

UpSnap, Inc.
Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

Contents

| | |
|---|-------------|
| Independent Auditors' Report | 2 |
| Consolidated Financial Statements | |
| Consolidated Statements of Operations and Comprehensive Loss | 3 |
| Consolidated Statements of Financial Position | 4 |
| Consolidated Statements of Changes in Shareholders' Deficiency | 5 |
| Consolidated Statements of Cash Flows | 6 |
| Notes to the Consolidated Financial Statements | 7-23 |



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
UpSnap, Inc.

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We have audited the accompanying consolidated financial statements of **UpSnap, Inc.** and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on 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 **UpSnap, Inc.** and its subsidiaries as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended 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

Chartered Professional Accountants
Licensed Public Accountants
April 24th, 2017
Toronto, Ontario

UpSnap, Inc.
Consolidated Statements of Operations and Comprehensive Loss

(In thousands of Canadian dollars, except share data)

| Years ended December 31, | Note | 2016 | 2015 |
|--|------|--------------------|-------------|
| Operating revenue | | 5,062 | 5,071 |
| Operating expenses | | | |
| Network and publisher costs | | (3,106) | (2,632) |
| Labour costs | 5(d) | (1,633) | (2,303) |
| Other operating costs | | (1,192) | (1,524) |
| Foreign exchange gain (loss) | | (59) | 207 |
| Amortization | | (12) | (6) |
| Operating loss | | (940) | (1,187) |
| Gain on settlement of liabilities | | - | 209 |
| Interest and accretion on debentures | 4 | (24) | (92) |
| Loss before income taxes | | (964) | (1,070) |
| Income taxes | 8 | - | - |
| Net loss | | (964) | (1,070) |
| Other Comprehensive Income | | | |
| Exchange differences on translation of foreign operations | | 47 | (227) |
| Comprehensive loss | | (917) | (1,297) |
| Loss per share | | | |
| Basic and diluted loss per share | | (0.00) | (0.01) |
| Weighted average number of shares outstanding – basic and diluted | | 235,642,191 | 184,990,136 |

UpSnap, Inc.
Consolidated Statements of Financial Position

(In thousands of Canadian dollars, except share data)

(See Going Concern – Note 1)

(See Commitments and Contingencies – Note 6)

(See Subsequent Events – Note 12)

| As at December 31, | Note | 2016 | 2015 |
|--|------|----------------|--------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | 3 | 349 | 1,038 |
| Accounts receivable | 7 | 565 | 579 |
| Prepaid expenses and deposits | | 44 | 68 |
| | | <u>958</u> | <u>1,685</u> |
| Non-current assets: | | | |
| Property and equipment | | 18 | 27 |
| | | <u>976</u> | <u>1,712</u> |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | 7 | 1,683 | 1,456 |
| Current portion of debenture | 4 | 99 | - |
| Deferred revenue | | 84 | 178 |
| Income taxes payable | 8 | 295 | 295 |
| | | <u>2,161</u> | <u>1,929</u> |
| Non-current liabilities: | | | |
| Debenture | 4 | - | 88 |
| | | <u>2,161</u> | <u>2,017</u> |
| Shareholders' deficiency: | | | |
| Share capital | | 88,149 | 88,149 |
| Contributed surplus | | 19,633 | 19,596 |
| Accumulated other comprehensive income | | (180) | (227) |
| Accumulated deficit | | (108,787) | (107,823) |
| | | <u>(1,185)</u> | <u>(305)</u> |
| | | <u>976</u> | <u>1,712</u> |

These consolidated financial statements are authorized for issue by the Board of Directors on April 18, 2017. They are signed on the Company's behalf by:

