

**VoodooVox Inc.**  
**Condensed Interim Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2012 and 2011**  
**(unaudited – prepared by Management)**

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**NOTICE TO READER OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The condensed interim consolidated statement of financial position of VoodooVox Inc. as at September 30, 2012 and the condensed interim consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the three and nine months ended September 30, 2012 and 2011 are the responsibility of the Company's management.

These condensed interim consolidated financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, Ernst & Young, LLP.

The condensed interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with International Financial Reporting Standards.

*[signed]* \_\_\_\_\_

Michael E. Durance  
Chief Executive Officer  
Toronto, Canada  
November 14, 2012

*[signed]* \_\_\_\_\_

A. Alex Pekurar  
Chief Financial Officer  
Toronto, Canada  
November 14, 2012

## Consolidated Statements of Operations and Comprehensive Loss

(In thousands of Canadian dollars, except share data)(unaudited)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2012	2011	2012	2011
<b>Revenue</b>		\$ 889	\$ 2,009	\$ 3,213	\$ 5,199
<b>Operating costs</b>					
Network and data costs		(308)	(53)	(909)	(158)
Labour costs		(1,106)	(1,090)	(4,372)	(3,293)
Other operating costs	10	(1,006)	(527)	(2,226)	(1,640)
Amortization		(293)	(231)	(909)	(730)
<b>Operating income (loss)</b>		(1,824)	108	(5,203)	(622)
Gain (loss) on investment		(75)	-	25	-
Interest and accretion on debentures	10	(518)	(754)	(1,491)	(2,284)
<b>Loss before income taxes</b>		(2,417)	(646)	(6,669)	(2,906)
Recovery of income taxes	11	236	(1)	236	257
<b>Net loss and comprehensive loss for the period</b>		\$ (2,181)	\$ (647)	\$ (6,433)	\$ (2,649)
<b>Basic and diluted loss per share</b>		\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.03)
<b>Weighted average number of shares – basic and diluted</b>		194,294,418	90,486,095	186,847,127	89,778,038

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

(In thousands of Canadian dollars, except share data)(unaudited)  
(See Continuation of Operations – Note 1)

As at	Note	September 30, 2012	December 31, 2011
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	3	431	382
Accounts receivable		1,155	682
Prepaid expenses and deposits		101	117
Other current assets		315	-
		<u>2,002</u>	1,181
<b>Non-current assets:</b>			
Property and equipment	4	54	105
Goodwill	16	2,443	2,281
Intangible assets	5	3,020	2,933
		<u>7,519</u>	6,500
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities	10	2,682	1,404
Deferred revenue		182	317
Current portion of debentures	8	310	4,491
Current portion of other liabilities	6	4	172
Income taxes payable	11	59	295
		<u>3,237</u>	6,679
<b>Non-current liabilities:</b>			
Debentures	8	9,936	3,424
Other liabilities	7	871	32
		<u>14,044</u>	10,135
<b>Shareholders' deficiency</b>			
Share capital		66,643	61,699
Contributed surplus		12,507	13,908
Deficit		(85,675)	(79,242)
		<u>(6,525)</u>	(3,635)
		<u>7,519</u>	6,500

These consolidated financial statements are authorized for issue by the Board of Directors on November 14, 2012. 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' Equity**

(In thousands of Canadian dollars, except share data)(unaudited)

	Note	Common shares	Share capital	Contributed surplus	Deficit	Shareholders' deficit
<b>Balance at January 1, 2012</b>		151,836,882	61,699	13,908	(79,242)	(3,635)
Net loss		-	-	-	(6,433)	(6,433)
Employee stock purchase plan	9(b)	698,529	53	-	-	53
Debentures converted	8(b)	24,167,773	3,598	(1,903)	-	1,695
Shares issued on acquisition	16	11,250,000	1,069	-	-	1,069
Shares issued on debentures	8	6,364,330	169	-	-	169
Advisory agreement		2,000,000	50	140	-	190
Debenture guarantee fee	10	405,000	10	-	-	10
Share issuance costs		-	(5)	-	-	(5)
Stock-based compensation	9(e)	-	-	362	-	362
<b>Balance at September 30, 2012</b>		<b>196,722,514</b>	<b>66,643</b>	<b>12,507</b>	<b>(85,675)</b>	<b>(6,525)</b>
	Note	Common shares	Share capital	Contributed surplus	Deficit	Shareholders' deficit
Balance at January 1, 2011		88,232,247	51,786	7,591	(66,084)	(6,707)
Net loss		-	-	-	(2,649)	(2,649)
Employee stock purchase plan		76,644	11	-	-	11
Shares for rent agreement		817,692	120	-	-	120
Options exercised		328,334	43	(18)	-	25
Warrants exercised		1,040,000	310	(97)	-	213
Equity component on debentures		-	-	1,166	-	1,166
Broker shares		150,000	25	-	-	25
Stock-based compensation		-	-	219	-	219
<b>Balance at September 30, 2011</b>		<b>90,644,917</b>	<b>52,295</b>	<b>8,861</b>	<b>(68,733)</b>	<b>(7,577)</b>

