**UpSnap, Inc.**
**Consolidated Financial Statements**
**For the years ended December 31, 2015 and 2014**

## Contents

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**INDEPENDENT AUDITORS' REPORT**

To the Shareholders of
**UpSnap, Inc.**

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, 2015 and December 31, 2014, and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the years ended December 31, 2015 and December 31, 2014, 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, 2015 and December 31, 2014, and its financial performance and its cash flows for the years ended December 31, 2015 and December 31, 2014 in accordance with International Financial Reporting Standards.

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

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Professional Accountants
April 29, 2016
Toronto, Ontario

**UpSnap, Inc.**

## Consolidated Statements of Operations and Comprehensive Loss

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

| **Years ended December 31,** | Note | **2015** | 2014 |
|---|---|---|---|
| **Operating revenue** | | **5,071** | 3,960 |
| **Operating expenses** | | | |
| Network and publisher costs | | **(2,632)** | (2,024) |
| Labour costs | 6(e) | **(2,303)** | (2,953) |
| Other operating costs | | **(1,524)** | (1,312) |
| Foreign exchange gain (loss) | | **207** | (65) |
| Amortization | | **(6)** | (1,022) |
| **Operating loss** | | **(1,187)** | (3,416) |
| Gain on settlement of liabilities | 5 | **209** | 290 |
| Loss on impairment of goodwill | 13 | **-** | (232) |
| Loss on impairment of intangible assets | 13 | **-** | (601) |
| Interest and accretion on debentures | 5 | **(92)** | (158) |
| **Loss before income taxes** | | **(1,070)** | (4,117) |
| Income taxes | 9 | **-** | - |
| **Net loss** | | **(1,070)** | (4,117) |
| **Other Comprehensive Income** | | | |
| Exchange differences on translation of foreign operations | | **(227)** | **-** |
| **Comprehensive loss** | | **(1,297)** | (4,117) |
| **Loss per share** | | | |
| **Basic and diluted loss per share** | | **(0.01)** | (0.03) |
| **Weighted average number of shares outstanding – basic and diluted** | | **184,990,136** | 158,859,999 |

 The accompanying notes are an integral part of the Consolidated Financial Statements

**(In thousands of Canadian dollars, except share data)**
(See Going Concern – Note 1)
(See Commitments and Contingencies – Note 8)

| **As at December 31,** | Note | **2015** | 2014 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents | 3 | **1,038** | 670 |
| Accounts receivable | 8 | **579** | 694 |
| Prepaid expenses and deposits | | **68** | 84 |
| | | **1,685** | 1,448 |
| **Non-current assets:** | | | |
| Property and equipment | | **27** | 10 |
| | | **1,712** | 1,458 |
| **Liabilities** | | | |
| **Current liabilities:** | | | |
| Accounts payable and accrued liabilities | 8 | **1,456** | 1,163 |
| Current portion of debentures | 5 | **-** | 601 |
| Deferred revenue | 8 | **178** | 213 |
| Income taxes payable | 9 | **295** | 295 |
| | | **1,929** | 2,272 |
| **Non-current liabilities:** | | | |
| Debentures | 5 | **88** | 80 |
| | | **2,017** | 2,352 |
| **Shareholders' deficiency:** | | | |
| Share capital | | **88,149** | 86,961 |
| Contributed surplus | | **19,596** | 18,898 |
| Accumulated other comprehensive income | | **(227)** | - |
| Deficit | | **(107,823)** | (106,753) |
| | | **(305)** | (894) |
| | | **1,712** | 1,458 |

These consolidated financial statements are authorized for issue by the Board of Directors on April 29, 2016. They are signed on the Company's behalf by:

