

**UpSnap, Inc.**  
**Condensed Interim Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2021 and 2020**  
**(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, 2021 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, 2021 and 2020 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  
September 30, 2021

“ signed ”

Kyle Appleby  
Chief Financial Officer  
Toronto, Canada  
September 30, 2021

## Condensed Interim 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,	
		2021	2020	2021	2020
<b>Operating revenue</b>		<b>298</b>	411	<b>905</b>	1,272
<b>Operating expenses:</b>					
Network and publisher costs		<b>(126)</b>	(149)	<b>(338)</b>	(461)
Labour costs	6	<b>(26)</b>	(29)	<b>(99)</b>	(134)
Other operating costs	12	<b>(235)</b>	(273)	<b>(702)</b>	(829)
Amortization		<b>(3)</b>	(17)	<b>(7)</b>	(52)
		<b>(390)</b>	(468)	<b>(1,146)</b>	(1,476)
<b>Operating loss</b>		<b>(92)</b>	(57)	<b>(241)</b>	(204)
Government grant		<b>10</b>	-	<b>20</b>	-
Gain on settlement of debt	-	<b>7</b>	-	<b>65</b>	65
Interest and accretion on debentures	5	<b>(28)</b>	(37)	<b>(84)</b>	(109)
<b>Loss before income taxes</b>		<b>(103)</b>	(94)	<b>(240)</b>	(248)
Income taxes		-	-	-	-
<b>Net loss and comprehensive loss</b>		<b>(103)</b>	(94)	<b>(240)</b>	(248)
<b>Basic and diluted loss per share</b>		<b>(0.00)</b>	(0.00)	<b>(0.00)</b>	(0.00)
<b>Weighted average number of shares – basic and diluted</b>		<b>267,640,941</b>	267,640,941	<b>267,640,941</b>	267,640,941

## Condensed Interim Consolidated Statements of Financial Position

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

(See Going Concern – Note 1)

As at	Note	September 30, 2021	December 31, 2020
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	3	217	157
Accounts receivable	7,9	211	334
Prepaid expenses and deposits		57	6
		<u>485</u>	497
<b>Non-current assets:</b>			
Intangible assets		24	32
		<u>509</u>	529
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities	7	1,712	1,627
Debentures		800	800
Contract liabilities		207	93
Income taxes payable		295	295
		<u>3,014</u>	2,815
<b>Non-current liabilities:</b>			
Canada Emergency Business Account (“CEBA”) loan		40	30
Other liabilities	13	203	204
		<u>3,257</u>	3,049
<b>Shareholders' deficiency:</b>			
Share capital		88,769	88,769
Contributed surplus		19,767	19,755
Deficit and other comprehensive income		(111,284)	(111,044)
		<u>(2,748)</u>	(2,520)
		<u>509</u>	529

These consolidated financial statements are authorized for issue by the Board of Directors on September 30, 2021. They are signed on the Company’s behalf by:

“signed” Director  
Daniel Hilton

“signed” Director  
Heather Burrer

**Condensed Interim 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
<b>Balance at January 1, 2021</b>		<b>267,640,941</b>	<b>88,769</b>	<b>19,755</b>	<b>(110,044)</b>	<b>(2,520)</b>
Net loss		-	-	-	(240)	(240)
Stock-based compensation	6	-	-	12	-	12
<b>Balance at September 30, 2021</b>		<b>267,640,941</b>	<b>88,769</b>	<b>19,767</b>	<b>(111,284)</b>	<b>(2,748)</b>
		Number of common shares	Share capital	Contributed surplus	Deficit and translation reserve	Shareholders' equity
<b>Balance at January 1, 2020</b>		<b>267,640,941</b>	<b>88,769</b>	<b>19,753</b>	<b>(110,526)</b>	<b>(2,004)</b>
Net loss		-	-	-	(248)	(248)
Stock-based compensation		-	-	2	-	2
<b>Balance at September 30, 2020</b>		<b>267,640,941</b>	<b>88,769</b>	<b>19,755</b>	<b>(110,774)</b>	<b>(2,250)</b>

