

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management's Discussion and Analysis ("**MD&A**") for UpSnap, Inc. ("**UpSnap**" or the "**Company**") should be read in conjunction with the Company's consolidated financial statements, and the accompanying notes, as at and for the year ended December 31, 2017, which have been filed with certain securities regulatory authorities in Canada and may be accessed through the SEDAR website at [www.sedar.com](http://www.sedar.com) (under UpSnap's profile). References in this MD&A to the Company's financial position and results of operations are presented on a consolidated basis and include the accounts of the Company and its wholly-owned subsidiaries, UpSnap USA Holdings, Inc., BTS Logic Europe ApS, Call Genie (Ontario) Inc., Call Genie Europe B.V., and VoodooVox Limited. The Company's consolidated financial statements, including the notes thereto, and the financial information presented in this MD&A have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All amounts are stated in Canadian currency unless otherwise indicated. This MD&A is dated April 27, 2018, and the information in this MD&A is current to April 27, 2018, unless otherwise noted. Whenever used in this MD&A, the term "**Common Shares**" means common shares in the capital of the Company.

The content of this MD&A has been approved by the board of directors of the Company (the "**Board**" or "**Board of Directors**"), on the recommendation of its Audit Committee.

Further information concerning the Company and its business and operations may be obtained from continuous disclosure materials filed by the Company from time-to-time with certain securities regulatory authorities in Canada. These continuous disclosure materials are available through the Company's website at [www.UpSnap.com](http://www.UpSnap.com) or through the SEDAR website at [www.sedar.com](http://www.sedar.com) (under UpSnap's profile).

## **FORWARD LOOKING STATEMENTS AND DISCLAIMER**

Certain information set out in this MD&A constitutes forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "hope", "plan", "continue", "estimate", "expect", "may", "will", "intend", "could", "might", "should", "scheduled", "believe" and similar expressions.

Forward-looking statements are based upon the opinions, expectations and estimates of management and, in some cases, information received from or disseminated by third parties, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking statements. These factors include such things as the Company's current stage of development, the lack of a track record with respect to the generation of revenues from performance-based arrangements with customers, its reliance on third parties and third party technology, the existence of competition, the availability of external financing, the inherent risks associated with research and development activities and commercialization of emerging technologies (such as lack of market acceptance), timing of execution of various elements of the Company's business plan, the availability of human resources, the emergence of competing business models, new laws (domestic or foreign),

lack of acceptance by customers, management's estimates of project requirements being incorrect, information received from third parties with respect to anticipated transaction volumes being incorrect, a lack of advertising sources for integration into the Company's platform, management's understanding of the competitive and regulatory environment being incorrect and the other risk factors noted below under the heading "Business Risks and Uncertainties". **Accordingly, readers should not place undue reliance upon the forward-looking information contained herein and the forward-looking statements contained in this MD&A should not be considered or interpreted as guarantees of future outcomes or results.**

The Company does not assume responsibility for the accuracy and completeness of the forward-looking statements set out in this MD&A and, subject to applicable securities laws, does not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances. UpSnap's forward-looking statements are expressly qualified in their entirety by the foregoing cautionary statement.

## OVERVIEW

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 Company's mobile advertising model is based on establishing long-term relationships with advertisers either directly or indirectly through advertising agencies, resellers and other media companies. UpSnap enters into arrangements with advertisers, which typically include the signing of an insertion order. Each insertion order, which generally remains in effect for a limited time period and involves a limited budget, outlines the performance criteria under which UpSnap earns a fee. The fees can be classified into two broad categories: CPM fees and CPA fees. Cost Per Thousand ("**CPM**") fees are earned based on simple insertion or display of the ad into any advertising inventory slot. No action is required by the consumer in order to earn this type of fee. Cost Per Action ("**CPA**") fees are earned when a consumer who hears or sees the ad takes a specific action. Performance criteria for CPA fees can include, but are not limited to, initiating a click-to-call phone call to a direct response call center, downloading an application, selecting an alternative merchant from a disconnected telephone number or providing additional merchant information.

UpSnap offers its mobile advertising services to national brands on a campaign basis. UpSnap offers its mobile advertising services to small businesses on a subscription basis. Small businesses pay a monthly fee in return for a fixed number of mobile display ads. The ads typically target a local area and are associated with a strong call to action such as "tap to call", "tap for directions", "tap for appointment", "tap for coupon", or "tap for website". UpSnap generally sells these subscriptions through a reseller network.

