Audited Consolidated Financial Statements of

TRAKOPOLIS IOT CORP.

For the year ended December 31, 2017, six month period ended December 31, 2016, and year ended June 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Trakopolis IoT Corp.

We have audited the accompanying consolidated financial statements of Trakopolis IoT Corp., which comprise the consolidated statements of financial position as at December 31, 2017, December 31, 2016, and June 30, 2016 and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2017 and June 30, 2016, and for the six month period ended December 31, 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Trakopolis IoT Corp. as at December 31, 2017, December 31, 2016 and June 30, 2016 and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2017 and June 30, 2016, and for the six month period ended December 31, 2016 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which indicates that there is material uncertainty about the Company's ability to continue generating sufficient cash flows from operations to fund its debt obligations as they become due. This condition, along with other matters as set forth in note 1 in the consolidated financial statements, indicates the existence of a material uncertainty that may cast significant doubt about Trakopolis IoT Corp.'s ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants

April 12, 2018
Calgary, Canada

TRAKOPOLIS IOT CORP.
Consolidated Statements of Financial Position
As at December 31, 2017, December 31, 2016, and June 30, 2016

	December 31, 2017	December 31, 2016	June 30, 2016
Assets			
Current assets:			
Cash and cash equivalents	$2,073,521	$4,311,880	$910,963
Accounts receivable (note 22)	1,763,390	972,511	733,881
Inventory (note 4)	570,821	496,438	322,076
Prepaid expenses	119,823	128,648	129,374
	4,527,555	5,909,477	2,096,294
Intangible asset (note 6)	-	758,042	-
Property and equipment (note 5)	106,193	112,051	83,976
	$4,633,748	$6,779,570	$2,180,270
Liabilities and Shareholders' equity (deficiency)			
Current liabilities:			
Accounts payable and accrued liabilities	$2,375,337	$1,803,443	$1,878,928
Deferred revenue	26,219	29,460	31,079
Provision for onerous lease (note 16)	35,962	73,396	48,784
Current shareholder loans (note 7)	223,461	100,000	100,000
Current portion of lease (note 20)	24,260	22,381	16,906
Current portion of long term debt (note 8)	230,171	406,355	1,472,410
Other liability short term (note 21)	-	33,800	-
Current portion of restricted share unit (note 12(b))	-	100,000	-
	2,915,410	2,568,835	3,548,107
Shareholder loans (note 7)	-	156,980	107,454
Long term portion of lease (note 20)	20,974	45,622	35,905
Provision for onerous lease (note 16)	-	34,198	37,786
Restricted share unit liability (note 12(b))	-	40,963	174,900
Long term debt (note 8)	1,079,877	1,227,350	-
Other liabilities long term (notes 9(b) and 21)	-	900,846	-
Preference shares (note 10)	-	-	2,314,020
	1,100,851	2,405,959	2,670,065
Shareholders' equity (deficiency)			
Share capital (note 9)	25,859,383	23,895,466	12,624,486
Share deposits	-	-	162
Warrants (note 9(b))	763,835	221,480	329,005
Contributed surplus	2,098,208	1,690,655	1,581,962
Equity component of convertible debt (note 7)	29,057	29,057	29,057
Equity component of preference shares (note 10)	-	-	312,919
Accumulated other comprehensive income	(5,859)	-	-
Deficit	(28,127,137)	(24,031,882)	(18,915,493)
	617,487	1,804,776	(4,037,902)
Going concern (note 1)			
Subsequent events (notes 8 and 23)			
	$4,633,748	$6,779,570	$2,180,270

See accompanying notes to consolidated financial statements.

Approved by the Board:

B Olson _______________ Director

TRAKOPOLIS IOT CORP.
Consolidated Statements of Operations and Comprehensive Loss
For the year ended December 31, 2017, six month period ended December 31, 2016, and year ended June 30, 2016

