

UpSnap, Inc.
Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2019 and 2018
(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 September 30, 2019 and the condensed interim consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the three and nine months ended September 30, 2019 and 2018 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
November 29, 2019

“ *signed* ”

A. Alex Pekurar
Chief Financial Officer
Toronto, Canada
November 29, 2019

Consolidated Statements of Operations and Comprehensive Loss

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

	Note	Three months ended September 30,		Nine months ended September 30,	
		2019	2018	2019	2018
Operating revenue		430	690	1,356	2,100
Operating expenses:					
Network and publisher costs		(260)	(320)	(707)	(856)
Labour costs	5(c)	(67)	(261)	(253)	(710)
Other operating costs and foreign exchange		(290)	(409)	(757)	(1,100)
Amortization		(17)	(11)	(28)	(20)
Operating loss		(204)	(311)	(389)	(586)
Interest and accretion on debentures	4	(36)	(7)	(108)	(24)
Loss before income taxes		(240)	(318)	(497)	(610)
Income taxes		-	-	-	-
Net loss and comprehensive loss		(240)	(318)	(497)	(610)
Basic and diluted loss per share		(0.00)	(0.00)	(0.00)	(0.00)
Weighted average number of shares – basic and diluted		267,640,941	266,995,556	267,640,941	267,527,191

UpSnap, Inc.
Consolidated Statements of Financial Position

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

As at	Note	September 30, 2019	December 31, 2018
Assets			
Current assets:			
Cash and cash equivalents	3	139	204
Accounts receivable	7	218	369
Prepaid expenses and deposits		26	23
		<u>383</u>	596
Non-current assets:			
Intangible assets		<u>306</u>	289
		<u>689</u>	885
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	7	1,344	1,088
Current portion of debenture	5	764	-
Contract liabilities		85	79
Income taxes payable		295	295
		<u>2,488</u>	1,462
Non-current liabilities:			
Debenture		<u>-</u>	738
		<u>2,488</u>	2,200
Shareholders' deficiency:			
Share capital		88,769	88,769
Contributed surplus		19,750	19,737
Deficit and other comprehensive income		(110,318)	(109,821)
		<u>(1,799)</u>	(1,315)
		<u>689</u>	885

These consolidated financial statements are authorized for issue by the Board of Directors on November 29, 2019. 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, 2019		267,640,941	88,769	19,737	(109,821)	(1,315)
Net loss		-	-	-	(497)	(497)
Stock-based compensation	5(c)	-	-	13	-	13
Balance at September 30, 2019		267,640,941	88,769	19,750	(110,318)	(1,799)
		Number of common shares	Share capital	Contributed surplus	Deficit and translation reserve	Shareholders' equity
Balance at January 1, 2018		266,045,941	88,748	19,687	(109,120)	(685)
Net loss		-	-	-	(610)	(610)
Debenture interest settlement		1,595,000	20	-	-	20
Stock-based compensation		-	-	41	-	41
Balance at September 30, 2018		267,640,941	88,768	19,728	(109,730)	(1,234)

UpSnap, Inc.
Consolidated Statements of Cash Flows

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

For the nine months ended September 30,	Note	2019	2018
Cash flows from operating activities:			
Loss before income taxes for the period		(497)	(610)
Adjustments for:			
Stock-based compensation	6(b)	13	41
Amortization of property, equipment and intangible assets		28	20
Interest on debentures		82	24
Accretion on debentures		26	3
		(348)	(522)
Changes in non-cash working capital balances:			
Accounts receivable		151	102
Prepaid expenses and deposits		(3)	(145)
Accounts payable and accrued liabilities		174	487
Contract liabilities		6	51
		(20)	(27)
Cash flows from investing activities:			
Additions to intangible assets	4	(45)	(162)
		(45)	(162)
Net decrease in cash and cash equivalents		(65)	(189)
Cash and cash equivalents, beginning of period		204	490
Cash and cash equivalents, end of period		139	301

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 September 30, 2019, has accumulated a deficit amounting to \$110,318. The Company had a working capital deficit of \$2,105 at September 30, 2019.

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, 2018.

(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, 2018.

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

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**Intangible assets**

Judgement is used in determining when the internally generated intangible asset is available for intended use and assessing if the expenditures meet the criteria for capitalization under IAS 38.

Functional currency

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

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. When debt is settled with another debt instrument, judgement is applied in determining the fair value of the new debt instrument.

Revenue recognition

The recognition of revenue requires judgement in the assessment of performance obligations, whether they are distinct and separate, within a contract and the assessment of recognizing at a point in time or over a period of time. In instances of bundled contracts, management estimates and allocates the transaction price to each performance obligation based on its stand-alone selling price. 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 the Company controls the services before they are transferred to the customer.

(ii) Estimates**Allowance for doubtful accounts**

The Company monitors the financial stability of its customers and the environment in which they operate to make estimates regarding the likelihood that the individual trade receivable balances will be paid. Credit risks for outstanding customer receivables are regularly assessed and allowances are recorded for estimated losses.