In order to earn CPM or CPA fees, UpSnap must source publishers who have places to insert advertisements ("**Ad Traffic**"). The arrangements to purchase Ad Traffic can be either on a fixed fee or revenue share basis. Fixed fees have a higher risk/return profile as the amount paid to the publisher is fixed and UpSnap's revenues vary based on the effectiveness of the ad campaigns. Alternatively, the publisher arrangements can be revenue share based where the publisher earns a percentage of the CPM or CPA fees earned by UpSnap. This has lower risk to UpSnap, but costs are potentially higher than a fixed fee.

UpSnap believes that the key to delivering an effective mobile advertising experience is providing publishers with highly relevant, targeted ads. To assist in targeting these ads, UpSnap relies on its analytics technology, which provides relevant demographic information about consumers who use the publishers' service. Increased knowledge and predictability regarding consumer behavior generally translates into higher CPM rates and higher yield on CPA revenue sources.

In addition to its mobile advertising services, UpSnap provides software and services that allow customers such as telephone carriers to run their own mobile advertising exchanges and software and services that allow customers to perform voice and data searches on proprietary business directories. UpSnap expects that these legacy products will continue to generate software license and maintenance fees, hosting fees and consulting fees.

## **OVERALL PERFORMANCE**

In 2017, UpSnap achieved its first profitable quarter in the second quarter and positive cash flow from operations in the fourth quarter. UpSnap achieved profitability by focusing its selling efforts on high margin advertising contracts and continuing to aggressively reduce operating costs. To increase advertising margins, UpSnap cut unprofitable contracts resulting in a decrease in mobile advertising revenue for the year ended December 31, 2017, to \$3.5 million compared to \$4.4 million in the prior year. Including the company's legacy software products, total revenue for the year ended December 31, 2017, was \$4.1 million compared to \$5.1 million in the prior year.

The focus on cutting costs resulted in a decrease in operating costs for the year ended December 31, 2017, to \$4.2 million compared to \$6.0 million in the prior year, more than compensating for the decreased revenue. Despite reducing costs UpSnap continued to invest in developing new products. In January 2018, UpSnap introduced a direct mail product called Intentional Direct Mail ("IDM"). With IDM tracking pixels, UpSnap can retarget those consumers who visit an advertiser's website with a customized direct mail postcard sent to the consumer's address within 24 hours of the visit, thereby increasing the advertiser's engagement with its customers.

Net loss for the year ended December 31, 2017, was \$0.2 million (or \$0.00 per share) compared to \$1.0 million (or \$0.00 per share) in the prior year. The smaller loss was primarily due to reduced costs.

## SELECTED ANNUAL INFORMATION

The following table sets out selected financial and share information of the Company as at December 31, 2017, 2016 and 2015 and for the periods then ended:

| <b>KEY FINANCIAL METRICS in 000's<br/>(except share amounts)</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|-------------|
| Revenue  |             |             |             |
| - Mobile advertising   | 3,524       | 4,356       | 4,175       |
| - Software licensing and support                                 | 558         | 706         | 896         |
| Total revenue  | 4,082       | 5,062       | 5,071       |
| Operating costs  | 4,227       | 6,002       | 6,258       |
| Operating loss   | (145)       | (940)       | (1,187)     |
| Net loss   | (167)       | (964)       | (1,070)     |
| Total assets   | 1,024       | 976         | 1,712       |
| Total long term liabilities                                      | -           | -           | 88          |
| Loss per share – basic and fully diluted                         | (0.00)      | (0.00)      | (0.01)      |
| Common Shares outstanding  |             |             |             |
| - Basic  | 266,045,941 | 235,642,191 | 235,642,191 |

## RESULTS OF OPERATIONS

### Subscriber Results

| <b>Year ended December 31,</b>          | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|
| Total active subscribers at quarter end | 879         | 1,468       |
| Monthly average revenue per subscriber  | US\$113.95  | US\$73.97   |

UpSnap offers its mobile advertising services to small businesses on a subscription basis. Advertisers pay a monthly fee in return for a fixed number of mobile display ads. Subscriptions are generally for a one year term and can be renewed by the advertiser. UpSnap sells these subscriptions primarily through a reseller network. UpSnap had 15 active resellers at December 31, 2017 compared to 22 in the prior year. Management expects that its reseller network will resume its growth as the Company switches focus from cutting costs to growing high quality, recurring revenue.