 "signed" Director
Walter Andri

 "signed" Director
Heather Burrer

Consolidated Statements of Changes in Shareholders' Deficiency

(In thousands of Canadian dollars, except share data)

| | Note | Number of common shares | Share capital | Contributed surplus | Accumulated other comprehensive income | Accumulated deficit | Shareholders' deficiency |
|-------------------------------------|----------|-------------------------------|------------------|------------------------|---|------------------------|-----------------------------|
| Balance at January 1, 2016 | | 235,642,191 | 88,149 | 19,596 | (227) | (107,823) | (305) |
| Net and comprehensive loss | | - | - | - | 47 | (964) | (917) |
| Stock-based compensation | 5(d) | - | - | 37 | - | - | 37 |
| Balance at December 31, 2016 | | 235,642,191 | 88,149 | 19,633 | (180) | (108,787) | (1,185) |
| | | | | | | | |
| | Note | Number of common shares | Share capital | Contributed surplus | Accumulated other comprehensive income | Accumulated deficit | Shareholders' deficiency |
| Balance at January 1, 2015 | | 168,642,191 | 86,961 | 18,898 | - | (106,753) | (894) |
| Net and comprehensive loss | | - | - | - | (227) | (1,070) | (1,297) |
| Private placement | 5(b)(i) | 32,000,000 | 589 | 211 | - | - | 800 |
| Share issue costs | 5(b)(i) | - | (14) | - | - | - | (14) |
| Private placement | 5(b)(ii) | 35,000,000 | 654 | 396 | - | - | 1,050 |
| Share issue costs | 5(b)(ii) | - | (41) | - | - | - | (41) |
| Stock-based compensation | 5(d) | - | - | 91 | - | - | 91 |
| Balance at December 31, 2015 | | 235,642,191 | 88,149 | 19,596 | (227) | (107,823) | (305) |

UpSnap, Inc.
Consolidated Statements of Cash Flows

(In thousands of Canadian dollars, except share data)

| Years ended December 31, | Note | 2016 | 2015 |
|---|------|--------------|----------------|
| Cash flows used in operating activities: | | | |
| Loss before income taxes for the year | | (964) | (1,070) |
| Adjustments for items not affecting cash: | | | |
| Stock-based compensation | 5(d) | 37 | 91 |
| Amortization of property, equipment and intangible assets | | 12 | 6 |
| Gain on settlement of liabilities | | - | (209) |
| Interest on debentures | | 13 | 55 |
| Accretion on debentures | | 11 | 37 |
| | | <u>(891)</u> | <u>(1,090)</u> |
| Changes in non-cash working capital balances: | | | |
| Accounts receivable | | 14 | 115 |
| Prepaid expenses and deposits | | 24 | 16 |
| Accounts payable and accrued liabilities | | 261 | 172 |
| Deferred revenue | | (94) | (35) |
| | | <u>(686)</u> | <u>(822)</u> |
| Cash flows used in investing activities: | | | |
| Purchase of property and equipment | | (3) | (24) |
| Proceeds from sale of property and equipment | | - | 1 |
| | | <u>(3)</u> | <u>(23)</u> |
| Cash flows provided by financing activities: | | | |
| Issuance of common shares, net of issuance costs | 5(b) | - | 1,795 |
| Repayment of debentures | | - | (531) |
| Interest paid on debentures | | - | (51) |
| | | <u>-</u> | <u>1,213</u> |
| Net (decrease) increase in cash and cash equivalents | | (689) | 368 |
| Cash and cash equivalents, beginning of year | | <u>1,038</u> | <u>670</u> |
| Cash and cash equivalents, end of year | | 349 | 1,038 |

(In thousands of Canadian dollars, except share data)

1. Nature of Operations and Going Concern

UpSnap, Inc. (the "Company" or "UpSnap") 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.

UpSnap provides highly-targeted, data-driven mobile advertising to attract the ideal audience for brands big and small. Combining first-party proprietary data and real-time analytics, UpSnap goes beyond location to deliver site agnostic and results-driven campaigns that produce qualified, engaged customers. UpSnap tailors each campaign to align with unique business goals, delivering the right customers for more meaningful exposure and better business results.

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, 2016, has accumulated a deficit amounting to \$108,787. The Company had a working capital deficit of \$1,203 at December 31, 2016, and currently generates negative cash flow from operations.

The Company's future operations are dependent upon its ability to secure additional funds or secure sales contracts (or both) or achieve profitable operations, 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, 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. In the meantime, the Company is reliant on financing and operational support from User Friendly Media to continue operations. These factors raise significant 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. Such adjustments could be material.