*"signed"* Director
Micky Tsui

*"signed"* Director
S. Graeme Ross

## Consolidated Statements of Changes in Shareholders' Deficiency

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

| | Note | Number of Common shares | Share capital | Contributed surplus | Translation Reserve | 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 | 6(b)(ii) | 32,000,000 | 589 | 211 | - | - | 800 |
| Share issue costs | 6(b)(ii) | - | (14) | - | - | - | (14) |
| Private placement | 6(b)(iii) | 35,000,000 | 654 | 396 | - | - | 1,050 |
| Share issue costs | 6(b)(iii) | - | (41) | - | - | - | (41) |
| Stock-based compensation | 6(e) | - | - | 91 | - | - | 91 |
| **Balance at December 31, 2015** | | **235,642,191** | **88,149** | **19,596** | **(227)** | **(107,823)** | **(305)** |

| | Note | Number of Common shares | Share capital | Contributed surplus | Translation Reserve | Deficit | Shareholders' deficiency |
|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2014** | | 72,142,191 | 83,437 | 18,375 | - | (102,636) | (824) |
| Net and comprehensive loss | | - | - | - | - | (4,117) | (4,117) |
| Private placement | 6(b)(i) | 85,000,000 | 4,250 | - | - | - | 4,250 |
| Share issue costs | 6(b)(i) | - | (1,223) | 335 | - | - | (888) |
| Note conversion | 6(b)(i) | 11,500,000 | 497 | - | - | - | 497 |
| Warrants issued on debenture | 5(d) | - | - | 7 | - | - | 7 |
| Stock-based compensation | 6(e) | - | - | 181 | - | - | 181 |
| **Balance at December 31, 2014** | | **168,642,191** | **86,961** | **18,898** | **-** | **(106,753)** | **(894)** |

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

| **Years ended December 31,** | Note | **2015** | 2014 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Loss before income taxes for the year | | **(1,070)** | (4,117) |
| Adjustments for: | | | |
| Stock-based compensation | 6(e) | **91** | 181 |
| Amortization of property, equipment and intangible assets | | **6** | 1,022 |
| Gain on settlement of liabilities | | **(209)** | (289) |
| Loss on impairment of goodwill | 13 | **-** | 232 |
| Loss on impairment of intangible assets | 13 | **-** | 601 |
| Interest on debentures | | **55** | 96 |
| Accretion on debentures | | **37** | 62 |
| | | **(1,090)** | (2,212) |
| Changes in non-cash working capital balances: | | | |
| Accounts receivable | | **115** | (116) |
| Prepaid expenses and deposits | | **16** | (16) |
| Accounts payable and accrued liabilities | | **172** | (325) |
| Deferred revenue | | **(35)** | 55 |
| | | **(822)** | (2,614) |
| **Cash flows from investing activities:** | | | |
| Purchase of property and equipment | | **(24)** | (13) |
| Proceeds from sale of property and equipment | | **1** | - |
| | | **(23)** | (13) |
| **Cash flows from financing activities:** | | | |
| Issuance of common shares, net of issuance costs | 6(b) | **1,795** | 3,362 |
| Proceeds from debt issuance, net of issuance costs | | **-** | 82 |
| Repayment of debentures | | **(531)** | (173) |
| Interest paid on debentures | | **(51)** | (109) |
| | | **1,213** | 3,162 |
| **Net increase in cash and cash equivalents** | | **368** | 535 |
| Cash and cash equivalents, beginning of year | | **670** | 135 |
| **Cash and cash equivalents, end of year** | | **1,038** | 670 |

**(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, 2015, has accumulated a deficit amounting to $107,823. The Company had a working capital deficit of $244 at December 31, 2015.

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. 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.

(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.

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

(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.

Functional currency

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

Gross versus net revenue

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

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 90 days past due.

(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. The Company did not identify any indicators of impairment.

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.

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

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.

(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. The change in functional currency from Canadian dollars to U.S. dollars is accounted for prospectively.

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 in the translation reserve.

(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.

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

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

(j) 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.

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

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

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

(p) 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.

Voice and Data Search
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.

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.

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

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.

(q) 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.

(r) Segment reporting
The Company operates a single reportable operating segment, conducting business in two geographic areas of operations.