**UpSnap, Inc.**  
**Condensed Interim Consolidated Statements of Cash Flows**

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

<b>For the nine months ended September 30,</b>	Note	<b>2021</b>	2020
<b>Cash flows from operating activities:</b>			
Loss before income taxes for the period		<b>(240)</b>	(248)
Adjustments for:			
Stock-based compensation		<b>12</b>	2
Amortization of property, equipment and intangible assets		<b>7</b>	52
Gain on CEBA loan		<b>(10)</b>	-
Gain on settlement and unrealized foreign exchange		<b>(65)</b>	(57)
Interest on debentures		<b>84</b>	82
Accretion on debentures		<b>-</b>	27
		<b>(212)</b>	(28)
Changes in non-cash working capital balances:			
Accounts receivable		<b>123</b>	162
Prepaid expenses and deposits		<b>(51)</b>	(10)
Accounts payable and accrued liabilities		<b>66</b>	85
Deferred revenue		<b>114</b>	76
		<b>40</b>	(39)
<b>Cash flows from financing activities:</b>			
CEBA Loan		<b>20</b>	-
		<b>20</b>	-
<b>Net decrease in cash and cash equivalents</b>		<b>60</b>	(39)
Cash and cash equivalents, beginning of period		<b>157</b>	158
<b>Cash and cash equivalents, end of period</b>		<b>217</b>	119

**1. Nature of Operations and Going Concern**

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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. The common shares of UpSnap, Inc. are listed on the Canadian Securities Exchange under the trading symbol “UP”.

UpSnap provides targeted advertising services to attract audiences for any brand, with a focus on small businesses. UpSnap tailors its services to align with unique business goals, delivering advertisements to 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, 2021, has accumulated a deficit amounting to \$111,284 (Dec 2020 – \$111,044). The Company also had a working capital deficit of \$2,529 at September 30, 2021 (Dec 2020 – \$2,318) and incurred losses of \$240 in the period (2020 – \$248).

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, cannot secure additional financing or renegotiate existing 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, securing additional financing or renegotiating existing financing.

On June 11, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a pandemic and actions taken to mitigate its spread have had, and are expected to continue to have, an adverse impact on both local and global economies and financial markets, including the geographical areas in which the Company operates.

Many small businesses that use the Company’s advertising services have been required to close for an unknown time and the Company has seen a number of advertising campaigns reduced or paused in line with overall industry trends. Although the Company’s offices have been subject to government-mandated lockdowns for short periods, UpSnap’s staff continue to perform their functions remotely without meaningful reductions in their ability to service customers.

These factors raise significant doubt as to the Company’s ability to continue as a going concern. In the meantime, the Company is reliant on financing and operational support from a shareholder, User Friendly Media, to continue operations (Note 7). 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.

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## 2. Summary of Significant Accounting Policies

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(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, 2020.

(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, 2020.

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

(c) Principles of consolidation

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

(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.

Amortization of intangible assets

Judgement is used in choosing methods for amortizing our intangible assets that most accurately represent the consumption of benefits derived from the intangible assets and are most representative of the economic substance of the intended use of these assets.

Functional currency

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



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

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**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.

**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.

**Impairment of intangible assets**

An impairment test requires a calculation to determine the recoverable amount of intangible assets. UpSnap determines the recoverable amount by determining the higher of fair value less costs of disposal and value in use. Determining fair value and value in use requires the use of estimates and assumptions, including the forecasted financial performance of the Company and the discount rate for future earnings. Reasonable changes in key estimates and assumptions have the potential to cause these values to change.

**(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. The functional currency of UpSnap USA Holdings, Inc. and UpSnap USA, Inc. is U.S. dollars.

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

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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 (loss).

(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.

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

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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.

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.

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.

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

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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 Junket 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.

(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 Junket 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.

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.

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

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**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"). Revenue is recognized over time using the output method when the performance obligations are satisfied. The performance obligations are satisfied as the volume of impressions, calls or post cards are delivered up to the contractual maximum. 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.

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 are 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.

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

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(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.