2. Summary of Significant Accounting Policies (continued)

Income taxes

Deferred tax assets and liabilities require management's estimates to determining the amounts to be recognized. In particular, estimates are 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 estimating the expected term of stock options, the expected volatility of the Company's stock and expected dividends. In addition, the Company estimates 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.

2. Summary of Significant Accounting Policies (continued)

(f) Classification of financial instruments

Financial instruments are classified into one of the following three measurement categories: fair value through profit or loss ("FVTPL"), amortized cost and fair value through other comprehensive income ("FVTOCI"). 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 financial instruments measured at amortized cost 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 or amortized cost (using the effective interest method). Changes in the fair value of FVTPL financial instruments are recognized in operations for the year.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfer the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

(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) 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.

(i) Internally generated intangible assets

An internally-generated intangible asset arising from the Company's product development is recognized only if all of the following conditions are met:

- the product from which the asset arises meets the Company's criteria for technical feasibility, so it will be available for use;
- the asset is intended to be completed, and will be used or sold;
- the asset created is expected to generate demonstrable future economic benefits;
- the development cost of the asset can be measured reliably; and
- adequate technical, financial and other resources are available to complete development of the asset.

2. Summary of Significant Accounting Policies (continued)

Internally-generated intangible assets are amortized on a straight-line basis over their useful life, which is considered to be five years starting when the associated technology is available for use. Where no internally-generated intangible asset can be recognized, the expenditures are recognized as expenses in the period in which they are incurred.

(j) Impairment

Financial assets (including accounts receivable)

A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively based on the nature of the asset.

The Company assesses on a forward-looking basis the expected credit loss associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade and other receivables, the Company applies the simplified approach permitted by IFRS 9, Financial Instruments, which requires expected lifetime losses to be recognized at the time of initial recognition of the receivables. There was no material impact due to this change in accounting policy.

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists or if the asset is still under development, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or group of assets (cash generating unit) ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in net income (loss). Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

(k) 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.

2. Summary of Significant Accounting Policies (continued)

(l) Loss per share

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

(m) Revenue recognition

Revenue is measured based on the value of the expected consideration in a contract with a customer and excludes sales taxes and other amounts collected on behalf of third parties. The Company recognizes revenue when control of a product or service is transferred to a customer based on the five step model outlined in IFRS15. For bundled arrangements, the Company accounts for individual products and services when they are separately identifiable and the customer can benefit from the product or service on its own or with other readily available resources. The total arrangement consideration is allocated to each product or service included in the contract with the customer based on its stand-alone selling price. Services purchased by a customer in excess of those included in the bundled arrangement are accounted for separately.

The timing of revenue recognition sometimes differs from the contract payment schedule, resulting in revenues that have been billed but not earned, which are recorded as contract liabilities. As at September 30, 2019, the Company had \$85 (Dec 2018 – \$79) in contract liabilities.

In instances where the Company collects payment in advance and there is a significant financing component, the practical expedient is applied as the period from delivery of the goods or services is within one year of when the customer pays. No adjustment is made to the transaction price. The practical expedient is also applied to commission contract costs and these are expensed as incurred.

Advertising Services

The advertising segment principally generates revenue from delivering advertisements to a target audience. The Company's performance obligations are based on the specific terms of the advertising contract, which commonly consist of delivering ad impressions to a target audience ("CPM"), delivering calls from interested customers to a call center ("CPA") or delivering direct mail post cards to the home address of interested customers ("IDM"). The performance obligations are satisfied over time as the volume of impressions are delivered up to the contractual maximum. Revenue is recognized over time using the output method when the performance obligations are satisfied. The contracts are for campaigns that run for one day to one year and are either billed and collected upfront or at the end of the month.

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 resellers 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 who controls a promised good or service before transferring that good or service to the customer.

2. Summary of Significant Accounting Policies (continued)

For advertising arrangements made directly with advertisers or their agents, management has determined that the Company controls the advertising service before transferring it to the customer because the Company is responsible for identifying and contracting with third-party advertisers, establishing the selling prices of the advertisements sold, and bearing sole responsibility for fulfillment of the advertising service.

Software Licensing and Support Services

The software segment principally generates revenue from providing off-premise software licenses and support services for existing installations of customized database software. The Company enters into arrangements which generally involve the delivery of multiple performance obligations, including software licenses, software updates, technical support and software customizations. The Company has concluded that software licenses and software updates are not distinct from each other as the updates significantly modify the functionality of the software and are integral to maintaining the utility of the software. Revenue is recognized over time as control of the software license and software updates is transferred to the customer. Technical support is also recognized over time. Software customizations are typically separate contracts and represent a distinct performance obligation and is recognized over time using the input method.

(n) Stock-based compensation

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

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

(o) Segment reporting

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

(p) Contributed surplus

Contributed surplus represents the fair value attributable to all unexercised and outstanding or expired stock options, warrants and equity component of convertible debentures.