(s) 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.

(t) Future Accounting Pronouncements

IFRS 15, Revenue from Contracts with Customers, was issued by the IASB in May 2014 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.

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

IFRS 9, Financial Instruments, was issued by the IASB in July 2014 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.

IAS 1 Presentation of Financial Statements was amended by the IASB in December 2014. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. The effective date is for annual periods beginning January 1, 2016. Entities may still choose to apply IAS 1 immediately, but are not required to do so.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets were amended by the IASB in May 2014. Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The effective date is for annual periods beginning January 1, 2016. Earlier application is permitted, but not required.

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

(In thousands of Canadian dollars, except share data)

## 3. Cash and Cash Equivalents

| | **2015** | 2014 |
|---|---|---|
| Business and savings accounts | **987** | 637 |
| Cashable guaranteed investment certificates and bank deposits | **51** | 33 |
| | **1,038** | 670 |

## 4. Intangible Assets

| | Acquired Technology | Software Licenses | Total |
|---|---|---|---|
| **Cost** | | | |
| January 1, 2014 | 6,637 | 295 | 6,932 |
| Disposal/Write off | - | (295) | (295) |
| Impairment write down (Note 13) | (6,637) | - | (6,637) |
| December 31, 2014 and 2015 | - | - | - |
| **Accumulated Amortization** | | | |
| January 1, 2014 | 5,021 | 295 | 5,316 |
| Amortization for the year | 1,015 | - | 1,015 |
| Disposal/Write off | - | (295) | (295) |
| Impairment write down (Note 13) | (6,036) | - | (6,036) |
| December 31, 2014 and 2015 | - | - | - |
| **NBV At December 31, 2014 and 2015** | - | - | - |

(In thousands of Canadian dollars, except share data)

## 5. Debentures

| | Principal Amount | Rate of Interest | **2015** | 2014 |
|---|---|---|---|---|
| Mar 2015 Debenture (a) | - | 12.0% | **-** | 149 |
| Aug 2015 Debenture (b) | - | 12.0% | **-** | 286 |
| Sep 2015 Debenture (c) | - | 12.0% | **-** | 166 |
| Feb 2017 Debenture (d) | 100 | 13.5% | **88** | 80 |
| | | | **88** | 681 |
| Current portion | | | **-** | (601) |
| | | | **88** | 80 |

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

(a) Effective March 18, 2013, the Company completed a brokered private placement of 150 units. Each unit, in denominations of one thousand dollars, consisted of a non-convertible debenture and 60 warrants. The debentures, in aggregate principal of $150 (the "Mar 2015 Debentures"), bear interest at a rate of 12% per annum, payable quarterly, and matured on March 18, 2015. The principal and interest amounts may be repaid by the Company through the provision of certain services to the holder. The warrants have an exercise price of $1.00 and expire on March 18, 2015. The Company determined the fair value of the debentures was $145 and allocated the difference of $5 to the 9,000 warrants. The Company incurred financing costs of $6 in connection with this debenture. The Company allocated $1 of financing costs to the warrants. The Company negotiated a discounted settlement on maturity and recognized a gain of $50 in the statements of operations on the repayment.

(b) Effective August 13, 2012, the Company completed a brokered private placement of 1,837 units. Each unit, in denominations of one thousand dollars, consisted of a non-convertible debenture and 60 warrants. The debentures, in aggregate principal of $1,837 (the "Aug 2015 Debenture"), bear interest at a rate of 12% per annum, payable quarterly, and matured on August 13, 2015. On August 30, 2013, the Company converted $1,537 principal amount of debentures plus accrued interest into common shares as part of an incentive program. The Company negotiated a discounted settlement on $300 of debentures on maturity and recognized a gain of $49 in the statements of operation on the repayment.