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

(In thousands of Canadian dollars, except share data)(unaudited)

For the nine months ended September 30	Note	2012	2011
<b>Cash flows from operating activities:</b>			
Loss before income taxes for the period		(6,669)	(2,906)
Adjustments for:			
Stock-based compensation	9(e)	362	219
Amortization of property, equipment and intangible assets		909	730
Shares for rent agreement	9(b)	-	120
Interest on debentures		900	1,234
Accretion on debentures		591	1,050
Advisory agreement		50	-
Debenture guarantee fee		10	-
Income tax recovered		-	4
		<u>(3,847)</u>	415
Changes in non-cash working capital balances:			
Accounts receivable		(203)	982
Prepaid expenses and deposits		94	(21)
Other current assets		(315)	-
Accounts payable and accrued liabilities		623	(546)
Other liabilities		671	(209)
Deferred revenue		(135)	(2,977)
		<u>(3,112)</u>	(2,320)
<b>Cash flows from financing activities:</b>			
Issuance of common shares, net of issuance costs		67	248
Proceeds from debt issuance, net of issuance costs		4,483	4,805
Repayment of debentures		(830)	(1,500)
Interest paid		(650)	(1,103)
		<u>3,070</u>	2,450
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment		(3)	(6)
VoodooVox acquisition	16	94	-
		<u>91</u>	(6)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>49</b>	<b>124</b>
Cash and cash equivalents, beginning of period		382	380
<b>Cash and cash equivalents, end of period</b>		<b>431</b>	<b>504</b>

(In thousands of Canadian dollars, except share data)(unaudited)

## **1. Nature of Operations and Continuance of Operations**

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VoodooVox Inc. (the "Company" or "VVX") 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 2710 – 17<sup>th</sup> Avenue SE, Calgary, Alberta, Canada.

The Company is a provider of local mobile search and advertising solutions. These solutions enable directory publishers, directory assistance providers and wireless carriers to increase revenue by offering a localized, mobile search capability that connects consumers with merchants. VVX created its product suite as a way to connect companies with voice and data traffic to companies that have monetizable content. This ecosystem provides a new revenue stream to both the carrier and content provider while providing consumers with relevant local merchant content.

These 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 September 30, 2012, has accumulated a deficit amounting to \$85,675. The Company had a working capital deficiency of \$1,235 at September 30, 2012.

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

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") and on a basis consistent with the accounting policies disclosed in the annual audited consolidated financial statements for the year ended December 31, 2011.

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

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**(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. The notes presented in these unaudited interim condensed consolidated financial statements include in general only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These unaudited interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2011.

**(c) Principals of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. 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 estimates include but are not limited to the following:

**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.

**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 to sell 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 estimated as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. 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)(unaudited)

## 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

The calculation of income taxes requires judgment in interpreting tax rules and regulations. There are transactions and calculations for which the ultimate tax determination is uncertain. The Company's tax filings are also subject to audits, the outcome of which could change the amount of current and deferred tax assets and liabilities.

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 more likely than not 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 judgement.

### Convertible debentures

Convertible debentures 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 judgement 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.

**2. Summary of Significant Accounting Policies (continued)**(f) Classification of financial instruments

Financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, trade and other 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 held-for-trading are expensed as incurred. Transaction costs related to trade and other receivables and available-for-sale financial assets 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 less 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.