	Year ended December 31, 2017	Six months ended December 31, 2016	Year ended June 30, 2016
Revenue:			
Subscription sales	$3,943,515	$1,635,126	$3,422,814
Hardware sales	5,381,081	721,350	1,293,689
Software development	151,781	9,762	25,982
Other revenue	25,110	8,323	11,771
	9,501,487	2,374,561	4,754,256
Cost of sales	6,251,550	1,082,906	2,066,345
Gross profit	3,249,937	1,291,655	2,687,911
Expenses:			
General and administrative	3,156,023	1,281,688	3,430,440
Sales and marketing	1,785,855	690,845	1,132,411
Services and Support	751,435	199,137	511,225
Technology	1,152,382	775,806	1,232,179
	6,845,695	2,947,476	6,306,255
Loss before undernoted	(3,595,758)	(1,655,821)	(3,618,344)
Reverse takeover transaction costs (note 3)	-	3,285,302	-
Finance expense:			
Derivative liability fair value adjustment	64,362	(180,717)	-
Interest on debt and loans	307,492	158,244	475,864
Other expense	27,056	9,460	6,371
Accretion expense	220,155	145,902	72,047
	619,065	132,889	554,282
Amortization and depreciation expense	294,399	42,377	21,589
Gain on insured property and equipment	(22,997)	-	-
Gain on derecognition of intangible asset (note 6 and 21)	(390,970)	-	-
Net loss for the period	(4,095,255)	(5,116,389)	(4,194,215)
Other comprehensive loss			
Foreign currency translation loss	5,859	-	-
Net loss and comprehensive loss	$(4,101,114)	$(5,116,389)	$(4,194,215)
Loss per share:			
Basic and diluted	$(0.17)	$(0.34)	$(0.39)
Weighted average number of shares:			
Basic	24,215,200	15,161,703	10,676,658

See accompanying notes to consolidated financial statements.

TRAKOPOLIS IOT CORP.
Consolidated Statements of Changes in Equity
For the year ended December 31, 2017, six month period ended December 31, 2016, and year ended June 30, 2016

	Share capital	Share deposits	Warrants	Contributed surplus	Equity component of convertible debt	Equity component of preference shares	Accumulated other comprehensive income	Deficit	Total equity (deficiency)
Balance, June 30, 2015	$ 11,332,807	$ 305,923	$ 327,937	$ 708,699	$ -	$ -	$ -	$(14,721,278)	$ (2,045,912)
Prior year equity to be issued	305,923	(305,923)							
Equity to be issued	-	162	-	-	-	-	-	-	162
Shares issued for wages (note 9(a))	675,761	-	-	(325,002)	-	-	-	-	350,759
Equity allocation of debt instrument	-	-	3,967	23,117	29,057	312,919	-	-	369,060
Expiry of warrants	-	-	(2,899)	2,899	-	-	-	-	-
Share-based compensation (note 12)	-	-	-	1,172,249	-	-	-	-	1,172,249
Common shares issued (note 9(a))	309,995	-	-	-	-	-	-	-	309,995
Net loss for the year	-	-	-	-	-	-	-	(4,194,215)	(4,194,215)
Balance, June 30, 2016	$ 12,624,486	$ 162	$ 329,005	$ 1,581,962	$ 29,057	$ 312,919	$ -	$(18,915,493)	$ (4,037,902)
Share deposits	-	(162)	-	-	-	-	-	-	(162)
Retention shares issued (note 9(a))	140,412	-	-	(140,412)	-	-	-	-	-
Shares issued for services (note 9(a))	10,010	-	-	-	-	-	-	-	10,010
Restricted share units (note 12(b))	-	-	-	(235,944)	-	-	-	-	(235,944)
Shares issued for wages (note 9(a))	18,782	-	-	(18,782)	-	-	-	-	-
Equity allocation of preference shares (note 10)	-	-	-	-	-	37,230	-	-	37,230
Warrants issued (note 9(b))	(166,164)	-	166,164	-	-	-	-	-	-
Expiry of warrants (note 9(b))	-	-	(273,689)	273,689	-	-	-	-	-
Share-based compensation (note 12(d))	-	-	-	230,142	-	-	-	-	230,142
Conversion of preferred shares (note10)	3,154,998	-	-	-	-	(350,149)	-	-	2,804,849
Common shares issued (note 9(a))	8,112,942	-	-	-	-	-	-	-	8,112,942
Net loss for the period	-	-	-	-		-	-	(5,116,389)	(5,116,389)
Balance, December 31, 2016	$ 23,895,466	$ -	$ 221,480	$ 1,690,655	$ 29,057	$ -	$ -	$(24,031,882)	$ 1,804,776
Common shares issued (note 12)	2,311,378	-	-	(543,703)	-	-	-	-	1,767,675
Warrants issued (note 9(b))	(355,230)	-	355,230	-	-	-	-	-	-
Warrants on debt (note 9(b))	-	-	189,395	-	-	-	-	-	189,395
Vesting of RSUs (note 9 (b))	-	-	-	63,716	-	-	-	-	63,716
Share-based compensation (note 12(d))	-	-	-	887,540	-	-	-	-	887,540
Exercise of warrants (note 9(a) and (b))	7,769	-	(2,270)	-	-	-	-	-	5,499
Foreign currency translation loss	-	-	-	-	-	-	(5,859)	-	(5,859)
Net loss for the year	-	-	-	-	-	-	-	(4,095,255)	(4,095,255)
Balance, December 31, 2017	$ 25,859,383	$ -	$ 763,835	$ 2,098,208	$ 29,057	$ -	$ (5,859)	$(28,127,137)	$ 617,487