### Revenues

UpSnap operates in one segment, advertising software and services. Revenues for the year ended December 31, 2017, totalled \$4.1 million compared to \$5.1 million in 2016. The decrease is primarily due to the Company's focus on achieving profitability through selecting advertising contracts that meet profit goals. The following tables set out additional information concerning revenues by product lines.

| <b>Year ended December 31,<br/>(in 000's)</b> | <b>2017</b>  | <b>2016</b>  | <b>Variance</b> | <b>% change</b> |
|---|--------------|--------------|-----------------|-----------------|
| Mobile Advertising                            | 3,524        | 4,356        | (832)           | (19%)           |
| Software Licensing and Support                | 558          | 706          | (148)           | (21%)           |
| <b>Total</b>                                  | <b>4,082</b> | <b>5,062</b> | <b>(980)</b>    | <b>(19%)</b>    |

Mobile advertising revenue includes subscription contracts. Subscription contracts are generally for a one year term and the Company bills and records revenue monthly over the term. For the year ended December 31, 2017, revenue from subscription contracts was \$1.3 million compared to \$1.7 million in 2016. UpSnap continues to focus on servicing the small business market and looks to drive additional growth through new services including video ads, social media ads and digitally retargeted direct mail ads. These unique small business solutions have traditionally only been affordable for large advertisers.

The amount of revenue generated from the Company's mobile advertising services will depend, to a significant degree, on the Company's ability to source relevant Ad Traffic and ads that prompt consumers to act in a manner that generates a measurable sales lead to a merchant. Mobile advertising arrangements with advertisers are unique and revenue is determined based on the number and type of leads generated. It is difficult to project the number of phone calls or click-throughs which will be delivered to advertisers and how much advertisers will spend, and it is even more difficult to anticipate the average revenue per phone call or click-through. UpSnap expects its quarterly results will continue to vary, from quarter to quarter and year to year, sometimes significantly.

Revenue from the Company's legacy software licensing and support products decreased due to the expiration of a contract. UpSnap expects that revenue from its legacy software products will remain flat or decrease as its existing contracts continue to expire.

Deferred revenue at December 31, 2017, was \$0.1 million, unchanged from 2016. UpSnap does not expect to have significant deferred revenue in future periods.

#### Operating Costs

Operating costs for the year ended December 31, 2017, totalled \$4.2 million compared to \$6.0 million in 2016. The decrease was primarily due to improvements in network and publisher costs and labour costs.

*Network and Publisher Costs*

Network and publisher costs consist of non-labour costs directly incurred by the Company to provide hosted services and to acquire traffic (places to insert advertisements) from publishers. This includes network, data and operating charges required to support revenue generating services. Network and publisher costs for the year ended December 31, 2017, totalled \$1.9 million compared to \$3.1 million in 2016. The decrease was consistent with decreased mobile advertising revenue and management's focus on cutting costs in an effort to achieve profitability. Network and publisher costs were 46% of revenue for the year ended December 31, 2017 compared to 61% in 2016. UpSnap expects its publisher costs to grow in proportion to the growth in its mobile advertising revenue.

*Labour Costs*

Labour costs consist of employee salaries, employee benefits and stock option compensation expense. For the year ended December 31, 2017, labour costs were \$1.2 million compared to \$1.6 million in 2016. The average number of employees for the year ended December 31, 2017, was 8 compared to 10 in 2016. UpSnap sells its small business subscriptions primarily through a reseller network, allowing the Company to increase revenue without significant increases in labour costs by leveraging its resellers' sales forces and customer relationships. UpSnap expects its labour costs to increase in the future in proportion to the growth in its sales efforts.

*Other Operating Costs*

Other operating costs consist primarily of facility costs, professional services, telephone expenses, sales and marketing costs, travel costs and costs associated with operating as a public issuer. Other operating costs for the year ended December 31, 2017, totalled \$1.1 million compared to \$1.2 million in 2016. An increase in developments costs related to the new IDM product was offset by a decrease in marketing expenses consistent with lower revenue. UpSnap expects other operating costs to increase in proportion to its sales and marketing and product development efforts.

The following table provides a breakdown of other operating costs:

| <b>Year ended December 31, (in 000's)</b>  | <b>2017</b>  | <b>2016</b>  |
|--|--------------|--------------|
| Consultants Including Software Development | 355          | 251          |
| Insurance, Interest and Bank Fees          | 93           | 155          |
| Marketing and Travel                       | 213          | 318          |
| Professional Fees                          | 234          | 162          |
| Rent, Supplies and Postage                 | 35           | 47           |
| Shareholder and Public Company Costs       | 112          | 151          |
| Other Expenses Including Bad Debts         | 54           | 108          |
| <b>Total</b>                               | <b>1,096</b> | <b>1,192</b> |

Operating Gain or Loss

UpSnap's operating loss for the year ended December 31, 2017, was \$0.1 million compared to \$0.9 million in 2016. The improvement was primarily due to lower network and publisher costs and labour costs.