June 30, 2012 and 2011

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

**2. Summary of Significant Accounting Policies (continued)**(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
Rights license	3 years
Software licenses	1 year

The Company does not hold any indefinite life intangible assets.

(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 to sell and value in use. Fair value is estimated as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. 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 to sell 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. Tax expense is recognized in the consolidated statement 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.

A current or long-term 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.

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

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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 statement 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.

(o) Convertible debentures

Convertible debentures 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. When the convertible debentures are distributed in conjunction with warrants, the fair value of the warrants is estimated using the Black-Scholes option valuation model.

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 change to shareholders' equity (deficiency).

(p) Earnings per share

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share consider 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 period or at a time of issuance, if later. The treasury stock method is used to determine the dilutive effect of stock options and warrants. As the effect of all outstanding stock options, warrants and convertible debentures is anti-dilutive during a period when the Company incurs a loss, diluted earnings per share do not differ from basic earnings per share.

(q) 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.

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**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 unbilled contract revenue. Amounts billed in accordance with customer contracts but not yet earned are deferred and recorded as revenue in the period earned.

**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. In addition, the Company provides standalone consulting services, training and minor system enhancements as requested from time to time by its customers. These service revenues are recorded as the services are provided.

**(r) Research and development costs**

Research costs are expensed as incurred. Development costs are deferred when future economic benefits are probable and the product or process and its market or usefulness is clearly defined, the product or process has reached technical feasibility, adequate resources exist or are expected to exist to complete the project and management intends to market or use the product or process. If these criteria are not met, the development costs are expensed as incurred.

(In thousands of Canadian dollars, except share data)(unaudited)

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

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(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.

(t) Segment reporting

The Company operates a single reportable operating segment.

(u) Changes to accounting standards

IFRS 7, Financial Instruments: Disclosures

In October 2010, the IASB amended IFRS 7, Financial Instruments: Disclosures. This amendment enhances disclosure requirements to aid financial statement users in evaluating the nature of, and risks associated with, an entity's continuing involvement in derecognized financial assets. The amendment is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2012. The company has assessed the impact of this amendment and there is no impact on its unaudited interim condensed consolidated financial statement

June 30, 2012 and 2011

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

**3. Cash and Cash Equivalents**

As at	September 30, 2012	December 31, 2011
Business and savings accounts	421	372
Cashable guaranteed investment certificates	10	10
	<u>431</u>	<u>382</u>

**4. Property and Equipment**

	Computer Hardware	Furniture and Fixtures	Leasehold Improvements	Total
<b>Cost</b>				
January 1, 2012	1,168	411	111	1,690
Additions	3	-	-	3
Disposals	(2)	-	(110)	(112)
Acquisition	19	10	9	38
September 30, 2012	<u>1,188</u>	<u>421</u>	<u>10</u>	<u>1,619</u>
<b>Accumulated Amortization</b>				
January 1, 2012	1,129	378	78	1,585
Disposals	(2)	-	(110)	(112)
Amortization for the period	22	31	39	92
September 30, 2012	<u>1,149</u>	<u>409</u>	<u>7</u>	<u>1,565</u>
<b>Net Carrying Amount</b>				
At January 1, 2012	39	33	33	105
At September 30, 2012	<u>39</u>	<u>12</u>	<u>3</u>	<u>54</u>

**5. Intangible Assets**

	Acquired Technology	Customer Lists	Software Licenses	Total
<b>Cost</b>				
January 1, 2012	5,733	358	295	6,386
Acquisition	904	-	-	904
September 30, 2012	<u>6,637</u>	<u>358</u>	<u>295</u>	<u>7,290</u>
<b>Accumulated Amortization</b>				
January 1, 2012	2,955	203	295	3,453
Amortization for the period	778	39	-	817
September 30, 2012	<u>3,733</u>	<u>242</u>	<u>295</u>	<u>4,270</u>
<b>Net Carrying Amount</b>				
At January 1, 2012	2,778	155	-	2,933
At September 30, 2012	<u>2,904</u>	<u>116</u>	<u>-</u>	<u>3,020</u>

June 30, 2012 and 2011

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

**6. Other Current Assets**

The Company received 750,000 common shares of a private company as settlement for an outstanding receivable and sold 120,000 common shares to an arms-length party. The fair value of the common shares has been estimated by Management based on recent historical transactions with arms-length parties.

