

**UpSnap, Inc. (formerly VoodooVox Inc.)
Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2014 and 2013
(unaudited – prepared by Management)**

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UpSnap, Inc. (formerly VoodooVox Inc.)
Notice to Reader

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

NOTICE TO READER OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The condensed interim consolidated statement of financial position of UpSnap, Inc. as at June 30, 2014 and the condensed interim consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the three and six months ended June 30, 2014 and 2013 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, Collins Barrow Toronto 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* ”

Bruce Howard
Chief Executive Officer
Toronto, Canada
August 22, 2014

“ *signed* ”

A. Alex Pekurar
Chief Financial Officer
Toronto, Canada
August 22, 2014

UpSnap, Inc. (formerly VoodooVox Inc.)
Consolidated Statements of Operations and Comprehensive Loss

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

	Note	Three months ended June 30,		Six months ended June 30,	
		2014	2013	2014	2013
Revenue		\$ 711	\$ 1,035	\$ 1,754	\$ 1,804
Operating costs					
Network and publisher costs		(310)	(429)	(836)	(720)
Labour costs	7(e)	(810)	(777)	(1,755)	(1,600)
Other operating costs		(413)	(275)	(649)	(650)
Amortization	4,5	(259)	(260)	(517)	(521)
Operating income (loss)		(1,081)	(706)	(2,003)	(1,687)
Loss on sale of other asset		-	-	-	(172)
Gain on settlement of debt		-	-	290	-
Gain on sale of property and equipment		-	26	-	26
Interest and accretion on debentures		(38)	(601)	(84)	(1,157)
Loss before income taxes		(1,119)	(1,281)	(1,797)	(2,990)
Recovery of income taxes		-	-	-	-
Net loss and comprehensive loss for the period		\$ (1,119)	\$ (1,281)	\$ (1,797)	\$ (2,990)
Basic and diluted loss per share		\$ (0.01)	\$ (0.30)	\$ (0.01)	\$ (0.70)
Weighted average number of shares – basic and diluted		168,642,191	4,267,242	148,915,672	4,244,616

UpSnap, Inc. (formerly VoodooVox Inc.)
Consolidated Statements of Financial Position

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

As at	Note	June 30, 2014	December 31, 2013
Assets			
Current assets:			
Cash and cash equivalents	3	1,341	135
Accounts receivable		545	578
Prepaid expenses and deposits		111	68
		<u>1,997</u>	<u>781</u>
Non-current assets:			
Property and equipment	4	12	4
Intangible assets	5	1,102	1,616
Goodwill		232	232
		<u>3,343</u>	<u>2,633</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities		830	1,864
Current portion of debentures and notes	6	214	578
Deferred revenue		120	158
Income taxes payable		295	295
		<u>1,459</u>	<u>2,895</u>
Non-current liabilities:			
Debentures and notes	6	511	562
		<u>1,978</u>	<u>3,457</u>
Shareholders' deficiency			
Share capital		86,961	83,437
Contributed surplus		18,844	18,375
Deficit		(104,432)	(102,636)
		<u>1,373</u>	<u>(824)</u>
		<u>3,343</u>	<u>2,633</u>

These consolidated financial statements are authorized for issue by the Board of Directors on August 22, 2014. They are signed on the Company's behalf by:

" signed " Director
Micky Tsui

" signed " Director
S. Graeme Ross

UpSnap, Inc. (formerly VoodooVox Inc.)
Consolidated Statements of Changes in Shareholders' Equity

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

	Note	Common shares	Share capital	Shares to be issued	Contributed surplus	Deficit	Shareholders' deficit
Balance at January 1, 2014		72,142,191	83,437	-	18,375	(102,636)	(824)
Net loss		-	-	-	-	(1,796)	(1,796)
Private placement	7(b)	85,000,000	4,250	-	-	-	4,250
Note conversion	7(b)	11,500,000	497	-	-	-	497
Share issue costs	7(b)	-	(1,223)	-	335	-	(888)
Warrants issued on debentures	6(c)	-	-	-	7	-	7
Stock-based compensation	7(e)	-	-	-	127	-	127
Balance at June 30, 2014		168,642,191	86,961	-	18,844	(104,432)	1,373