See accompanying notes to consolidated financial statements.

TRAKOPOLIS IOT CORP.
Consolidated Statements of Cash Flows
For the year ended December 31, 2017, six month period ended December 31, 2016, and year ended June 30, 2016

	Year ended December 31, 2017	Six months ended December 31, 2016	Year ended June 30, 2016
Cash flows (used in) from operating activities			
Net loss	$(4,095,255)	$(5,116,389)	$(4,194,215)
Items not involving cash:			
Reverse take over transaction costs	-	3,009,147	-
Amortization and depreciation	294,399	42,377	21,589
Amortization of debt issuance costs	121,739	22,254	-
Provision for onerous lease	5,291	67,956	-
Share based compensation (note 12(d))	887,540	230,142	1,698,070
Fair value loss (gain) on RSUs (note 12(b))	22,753	(69,882)	-
Derivative liability fair value adjustment (note 9(b))	64,362	(180,717)	-
Accretion interest	220,155	145,902	72,047
Gain on disposal of intangible asset (note 6)	(390,970)	-	-
Gain on insured property and equipment	(22,997)	-	-
	(2,892,983)	(1,849,210)	(2,402,509)
Changes in non-cash working capital:			
Accounts receivable	(648,061)	(238,630)	36,990
Inventory	(74,383)	(174,362)	(154,760)
Prepaid expenses	8,825	726	(77,108)
Accounts payable and accrued liabilities	429,076	(75,485)	833,392
Deferred revenue	(3,241)	(1,619)	19,894
	(3,180,767)	(2,338,580)	(1,744,101)
Cash flows (used in) from investing activities			
Additions to property and equipment	(43,432)	(13,500)	-
Insurance proceeds	41,680	-	-
Proceeds from reverse take over (note 3)	-	84,203	-
Net change in non-cash working capital	-	836	-
	(1,752)	71,539	-
Cash flows (used in) from financing activities			
Repayments of lease	(22,769)	(8,331)	(20,374)
Proceeds from shareholder loans	2,543	42,172	511,396
Repayments of shareholder loans	(51,720)	-	-
Restricted share units redeemed for cash	(100,000)	(200,000)	-
Payment of onerous lease (note 16)	(76,923)	(46,932)	(60,666)
Issuance of preference shares (note 10)	-	465,400	1,762,163
Preference share issuance costs (note 10)	-	(17,420)	-
Proceeds from exercise of warrants	5,499		
Issuance of common shares (note 3 and note 9)	2,024,989	5,750,000	309,995
Common share issuance costs (note 9(a))	(257,314)	(721,504)	(50,224)
Proceeds from debt (note 8)	-	2,300,000	-
Debt issuance costs paid (note 8)	-	(304,347)	-
Repayment of debt (note 8)	(574,286)	(1,591,080)	-
	950,019	5,667,958	2,452,290
Increase (decrease) in cash and cash equivalents	(2,232,500)	3,400,917	708,189
Cash and cash equivalents, beginning of period	4,311,880	910,963	202,174
Effects of foreign currency translation	(5,859)		
Cash and cash equivalents, end of period	$2,073,521	$4,311,880	$910,363
Supplementary Information: Interest paid	$ 291,535	$ 352,682	$364,830

See accompanying notes to consolidated financial statements

1. Reporting Entity and Going Concern

Trakopolis IoT Corp. ("the Company") was formed through the series of transactions outlined below. The registered address of the Company is #300, 1711-10th Avenue SW Calgary, Alberta T3C 0K1. The Company is listed on the TSX Venture Exchange under the symbol TRAK. The Company was incorporated under the Alberta Business Corporations Act in December 2002.