2. Summary of Significant Accounting Policies

(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 wholly owned subsidiaries: (i) Call Genie (Ontario) Inc., (ii) UpSnap USA Holdings, Inc., (iii) UpSnap USA, Inc., (iv) Call Genie Europe B.V., (v) VoodooVox Limited; and (vi) 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

Functional currency

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

Allowance for doubtful accounts

Judgment is used in assessing the collectability of account receivables and determining the allowance for doubtful accounts. The Company has allowed for all balances over 180 days past due.

(ii) Estimates

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.

(In thousands of Canadian dollars, except share data)

2. Summary of Significant Accounting Policies (continued)

(e) Translation of foreign currencies

Functional Currency and Change in Functional Currency

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 the following subsidiaries: (i) Call Genie (Ontario) Inc., (ii) Call Genie Europe B.V., (iii) VoodooVox Limited, and (iv) BTS Logic Europe ApS. Due to the increasing prevalence of U.S. dollar denominated activities of UpSnap USA Holdings, Inc. and UpSnap USA, Inc., the functional currency of these subsidiaries changed to U.S. dollars effective January 1, 2015.

Foreign currency transactions are initially recorded in the functional currency at the transaction date exchange rate. At the balance sheet date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the reporting date exchange rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized in the income statement. Non-monetary items measured at historical cost are translated using the historical exchange rate. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

Financial statements of subsidiaries for which the functional currency is not the Canadian dollar are translated into Canadian dollar as follows: all asset and liability accounts are translated at the balance sheet exchange rate and all earnings and expense accounts and cash flow statement items are translated at average exchange rates for the period. The resulting translation gains and losses are recorded as foreign currency translation adjustments in other comprehensive income and recorded in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognized in equity are reclassified to the income statement and recognized as part of the gain or loss on disposal.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income.

(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.

(In thousands of Canadian dollars, except share data)

2. Summary of Significant Accounting Policies (continued)

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 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 or available for sale instruments.

(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) 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.

(i) 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.

(j) 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.

(k) Issuance of units consisting of shares and warrants

When common shares are distributed in conjunction with warrants, the fair value of the warrants is estimated using the Black-Scholes option valuation model. The residual is allocated to the common shares.

(In thousands of Canadian dollars, except share data)

2. Summary of Significant Accounting Policies (continued)

(l) 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 and warrants is anti-dilutive during a year when the Company incurs a loss, diluted earnings per share do not differ from basic loss per share.

(m) Revenue recognition

Mobile Advertising

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.

For advertising arrangements made directly with advertisers or their agents, including mobile advertising services offered for a monthly subscription fee, management has determined that the Company is the primary obligor 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. The Company also offers mobile advertising services through a reseller network. Where the reseller is the primary obligor responsible for contracting with the advertiser, the Company recognizes revenue net of the reseller's fees.

Software Licensing and Support

The Company enters into software license arrangements which 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. Revenue from these arrangements is recognized when earned, specifically when all the following conditions are met: software licenses are delivered and services are provided, 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 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 thousands of Canadian dollars, except share data)

2. Summary of Significant Accounting Policies (continued)

Mobile Platforms

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.

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.

(n) Stock-based compensation

The Company accounts for its stock-based compensation programs with employees 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 with non-employees, 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.

(o) Segment reporting

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

(p) 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.

(In thousands of Canadian dollars, except share data)

2. Summary of Significant Accounting Policies (continued)

(q) Future Accounting Pronouncements

IFRS 15, Revenue from Contracts with Customers, was issued by the IASB in May 2015 and supersedes existing standards and interpretations including IAS 18, Revenue, and IFRIC 13, Customer Loyalty Programmes. IFRS 15 introduces a single model for recognizing revenue from contracts with customers with the exception of certain contracts under other IFRSs such as IAS 17, Leases. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the expected consideration receivable in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 9, Financial Instruments, was issued by the IASB in July 2015 and supersedes the current IAS 39, Financial Instruments: recognition and measurement standard. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 16, Leases, was issued by the IASB in January 2016 and supersedes the current IAS 17, Leases standard. IFRS 16 introduces a single accounting model for lessees and for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

Management is currently assessing the impact of these future accounting pronouncements.