### Interest and Accretion Expense

Interest and accretion expense for year ended December 31, 2017, was less than \$0.1 million, unchanged from 2016. The Company expects its interest and accretion expense will be immaterial in future periods.

### Net Gain or Loss

UpSnap's net loss for the year ended December 31, 2017, was \$0.2 million (\$0.00 per share) compared to \$0.9 million (\$0.00 per share) in 2016. The smaller loss was primarily due to lower operating costs.

## **SUMMARY OF QUARTERLY RESULTS**

The following table sets out selected financial information of the Company for the quarters indicated.

| <b>(000's, except per share amounts)</b>   | <b>Q1</b>    | <b>Q2</b>    | <b>Q3</b>   | <b>Q4</b>    | <b>Q1</b>    | <b>Q2</b>   | <b>Q3</b>   | <b>Q4</b>    |
|--|--------------|--------------|-------------|--------------|--------------|-------------|-------------|--------------|
|  | <b>2016</b>  | <b>2016</b>  | <b>2016</b> | <b>2016</b>  | <b>2017</b>  | <b>2017</b> | <b>2017</b> | <b>2017</b>  |
| Revenue                                    |              |              |             |              |              |             |             |              |
| Mobile advertising                         | 1,024        | 1,200        | 1,237       | 895          | 875          | 1,091       | 924         | 634          |
| Software licensing and support             | 226          | 167          | 169         | 144          | 125          | 118         | 164         | 151          |
|  | 1,250        | 1,367        | 1,406       | 1,039        | 1,000        | 1,209       | 1,088       | 785          |
| Expenses                                   |              |              |             |              |              |             |             |              |
| Network and publisher costs                | 789          | 823          | 902         | 592          | 550          | 567         | 498         | 266          |
| Labour costs                               | 523          | 409          | 357         | 344          | 347          | 343         | 306         | 241          |
| Other operating costs and foreign exchange | 241          | 393          | 193         | 424          | 232          | 227         | 228         | 412          |
| Amortization                               | 3            | 3            | 3           | 3            | 3            | 2           | 3           | 2            |
|  | 1,556        | 1,628        | 1,455       | 1,363        | 1,132        | 1,139       | 1,035       | 921          |
| <b>Operating gain (loss)</b>               | <b>(306)</b> | <b>(261)</b> | <b>(49)</b> | <b>(324)</b> | <b>(132)</b> | <b>70</b>   | <b>53</b>   | <b>(136)</b> |
| Interest and accretion                     | (6)          | (6)          | (6)         | (6)          | (5)          | -           | (9)         | (8)          |
| <b>Net gain (loss) for the period</b>      | <b>(312)</b> | <b>(267)</b> | <b>(55)</b> | <b>(330)</b> | <b>(137)</b> | <b>70</b>   | <b>44</b>   | <b>(144)</b> |
| Basic and diluted loss per share           | (0.00)       | (0.00)       | (0.00)      | (0.00)       | (0.00)       | (0.00)      | (0.00)      | (0.00)       |

## **FOURTH QUARTER**

Revenue for the quarter ended December 31, 2017, totalled \$0.8 million compared to \$1.0 million in 2016. Revenue from the Company's mobile advertising services totalled \$0.6 million compared to \$0.9 million in the prior year. The decrease is primarily due to the Company's focus on achieving profitability through selecting high margin advertising contracts. Revenue from subscription contracts was \$0.3 million in 2017 compared to \$0.4 million in 2016. Revenue from the Company's legacy software and support products totalled \$0.2 million, significantly unchanged from the prior year.

Operating expenses for the quarter ended December 31, 2017, totalled \$0.9 million compared to \$1.4 million in the prior year. The decrease was primarily due to decreases in publisher



costs consistent with lower mobile advertising revenue and decreases in labour costs due to a reduced headcount.

Net loss for the quarter ended December 31, 2017, totalled \$0.1 million (\$0.00 per share) compared to \$0.3 million (\$0.00 per share) in the prior year. The improvement was primarily due to lower costs.

## **LIQUIDITY AND CAPITAL RESOURCES**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The reported financial position of the Company presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has incurred accumulated losses of \$109.0 million since the Company commenced operations in 2000. As of December 31, 2017, the Company had a working capital deficit of \$0.7 million and a cash balance of \$0.5 million.