Lateral Gold Corp. ("Lateral") was incorporated under the Business Corporations Act, British Columbia. Lateral was based in Vancouver and engaged in the acquisition of new business ventures seeking projects of merit. On October 28, 2016 Lateral changed its legal name to Trakopolis IoT Corp.

Trakopolis IoT Corp. is a technology company that specializes in developing, marketing and delivering business intelligence to organizations that requires the location, status and relevant data on corporate assets such as equipment, devices, vehicles and people through its proprietary platform "Trakopolis".

On October 28, 2016, Lateral acquired all of the issued and outstanding shares of CANHaul International Corp ("CANHaul") by way of issuance of 14,285,183 Lateral common shares, which constituted 84.9% of the total shares issued and outstanding of the Lateral common shares on a non-diluted basis. The acquisition of CANHaul by Lateral has been accounted for using the reverse-takeover ("RTO") method of acquisition accounting in accordance with the reverse acquisition accounting method of IFRS 2. CANHaul is considered to have acquired Lateral as the accounting acquirer, with Lateral being the accounting acquiree. In accordance with IFRS 2, the consolidated financial statements are in the name of Trakopolis IoT Corp. (formerly Lateral Gold Corp.) however are a continuation of the consolidated financial statements of CANHaul, the accounting acquirer. Additional information on the arrangement is available in note 3.

On December 1, 2016, the Company's wholly owned subsidiary; CAN Telematics Inc., changed its name to Trakopolis SAAS Corp. under the Business Corporations Act (Alberta). On December 31, 2016, Trakopolis SAAS Corp. amalgamated with CANHaul under the Business Corporations Act (Alberta). The amalgamated entity operates under the name Trakopolis SAAS Corp.

The financial year end of the Company was changed from June 30 to December 31. Accordingly, the comparative figures for the consolidated statements of comprehensive loss, consolidated statement of change in shareholders' equity, consolidated statement of cash flows and the related notes to the financial statements are for the twelve month period ended December 31, 2017, six months ended December 31, 2016, and twelve month period ended June 30, 2016.

These consolidated financial statements were authorized for issue by the Company's Board of Directors on April 12, 2018.

These consolidated financial statements have been prepared based on accounting policies applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. During the year ended December 31, 2017, the Company incurred a loss of $4,095,255 and utilized funds amounting to $3,180,767 in its operations. In order to continue as a going concern, the Company must generate sufficient income and cash flows to repay its obligations, finance working capital and fund capital investments. The future of the Company is dependent on its ability to attain profitable operations and maintain compliance with covenants relating to the lending agreement,

1. Reporting Entity and Going Concern (continued):

generate sufficient funds from operations, continue receiving financial support from its shareholders, and obtain new financing. There is no certainty that the Company will raise these necessary funds from financing or operations. As a result of these factors, there is a material uncertainty that may result in significant doubt as to the ability of the Company to meet its obligations as they come due and continue as a going concern.

These consolidated financial statements do not reflect adjustments that may be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses and the statement of financial position classification used.

2. Basis of preparation and significant accounting policies:

These annual consolidated financial statements for the year ended December 31, 2017, six month period ended December 31, 2016, and year ended June 30, 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The annual consolidated financial statements are presented in Canadian Dollars ($), which is the Company's functional currency.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented in these consolidated financial statements.

(a) Basis of measurement:

The consolidated financial statements have been prepared under the historical cost basis, except for the restricted share unit ("RSU") liability which is stated at fair value.

(b) Basis of consolidation:

These financial statements consolidate the accounts of the Company and its wholly-owned subsidiary. The subsidiary is fully consolidated from the date on which control is obtained by the Company until the date that control ceases. Intercompany transactions, balances, income and expenses and profits and losses are eliminated upon consolidation.

(c) Inventory:

Inventory consists of tracking unit hardware and is valued at the lower of cost and net realizable value with the cost being determined on a weighted average basis. Net realizable value is the expected selling price in the ordinary course of business, less any costs to complete and applicable selling expenses. If carrying value exceeds the net realizable amount, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

2. Significant accounting policies (continued):

(d) Property and equipment:

Property and equipment are stated at cost less accumulated amortization and accumulated impairment losses. Property and equipment are amortized over their estimated useful lives at the following rates and methods.