December 31, 2016 and 2015

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

3. Cash and Cash Equivalents

| | 2016 | 2015 |
|---|------------|--------------|
| Business and savings accounts | 299 | 987 |
| Cashable guaranteed investment certificates and bank deposits | 50 | 51 |
| | 349 | 1,038 |

4. Debenture

| | Principal Amount | Rate of Interest | 2016 | 2015 |
|--------------------------|---------------------|---------------------|----------|-----------|
| Feb 2017 Debenture | 100 | 13.5% | 99 | 88 |
| Current portion | | | (99) | - |
| Long term portion | | | - | 88 |

The debenture grants a security interest in and to all of the Company's present and future property as collateral for the debt.

On February 6, 2014, the Company issued a debenture to User Friendly Media, a related party (Note 7), for gross proceeds of \$100 concurrently with an equity private placement (the "Feb 2017 Debenture"). The debenture bears interest at a rate of 13.5% per annum and matured on February 6, 2017 (Note 12). No interest is payable in the first year. Subsequently, interest is payable quarterly and, at the debenture holder's option, interest payments may be made in common shares rather than cash. The Company incurred financing costs of \$25 in connection with this debenture, of which \$18 was paid in cash and \$7 on the issuance of 160,000 warrants to a broker. The Company determined the fair value of the broker warrants of \$7 using the Black-Scholes option valuation model assuming a share price of \$0.05, a risk-free interest rate of 1.0%, an expected volatility of 214% and an expected life of 2.0 years. The warrants had an exercise price of \$0.05 and expired on February 6, 2016.

December 31, 2016 and 2015

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

5. 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) On September 11, 2015, the Company completed a non-brokered private placement for gross proceeds of \$800. The Company issued an aggregate of 32,000,000 units at a price of \$0.025 per unit. Each unit consisted of one (1) common share of the Company and one half (0.5) of a share purchase warrant. Each whole warrant can be exercisable into one (1) additional common share at an exercise price of \$0.05 and expires on September 11, 2018. The Company determined the fair value of the warrants of \$211 using the Black-Scholes option valuation model assuming a share price of \$0.015, a risk-free interest rate of 0.4%, an expected volatility of 211% and an expected life of 3.0 years. The Company incurred costs of \$14 in connection with this financing.

(ii) On October 23, 2015, the Company completed a non-brokered private placement for gross proceeds of \$1,050. The Company issued an aggregate of 35,000,000 units at a price of \$0.03 per unit. Each unit consisted of one (1) common share of the Company and one half (0.5) of a share purchase warrant. Each whole warrant can be exercisable into one (1) additional common share at an exercise price of \$0.05 and expires on October 23, 2018. The Company determined the fair value of the warrants of \$396 using the Black-Scholes option valuation model assuming a share price of \$0.025, a risk-free interest rate of 0.5%, an expected volatility of 210% and an expected life of 3.0 years. The Company incurred costs of \$41 in connection with this financing.

(c) Issued and outstanding warrants

| | Weighted Average Exercise Price (\$) | Number |
|--|---|-------------|
| Outstanding, January 1, 2015 | 0.09 | 8,555,200 |
| Issued on private placement (Notes 5(b)(i) and 5(b)(ii)) | 0.05 | 33,500,000 |
| Expired | 0.52 | (678,700) |
| Outstanding, December 31, 2015 | 0.05 | 41,376,500 |
| Expired | 0.05 | (7,876,500) |
| Outstanding, December 31, 2016 | 0.05 | 33,500,000 |

Warrants outstanding as of December 31, 2016 have an exercise price of \$0.05 and a weighted average remaining contractual life of 1.8 years.

(In thousands of Canadian dollars, except share data)

5. Equity Instruments (continued)

(d) 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 10% of the number of outstanding common shares. As at December 31, 2016, 13,550,000 stock options remain outstanding at exercise prices ranging from \$0.05 to \$4.75 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 February 2017 to August 2021.