(c) Effective September 19, 2012, the Company completed a brokered private placement of 1,000 units. Each unit, in denominations of one thousand dollars, consisted of a non-convertible debenture and 60 warrants. The debentures, in aggregate principal of $1,000 (the "Sep 2015 Debenture"), bear interest at a rate of 12% per annum, payable quarterly, and matured on September 19, 2015. On August 30, 2013, the Company converted $820 principal amount of debentures plus accrued interest into common shares as part of an incentive program. The Company repaid the remaining $180 of debentures on maturity.

(d) On February 6, 2014, the Company issued a debenture for gross proceeds of $100 concurrently with an equity private placement (the "Feb 2017 Debenture")(Note 6(b)(i)). 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 $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 have an exercise price of $0.05 and expired on February 6, 2016.

## 6. 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 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 its brokers. The Company determined the fair value of the broker warrants of $335 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 have an exercise price of $0.05 per share and expire on February 6, 2016.

(ii) 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.

(iii) 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.

(In thousands of Canadian dollars, except share data)

**6. Equity Instruments (continued)**

(c) Issued and outstanding warrants

| | Weighted Average Exercise Price ($) | Number |
|---|---|---|
| **Outstanding, January 1, 2014** | 1.68 | 898,200 |
| Issued on private placement (Notes 5(d) and 6(b)(i)) | 0.05 | 7,845,000 |
| Expired | 6.00 | (188,000) |
| **Outstanding, December 31, 2014** | 0.09 | 8,555,200 |
| Issued on private placements (Notes 6(b)(ii) and (iii)) | 0.05 | 33,500,000 |
| Expired | 0.52 | (678,700) |
| **Outstanding, December 31, 2015** | 0.05 | 41,376,500 |

Warrants outstanding as of December 31, 2015 are as follows:

| Exercise Price ($) | Weighted Average Remaining Contractual Life in Years | Outstanding |
|---|---|---|
| 1.00 | 0.1 | 31,500 |
| 0.05 | 2.3 | 41,345,00 |

(d) Issued and outstanding convertible debt warrants

| | Number |
|---|---|
| **Outstanding, January 1, 2014** | 637.25 |
| Expired (i) | (137.25) |
| **Outstanding, December 31, 2014** | 500.00 |
| Expired (ii) | (500.00) |
| **Outstanding, December 31, 2015** | - |

(i) 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 principal amount secured convertible debenture for $1. Holders may convert principal into units of the Company, consisting of common shares and warrants, at any time prior to August 10, 2014, at a conversion price of $5.00. For each share received, holders also receive a partial common share purchase warrant with an exercise price of $6.00 per share.

(ii) As part of a brokered private placement on March 2, 2011, the Company issued 500 broker warrants, each warrant entitling the holder to acquire principal amount secured convertible debenture for $1. Holders may convert principal into common shares of the Company at any time prior to March 2, 2015, at a conversion price of $12.50 per share.

(In thousands of Canadian dollars, except share data)

**6. Equity Instruments (continued)**

(e) Options

Under the Company's current Stock Option Plan (the "Plan"), the Company's directors may approve the issuance of stock options to directors, officers, employees and consultants of the Company and its affiliates. The aggregate number of shares reserved for issuance under the Plan is up to 15% of the number of outstanding common shares. As at December 31, 2015, 10,320,600 stock options remain outstanding at exercise prices ranging from $0.05 to $7.50 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 2016 to November 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 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 assumptions:

| | **2015** | 2014 |
|---|---|---|
| Risk-free rate | - | 1.4% |
| Expected dividend yield | - | 0.0% |
| Expected volatility rate | - | 161% |
| Expected option life | - | 3.9 years |
| Forfeiture rate | - | 15.0% |
| Share price (per share) | - | 0.04 |
| Exercise price (per share) | - | 0.06 |
| Fair value (per option) | - | 0.03 |