	Note	Common shares	Share capital	Shares to be issued	Contributed surplus	Deficit	Shareholders' deficit
Balance at January 1, 2013		4,040,350	66,816	161	13,099	(90,394)	(10,318)
Net loss		-	-	-	-	(2,990)	(2,990)
Settlement of debt		151,434	113	(113)	-	-	-
Debenture guarantee fee		31,900	48	(48)	-	-	-
Employee stock purchase plan		6,119	9	-	-	-	9
Rent for shares		26,494	120	-	-	-	120
Advisory agreement		10,000	2	-	-	-	2
Shares issued on debentures		945	1	-	-	-	1
Warrants issued on debentures, net of issuance costs		-	-	-	11	-	11
Stock-based compensation		-	-	-	115	-	115
Balance at June 30, 2013		4,267,242	67,109	-	13,225	(93,384)	(13,050)

UpSnap, Inc. (formerly VoodooVox Inc.)
Consolidated Statements of Cash Flows

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

For the six months ended June 30	Note	2014	2013
Cash flows from operating activities:			
Loss before income taxes for the period		(1,796)	(2,990)
Adjustments for:			
Stock-based compensation	7(e)	127	115
Amortization of property, equipment and intangible assets	4,5	517	521
Interest on debentures		49	796
Accretion on debentures		35	361
Gain on settlement of debt		(290)	-
Advisory agreement		-	2
Debenture guarantee		-	96
Administrative fee on promissory notes		-	49
Gain on sale of assets		-	(26)
Loss on sale of other asset		-	172
		<u>(1,358)</u>	<u>(904)</u>
Changes in non-cash working capital balances:			
Accounts receivable		33	(230)
Prepaid expenses and deposits		(43)	(3)
Accounts payable and accrued liabilities		(736)	52
Deferred revenue		(38)	133
		<u>(2,142)</u>	<u>(952)</u>
Cash flows from financing activities:			
Proceeds from share issuance, net of issuance costs	7(b)	3,437	-
Proceeds from debt issuance, net of issuance costs	6(c)	81	616
Proceeds from promissory notes		-	650
Repayment of debentures	6(a)	(103)	(91)
Interest paid on debentures		(56)	(278)
		<u>3,359</u>	<u>897</u>
Cash flows from investing activities:			
Purchase of property and equipment		(11)	(2)
Proceeds from sale of other assets		-	110
		<u>(11)</u>	<u>108</u>
Net increase (decrease) in cash and cash equivalents		1,206	53
Cash and cash equivalents, beginning of period		<u>135</u>	<u>19</u>
Cash and cash equivalents, end of period		<u>1,341</u>	<u>72</u>

UpSnap, Inc. (formerly VoodooVox Inc.)
Notes to the Consolidated Financial Statements

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

1. Nature of Operations and Continuance of Operations

UpSnap, Inc. (formerly VoodooVox 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 June 30, 2014, has accumulated a deficit amounting to \$104,433. The Company had working capital of \$538 at June 30, 2014.

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.

2. Summary of Significant Accounting Policies

(a) Statement of compliance to International Financial Reporting Standards

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, 2013.

UpSnap, Inc. (formerly VoodooVox Inc.)
Notes to the Consolidated Financial Statements

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

2. Summary of Significant Accounting Policies (continued)

(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 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, 2013.

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

(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 Holding USA, Inc., (iii) Call Genie Europe B.V., (iv) UpSnap Limited; and (v) BTS Logic Europe ApS. All intercompany transactions and balances have been eliminated on consolidation.