**7. Other Liabilities**

As at	September 30, 2012	December 31, 2011
Lease inducements	4	68
Deferred salaries	48	136
Accrued interest on debentures	323	-
Acquisition earn-out	500	-
	875	204
Current portion	(4)	(172)
	871	32

**8. Debentures**

As at	Conversion Price (cents)	Principal Amount	Rate of Interest	Sep 30, 2012	Dec 31, 2011
May 2012 Convertible Debenture (b)	50	465	10.0%	465	455
Oct 2012 Convertible Debenture (c)	50	2,090	12.0%	2,071	1,917
Aug 2012 Convertible Deb (a)(d)	10	350	15.0%	350	983
Aug 2013 Debenture (e)	-	875	10.0%	875	843
Feb 2013 Debenture (a)(f)	-	300	15.0%	300	293
Mar 2015 Convertible Debenture (a)	25	2,680	12.0%	1,978	3,424
Sep 2012 Debenture (g)	-	250	15.0%	250	-
Mar 2013 Debenture (h)	-	750	15.0%	750	-
Sep 2012-II Debenture (i)	-	100	12.0%	98	-
Jun 2014 Debenture (j)	-	748	17.5%	701	-
Aug 2015 Debenture (k)	-	1,987	12.0%	1,653	-
Sep 2015 Debenture (l)	-	1,000	12.0%	755	-
				10,246	7,915
Current portion				(310)	(4,491)
				9,936	3,424



(In thousands of Canadian dollars, except share data)(unaudited)

## 8. Debentures (continued)

All of the Company's debentures grant a security interest in and to all of the Company's present and future personal property as collateral for the debt. In addition, debentures that mature on August and September, 2012, as well as debentures maturing in March and August 2013 and June 2014 are secured by certain assets owned by a company controlled by the Chairman of the Board of the Company.

- (a) On December 29, 2011, 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. 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:
- i. For the Aug 2012 Convertible Debentures, the Company offered to issue 5,000 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 12.0 cents per common share. In December 2011 the Company converted \$450 aggregate principal amount of convertible debentures with a carrying value on conversion of \$376 and allocated \$1 from contributed surplus to share capital. In January 2012 the Company converted \$5 aggregate principal convertible debentures with a carrying value on conversion of \$4. In connection with the conversions, the Company issued 52,487 common shares and 2,275,000 warrants in January 2012.
  - ii. For the Mar 2015 Convertible Debentures, the Company amended the conversion price from 25.0 cents to 10.0 cents. 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 24,115,286 common shares.
- (b) On May 30, 2012, a total of \$475 of convertible debentures matured. The Company redeemed \$10 in convertible debentures and entered into agreements with the remaining debenture holders to defer repayment of principal and interest to October 12, 2014.
- (c) The Company entered into agreements with the debenture holders to defer repayment of principal and interest on \$2,020 in convertible debentures, with \$1,875 in convertible debentures agreeing to defer until October 31, 2014.
- (d) On August 12, 2012, a total of \$1,170 of convertible debentures matured. 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.
- (e) On August 12, 2012, a total of \$875 of debentures matured. The Company entered into agreements with the debenture holders to defer repayment of principal and interest to October 12, 2014 and to change the interest rate on the debenture to 10%.
- (f) On February 14, 2012, a total of \$300 of debentures matured. The Company entered into an agreement with the debenture holder to defer repayment of principal to February 14, 2013 and subsequently to November 1, 2013.

