

UpSnap, Inc.
Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2018 and 2017
(unaudited – prepared by Management)

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NOTICE TO READER OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The condensed interim consolidated statement of financial position of UpSnap, Inc. as at June 30, 2018 and the condensed interim consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the three and six months ended June 30, 2018 and 2017 are the responsibility of the Company's management.

These condensed interim consolidated financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the company, RSM Canada.

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

“ signed ”

Bruce Howard
Chief Executive Officer
Toronto, Canada
August 30, 2018

“ signed ”

A. Alex Pekurar
Chief Financial Officer
Toronto, Canada
August 30, 2018

Consolidated Statements of Operations and Comprehensive Loss

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

	Note	Three months ended June 30,		Six months ended June 30,	
		2018	2017	2018	2017
Operating revenue		977	1,209	1,791	2,209
Operating expenses:					
Network and publisher costs		(303)	(567)	(536)	(1,117)
Reseller fees		(196)	-	(381)	-
Labour costs	5(c)	(226)	(343)	(449)	(690)
Other operating costs and foreign exchange		(395)	(227)	(691)	(459)
Amortization		(5)	(2)	(9)	(5)
Operating gain (loss)		(148)	70	(275)	(62)
Interest and accretion on debentures	4	(9)	-	(17)	(5)
Gain (loss) before income taxes		(157)	70	(292)	(67)
Income taxes			-		-
Net income (loss) and comprehensive income (loss)		(157)	70	(292)	(67)
Basic and diluted loss per share		(0.00)	(0.00)	(0.00)	(0.00)
Weighted average number of shares – basic and diluted		267,002,974	246,790,941	266,725,333	241,326,355

UpSnap, Inc.
Consolidated Statements of Financial Position

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

As at	Note	June 30, 2018	December 31, 2017
Assets			
Current assets:			
Cash and cash equivalents	3	327	490
Accounts receivable	6	454	474
Prepaid expenses and deposits		103	52
		884	1,016
Non-current assets:			
Property and equipment		3	8
Intangible asset – Technology		103	-
		996	1,024
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	6	1,332	1,168
Current portion of debentures	4	200	197
Deferred revenue		102	49
Income taxes payable		295	295
		1,929	1,709
Shareholders' deficiency:			
Share capital		88,762	88,748
Contributed surplus		19,717	19,687
Deficit and other comprehensive income		(109,412)	(109,120)
		(933)	(685)
		996	1,024

These consolidated financial statements are authorized for issue by the Board of Directors on August 30, 2018. They are signed on the Company's behalf by:

“signed” Director
Daniel Hilton

“signed” Director
Heather Burrer

Consolidated Statements of Changes in Shareholders' Deficiency

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

	Note	Number of common shares	Share capital	Contributed surplus	Deficit and translation reserve	Shareholders' deficiency
Balance at January 1, 2018		266,045,941	88,748	19,687	(109,120)	(685)
Net loss		-	-	-	(292)	(292)
Debenture interest settlement	4	1,140,000	14	-	-	14
Stock-based compensation	5(c)	-	-	30	-	30
Balance at June 30, 2018		267,185,941	88,762	19,717	(109,412)	(933)

		Number of common shares	Share capital	Contributed surplus	Deficit and translation reserve	Shareholders' equity
Balance at January 1, 2017		235,642,191	88,149	19,633	(108,967)	(1,185)
Net loss		-	-	-	(67)	(67)
Debenture conversion net of issue costs		7,148,750	138	-	-	138
Debt conversion net of issue costs		22,750,000	454	-	-	454
Stock-based compensation	5(c)	-	-	15	-	15
Balance at June 30, 2017		265,540,941	88,741	19,648	(109,034)	(644)

UpSnap, Inc.
Consolidated Statements of Cash Flows

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

For the six months ended June 30,	Note	2018	2017
Cash flows from operating activities:			
Loss before income taxes for the period		(292)	(67)
Adjustments for:			
Stock-based compensation	5(c)	30	15
Amortization of property, equipment and intangible assets		9	5
Interest on debentures		14	4
Accretion on debentures		3	1
		<u>(236)</u>	<u>(42)</u>
Changes in non-cash working capital balances:			
Accounts receivable		20	(145)
Prepaid expenses and deposits		(51)	(43)
Accounts payable and accrued liabilities		164	6
Deferred revenue		53	56
		<u>(50)</u>	<u>(168)</u>
Cash flows from investing activities:			
Additions to intangible assets		<u>(113)</u>	-
		<u>(113)</u>	-
Cash flows from financing activities:			
Proceeds from debenture, net of issuance costs		-	194
Share issue costs on debt conversions		-	(6)
		<u>-</u>	<u>188</u>
Net decrease in cash and cash equivalents		(163)	20
Cash and cash equivalents, beginning of period		<u>490</u>	<u>349</u>
Cash and cash equivalents, end of period		327	369

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 June 30, 2018, has accumulated a deficit amounting to \$109,412. The Company had a working capital deficit of \$1,045 at June 30, 2018.