(q) Government grants

In accordance with IAS 20, grants are recognized in income as the conditions of the grant are fulfilled. The forgivable portion of government loans is recognized in income when there is reasonable assurance that the Company will meet the terms for forgiveness of the loan, which does not necessarily fall on the same date that the loan will be forgiven.

**3. Cash and Cash Equivalents**

In December 2020, UpSnap recognized an impairment loss of \$183 on its capitalized development costs due to a decrease in forecasted revenue related to the Covid 19 pandemic. UpSnap estimated a value in use at December 31, 2020 of \$32 using forecasts of various future scenarios for the remaining amortization period and a 20% discount rate.

As at	<b>September 30, 2021</b>	December 31, 2020
Business and savings accounts	<b>169</b>	109
Cashable guaranteed investment certificates and bank deposits	<b>48</b>	48
	<b>217</b>	157

The guaranteed investment certificates and bank deposits are held by UpSnap's banks as collateral against its corporate credit cards.

**4. Intangible Assets**

The development costs relate to revenue generating technology for the Company's IDM service. In April 2019, the Company determined that the asset was available for use as defined in IAS 38 and began amortizing the asset on a straight line basis over 5 years.

In December 2020, UpSnap recognized an impairment loss of \$183 on its capitalized development costs due to a decrease in forecasted revenue related to the Covid 19 pandemic. UpSnap estimated a value in use at December 31, 2020 of \$32 using forecasts of various future scenarios for the remaining amortization period and a 20% discount rate.

**5. Debenture**

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, 2018, the Company settled a \$200 debenture, accrued interest on the debenture of \$7, and a portion of its trade payable balance owed to User Friendly Media, a related party, totalling \$593 by issuing a new \$800. The debenture bears interest at a rate of 13.5% per annum and was scheduled to mature on September 30, 2020. On September 29, 2020, the Company and lender agreed to extend the maturity date on the debenture from September 30, 2020 to March 31, 2021 under the same terms. On March 31, 2021 the Company and lender agreed to further extend the maturity date on the debenture to September 30, 2021. Again on October 1, 2021, the Company and lender agreed to extend the maturity date on the debenture from September 30, 2021 to December 31, 2021 under the same terms. The extensions were recorded as debt modifications in accordance with IFRS 9 and no gain or loss was recorded in income. No transaction costs were incurred pertaining to the debt modifications. No interest payments have been made to date and accrued interest of \$330 is included in

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

accounts payable and accrued liabilities. (See subsequent events).

## 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, 2021, 8,150,000 stock options remain outstanding and exercisable, at \$0.05 per share, with a weighted average remaining contractual life of 1.3 years. 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 August 2021 to April 2026.

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.

On April 21, 2021, the company granted 2,250,000 options to directors as compensation under the Company's Stock Option Plan. The fair value of the options of \$0.01 per share was calculated assuming a risk free rate of 0.25%, expected volatility of 100%, expected option life of 3.0 years, share price of \$0.015 per share and exercise price of \$0.05 per share.

The following table sets out information concerning stock options issued to employees, consultants, directors and officers that were outstanding at September 30, 2021:

	Weighted Average Exercise Price (\$/share)	Number of Options
Outstanding, January 1, 2021	0.05	8,100,000
Expired	(0.05)	(2,200,000)
Granted	0.05	2,250,000
<b>Outstanding, September 30, 2021</b>	<b>0.05</b>	<b>8,150,000</b>



## 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 small business advertising subscriptions. For the nine months ended September 30, 2021, UpSnap recorded \$436 (2020 – \$471) in revenue under this agreement. Included in accounts receivable at September 30, 2021 are \$31 (Dec 2020 – \$47) in receivables from UFM. Included in contract liabilities at September 30, 2021 are \$173 (Dec 2020 – \$71) in deposits from UFM for future advertising services.

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, 2021, total amounts billed under this agreement, excluding disbursements, totalled \$22 (2020 – \$24). Included in accounts payable at September 30, 2021 are \$816 (Dec 2020 – \$645) in payables to UFM for fees and disbursements and \$330 (Dec 2020 – \$247) for accrued interest on a debenture (Note 5).