During the year ended December 31, 2015, $91 (2014 - $181) 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, 2015 and 2014:

| | **Weighted Average Exercise Price ($)** | **Number of Options** |
|---|---|---|
| **Outstanding, January 1, 2014** | 0.28 | 8,597,200 |
| Granted | 0.06 | 10,500,000 |
| Forfeited | 0.40 | (3,366,225) |
| **Outstanding, December 31, 2014** | 0.10 | 15,730,975 |
| Forfeited | 0.11 | (5,410,375) |
| **Outstanding, December 31, 2015** | **0.09** | **10,320,600** |

(In thousands of Canadian dollars, except share data)

**6. Equity Instruments (continued)**

The following table summarizes information about the stock options outstanding at December 31, 2015:

| 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 0.05 | 6,300,000 | 3.9 | 0.05 | 2,275,286 | 3.9 | 0.05 |
| 0.05 to 0.10 | 3,850,000 | 2.9 | 0.10 | 3,850,000 | 2.9 | 0.10 |
| 0.10 to 1.00 | 110,000 | 1.8 | 0.50 | 110,000 | 1.8 | 0.50 |
| 1.00 to 7.50 | 60,600 | 1.2 | 3.45 | 60,600 | 1.2 | 3.45 |
| **0 to 7.50** | **10,320,600** | **3.5** | **0.09** | **6,295,883** | **3.2** | **0.12** |

**7. Commitments and Contingencies**

(a) Litigation

On February 6, 2015, UpSnap was added as a defendant in two claims commenced in the Ontario Superior Court of Justice by certain investors and former investors of UpSnap against their former investment advisor and other defendants and on April 9, 2015, a third claim was filed. The claims seek aggregate damages of approximately $4,000 for alleged breach of fiduciary duties by UpSnap to its investors and former investors. UpSnap is contesting the claims, which are in a preliminary stage.

(b) General

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

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

(In thousands of Canadian dollars, except share data)

## 8. Related Party Transactions

In February 2014, the Company completed an equity private placement financing (Note 6(b)(i)). 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 placement, UFM appointed two members to UpSnap's Board of Directors. Concurrent with the equity private placement, UFM purchased a debenture (Note 5(d)) for gross proceeds of $100.

UpSnap bills UFM under a reseller agreement for small business mobile advertising subscriptions. For the year ended December 31, 2015, UpSnap recorded $785 (2014 - $391) in revenue under this agreement. Included in accounts receivable at December 31, 2015, are $96 (2014 – nil) in receivables from UFM. Included in deferred revenue at December 31, 2015 are nil (2014 – $139) in payments received from UFM that have not yet been recognized in revenue.

UFM bills UpSnap under a shared services agreement for management and support services. For the year ended December 31, 2015, total amounts billed under this agreement, excluding disbursements, totalled $17. Included in accounts payable at December 31, 2015, are $433 (2014 – $121) in payables to UFM for fees and disbursements.

As part of the September 11, 2015, non-brokered private placement (Note 6(b)(ii)), 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 6(b)(iii)), 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** | **2015** | 2014 |
|---|---|---|
| Salaries | **563** | 822 |
| Stock-based compensation | **43** | 86 |
| | **606** | 908 |

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

(In thousands of Canadian dollars, except share data)

## 9. Income Taxes

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

| | **2015** | 2014 |
|---|---|---|
| Combined statutory tax rates | **26.5%** | 26.5% |
| | | |
| Expected income tax recovery at statutory tax rates | **(284)** | (1,091) |
| Permanent differences | **119** | 51 |
| Share issue costs | **(15)** | (240) |
| Expiry of non-capital losses | **262** | 31 |
| Effect of jurisdictional tax rates and foreign exchange | **(193)** | (1,940) |
| Temporary differences not benefited | **(50)** | - |
| Unrecognized deferred tax assets | **161** | 3,189 |
| **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, | **2015** | 2014 |
|---|---|---|
| Carrying value of long-term assets in excess of tax value | **2,203** | 2,467 |
| Financing costs deductible in the future | **241** | 379 |
| Unused tax loss carryforwards | **20,667** | 20,104 |
| **Unrecognized deferred income tax assets** | **23,111** | 22,950 |

