

UpSnap, Inc.
Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of UpSnap, Inc.

Opinion

We have audited the consolidated financial statements of UpSnap, Inc., (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019 and the consolidated statements of operations and comprehensive loss, statements of changes in shareholders' deficiency, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the Consolidated financial statements, which indicates that the Company incurred a net loss of \$523,000 during the year ended December 31, 2020 and, as of that date, the Company's current liabilities exceeded its total assets by \$2,318,000. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Stephen McCourt.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
April 27, 2021
Toronto, Ontario

UpSnap, Inc.
Consolidated Statements of Operations and Comprehensive Loss

(In thousands of Canadian dollars, except share data)

Years ended December 31,	Note	2020	2019
Operating revenue	8,13	<u>1,594</u>	1,716
Operating expenses			
Network and publisher costs		(585)	(834)
Labour costs	6(b)	(161)	(324)
Other operating costs	14	(1,164)	(1,087)
Foreign exchange gain (loss)		21	22
Amortization		(69)	(50)
Total operating expenses		<u>(1,958)</u>	(2,273)
Operating loss		(364)	(557)
Government grants		29	-
Gain on extinguishment of debt	8	131	-
Impairment on intangible assets	4	(183)	-
Interest and accretion on debentures	5	(136)	(145)
Loss before income taxes		(523)	(702)
Income taxes	9	-	-
Net loss		<u>(523)</u>	(702)
Other comprehensive income (loss)			
Items that may be subsequently reclassified to earnings:			
Exchange differences on translation of foreign operations		5	(3)
Comprehensive loss		<u>(518)</u>	(705)
Loss per share			
Basic and diluted loss per share		(0.00)	(0.00)
Weighted average number of shares outstanding – basic and diluted		267,640,941	267,640,941

UpSnap, Inc.
Consolidated Statements of Financial Position

(In thousands of Canadian dollars, except share data)

(See Going Concern – Note 1)

(See Commitments and Contingencies – Note 7)

(See Subsequent Events – Note 16)

As at December 31,	Note	2020	2019
Assets			
Current assets:			
Cash and cash equivalents	3	157	158
Accounts receivable	8,10	334	183
Prepaid expenses and deposits		6	17
		<u>497</u>	<u>358</u>
Non-current assets:			
Intangible assets	4	32	284
		<u>529</u>	<u>642</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	8	1,627	1,480
Debenture	5	800	773
Contract liabilities	8	93	98
Income taxes payable	9	295	295
		<u>2,815</u>	<u>2,646</u>
Non-current liabilities:			
Canada Emergency Business Account (“CEBA”) loan		30	-
Other liabilities	15	204	-
		<u>3,049</u>	<u>2,646</u>
Shareholders' deficiency:			
Share capital	6	88,769	88,769
Contributed surplus	6(b)	19,755	19,753
Accumulated other comprehensive loss		(190)	(195)
Accumulated deficit		(110,854)	(110,331)
		<u>(2,520)</u>	<u>(2,004)</u>
		<u>529</u>	<u>642</u>

These consolidated financial statements are authorized for issue by the Board of Directors on April 27, 2021. 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)

	Note	Number of common shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Accumulated deficit	Shareholders' deficiency
Balance at January 1, 2020		267,640,941	88,769	19,753	(195)	(110,331)	(2,004)
Net and comprehensive income (loss)		-	-	-	5	(523)	(518)
Stock-based compensation	6(b)	-	-	2	-	-	2
Balance at December 31, 2020		267,640,941	88,769	19,755	(190)	(110,854)	(2,520)

	Note	Number of common shares	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Accumulated deficit	Shareholders' deficiency
Balance at January 1, 2019		267,640,941	88,769	19,737	(192)	(109,629)	(1,315)
Net and comprehensive income (loss)		-	-	-	(3)	(702)	(705)
Stock-based compensation	6(b)	-	-	16	-	-	16
Balance at December 31, 2019		267,640,941	88,769	19,753	(195)	(110,331)	(2,004)

UpSnap, Inc.
Consolidated Statements of Cash Flows

(In thousands of Canadian dollars, except share data)

Years ended December 31,	Note	2020	2019
Cash flows used in operating activities:			
Loss before income taxes for the year		(523)	(702)
Adjustments for items not affecting cash:			
Stock-based compensation	6(b)	2	16
Amortization of intangible assets		69	50
Impairment of intangible assets		183	-
Gain on extinguishment of debt		(131)	-
Gain on CEBA loan		(10)	-
Interest on debentures		109	110
Accretion on debentures		27	35
		<u>(274)</u>	<u>(491)</u>
Changes in non-cash working capital balances:			
Accounts receivable		(151)	186
Prepaid expenses and deposits		11	6
Accounts payable and other liabilities		315	279
Contract liabilities		58	19
		<u>(41)</u>	<u>(1)</u>
Cash flows from financing activities:			
CEBA loan		<u>40</u>	-
Cash flows used in investing activities:			
Investment in intangible assets		<u>-</u>	<u>(45)</u>
Net increase (decrease) in cash and cash equivalents		(1)	(46)
Cash and cash equivalents, beginning of year		<u>158</u>	<u>204</u>
Cash and cash equivalents, end of year		<u>157</u>	<u>158</u>

Refer to Notes 5 and 6(b) for non-cash transactions.