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 interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") and on a basis consistent with the accounting policies disclosed in the annual audited consolidated financial statements for the year ended December 31, 2017.

(b) Basis of preparation

The Company prepares its financial statements on a historical cost basis, except for certain financial instruments measured at fair value as described in the accounting policies below. Share-based payments are measured at fair value at the transaction date. The notes presented in these unaudited interim condensed consolidated financial statements include in general only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These unaudited interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2017.

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

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

2. Summary of Significant Accounting Policies (continued)

(c) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: (i) Call Genie (Ontario) Inc., (ii) UpSnap USA Holdings, Inc., (iii) UpSnap USA, Inc., (iv) Call Genie Europe B.V., (v) VoodooVox Limited; and (vi) BTS Logic Europe ApS. All intercompany transactions and balances have been eliminated on consolidation.

(d) Use of estimates and key judgments

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

(i) Judgments

Functional currency

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

Allowance for doubtful accounts

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

Debt settlement

For debt settlement transactions between the Company and a shareholder, judgement is used to determine whether the shareholder is acting in its capacity as a creditor or a shareholder. For creditor transactions, the debt is recorded at fair value while shareholder transactions are recorded at carrying value.

Revenue recognition

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. To determine whether the entity is a principal or an agent, the entity identifies the specified good or service to be provided to the customer and assesses whether it controls that good or service before the good or service is transferred to the customer.

(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.

2. Summary of Significant Accounting Policies (continued)

Income taxes

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

Stock-based compensation

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

(e) Translation of foreign currencies**Functional Currency and Change in Functional Currency**

Items included in the consolidated financial statements of the Company and each of its subsidiaries are measured using the currency of the primary economic environment in which the individual entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and the following subsidiaries: (i) Call Genie (Ontario) Inc., (ii) Call Genie Europe B.V., (iii) VoodooVox Limited, and (iv) BTS Logic Europe ApS. Due to the increasing prevalence of U.S. dollar denominated activities of UpSnap USA Holdings, Inc. and UpSnap USA, Inc., the functional currency of these subsidiaries changed to U.S. dollars effective January 1, 2015.

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

(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.

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

(g) Cash and cash equivalents

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

(h) Leases

Leases are classified as either finance or operating. Leases that transfer substantially all of the risks and rewards of ownership of a property to the Company are accounted for as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased equipment and the present value of the minimum lease payments. Equipment acquired under a finance lease is amortized over the shorter of the period of expected use on the same basis as other similar property and equipment and the lease term.

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Rental payments under operating leases are expensed to operations on a straight-line basis over the term of the lease.

(i) 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. For the Company's internally developed technology, amortization is provided on a straight-line basis over 5 years.

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

2. Summary of Significant Accounting Policies (continued)

(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.

(k) 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.

(l) 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.

(m) Issuance of units consisting of shares and warrants

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

(n) 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)

(o) 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. To determine whether the entity is a principal or an agent, the entity identifies the specified good or service to be provided to the customer and assesses whether it controls that good or service before the good or service is transferred to the customer.

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 controls the services provided to the customer by 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. Generally the Company maintains control of the advertising services when working with its resellers and recognizes revenue gross of the reseller's fees. Where the reseller is the primary obligor responsible for contracting with the advertiser, the Company recognizes revenue net of the reseller's fees.

Software Licensing and Support

The Company enters into software license arrangements which may involve the delivery of multiple services and products, such as license fees, implementation fees and maintenance fees, occurring at different points in time and/or over different periods of time. Revenue recognition for these arrangements is determined based on an evaluation of the individual elements of the arrangements. Revenue from these arrangements is recognized when earned, specifically when all the following conditions are met: software licenses are delivered and services are provided, there is clear evidence that an arrangement exists, amounts can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company.

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

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 within accounts receivable. Amounts billed in accordance with customer contracts, yet not earned, are recorded as deferred revenue.

2. Summary of Significant Accounting Policies (continued)

(p) Stock-based compensation

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

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

(q) Segment reporting

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

(r) 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.

(s) New Accounting Standards

IFRS 9, Financial Instruments, is required to be applied for years beginning on or after January 1, 2018, with retrospective application. The new standard includes a model for the classification and measurement of financial instruments, a single forward-looking "expected loss" impairment model and a reformed approach to hedge accounting. The Company's financial performance is not materially affected by the retrospective application of the standard, nor is our financial position.