Cash flows from operating activities primarily consist of the Company's gain or loss before income tax adjusted for certain non-cash items such as amortization, stock-based compensation, interest and accretion on debentures, gains on the settlement of liabilities and changes in working capital.

Cash flows used for operating activities for the year ended December 31, 2017, were less than \$0.1 million compared to \$0.7 million in 2016. The improvement was primarily due to lower operating costs.

Cash flows from financing activities for the year ended December 31, 2017, include proceeds of \$0.2 million from the issuance of a debenture to User Friendly Media, a related party.

The Company's ability to continue operations remains dependent upon its ability to: 1) raise additional funds; 2) realize transaction revenues from existing customer relationships; and 3) secure new customer relationships that provide the Company with adequate funds to cover projected expenditures (or a combination of the foregoing). If the Company does not generate sufficient funds from existing or new customer relationships and is unable to raise additional financing, the Company will have to consider strategic alternatives, which may include, among other things, exploring the monetization of certain intangible assets, modification of planned operating expenditures, or the sale of the Company.

## **CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS**

The following table sets out certain information concerning UpSnap's contractual obligations, including payments due for each of the next three years and thereafter.

| <b>Contractual Obligations as at December 31, 2017</b> | <b>Payments Due by Year in 000's</b> |             |             |             | <b>After 3 years</b> |
|--|--------------------------------------|-------------|-------------|-------------|----------------------|
|  | <b>Total</b>                         | <b>2018</b> | <b>2019</b> | <b>2020</b> |                      |
|  |                                      |             |             |             |                      |

|  |              |              |   |   |   |
|--|--------------|--------------|---|---|---|
| Accounts payable and accrued liabilities | 1,168        | 1,168        | - | - | - |
| Debentures                               | 197          | 197          | - | - | - |
| <b>Total</b>                             | <b>1,365</b> | <b>1,365</b> | - | - | - |

The Company did not have any off-balance sheet arrangements as of December 31, 2017. The Company did not have any commitments for capital expenditures as of December 31, 2017, nor any financing sources arranged, but not yet used.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company holds various forms of financial instruments as follows:

| (In '000s)                                    | Designation                 | Measurement    | 2017  | 2016  |
|---|-----------------------------|----------------|-------|-------|
| Cash and cash equivalents                     | FVTPL                       | Fair value     | 490   | 349   |
| Accounts receivable (excluding commodity tax) | Loans and receivables       | Amortized cost | 444   | 556   |
| Accounts payable and accrued liabilities      | Other financial liabilities | Amortized cost | 1,168 | 1,683 |
| Debentures                                    | Other financial liabilities | Amortized cost | 197   | 99    |

The nature of these financial instruments and the Company's operations expose UpSnap 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.

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. At December 31, 2017, primarily all of the Company's cash and cash equivalents were held at two major Canadian and U.S. banks.

The Company's accounts receivable are subject to normal credit risks. Any amounts not provided for are considered fully collectible. The Company's receivables include \$0.1 million in allowance for doubtful accounts.

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. See the section titled "Liquidity and Capital Resources" above for further discussion.

Foreign currency risk arises from the fluctuation of foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Company sells software and services in both Canadian and foreign currencies. The sale of software and services in

foreign currencies gives rise to the risk that the Company's income and cash flows may be adversely impacted by fluctuations in foreign exchange rates. Certain purchases of services and equipment are also made in non-Canadian currencies. The Company does not actively manage this risk and uses its natural hedge to mitigate, to the extent possible, the impact of foreign exchange fluctuations.

The most significant foreign exchange exposure arises from U.S. dollar revenue and costs. The Company may experience transaction exposure because of volatility in the exchange rate between the Canadian and U.S. dollar.

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

## **BUSINESS RISKS AND UNCERTAINTIES**

The business of the Company is subject to numerous risk factors, including those more particularly described below. An investment in or ownership of Common Shares should be considered highly speculative due to the nature of the Company's business, its current stage of development and the potential requirement for additional financing.

### Substantial Capital Requirements; Liquidity; Going Concern

Because of the costs associated with further development of UpSnap's technology and business, and the fact that UpSnap's ability to generate revenue will depend on a variety of factors (including the ability of UpSnap to meet its development schedule and consumer and merchant acceptance of UpSnap technologies), additional funds are required to support UpSnap's business. UpSnap has accumulated a substantial deficit and continues to have operating losses. These conditions indicate the existence of material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Additional funds (whether through additional equity financing, debt financing or other sources) may not be available (at all or on terms acceptable to UpSnap) or may result in significant dilution to UpSnap shareholders or significant interest obligations. The inability to obtain additional funds in the short term will have a material adverse effect on UpSnap's business, results of operations, and financial condition and could result in the Company ceasing operations.