**8. Debentures (continued)**

- (g) 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.
- (h) 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 "Feb 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 the third quarter, the Company entered into agreements with the debenture holders to defer repayment of principal and interest on all debentures for at least one year, with \$420 in debentures agreeing to defer until March 1, 2015.
- (i) 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 with a principal value of \$1,000 and 2,000 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 2,000,000 common shares. On maturity, the Company entered into agreements with the debenture holders to defer repayment of principal and interest to January 20, 2013.
- (j) 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 principal value of \$0.918 and 3,000 common shares valued at \$0.082 per share. The debentures, in aggregate principal of \$748 (the "Jun 2014 Debentures"), bear interest at a rate of 17.5% per annum, payable quarterly, and mature on June 27, 2014. The Company issued 2,300,000 common shares valued at \$58 for costs related to this financing. The Company allocated \$5 of financing costs to the common shares.
- (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 with a principal value of \$1,000 and 3,000 warrants. The debentures, in aggregate principal of \$1,837 (the "Aug 2015 Debentures"), bear interest at a rate of 15% per annum, payable quarterly, and mature on August 13, 2015. The warrants have an exercise price of \$0.02 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 5,511,000 warrants. The Company incurred financing costs of \$268 in connection with this debenture, consisting of \$80 in cash, \$38 on the issuance of 1,333,830 common shares to the broker and \$150 on the issuance of 150 units to an agent. The Company allocated \$12 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 with a principal value of \$1,000 and 3,000 warrants. The debentures, in aggregate principal of \$1,000 (the "Sep 2015 Debentures"), bear interest at a rate of 15% per annum, payable quarterly, and mature on September 19, 2015. The warrants have an exercise price of \$0.02 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 3,000,000 warrants. The Company incurred financing costs of \$186 in connection with this debenture, consisting of \$109 in cash, \$2 on the issuance of 85,500 common shares to the broker and \$75 on a commitment to issue shares to an agent. The Company allocated \$14 of financing costs to the warrants.

June 30, 2012 and 2011

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

## 9. Equity Instruments

## (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 period ended September 30, 2012, the Company issued 698,529 common shares at an average price of 7.7 cents per share.

(ii) The Company has a "shares for rent" agreement with one of its landlords. Under the terms of the agreement, at the Company's option the landlord is 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, is 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 Venture Exchange). The agreement commenced on July 1, 2009 and ends on September 30, 2012.

## (c) Issued and outstanding warrants

	Weighted Average Exercise Price (cents)	Number
<b>Outstanding, January 1, 2012</b>	14.6	12,288,523
Issued on debt conversion (Note 8(a)(i))	12.0	2,275,000
Issued on debentures (Note 8(k)(l))	2.0	8,961,000
Expired	23.0	(2,888,523)
<b>Outstanding, September 30, 2012</b>	<b>7.7</b>	<b>20,636,000</b>

## (d) Issued and outstanding broker warrants

	Weighted Average Exercise Price	Number
<b>Outstanding, January 1 and September 30, 2012</b>	<b>\$ 1</b>	<b>637.25</b>

June 30, 2012 and 2011

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

## 9. Equity Instruments (continued)

## (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 and employees and agents 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. Since the inception of the Plan, the Company has granted 46,867,250 stock options to its employees, officers and directors. As at September 30, 2012, 16,387,500 stock options remained outstanding at prices ranging from 5.0 cents to 50.0 cents per share. Options for the Company's directors vest immediately, while options for employees generally vest ratably over a period of three years. All options have a life of five years and have expiry dates ranging from July 2, 2013 to June 7, 2017.

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 VVX'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:

	2012	2011
Risk-free rate	1.0%	2.0%
Expected dividend yield	0.0%	0.0%
Expected volatility rate	118%	115%
Expected option life	3 years	3 years
Fair value (cents per share)	4.9	12.4

During the nine month period ended September 30, 2012, \$362 (2011 - \$219) was included in labour costs as stock-based compensation related to options with the corresponding amount charged to contributed surplus.

June 30, 2012 and 2011

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

**9. Equity Instruments (continued)**

The following table sets out information concerning stock options issued to employees, consultants, directors and officers that were outstanding at September 30, 2012:

	<b>Weighted Average Exercise Price (cents)</b>	<b>Number of Options</b>
<b>Outstanding, January 1, 2012</b>	11.4	12,735,000
Granted	7.3	22,350,000
Forfeited	10.5	(10,747,500)
<b>Outstanding, September 30, 2012</b>	<b>8.0</b>	<b>24,337,500</b>
<b>Exercisable, September 30, 2012</b>	<b>10.9</b>	<b>8,329,164</b>

**10. Related Party Transactions**

The Company had the following related party transactions:

- (a) Included in other operating costs for the period ended September 30, 2012 are \$217 (2011 - \$173) of consulting services paid to companies controlled or influenced by a management contractor and a former director of the Company.
- (b) Included in accounts payable and accrued liabilities at September 30, 2012 is \$252 (December 31, 2011 - \$112) due to a former director, all of which is for services rendered and reimbursement of expenses.
- (c) For the period ended September 30, 2012, the Company made interest payments on debentures of \$10 (2011 - \$127) to directors, former directors and senior management of the Company.
- (d) As part of the March 1, 2012 private placement of debentures (note 8(h)), senior management, a director and a former director purchased 95 debentures. As part of the June 28, 2012 private placement of debentures (note 8(j)), one director purchased 65 units. As part of the September 19, 2012 private placement of debentures (note 8(l)), one officer purchased 50 units.
- (e) During the period, the Company received 750,000 shares of a company over which a former director exerts significant influence as settlement for an outstanding receivable. Additionally, the Company paid 218,333 shares of the same company to a former director as compensation for debenture guarantees.
- (f) During the period, the Company issued 405,000 Common Shares to a former director as compensation for debenture guarantees and committed to issue an additional 1,595,000 Common Shares.

All the related party transactions have been measured at the exchange amounts.

June 30, 2012 and 2011

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

**10. Related Party Transactions (continued)****Key management personnel compensation**

<b>Compensation</b>	<b>September 30, 2012</b>	September 30, 2011
Salaries	850	783
Stock-based compensation	130	100
	<b>980</b>	<b>883</b>

The key management includes the senior management of the Company.

**11. Income Taxes**

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

	<b>September 30, 2012</b>	September 30, 2011
Combined statutory tax rates	<b>26%</b>	28%
Expected income tax recovery at statutory tax rates	<b>1,753</b>	633
Permanent differences	<b>(267)</b>	(243)
Change in tax rates	<b>(57)</b>	(63)
Resolution of uncertain tax positions	<b>236-</b>	266
Unrecognized deferred tax assets	<b>(1,429)</b>	(335)
<b>Recovery of income taxes</b>	<b>236</b>	258

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:

	<b>September 30, 2012</b>	December 31, 2011
Property and equipment and other assets	<b>1,988</b>	1,856
Share issuance costs	<b>200</b>	236
Unused tax loss carryforwards	<b>15,688</b>	14,350
<b>Unrecognized deferred income tax assets</b>	<b>17,876</b>	16,442

(In thousands of Canadian dollars, except share data)(unaudited)

**11. Income Taxes (continued)**

As at September 30, 2012, subject to confirmation from the respective income tax authorities, the Company has a total of \$61,234 of non-capital losses that are available for carryforward to offset future years' taxable income expiring as follows:

	<u>Non-Capital Losses</u>
2014	1,018
2015	1,279
2026	5,585
2027	11,137
2028	17,474
2029	9,639
2030	6,458
2031	3,217
2032	<u>5,427</u>
	<u><u>61,234</u></u>

For Canadian tax purposes, the Company has non-capital losses of \$59,708 and for U.S. tax purposes, the Company has net operating losses of \$1,526 that have a 15-year carryforward period.

June 30, 2012 and 2011

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

**12. Commitments and Contingencies**

## (a) Leases

The Company has obligations under long-term operating leases, license agreements and agreements for premises and office equipment for various periods up to 2014. There are no lease commitments after 2014. Future minimum annual lease payments over the next three years are as follows:

	Facilities
2012	64
2013	170
2014	43

The Company incurred operating lease costs for the period ended September 30, 2012 of \$555 (2011 - \$485).

## (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.



June 30, 2012 and 2011

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

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

Upon initial recognition, all financial instruments are recorded on the consolidated statements of 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. Changes in the fair value of held-for-trading financial instruments are recognized in operations for the period. The Company does not hold any held-to-maturity investments or available-for-sale financial assets.

The Company holds various forms of financial instruments as follows:

	Designation	Measurement	September 30, 2012	December 31, 2011
Cash and cash equivalents	Held-for-trading	Fair value	431	382
Accounts receivable	Trade and other receivables	Amortized cost	1,155	682
Other current assets	Available for sale	Fair value	315	-
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	2,682	1,404
Other liabilities and income taxes payable	Other financial liabilities	Amortized cost	938	499
Debentures	Other financial liabilities	Amortized cost	10,246	7,915

*Held-for-trading*

The Company has classified its cash and cash equivalents, restricted cash and investment as held-for-trading. These instruments are accounted for at fair value with the change in fair value recognized in net income during the period. As at September 30, 2012, the Company held \$10 (December 31, 2011 - \$10) of cashable guaranteed investment certificates bearing a weighted average interest rate of 1.0% (December 31, 2011 – 0.75%).