IFRS 15, Revenue from Contracts with Customers, is required to be applied for years beginning on or after January 1, 2018. The new standard 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.

2. Summary of Significant Accounting Policies (continued)

The Company applied the standard retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application, subject to permitted and elected practical expedients. We elected to recognize the incremental costs of obtaining contracts (such as sales commissions) as an expense when incurred if the amortization period of the assets that we would have otherwise recognized would have been on year or less. Our financial performance was not materially affected by the retrospective application of the standard, nor is our financial position.

(t) Future Accounting Pronouncements

IFRS 15, Revenue from Contracts with Customers, was issued by the IASB in May 2017 and supersedes IFRS 16, Leases, was issued by the IASB in January 2018 and supersedes the current IAS 17, Leases standard. IFRS 16 introduces a single accounting model for lessees and for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The impact of this standard is not expected to be material.

June 30, 2018 and 2017

Notes to the Consolidated Financial Statements

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

3. Cash and Cash Equivalents

As at	June 30, 2018	December 31, 2017
Business and savings accounts	278	442
Cashable guaranteed investment certificates and bank deposits	49	48
	327	490

4. Debentures

As at	Principal Amount	Rate of Interest	Jun 30, 2018	Dec 31, 2017
Jun 2018 Debenture	200	13.5%	200	197
Current portion			(200)	(197)
Long term portion			-	-

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.

On June 20, 2017, the Company issued a debenture for gross proceeds of \$200 (the "Jun 2018 Debenture") to User Friendly Media, a related party (Note 6). The debenture bears interest at a rate of 13.5% per annum and was scheduled to mature on June 20, 2018. The Company and lender agreed to extend the maturity to October 1, 2018. Interest is payable quarterly and interest payments are to be made in common shares rather than cash. The Company incurred financing costs of \$6 in connection with this debenture. On February 7, 2018, the Company made an interest payment for \$7 through the issuance of 690,000 common shares at \$0.01 per share. On May 5, 2018, the Company made an interest payment for \$7 through the issuance of 450,000 common shares at \$0.015 per share.

June 30, 2018 and 2017

Notes to the Consolidated Financial Statements

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

5. Equity Instruments

- (a) Authorized
 Unlimited common shares without par value
 Unlimited preferred shares without par value, non cumulative, redeemable and non-voting

There are no issued and outstanding preferred shares.

- (b) Issued and outstanding warrants

	Weighted Average Exercise Price (\$/share)	Number
Outstanding, January 1 and June 30, 2018	0.05	33,500,000

Warrants outstanding as of June 30, 2018 have an exercise price of \$0.05 and a weighted average remaining contractual life of 0.26 years.

- (c) Options

Under the Company's current Stock Option Plan (the "Plan"), the Company's directors may approve the issuance of stock options to directors, officers, employees and consultants of the Company and its affiliates. The aggregate number of shares reserved for issuance under the Plan is up to 10% of the number of outstanding common shares. As at June 30, 2018, 20,300,000 stock options remain outstanding at exercise prices ranging from \$0.05 to \$0.10 per share. Options for the Company's directors generally 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 November 2018 to September 2022.

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.

During the six month period ended June 30, 2018, a total of \$30 (2017 - \$15) was included in labour costs as stock-based compensation related to options with the corresponding amount charged to contributed surplus.

The following table sets out information concerning stock options issued to employees, consultants, directors and officers that were outstanding at June 30, 2018:

June 30, 2018 and 2017

Notes to the Consolidated Financial Statements

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

5. Equity Instruments (continued)

	Weighted Average Exercise Price (\$/share)	Number of Options
Outstanding, January 1, 2018	0.06	20,500,000
Expired	0.05	(200,000)
Outstanding, June 30, 2018	0.06	20,300,000

The following table summarizes information about the stock options outstanding at June 30, 2018:

Exercise Prices per Share (\$)	Number of Options Outstanding	Weighted Average Remaining Contractual Life in Years	Number of Options Vested/ Exercisable	Weighted Average Remaining Contractual Life in Years
0.05	16,900,000	3.1	9,894,444	2.4
0.10	3,400,000	0.4	3,400,000	0.4
0 to 0.10	20,300,000	2.6	13,294,444	1.9

6. 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 solutions. For the six months ended June 30, 2018, UpSnap recorded \$486 (2017 - \$406) in revenue, net of reseller fees, under this agreement. Included in accounts receivable at June 30, 2018, are \$100 (December 31, 2017 - \$99) 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 six months ended June 30, 2018, total amounts billed under this agreement, excluding disbursements, totalled \$15 (2017 - \$8). Included in accounts payable at June 30, 2018, are \$522 (December 31, 2017 - \$454) in payables to UFM for fees and disbursements.