### No Record of Profit

UpSnap has incurred significant losses to date, and there can be no assurance that the future business activities of UpSnap will be profitable. Since its organization, UpSnap has incurred costs to develop and enhance its technology, to establish strategic relationships, to acquire complementary technologies and to build administrative support systems. UpSnap has incurred negative operational cash flow to date. UpSnap incurred losses of \$0.2 million for the year ended December 31, 2017, \$1.0 million for the year ended December 31, 2016, \$1.1 million for the year ended December 31, 2015, \$4.1 million for the year ended December 31, 2014, \$12.2 million for the year ended December 31, 2013, \$11.2 million for the year ended December 31, 2012, \$13.2 million for the year ended December 31, 2011, \$8.6 million for the year ended December 31, 2010, \$12.4 million for the year ended

December 31, 2009, \$20.5 million for the year ended December 31, 2008, \$12.6 million for the year ended December 31, 2007, and \$6.5 million for the year ended December 31, 2006. UpSnap's ability to operate profitably and generate positive cash-flow in the future will be affected by a variety of factors (including its ability to further develop and test its technology on schedule and on budget, the pace at which it secures additional customers, the time and expense required for the roll-out of its products, its success in marketing its solutions and services to consumers and merchants, the intensity of the competition experienced by UpSnap and the availability of additional capital to pursue its business plan, including development of new solutions and services). An inability to generate sufficient funds from operations will have a material adverse effect on UpSnap's business, results of operations and financial condition.

#### Developing Market

UpSnap is engaged in the development and marketing of solutions and services that are relatively new and, as such, the primary market for UpSnap's solutions and services is underdeveloped and continues to evolve. As is typical in the case of a new evolving industry segment, the demand for the Company's solutions and services is subject to a high level of uncertainty. If the markets for the UpSnap solutions and services fail to develop, develop more slowly than expected or become saturated with competitors, or if the Company's solutions and services do not achieve and maintain market acceptance, the Company's business, results of operations and financial condition will be materially adversely affected.

#### Current Enterprise Value assigned by the Market; Liquidity

The actions of all stakeholders in the business may be adversely affected by the current market capitalization of the Company. These stakeholders include customers, potential customers, competitors, channel delivery counterparties, technology counterparties, and current or prospective employees. These stakeholders may ascribe a higher business risk to the Company due to its relatively low market capitalization, and any perception of higher risks may have a material adverse effect on UpSnap's business, results and financial condition.

#### Third Party Technology

In providing its solutions and services, UpSnap is, and will continue to be, dependent on technologies and infrastructure that are beyond UpSnap's control, including landline and cellular telephone networks, directory databases and cloud computing services. There can be no assurance that, if weaknesses or errors in third party software or hardware are detected, UpSnap will be able to correct or compensate for such weaknesses or errors. If UpSnap is unable to address weaknesses or errors and the Company's solutions and services are therefore unable to meet consumer or merchant needs or expectations, UpSnap's business, results of operations and financial condition will be materially adversely affected. In addition, there can be no assurance that the Company will continue to have access to required third-party technology on terms acceptable to UpSnap. If UpSnap is unable to obtain third party technology on acceptable terms, UpSnap's business, results of operations and financial condition will be materially adversely affected.

### Rapid Technological Change

The technology industry is subject to rapid change, and the inability of UpSnap to adapt to such change may have an adverse effect on UpSnap's business, results of operations and financial condition. The effect of new developments and technological changes on the business sector in which UpSnap is active cannot be predicted. Such developments would include, but are not limited to, change in how mobile advertising is delivered by advertisers and transacted with potential consumers, declining paid directory assistance transactions and resulting advertising opportunities arising on a global basis, a change in the success rate on the application of analytics in advertising, consumer backlash resulting from the collection and use of demographic intelligence, clients' ability to execute and industry consolidation. UpSnap's failure to adapt to any of the above could have a material adverse effect on UpSnap's business, results of operations and financial condition.

### Competition

UpSnap is subject to competition from other organizations (many of which have substantially greater human and financial resources) and there can be no assurance that UpSnap will be able to compete effectively in its target markets. Technologies exist that are competitive with the Company's product suite. Certain organizations with substantially greater financial and human resources than the Company have active research and development initiatives involving the development and implementation of voice search capabilities, workstation applications, analytics and ad network arrangements. The inability of UpSnap to preserve existing customers and secure additional customers due to competitive technologies will have a material adverse effect on UpSnap's business, results of operations and financial condition.