*Loans and receivables*

Accounts receivable are classified as trade and other receivables, which are measured at amortized cost.

June 30, 2012 and 2011

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

**13. Financial Instruments and Risk Management (continued)***Available for sale investments*

The Company holds a net 630,000 common shares of a private company. The fair value of the common shares has been estimated by Management mainly using recent historical transactions with arms-length parties.

*Other financial liabilities*

Accounts payable and accrued liabilities, other liabilities, income taxes payable and debentures are classified as other financial liabilities and are measured at amortized cost.

For the period ended September 30, 2012, the Company did not utilize derivative instruments. The Company has no derivatives embedded in its financial or non-financial contracts.

**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 September 30, 2012, primarily all of the Company's cash and cash equivalents were held at one financial institution.

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. For the period ended September 30, 2012, the Company earned 16% of its revenue from a software developer and 13% of its revenue from a carrier. For the period ended September 30, 2011, the Company earned 46% of its revenue from a directory publisher.

The following table provides the details of the aged receivables and the related allowance for doubtful accounts:

	<b>September 30, 2012</b>	December 31, 2011
Current	<b>681</b>	369
31 to 60 days	<b>35</b>	165
61 to 90 days	<b>244</b>	54
Over 90 days	<b>259</b>	111
Less: allowance for doubtful accounts	<b>(64)</b>	(17)
Total accounts receivable, net	<b>1,155</b>	682

June 30, 2012 and 2011

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

**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 maturities of the Company's financial liabilities, including interest charges, as at September 30, 2012 are as follows:

Fiscal year ending	2012	2013	2014	2015
Accounts payable and accrued liabilities	2,682	-	-	-
Other liabilities	4	548	-	-
Debentures	170	445	4,018	6,962
Interest	185	896	1,852	798
	3,041	1,889	5,870	7,760

*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 period ended September 30, 2012, approximately 53% of revenue and 31% 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 September 30, 2012, 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 5.3%, increasing costs by 3.1% and increasing income from operations by 2.0%. 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.

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(In thousands of Canadian dollars, except share data)(unaudited)

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

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#### *Interest rate risk*

The Company is exposed to interest rate risk through its financial assets. The Company manages interest rate risk by maximizing the interest earned on excess funds while maintaining the liquidity reserves necessary to meet day-to-day operating cash flow requirements.

The Company believes that interest rate risk is not significant, as interest rates on short-term investments range from 0.75% to 1.0%. A 50 basis points change in interest rates would have no significant effect per quarter based on September 30, 2012 financial asset balances.

For the period ended September 30, 2012, the Company has no variable interest-bearing financial obligations.

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

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

The fair value of the debentures, which is estimated by discounting their future cash flows at a rate of 22%, is \$10,186 (December 31, 2011 – \$9,071).

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 and available for sale investments are classified at Level 3. There were no transfers between the levels during the period.

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## Notes to the Consolidated Financial Statements

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**14. Capital Management**

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. At September 30, 2012, the Company has share capital of \$66,643 and debentures of \$10,246.

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 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 period.

**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>September 30, 2012</b>	September 30, 2011
Mobile Advertising	<b>2,195</b>	670
Voice and Workstations Solution	<b>1,018</b>	4,529
Total	<b>3,213</b>	5,199

**Geographic information**

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

	<b>September 30, 2012</b>	September 30, 2011
North America	<b>1,997</b>	3,559
Rest of world	<b>1,216</b>	1,640
Total	<b>3,213</b>	5,199

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

June 30, 2012 and 2011

## Notes to the Consolidated Financial Statements

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**16. Business Combination**

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 11,250,000 common shares and agreed to pay contingent consideration of USD \$1,800 in cash over a period of time subject to performance conditions. 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 1, 2012. The Company's consolidated operating revenues and net loss for the period ended September 30, 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 \$130)	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 and is deductible for tax purposes. The acquired technology is being amortized over a period of five years.