As at December 31, 2015, subject to confirmation from the respective income tax authorities, the Company has a total of $74,665 of Canadian and U.S. non-capital losses that are available for carryforward to offset future years' taxable income expiring as follows:

| | Non-Capital Losses |
|---|---|
| 2026 | 5,449 |
| 2027 | 11,281 |
| 2028 | 17,474 |
| 2029 | 9,646 |
| 2030 | 6,931 |
| 2031 | 4,699 |
| 2032 | 8,188 |
| 2033 | 5,189 |
| 2034 | 3,555 |
| 2035 | 2,243 |
| | 74,655 |

(In thousands of Canadian dollars, except share data)

## 10. Financial Instruments and Risk Management

### Classification of financial instruments

The Company holds various forms of financial instruments as follows:

| | Designation | Measurement | **2015** | 2014 |
|---|---|---|---|---|
| Cash and cash equivalents | FVTPL | Fair value | **1,038** | 670 |
| Accounts receivable (excluding commodity tax) | Loans and receivables | Amortized cost | **559** | 682 |
| Accounts payable and accrued liabilities | Other financial liabilities | Amortized cost | **1,456** | 1,163 |
| Debentures and notes | Other financial liabilities | Amortized cost | **88** | 681 |

### 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, 2015, primarily all of the Company's cash and cash equivalents were held at two 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.

(In thousands of Canadian dollars, except share data)

**10. 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, | **2015** | 2014 |
|---|---|---|
| Current | **232** | 443 |
| Past due but not impaired | | |
| 31 to 60 days | **269** | 215 |
| 61 to 90 days | **58** | 22 |
| Over 90 days | **-** | 2 |
| Past due and impaired | | |
| Over 90 days | **69** | 60 |
| Less: allowance for doubtful accounts | **(69)** | (60) |
| Total accounts receivable, net | **559** | 682 |

The Company reflected bad debt expense of $13 in the consolidated statements of operations and comprehensive loss for the year ending December 31, 2015 (2014 - $108).

*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, 2015 are due as follows:

| | 2016 | 2017 |
|---|---|---|
| Accounts payable and accrued liabilities | 1,456 | - |
| Debentures and notes | - | 100 |
| | 1,456 | 100 |

*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.

## 10. 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 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 and notes and accrued interest on debentures and notes, which are estimated by discounting their future cash flows at a rate of 22%, are $81 (2014 – $715).

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. Debentures and notes are not carried at fair value, however their fair value has been estimated using Level 3 inputs.

## 11. 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 and notes. At December 31, 2015, the Company has share capital of $88,149 (2014 - $86,961) and debentures and notes of $88 (2014 - $681).

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)

## 12. 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:

| | **2015** | 2014 |
|---|---|---|
| Mobile Advertising | **4,175** | 2,989 |
| Software Licensing and Support | **896** | 971 |
| Total | **5,071** | 3,960 |

For the year ended December 31, 2015, the Company earned 15% of its revenue from a related party (Note 8), 14% from one advertising agency and 11% from a second advertising agency. For the year ended December 31, 2014, the Company earned 15% of its revenue from one directory publisher and 13% from one advertising agency.

### Geographic information

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

| | **2015** | 2014 |
|---|---|---|
| United States | **4,175** | 3,018 |
| Rest of world | **896** | 942 |
| Total | **5,071** | 3,960 |

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

## 13. Impairment of Long-Lived Assets

During the year ended December 31, 2014, the Company wrote down goodwill with a carrying value of $232 and acquired technology with a carrying value of $601 from its previous acquisitions of UpSNAP Services LLC. on October 25, 2011, and VoodooVox, Inc. on January 2, 2012. The Company has shifted its business focus toward offering its mobile advertising services to small businesses on a subscription basis and does not have sufficient resources to aggressively pursue growth in its previously acquired businesses.