In addition, advances in communications technology as well as changes in the marketplace and the regulatory environment are constantly occurring and any such change could have a material adverse effect on UpSnap.

### Need for Research and Development

To achieve its business objectives and obtain market share and profitability, UpSnap will need to continually research, develop and refine the Company's various technologies. Many factors may limit UpSnap's ability to develop and refine required technologies or to create, acquire or negotiate access to new technologies. UpSnap may also be exposed to marketplace resistance to new technology and services. Any failure of UpSnap to develop new technologies or refine its existing technologies, or offer new solutions and services could have a material adverse effect on UpSnap's business, results of operations and financial condition.

### Defects and Liability

The hardware and software utilized to deliver the Company's solutions and services is complex and sophisticated and may contain design defects or software errors that are difficult to detect and correct. There can be no assurance that the Company's technologies will be free from errors or defects, or, if discovered, that UpSnap will be able to successfully correct such errors in a timely manner or at all. Errors or failures in the Company's technologies could result in loss of or delay in market acceptance of the Company's solutions and services and correcting such errors and failures could require significant expenditures. Because of the competitive nature of the marketplace in which the Company's product suite is delivered, the reputational harm resulting from errors and failures could be very damaging to UpSnap. The consequences of such errors and failures could have a material adverse effect on UpSnap's businesses, results of operations and financial condition.

### Patents and Other Intellectual Property

While UpSnap has applied for patents for certain elements of its technology, there can be no assurance that such applications will result in the granting of patent protection. Competitors may have filed patent applications or hold issued patents relating to services or processes competitive with those of UpSnap. Any patents covering elements of the UpSnap technology granted to third parties (or the inability of UpSnap to successfully challenge such patents) may impair UpSnap's ability to do business in a particular area including in key markets. Others may independently develop similar services or duplicate unpatented elements of the Company's technologies.

UpSnap's success will be largely dependent upon its ability to protect its proprietary technologies. UpSnap relies upon copyrights, trademarks and trade secrets to protect its intellectual property. Where appropriate, UpSnap also enters into non-disclosure agreements with persons to whom it reveals proprietary information. Any failure or inability on the part of UpSnap to protect its intellectual property could have a material adverse effect on UpSnap's business, results of operations and financial condition.

UpSnap may be required to engage in litigation in the future to enforce or protect its intellectual property rights or to defend against claims of invalidity and UpSnap may incur substantial costs as a result. Any claims or litigation initiated by UpSnap to protect its intellectual property could result in significant expense to UpSnap and diversion of the efforts of UpSnap's technical and management resources, whether or not the claims or litigation are determined in favor of UpSnap.

### Ability to Manage Growth

Responding to consumer and merchant demands, expansion into other geographical markets and targeted growth in UpSnap's business has placed, and is likely to continue to place, significant strains on UpSnap's administrative and operational resources and increased demands on its management, internal systems, procedures and controls. If UpSnap experiences rapid acceptance of its solutions and services, the need to manage such growth will add to the demands on UpSnap's management, resources, systems, procedures and controls. There can be no assurance that UpSnap's administrative infrastructure, systems, procedures and controls will be adequate to support UpSnap's

operations or that UpSnap's officers and personnel will be able to manage any significant expansion of operations. If UpSnap is unable to manage growth effectively, UpSnap's business, operating results and financial condition will be materially adversely affected.

#### Personnel Resources

UpSnap is (and will continue to be) reliant upon its management and technical personnel in all aspects of its business, including to anticipate and address consumer and merchant demands in areas such as software development, customer service, marketing, finance, strategic planning and management. There can be no assurance that qualified management or technical personnel will be available to UpSnap in the future. The loss of services of any of the Company's management or technical personnel could have a material adverse effect on its business, results of operations and financial condition.

#### Potential Fluctuations in Quarterly Operating Results

UpSnap expects to be exposed to significant fluctuations in quarterly operating results caused by many factors, including changes in the demand for the Company's solutions and services, the introduction of competing technologies, market acceptance of enhancements to the Company's solutions and services, delays in the introduction of enhancements to the Company's solutions and services, changes in UpSnap's pricing policies or those of its competitors, the mix of solutions and services sold, foreign currency exchange rates and general economic conditions. Such fluctuations could have a material adverse effect on UpSnap's business, results of operations and financial condition.