September 30, 2019 and 2018

Notes to the Consolidated Financial Statements

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

3. Cash and Cash Equivalents

As at	September 30, 2019	December 31, 2018
Business and savings accounts	89	252
Cashable guaranteed investment certificates and bank deposits	50	49
	139	301

4. Intangible Assets

During the period ended September 30, 2019, the Company capitalized \$45 (2018 – \$162) of development costs relating to revenue generating technology for the Company's IDM service.

5. Debentures

As at	Principal Amount	Rate of Interest	Sep 30, 2019	Dec 31, 2018
September 2020 Debenture	800	13.5%	764	738
Current portion			764	-
Long term portion			-	738

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 October 2, 2019, the Company settled an outstanding debenture including principal of \$200 and accrued interest on the debenture of \$7, and a portion of its trade payable balance owed to User Friendly Media totalling \$593 by issuing a new \$800 debenture with a fair value of \$729 (the "September 2020 Debenture"). The debenture bears interest at a rate of 13.5% per annum and matures on September 30, 2020. The Company assessed the fair value of the September 2020 Debenture of \$729 on the date of issue on the assumption that the market rate of interest for non-related party debt would be 20%. The effective rate of interest on the debt is 17.9%. The debenture contained an anti-dilution clause which allows User Friendly Media to convert all of the principal with accrued and unpaid interest, or the amount that would maintain the current proportional equity ownership prior to a dilution event. The number of shares will be calculated using the volume weighted average price of common shares for five consecutive trading days immediately preceding the dilution event.

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) 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 September 30, 2019, 15,400,000 stock options remain outstanding (12,716,667 exercisable), at \$0.05 per share, with a weighted average remaining contractual life of 1.8 years (1.5 years for the exercisable options). 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 2019 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 three month period ended September 30, 2019, a total of \$13 (2018 - \$41) 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 September 30, 2019:

	Weighted Average Exercise Price (\$/share)	Number of Options
Outstanding, January 1, 2019	0.05	16,900,000
Forfeited	0.05	(1,500,000)
Outstanding, September 30, 2019	0.05	15,400,000

September 30, 2019 and 2018

Notes to the Consolidated Financial Statements

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

7. 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 advertising services. For the nine months ended September 30, 2019, UpSnap recorded \$751 (2018 - \$681) in revenue under this agreement. Included in accounts receivable at September 30, 2019, are \$71 (December 31, 2018 - \$75) 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 nine months ended September 30, 2019, total amounts billed under this agreement, excluding disbursements, totalled \$24 (2018 - \$23). Included in accounts payable at September 30, 2019, are \$349 (December 31, 2018 - \$188) in payables to UFM for fees and disbursements.

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

Key management compensation

	September 30, 2019	September 30, 2018
Salaries	161	161
Stock-based compensation	14	31
	174	192

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

8. Financial Instruments**Classification of financial instruments**

The Company holds various forms of financial instruments as follows:

	Designation	Sep 2019	Dec 2018
Cash and cash equivalents	Amortized cost	139	204
Accounts receivable (excluding commodity tax)	Amortized cost	173	337
Accounts payable and accrued liabilities	Amortized cost	1,344	1,088
Debenture	Amortized cost	764	738

Fair values of financial instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments. The carrying value of the debenture approximates its fair value given that the discount rate used to recognize the liability and the estimated market rate are not materially different.

The fair values of financial assets and liabilities 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).

There were no financial instruments categorized in Level 3 as at September 30, 2019 and December 31, 2018 and there were no transfers between Level 1, Level 2, or Level 3 during the respective periods.

9. Financial Risk Management*Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable.

At September 30, 2019, all of the Company's cash and cash equivalents were held at one major Canadian and one major U.S. bank.

In the normal course of business, the Company continuously monitors the financial condition of its customers and reviews the credit history of each new customer. As of September 30, 2019, three customers represented 41%, 22% and 10% of the Company's consolidated trade receivables. The Company is using the simplified expected credit losses method to estimate its provision for credit losses, which considers the specific credit risk of its customers, the expected lifetime of its financial assets, historical trends and economic conditions.

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Current	144	237
31 to 60 days	3	84
61 to 90 days	17	22
Over 90 days	9	3
Past due and impaired:		
Over 90 days	135	144
Less: allowance for doubtful accounts	<u>(135)</u>	<u>(144)</u>
Total accounts receivable, net	<u>173</u>	<u>346</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 September 30, 2019 are due as follows:

	<u>2019</u>	<u>2020</u>
Accounts payable and accrued liabilities	1,344	-
Debenture	-	800
	<u>1,344</u>	<u>800</u>

9. Financial Risk Management (continued)

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 advertising 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. 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 September 30, 2019, the Company has share capital of \$88,769 and debentures of \$764.

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

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

11. Segmented Information**Operating segment**

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

Product category information

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

Period ended September 30,	2019	2018
Mobile Advertising	1,170	1,759
Software Licensing and Support	186	341
Total	1,356	2,100

For the period ended September 30, 2019, the Company earned 55% of its revenue from a related party (Note 7).

Geographic information

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

Period ended September 30,	2019	2018
United States	1,170	1,759
Rest of world	186	341
Total	1,356	2,100

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