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 UpSnap'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 inputs:

| | 2016 | 2015 |
|----------------------------|---------|------|
| Risk-free rate | 0.6% | - |
| Expected dividend yield | 0.0% | - |
| Expected volatility rate | 185% | - |
| Expected option life | 3 years | - |
| Forfeiture rate | 15% | - |
| Share price (per share) | \$0.01 | - |
| Exercise price (per share) | \$0.05 | - |

During the year ended December 31, 2016, \$37 (2015 - \$91) 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, 2016 and 2015:

| | Weighted Average Exercise Price (\$) | Number of Options |
|---------------------------------------|---|----------------------|
| Outstanding, January 1, 2015 | 0.10 | 15,730,975 |
| Forfeited | 0.11 | (5,410,375) |
| Outstanding, December 31, 2015 | 0.09 | 10,320,600 |
| Granted | 0.05 | 4,700,000 |
| Forfeited | 0.11 | (1,470,600) |
| Outstanding, December 31, 2016 | 0.07 | 13,550,000 |

December 31, 2016 and 2015

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

5. Equity Instruments (continued)

The following table summarizes information about the stock options outstanding at December 31, 2016:

| 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 | Vested Weighted Average Remaining Contractual Life in Years | Vested Weighted Average Exercise Price (\$) |
|---|-------------------------------|--|--------------------------------------|---------------------------------------|---|---|
| 0 to 0.05 | 10,000,000 | 3.7 | 0.05 | 4,333,333 | 3.1 | 0.05 |
| 0.05 to 0.10 | 3,400,000 | 1.8 | 0.10 | 3,400,000 | 1.9 | 0.10 |
| 0.10 to 1.00 | 110,000 | 0.8 | 0.50 | 110,000 | 0.8 | 0.50 |
| 1.00 to 5.00 | 40,000 | 0.5 | 2.44 | 40,000 | 0.5 | 2.44 |
| 0 to 5.00 | 13,550,000 | 3.2 | 0.07 | 7,883,333 | 2.5 | 0.09 |

6. Commitments and Contingencies

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)

7. Related Party Transactions

User Friendly Media (“UFM”), a private media company, owns approximately 44% of UpSnap’s issued and outstanding common shares and the Feb 2017 Debenture (Note 4). UpSnap bills UFM under a reseller agreement for small business mobile advertising subscriptions. For the year ended December 31, 2016, UpSnap recorded \$809 (2015 - \$785) in revenue under this agreement. Included in accounts receivable at December 31, 2016, are \$90 (2015 – \$96) in receivables from UFM.

UFM bills UpSnap under a shared services agreement for management and support services, which include shared office space and key management roles including the Chief Executive Officer, Vice President of Operations and Vice President of Product and Technology. For the year ended December 31, 2016, total amounts billed under this agreement, excluding disbursements, totalled \$16 (2015 - \$17). Included in accounts payable at December 31, 2016, are \$724 (2015 – \$433) in payables to UFM for fees and disbursements.

As part of the September 11, 2015, non-brokered private placement (Note 5(b)(i)), UFM purchased 19,000,001 units for a total of \$475. Each unit consisted of one (1) common share of the Company and one half (0.5) of a share purchase warrant. Each whole warrant can be exercisable into one (1) additional common share at an exercise price of \$0.05 and expires on September 11, 2018.

As part of the October 23, 2015, non-brokered private placement (Note 5(b)(ii)), UFM purchased 15,000,000 units for \$450. Each unit consisted of one (1) common share of the Company and one half (0.5) of a share purchase warrant. Each whole warrant can be exercisable into one (1) additional common share at an exercise price of \$0.05 and expires on October 23, 2018.

All related party transactions are measured at the exchange amounts, which are the amounts agreed upon between the related parties.

| Key management compensation | 2016 | 2015 |
|------------------------------------|-------------|------|
| Salaries | 238 | 563 |
| Stock-based compensation | 27 | 43 |
| | 265 | 606 |

The key management includes the senior officers of the Company and directors.