(In thousands of Canadian dollars, except share data)

1. Nature of Operations and Going Concern

UpSnap, Inc. (the “Company” or “UpSnap”) was incorporated under the laws of Canada on October 17, 2000, and was continued into Alberta on February 5, 2003. The Company is domiciled in Canada and the head office is located at 100 Consilium Place, Toronto, Ontario, Canada. 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 December 31, 2020, has accumulated a deficit amounting to \$110,854 (2019 – \$110,331). The Company also had a working capital deficit of \$2,318 at December 31, 2020 (2019 – \$2,288) and incurred losses of \$523 in the year ended December 31, 2020 (2019 – \$702).

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 March 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 8). These consolidated financial statements do not include adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. Summary of Significant Accounting Policies

(a) Statement of compliance to International Financial Reporting Standards

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee.

(In thousands of Canadian dollars, except share data)

2. Summary of Significant Accounting Policies (continued)

(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.

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.

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.

(In thousands of Canadian dollars, except share data)

2. Summary of Significant Accounting Policies (continued)

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.

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.

(In thousands of Canadian dollars, except share data)

2. Summary of Significant Accounting Policies (continued)

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.

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.

(In thousands of Canadian dollars, except share data)

2. Summary of Significant Accounting Policies (continued)

(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. 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.

(In thousands of Canadian dollars, except share data)

2. Summary of Significant Accounting Policies (continued)

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 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 December 31, 2020, the Company had \$93 (2019 – \$98) 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"). 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 thousands of Canadian dollars, except share data)

2. Summary of Significant Accounting Policies (continued)

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.

(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.

December 31, 2020 and 2019

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

2. Summary of Significant Accounting Policies (continued)(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

	<u>2020</u>	2019
Business and savings accounts	109	109
Cashable guaranteed investment certificates and bank deposits	48	49
	157	158

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

4. Intangible Assets

	<u>Development Costs</u>
Cost	
January 1, 2019	289
Additions	45
December 31, 2019	334
Impairment	(183)
December 31, 2020	151
Accumulated amortization	
January 1, 2019	-
Amortization for the year	50
December 31, 2019	50
Amortization for the year	69
December 31, 2020	119
Net book value December 31, 2019	284
Net book value December 31, 2020	32

(In thousands of Canadian dollars, except share data)

4. Intangible Assets (continued)

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

	Principal Amount	Rate of Interest	2020	2019
Debenture (maturing September 30, 2021)	800	13.5%	800	773
			800	773
Debenture, current portion			800	773
Debenture, 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 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 debenture with a fair value of \$729. 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. 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 \$247 is included in accounts payable and accrued liabilities.

The Company assessed the fair value of the debenture of \$729 on October 2, 2018, 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 was 17.9%. The debenture contains 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.

(In thousands of Canadian dollars, except share data)

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 December 31, 2020, 8,100,000 stock options remain outstanding and exercisable, at \$0.05 per share, with a weighted average remaining contractual life of 1.4 years. Options for the Company's directors vest immediately, while options for employees generally vest rateably over a period of three years. All options have a life of five years and have expiry dates ranging from August 2021 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 year ended December 31, 2020, \$2 (2019 – \$16) was included in labour costs as stock-based compensation related to options with the corresponding amount charged to contributed surplus.

The following table sets out information concerning stock options issued to employees, consultants, directors and officers that were outstanding at December 31, 2020 and 2019:

	Weighted Average Exercise Price (\$)	Number of Options
Outstanding, January 1, 2019	0.05	16,900,000
Expired	0.05	(6,800,000)
Outstanding, December 31, 2019	0.05	10,100,000
Forfeited	0.05	(2,000,000)
Outstanding, December 31, 2020	0.05	8,100,000

(In thousands of Canadian dollars, except share data)

7. Commitments and Contingencies

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

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

8. 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 year ended December 31, 2020, UpSnap recorded \$610 (2019 – \$926) in revenue under this agreement. Included in accounts receivable at December 31, 2020 are \$47 (2019 – \$52) in receivables from UFM. Included in contract liabilities at December 31, 2020 are \$71 (2019 – \$nil) 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 year ended December 31, 2020, total amounts billed under this agreement, excluding disbursements, totalled \$32 (2019 – \$32). Included in accounts payable at December 31, 2020 are \$645 (2019 – \$408) in payables to UFM for fees and disbursements and \$247 (2019 – \$137) for accrued interest on a debenture (Note 5).

The gain on extinguishment of debt in the statements of operations includes \$70 in debts that were forgiven by key management members.