On February 7, 2018, the Company made an interest payment for \$7 on an outstanding debenture through the issuance of 690,000 common shares at a price of \$0.01 per share. On May 5, 2018, the Company made an interest payment for \$7 through the issuance of 450,000 common shares at \$0.015 per share.

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

Key management compensation	June 30, 2018	June 30, 2017
Salaries	107	87
Stock-based compensation	23	7
	130	94

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

June 30, 2018 and 2017

Notes to the Consolidated Financial Statements

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

7. Financial Instruments and Risk Management

Classification of financial instruments

The Company holds various forms of financial instruments as follows:

	Designation	Measurement	June 30, 2018	December 31, 2017
Cash and cash equivalents	FVTPL	Fair value	327	490
Accounts receivable (excluding commodity tax)	Loans and receivables	Amortized cost	431	444
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	1,332	1,168
Debentures	Other financial liabilities	Amortized cost	200	197

Financial risk management

The nature of these financial instruments and the Company's operations expose the Company to a number of financial risks, including credit risk, liquidity risk, foreign currency risk and interest rate risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

Credit risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable.

At June 30, 2018, primarily all of the Company's cash and cash equivalents were held at two major 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.

June 30, 2018 and 2017

Notes to the Consolidated Financial Statements

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

7. 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:

	June 30, 2018	December 31, 2017
Current	329	245
31 to 60 days	-	82
61 to 90 days	36	23
Over 90 days	66	94
Past due and impaired:		
Over 160 days	96	59
Less: allowance for doubtful accounts	(96)	(59)
Total accounts receivable, net	<u>431</u>	<u>444</u>

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they become due. The Company manages liquidity risk through cash flow forecasting including anticipated investing and financing activities. Further discussion with regard to the Company's liquidity management is described in Note 1 to the consolidated financial statements.

The contractual cash flows of the Company's financial liabilities, as at June 30, 2018 are due as follows:

	2018
Accounts payable and accrued liabilities	1,332
Debenture	200
	<u>1,532</u>

Foreign currency risk

The Company operates internationally and is exposed to risk from changes in foreign currency rates. Foreign currency risk arises from the fluctuation of foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Company sells software and services in both Canadian and foreign currencies. The sale of software and services in foreign currencies gives rise to the risk that the Company's income and cash flows may be adversely impacted by fluctuations in foreign exchange rates. Certain purchases of services and equipment are also made in non-Canadian currencies. The Company does not actively manage this risk and uses its natural hedge to mitigate, to the extent possible, the impact of foreign exchange fluctuations.

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.

7. Financial Instruments and Risk Management (continued)

Fair values of financial instruments

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

Financial assets and liabilities that are carried at fair value are measured using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy of inputs is summarized below.

Level 1 – Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2 – Fair value is based on inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 – Fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Cash and cash equivalents carried on the consolidated statements of financial position at fair value are classified as Level 1.

8. Capital Management

The Company's objective when managing capital is to ensure that it has adequate financial resources to maintain liquidity necessary to fund its operations and provide returns for shareholders and benefits to other stakeholders. The capital structure of the Company consists of share capital and debentures. At June 30, 2018, the Company has share capital of \$88,762 and debentures of \$200.

The Company manages its capital structure and makes adjustments to it based on the level of funds available to the Company to manage its operations. Upon approval of the Board of Directors, the Company balances its overall capital through new share, debenture, and warrant issuances or by undertaking other activities as deemed appropriate in the circumstances. The Company is not subject to externally imposed capital requirements.

There have been no changes in the Company's approach to capital management during the period.

June 30, 2018 and 2017

Notes to the Consolidated Financial Statements

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

9. Segmented Information**Operating segment**

The Company operates in the sale and service of software and hosting solutions segment and all sales are made in this segment. Management assesses performance and makes decisions about allocating resources based on the one operating segment.

Product category information

The Company earned revenue attributed to the following product categories based on the main product or service sold to the customer:

Period ended June 30,	2018	2017
Mobile Advertising	1,520	1,966
Software Licensing and Support	271	243
Total	1,791	2,209

For the period ended June 30, 2018, the Company earned 44% of its revenue from a related party (Note 6).

Geographic information

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

Period ended June 30,	2018	2017
United States	1,520	1,966
Rest of world	271	243
Total	1,791	2,209

Substantially all of the Company's non-current assets are located in the United States.