December 31, 2016 and 2015

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

8. Income Taxes

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

| | 2016 | 2015 |
|---|--------------|-------|
| Combined statutory tax rates | 26.5% | 26.5% |
| Expected income tax recovery at statutory tax rates | (255) | (284) |
| Permanent differences | 123 | 119 |
| Share issue costs | (15) | (15) |
| Expiry of non-capital losses | 262 | 262 |
| Effect of jurisdictional tax rates and foreign exchange | (137) | (193) |
| Temporary differences not benefited | (444) | (50) |
| Unrecognized deferred tax assets | 466 | 161 |
| Recovery of income taxes | - | - |

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, | 2016 | 2015 |
|---|---------------|--------|
| Carrying value of long-term assets in excess of tax value | 2,048 | 2,203 |
| Financing costs deductible in the future | 241 | 241 |
| Unused tax loss carryforwards | 21,288 | 20,667 |
| Unrecognized deferred income tax assets | 23,577 | 23,111 |

As at December 31, 2016, subject to confirmation from the respective income tax authorities, the Company has a total of \$79,003 Canadian and U.S. non-capital losses that are available for carryforward to offset future years' taxable income expiring as follows:

| | <u>Non-Capital Losses</u> |
|------|---------------------------|
| 2026 | 5,421 |
| 2027 | 11,495 |
| 2028 | 17,474 |
| 2029 | 9,657 |
| 2030 | 6,969 |
| 2031 | 4,715 |
| 2032 | 8,188 |
| 2033 | 5,312 |
| 2034 | 3,292 |
| 2035 | 2,247 |
| 2036 | 4,100 |
| | <u>79,003</u> |

December 31, 2016 and 2015

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

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

The Company holds various forms of financial instruments as follows:

| | Designation | Measurement | 2016 | 2015 |
|---|-----------------------------|----------------|-------|-------|
| Cash and cash equivalents | FVTPL | Fair value | 349 | 1,038 |
| Accounts receivable (excluding commodity tax) | Loans and receivables | Amortized cost | 556 | 559 |
| Accounts payable and accrued liabilities | Other financial liabilities | Amortized cost | 1,683 | 1,456 |
| Debenture | Other financial liabilities | Amortized cost | 99 | 88 |

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, 2016, primarily all of the Company's cash and cash equivalents were held at one major Canadian and one major U.S. bank.

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.

December 31, 2016 and 2015

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

9. Financial Instruments and Risk Management (continued)

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

| At December 31, | 2016 | 2015 |
|---------------------------------------|-------|------|
| Current | 293 | 232 |
| Past due but not impaired | | |
| 31 to 60 days | 127 | 269 |
| 61 to 90 days | 107 | 58 |
| Over 90 days | 29 | - |
| Past due and impaired | | |
| Over 180 days | 143 | 69 |
| Less: allowance for doubtful accounts | (143) | (69) |
| Total accounts receivable, net | 556 | 559 |

The Company reflected bad debt expense of \$103 in the consolidated statements of operations and comprehensive loss for the year ending December 31, 2016 (2015 - \$13).

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, 2016 are due as follows:

| | 2017 |
|--|-------|
| Accounts payable and accrued liabilities | 1,683 |
| Debenture | 100 |
| | 1,783 |

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.

(In thousands of Canadian dollars, except share data)

9. Financial Instruments and Risk Management (continued)

The Company is exposed to foreign exchange risk from transactions in U.S. dollars, British pounds, Euros and Danish kroner. The sensitivity analysis of its exposure to currency risk has been determined based on a hypothetical change in the foreign exchange rates taking place at the reporting date. 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.

Fair values of financial instruments

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

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.

10. 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 December 31, 2016, the Company has share capital of \$88,149 (2015 - \$88,149) and debentures of \$99 (2015 - \$88).

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)

11. 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:

| | 2016 | 2015 |
|--------------------------------|--------------|-------|
| Mobile Advertising | 4,356 | 4,175 |
| Software Licensing and Support | 706 | 896 |
| Total | 5,062 | 5,071 |

For the year ended December 31, 2016, the Company earned 16% of its revenue from a related party (Note 7). For the year ended December 31, 2015, the Company earned 15% of its revenue from a related party (Note 7), 14% from one advertising agency and 11% from a second advertising agency.

Geographic information

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

| | 2016 | 2015 |
|---------------|--------------|-------|
| United States | 4,356 | 4,175 |
| Rest of world | 706 | 896 |
| Total | 5,062 | 5,071 |

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

12. Subsequent Events

On February 9, 2017, the Company negotiated an extension of the maturity of the Feb 2017 Debenture (Note 4) to March 28, 2017. On March 29, 2017, the Company and lender agreed to convert the Feb 2017 Debenture plus all accrued interest totaling \$143 into 7,137,500 common shares.