#### Risk of Industry Consolidation

UpSnap's customers include carriers, telecommunication providers, yellow pages providers, directory assistance providers, publishers, publisher aggregators, advertisers, advertising aggregators, agencies, directory data providers, mobile application and service providers, ad networks, in-call media, and search engines. Each of these industries is characterized by constant change, restructuring and consolidation. As a result, UpSnap may have established working relationships with one such customer undermined by a business combination or other transaction with another business in the marketplace. This could have a material adverse effect on UpSnap's business, results of operations and financial conditions.

#### Government Regulation

The marketplace within which UpSnap operates is in constant flux in relation to government regulation. Areas being regulated include regulation relating to call handling, privacy, and opt-in requirements for mobile application. Regulation is also being considered for use and application of consumer demographic information for mobile advertising purposes and other areas impacting on mobile advertising. The consequences of such regulation or changes to such regulation could have a material adverse effect on UpSnap's business, results of operations and financial condition.

#### Costs Associated with Compliance with Securities Laws

UpSnap is a publicly traded corporation and is subject to all of the obligations imposed on "reporting issuers" under applicable securities laws and all of the obligations applicable to a listed company under stock exchange rules. Direct and indirect costs associated with

public company status have increased in recent years and regulatory initiatives under consideration may further increase the costs of being public in Canada and could have a material adverse effect on UpSnap's business, results of operations and financial condition. If UpSnap is unable to generate significant revenues from business operations, the cost of complying with applicable regulatory requirements will represent a significant financial burden to UpSnap and may have a material adverse effect on UpSnap's business, results of operations and financial condition.

## **OUTSTANDING SHARE DATA**

The Company's outstanding share capital consists of Common Shares. The Company is authorized to issue an unlimited number of Common Shares. At December 31, 2017, 266,045,941 (2016 – 235,642,191) were outstanding. On March 29, 2017, the Company settled a debenture held by a User Friendly Media, a related party, plus accrued interest totaling \$0.1 million into 7,137,500 common shares at a price of \$0.02 per share. On June 14, 2017, the Company settled a payable to User Friendly Media, a related party, totaling \$0.5 million into 22,750,000 common shares at \$0.02 per share. On October 19, 2017, the settled an interest payment on a debenture for 505,000 common shares at \$0.02 per share.

As at December 31, 2017, the Company had 20,500,000 (2016 – 13,550,000) stock options outstanding with a weighted average exercise price of \$0.06 and 33,500,000 (2016 – 33,500,000) share purchase warrants outstanding with an average exercise price of \$0.05.

## **RELATED PARTY TRANSACTIONS**

User Friendly Media (“UFM”), a private media company, owns approximately 49% of UpSnap’s issued and outstanding common shares. UpSnap bills UFM under a reseller agreement for small business mobile advertising subscriptions. For the year ended December 31, 2017, UpSnap recorded \$0.8 million (2016 – \$0.8 million) in revenue under this agreement. Included in accounts receivable at December 31, 2017, are \$0.1 million (2016 – \$0.1 million) in receivables from UFM.

UFM bills UpSnap under a shared services agreement for management and support services, which include shared office space and key management roles including the Chief Executive Officer, Vice President of Operations and Vice President of Product and Technology. For the year ended December 31, 2017, total amounts billed under this agreement, excluding disbursements, totalled less than \$0.1 million. Included in accounts payable at December 31, 2017, are \$0.5 million (2016 – \$0.7 million) in payables to UFM for fees and disbursements.

On March 29, 2017, the Company settled a debenture held by UFM plus accrued interest totaling \$0.1 million by issuing 7,137,500 common shares at a price of \$0.02 per share. No gain or loss was recorded on the settlement.

On June 14, 2017, the Company settled a portion of its payable balance owed to UFM totaling \$0.5 million by issuing 22,750,000 common shares at a price of \$0.02 per share. No gain or loss was recorded on the settlement.



On June 20, 2017, the Company issued a debenture to UFM for gross proceeds of \$0.2 million. The debenture bears interest at a rate of 13.5% per annum and matures on June 20, 2018. On October 19, 2017, the Company made an interest payment on the debenture through the issuance of 505,000 common shares at a price of \$0.02 per share.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Company's unaudited condensed interim consolidated financial statements as at and for the quarter ended December 31, 2017, were prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"). Please refer to Note 2 of the Company's consolidated financial statements for a detailed discussion regarding the significant accounting policies relied upon in the preparation of the financial statements, the application of critical estimates and judgements in the preparation of the financial statements and recent accounting pronouncements.