(d) Use of estimates and key judgments

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

(i) Judgments

Arrangements with multiple deliverables

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

Contract accounting

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

Functional currency

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

UpSnap, Inc. (formerly VoodooVox Inc.)
Notes to the Consolidated Financial Statements

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

2. Summary of Significant Accounting Policies (continued)

Gross versus net revenue

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

(ii) Estimates

Long-term asset impairment

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

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

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

Income taxes

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

Stock-based compensation

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

Business combinations

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

UpSnap, Inc. (formerly VoodooVox Inc.)
Notes to the Consolidated Financial Statements

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

2. Summary of Significant Accounting Policies (continued)

Convertible debentures and debentures with detachable equity

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

(e) Translation of foreign currencies

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

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

(f) Classification of financial instruments

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

(g) Cash and cash equivalents

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

(h) Property and equipment

Property and equipment are recorded at cost, less accumulated amortization and 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

UpSnap, Inc. (formerly VoodooVox Inc.)
Notes to the Consolidated Financial Statements

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

2. Summary of Significant Accounting Policies (continued)

(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) 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
Software licenses	1 year

(k) Impairment of long-lived assets

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

(l) Goodwill

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

UpSnap, Inc. (formerly VoodooVox Inc.)
Notes to the Consolidated Financial Statements

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

2. Summary of Significant Accounting Policies (continued)

(m) 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.

(n) 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.

(o) Convertible debentures and debenture units with detachable equity

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

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

(p) Loss per share

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

UpSnap, Inc. (formerly VoodooVox Inc.)
Notes to the Consolidated Financial Statements

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

2. Summary of Significant Accounting Policies (continued)

(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.

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

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

Hosting arrangements

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

Software license arrangements

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

Services

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

UpSnap, Inc. (formerly VoodooVox Inc.)
Notes to the Consolidated Financial Statements

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

2. Summary of Significant Accounting Policies (continued)

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

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

(r) Stock-based compensation

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

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

(s) Segment reporting

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

(t) 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.

UpSnap, Inc. (formerly VoodooVox Inc.)
Notes to the Consolidated Financial Statements

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

2. Summary of Significant Accounting Policies (continued)

(u) Changes to accounting standards

The following standards have been applied for periods beginning on or after January 1, 2014, and, unless otherwise indicated, have no effect on financial performance:

IAS 32 Financial Instruments: Presentation was amended by the IASB in December 2011. Offsetting Financial Assets and Financial Liabilities amendment addresses inconsistencies identified in applying some of the offsetting criteria.

IAS 36 Impairment of Assets was amended by the IASB in June 2013. Recoverable Amount Disclosures for Non-Financial Assets amended certain disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

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3. Cash and Cash Equivalents

As at	June 30, 2014	December 31, 2013
Business and savings accounts	1,309	115
Cashable guaranteed investment certificates and bank deposits	32	20
	<u>1,341</u>	<u>135</u>

4. Property and Equipment

	Computer Hardware	Furniture and Fixtures	Total
Cost			
January 1, 2014	317	6	323
Additions	11	-	11
Disposals	(13)	-	(13)
June 30, 2014	<u>315</u>	<u>6</u>	<u>321</u>
Accumulated Amortization			
January 1, 2014	314	5	319
Amortization for the period	2	1	3
Disposals	(13)	-	(13)
June 30, 2014	<u>303</u>	<u>6</u>	<u>309</u>
At June 30, 2014	<u>12</u>	<u>-</u>	<u>12</u>

5. Intangible Assets

	Acquired Technology	Software Licenses	Total
Cost			
January 1, 2014	6,637	295	6,932
Additions	-	-	-
June 30, 2014	<u>6,637</u>	<u>295</u>	<u>6,932</u>
Accumulated Amortization			
January 1, 2014	5,021	295	5,316
Amortization for the period	514	-	514
June 30, 2014	<u>5,535</u>	<u>295</u>	<u>5,830</u>
At June 30, 2014	<u>1,102</u>	<u>-</u>	<u>1,102</u>