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

	September 30, 2021	September 30, 2020
<b>Key management compensation</b>		
Salaries	81	111
Stock-based compensation	12	4
	<b>69</b>	<b>115</b>

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	Sept 2021	Dec 2020
Cash and cash equivalents	Amortized cost	217	157
Accounts receivable (excluding commodity tax)	Amortized cost	203	329
Accounts payable and accrued liabilities	Amortized cost	1,712	1,627
CEBA loan	Amortized cost	40	30
Debenture	Amortized cost	800	800

### Fair values of financial instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and CEBA loan 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 Junket rate are not materially different and the term is short.

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 Junket.

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 Junket data (unobservable inputs).

There were no financial instruments categorized in Level 3 as at September 30, 2021 and December 31, 2020 and there were no transfers between Level 1, Level 2, or Level 3 during the respective periods.

## 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, 2021, 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, 2021, two customers represented 65% 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, 2021</u>	December 31, 2020
Current	136	108
31 to 60 days	13	55
61 to 90 days	6	89
Over 90 days	48	77
Past due and impaired:	6	6
Less: allowance for doubtful accounts	<u>(6)</u>	<u>(6)</u>
Total accounts receivable, net	<u>203</u>	<u>329</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, 2021 are due as follows:

<b>Payable in:</b>	<u>2021</u>	<u>2022</u>
Accounts payable and accrued liabilities	1,712	-
CEBA loan	-	40
Debenture	800	-
	<u><b>2,512</b></u>	<u><b>40</b></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.

**9. 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, 2021, the Company has share capital of \$88,769 (Dec 2020 - \$88,769) and debentures of \$800 (Dec 2020 - \$800).

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

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

**10. 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,	<b>2021</b>	2020
Advertising Services		
Display Advertising	<b>498</b>	546
Direct Mail Advertising	<b>251</b>	347
Software Licensing, Updates and Support	<b>156</b>	379
Total	<b>905</b>	1,272

For the period ended September 30, 2021, the Company earned 48% of its revenue from advertising services sold to 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,	<b>2021</b>	2020
United States	<b>749</b>	893
Rest of world	<b>156</b>	379
Total	<b>905</b>	1,272

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

September 30, 2021 and 2020

## Notes to the Consolidated Financial Statements

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

**11. Other Operating Costs**

The following table provides a breakdown of other operating costs for the nine months ended September 30::

	2021	2020
Consultants (including development costs)	289	397
Professional fees	116	121
Marketing and travel	113	150
Insurance, interest and bank fees	127	77
Shareholder and public company costs	18	44
Rent, supplies and postage	37	35
Other expenses (including bad debts)	-	(7)
Foreign exchange	2	12
Total	702	829

**12. Other Liabilities**

During fiscal 2020, the Company transferred \$204 of accounts payable and provisions (the “Statute-Barred Claims”) to non-current liabilities on the basis that any claims in respect of the Statute-Barred Claims were statute barred under the Limitations Act (Ontario). For accounting purposes under IFRS, a debt can only be removed from the Company’s Statement of Financial Position when it is extinguished, meaning only when the contract is discharged, cancelled or expires. The effect of the Limitations Act is to prevent a creditor from enforcing an obligation, but it does not formally extinguish the debt for accounting purposes. It is the position of the Company’s management that the Statute-Barred Claims cannot be enforced by the creditors, do not create any obligation for the Company to pay out any cash and do not affect the financial or working capital position of the Company. The Statute-Barred Claims are required to be reflected on the Company’s Statement of Financial Position as a result of the current interpretation of IFRS, but they are classified as long-term liabilities since the Company has no intention to pay these Statute-Barred Claims and the creditors cannot enforce their payment. While inclusion of these items is intended solely to comply with the IFRS requirements, the Company in no way acknowledges any of the Statute-Barred Claims.

**13. Subsequent events**

On October 1, 2021, the Company amended the terms of its outstanding secured debenture (note 5) (the “Debenture”), held by User Friendly Media (or an affiliate thereof) (“UFM”) in the aggregate principal amount of \$800,000, to extend the maturity date of the Debenture from September 30, 2021 to December 31, 2021. The Debenture will continue to bear interest at an annual rate of 13.5% to be paid to UFM quarterly.