company valued the contingent consideration at \$184 and subsequently revalued the contingent consideration to \$497 (Note 7). The acquisition was accounted for using the acquisition method in accordance with IFRS 3 with the results of operations consolidated with those of the Company effective January 6, 2012. The Company's consolidated operating revenues and net loss for the year ended December 31, 2012 would not be significantly different had the Old VoodooVox acquisition occurred on January 1, 2012.

The final fair values of the assets acquired and liabilities assumed in the acquisition are as follows:

Fair value of consideration transferred	<u>1,289</u>
Current assets (including cash acquired of \$153)	478
Property and equipment	38
Acquired technology	904
Current liabilities	<u>(293)</u>
Fair value of net identifiable assets acquired	<u>1,127</u>
Goodwill	<u>162</u>

Goodwill represents intangible assets that do not qualify for separate recognition, such as workforce, and is deductible for tax purposes. The acquired technology is being amortized over a period of five years.

(In thousands of Canadian dollars, except share data)

### **17. Impairment of Long-Lived Assets**

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During the year ended December 31, 2012, the Company wrote-down goodwill with a carrying value of \$2,211 and customer lists with a carrying value of \$104 from its previous BTS Logic Europe Aps ("BTS") and PhoneSpots Limited ("PhoneSpots") acquisitions. The Company has shifted its business focus towards providing mobile advertising solutions to advertisers and publishers and away from the voice and data search revenue streams which were previously associated with BTS and PhoneSpots. The remaining goodwill has a carrying value of \$232 and the intangible assets have a carrying value of \$1,617. The Company has been identified as one CGU, and the recoverable amount of the CGU exceeds the carrying value of the goodwill and intangible assets. The recoverable amount of the CGU is based on fair value less costs of disposal, using a market capitalization valuation approach.

The Company continues to use the acquired technology from BTS and PhoneSpots as part of its continued strategy to provide mobile advertising solutions.

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### **18. Net Loss per Share**

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The loss and weighted average number of shares used in the calculation of basic and diluted loss per share for the years ended December 31, 2013 and 2012 is presented on the consolidated statements of loss and comprehensive loss.

To determine the diluted loss per share, the denominator is increased by the total of additional common shares that would have been issued assuming exercise of all stock options, warrants and convertible debentures with exercise prices at or below the average market price for the year and decreased by the number of shares that the Company could have repurchased if it had used the proceeds from the exercise of stock options and warrants to repurchase them on the open market at the average share price for the year. The numerator is increased by the dilutive effect of interest on the convertible debentures.

In 2013 and 2012, effects of dilutive securities have not been presented as they are anti-dilutive.

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### **19. Subsequent Event**

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On February 6, 2014, the Company completed a brokered private placement for 96,500,000 common shares, at a price of \$0.05 per share, and for a \$100 debenture for aggregate gross proceeds of \$4,925. The Company incurred financing costs of \$922 and issued 7,845,000 warrants to the broker. The broker warrants have an exercise price of \$0.05 per share and expire on February 6, 2016. The gross proceeds include \$575 in short term notes and fees that were issued in October 2013 (Note 8(t)) and that were converted into Common Shares at the \$0.05 per share issue price.