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6. Debentures and Notes

As at	Conversion Price (\$/shr)	Principal Amount	Rate of Interest	Jun 30, 2014	Dec 31, 2013
Oct 2014 Convertible Debenture*	5.00	70	15.0%	68	65
Aug 2015 Debenture	-	300	12.0%	276	267
Sep 2015 Debenture	-	180	12.0%	158	151
Mar 2015 Debenture	-	150	12.0%	146	143
Promissory notes (a)	-	-	10.0%	-	103
Promissory notes (b)	-	-	-	-	411
Feb 2017 Debenture (c)	-	100	13.5%	77	-
				725	1,140
Current portion				(214)	(578)
				511	562

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

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

- (a) On August 21, 2013, the Company issued a promissory note of \$103 bearing interest at 10% until November 1, 2013. Subsequently, the note holder agreed to extend the maturity date to February 6, 2014. The Company repaid the note on maturity.
- (b) Effective October 2, 2013, the Company issued a series of short term notes for gross proceeds of \$500. The notes bear no interest and have a one year term after which they convert into a 12% convertible debenture. The Company incurred financing costs of \$115 in connection with the notes. The \$422 carrying value of the short term notes along with \$75 in costs were converted to common shares on February 6, 2014.
- (c) On February 6, 2014, the Company issued a debenture 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 matures on February 6, 2017. 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 \$26 in connection with this debenture, of which \$19 was paid in cash and \$7 on the issuance of 160,000 warrants to an agent. The warrants have an exercise price of \$0.05 and expire on February 6, 2016.

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7. 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

On February 6, 2014, the Company completed a brokered private placement for 85,000,000 common shares, at a price of \$0.05 per share, for aggregate gross proceeds of \$4,250. In addition, the Company converted a short term note that was issued in October 2013 with a face value of \$500 and a carrying value of \$422 along with fees of \$75 into 11,500,000 common shares at the \$0.05 per share issue price. The Company incurred financing costs of \$1,223, of which \$888 was paid in cash and \$335 was paid through the issuance of 7,685,000 warrants to an agent. The warrants have an exercise price of \$0.05 per share and expire on February 6, 2016.

(c) Issued and outstanding warrants

	Weighted Average Exercise Price (\$/share)	Number
Outstanding, January 1, 2014	1.68	898,200
Issued in private placement (Notes 6(c),7(b))	0.05	7,845,000
Outstanding, June 30, 2014	0.22	8,743,200

Warrants outstanding as of June 30, 2014 are as follows:

Exercise Price (\$/share)	Weighted Average Remaining Contractual Life in Years	Outstanding
6.00	0.3	188,000
1.00	1.2	271,320
0.25	1.2	438,880
0.05	1.6	7,845,000

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7. Equity Instruments (continued)

(d) Issued and outstanding broker warrants

	Weighted Average Exercise Price (\$)	Number
Outstanding, January 1, 2014 and June 30, 2014	1	637.25

As part of a brokered private placement on August 12, 2010, the Company issued 137.25 broker warrants, each warrant entitling the holder to acquire one thousand dollars principal amount secured convertible debenture. Holders may convert principal into common shares of the Company at any time prior to August 12, 2014, at a conversion price of \$5.00 per share.

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

The weighted average remaining contractual life for broker warrants outstanding as of June 30, 2014, is 0.4 years.

(e) Options

Under the Company's current Stock Option Plan (the "Plan"), the Company's directors may approve the issuance of stock options to directors, officers 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. As at June 30, 2014, 7,864,925 stock options remained outstanding at prices ranging from \$0.10 to \$9.25 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 2015 to February 2019.