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

Key management compensation	2020	2019
Salaries	139	214
Stock-based compensation	4	16
	143	230

Key management includes the senior officers of the Company and directors.

December 31, 2020 and 2019

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

9. Income Taxes

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

	2020	2019
Loss before income taxes	(523)	(702)
Combined statutory tax rates	26.5%	26.5%
Expected income tax recovery at statutory tax rates	(138)	(186)
Permanent differences	9	25
Effect of jurisdictional tax rates and foreign exchange	52	60
Deferred tax true up	-	55
Unrecognized deferred tax recovery	77	46
Recovery of income taxes	-	-

Deferred income taxes reflect the net effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. Significant components of the deferred income tax assets that have not been recognized include the following:

At December 31,	2020	2019
Carrying value of long-term assets in excess of tax value	1,314	1,343
Financing costs deductible in the future	-	-
Unused tax loss carryforwards	21,362	21,256
Unrecognized deferred income tax assets	22,676	22,599

(In thousands of Canadian dollars, except share data)

9. Income Taxes (continued)

As at December 31, 2020, subject to confirmation from the respective income tax authorities, the Company has a total of \$81,938 Canadian and U.S. non-capital losses that are available for carryforward to offset future years' taxable income expiring as follows:

	<u>Non-Capital Losses</u>
2026	5,377
2027	11,423
2028	17,474
2029	9,653
2030	6,956
2031	4,503
2032	8,188
2033	5,271
2034	3,464
2035	3,501
2036	2,362
2037	812
2038	1,344
2039	964
2040	646
	<u>81,938</u>

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

The Company holds various forms of financial instruments as follows:

	Designation	2020	2019
Cash and cash equivalents	Amortized cost	157	158
Accounts receivable (excluding commodity tax)	Amortized cost	329	130
Accounts payable and accrued liabilities	Amortized cost	1,627	1,480
CEBA loan	Amortized cost	30	-
Debenture	Amortized cost	800	773

(In thousands of Canadian dollars, except share data)

10. Financial Instruments (continued)

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 market 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 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 December 31, 2020 and 2019 and there were no transfers between Level 1, Level 2, or Level 3 during the respective periods.

11. 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 December 31, 2020, 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 December 31, 2020, four customers represented 78% (2019 – three customers represented 69%) 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.

(In thousands of Canadian dollars, except share data)

11. Financial Risk Management (continued)

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

At December 31,	2020	2019
Current	108	117
Past due but not impaired		
31 to 60 days	55	12
61 to 90 days	89	-
Over 90 days	77	1
Past due and impaired		
Over 180 days	6	9
Less: allowance for doubtful accounts	(6)	(9)
Total accounts receivable, net	329	130

The Company reflected bad debt expense of \$nil in the consolidated statements of operations and comprehensive loss for the year ending December 31, 2020 (2019 – \$7).

Liquidity risk

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

The contractual cash flows of the Company's financial liabilities as at December 31, 2020 are due as follows:

Payable in:	2021	2022
Accounts payable and accrued liabilities	1,627	-
CEBA loan	-	30
Debenture	800	-
	2,427	30

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.

(In thousands of Canadian dollars, except share data)

11. Financial Risk Management (continued)

The Company is exposed to foreign exchange risk from transactions in U.S. dollars 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.

12. 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 December 31, 2020, the Company has share capital of \$88,769 (2019 – \$88,769) and debentures of \$800 (2019 – \$773).

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.

13. Segmented Information**Product category information**

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

	2020	2019
Advertising Services		
Mobile Advertising	701	644
Direct Mail Advertising	423	825
Software Licensing, Updates and Support	427	247
Software Customization	43	-
Total	1,594	1,716

For the year ended December 31, 2020, the Company earned 38% of its revenue from a related party (Note 8). For the year ended December 31, 2019, the Company earned 54% of its revenue from a related party (Note 8).

December 31, 2020 and 2019

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

13. Segmented Information (continued)**Geographic information**

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

	<u>2020</u>	2019
United States	1,124	1,469
Rest of world	470	247
Total	1,594	1,716

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

14. Other Operating Costs

The following table provides a breakdown of other operating costs:

	<u>2020</u>	2019
Consultants (including development costs)	595	451
Professional fees	197	207
Marketing and travel	192	167
Insurance, interest and bank fees	86	90
Shareholder and public company costs	56	128
Rent, supplies and postage	41	37
Other expenses (including bad debt)	(3)	7
Total	1,164	1,087

(In thousands of Canadian dollars, except share data)**15. 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.

16. Subsequent Events

On March 31, 2021, the Company and lender agreed to extend the maturity date on an \$800 principal amount of debenture to September 30, 2021 (Note 5). No transaction costs were incurred pertaining to the debt modification.

On April 21, 2021, the Company granted 2,250,000 stock options to existing directors in accordance with the Company’s current Stock Option Plan. The options vest immediately, have a \$0.05 strike price and expire on April 20, 2026.