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:

	2014	2013
Risk-free rate	1.0%	1.2%
Expected dividend yield	0.0%	0.0%
Expected volatility rate	173%	130%
Expected option life	3 years	3 years
Forfeiture rate	15%	15%
Share price (per share)	0.10	0.50
Exercise price (per share)	0.10	0.50
Fair value (per share)	0.09	0.16

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7. Equity Instruments (continued)

During the six month period ended June 30, 2014, \$128 (2013 - \$115) 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 June 30, 2014:

	Weighted Average Exercise Price (\$/share)	Number of Options
Outstanding, January 1, 2014	0.28	8,597,200
Granted	0.10	1,500,000
Expired	0.37	(2,591,475)
Outstanding, June 30, 2014	0.21	7,505,725

The following table summarizes information about the stock options outstanding at June 30, 2014:

Range of Exercise Prices per Share (\$)	Number of Options Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price (\$)	Number of Options Vested/ Exercisable	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price (\$)
0 to 2.50	7,382,000	4.4	0.12	4,534,163	4.3	0.12
2.50 to 5.00	93,625	2.5	4.75	72,289	2.5	4.75
5.00 to 7.50	14,100	1.5	7.01	14,100	1.5	7.01
7.50 to 10.00	16,000	1.2	8.70	16,000	1.2	8.70
	7,505,725	4.4	0.21	4,636,552	4.3	0.24

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8. Related Party Transactions

In February 2014, the Company completed an equity private placement financing (note 7(b)). The financing included a strategic investment by User Friendly Media (“UFM”), a private media company, for \$3,375 common shares, representing approximately 40% of UpSnap’s issued and outstanding common shares. On closing of the private place, the same company appointed two members to the UpSnap Board of Directors.

UpSnap bills UFM under a reseller agreement for small business mobile advertising subscriptions. For the six months ended June 30, 2014, total revenue recognized under this agreement was \$31.

UFM bills UpSnap under a shared services agreement for management and support services. For the six months ended June 30, 2014, total expenses recognized under this agreement totalled \$51.

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

Key management compensation

Period ended June 30,	2014	2013
Salaries	525	408
Stock-based compensation	21	52
	546	460

The key management includes the senior officers of the Company.

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9. 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 and available for sale instruments whose fair value cannot be measured reliably and are held at cost. Changes in the fair value of FVTPL 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	Jun 30, 2014	Dec 31, 2013
Cash and cash equivalents	FVTPL	Fair value	1,341	135
Accounts receivable (excluding commodity tax)	Loans and receivables	Amortized cost	498	494
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	830	1,864
Debentures	Other financial liabilities	Amortized cost	725	1,140

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 June 30, 2014, primarily all of the Company's cash and cash equivalents were held at three major Canadian and U.S. banks.

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

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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:

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Current	335	238
31 to 60 days	13	212
61 to 90 days	53	21
Over 90 days	97	23
Past due and impaired:		
Over 90 days	274	321
Less: allowance for doubtful accounts	<u>(274)</u>	<u>(321)</u>
Total accounts receivable, net	<u>498</u>	<u>494</u>

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 June 30, 2014, are as follows:

	<u>2014</u>	<u>2015</u>	<u>Thereafter</u>
Accounts payable and accrued liabilities	830	-	-
Debentures	68	580	77
	<u>898</u>	<u>580</u>	<u>77</u>

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.

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9. Financial Instruments and Risk Management (continued)

The most significant exposure arises from U.S. dollar revenue and costs. For the period ended June 30, 2014, approximately 78% of revenue and 68% 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 June 30, 2014, 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 7.8%, increasing costs by 6.8% and decreasing income from operations by 5.8%. 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.

Fair values of financial instruments

The carrying values of cash and cash equivalents, 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 \$800.

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. There were no transfers between the levels during the period.

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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 June 30, 2014, the Company has share capital of \$86,961 and debentures of \$725.

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 period.

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:

Period ended June 30,	2014	2013
Mobile Advertising	1,255	1,153
Mobile Platform	161	250
Voice and Data Search	338	401
Total	1,754	1,804

For the period ended June 30, 2014, the Company earned 25% of its revenue from one directory publisher.

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11. Segmented Information (continued)

Geographic information

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

Period ended June 30,	2014	2013
North America	1,284	1,207
Rest of world	470	597
Total	1,754	1,804

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