Asset	Method	Rate
Computer equipment	Declining balance	30%
Furniture and office equipment	Declining balance	30%
Leasehold improvements	Straight-line	Lease term
Vehicle	Declining balance	20%
Signage	Declining balance	20%

(e) Intangible assets:

The Company's intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. Intangible assets are amortized on a straight-line basis in the consolidated statement of operations over the period of their expected useful lives as follows:

Software	3 years

The Company incurs costs associated with the design and development of new products. Expenditures during the research phase are expensed as incurred.

Expenditures during the development phase are capitalized as internally generated intangible assets if the Company can demonstrate each of the following criteria: (i) the technical feasibility of completing the intangible asset so that it will be available-for-use or sale; (ii) Its intention to complete the intangible asset and use or sell it; (iii) its ability to use or sell the intangible asset; (iv) how the intangible asset will generate probable future economic benefits; (v) the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset; and (vi) its ability to measure reliably the expenditures attributable to the intangible asset during its development. If these criteria are not met, such expenditures are expensed as incurred.

Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

2. Significant accounting policies (continued):

(f) Impairment of non-financial assets:

Property, equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. When an indication of impairment is identified the carrying value of the asset or group of assets is measured against the recoverable amount.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

(g) Warrants:

The Company may borrow amounts from third parties in the form of shareholder loans or long-term debt. Those instruments may have warrants attached, which allow the lender to purchase common shares over a defined timer period at a fixed price. The Company accounts for equity instruments such as warrants, which are issued with and detachable from the financial liability, by measuring the equity components using the residual value method. The fair value of the financial liability is calculated first, with any residual value allocated to the warrants. The residual value of warrants is included in the warrants line within shareholders' equity.

The Company engages in equity financing transactions to obtain funds necessary for operations, to explore and evaluate business opportunities and to develop products. These equity financing transactions may involve issuance of commons shares or units. Each unit may be comprised of a certain number of common shares and a certain number of purchase warrants. Depending on the terms and conditions of each financing agreement, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the agreement. Warrants that are part of units are assigned a fair value using the Black-Scholes option pricing model and are included in the warrants line within shareholders' equity.

The Company assesses the warrants issued to determine if each meet criteria under IFRS for presentation as equity. Where these criteria are not met, such warrants are recorded as a liability at fair value and remeasured each reporting period.

(h) Share based compensation:

The Company grants equity awards comprised of stock options, restricted share units ("RSU") and retention shares to certain employees and directors of the Company.

Each tranche of stock options is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. This number of options expected to vest is reviewed at least annually, with any change in estimate recognized immediately in compensation expense with a corresponding adjustment to contributed surplus.

2. Significant accounting policies (continued):

(h) Share based compensation (continued):

RSUs are fair valued at the grant date and expensed to share-based compensation under a graded vesting schedule. RSUs allow for the holder to elect equity in the form of common shares or cash redemption for the value of the restricted share award as determined at grant date. Unvested RSUs which have been recognized as an expense and for which the holder has not made an election for equity or cash and vested RSUs where the holder has elected for cash are recognized as a RSU liability and recorded as share based compensation.

When common shares are elected, the value is recognized in contributed surplus and moved to share capital upon issuance of the common shares.

Retention shares are fair valued at grant date and expensed to share based compensation under graded vesting. The value is recognized in contributed surplus and moved to share capital upon issuance of the related common shares.

(i) Income taxes:

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of operations and comprehensive loss except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting or taxable profit nor loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Deferred income tax assets and liability are presented as non-current.

Deferred income tax is determined on a non-discounted basis using tax rates and law that have been enacted or substantively enacted at the reporting date and are expected to apply when the deferred tax asset is realized or liability is settled.

(j) Revenue recognition:

Revenue arrangements with multiple deliverables are divided into separate units of accounting if each deliverable has a value to the customer on a stand-alone basis and any undelivered item has objective and reliable evidence of its fair value.

2. Significant accounting policies (continued):

(j) Revenue recognition (continued):

The Company recognizes revenue when services have been provided or products have been delivered, there is clear evidence that an arrangement exists, the amounts are fixed or can be determined, and collection is reasonably assured. The Company recognizes revenue from hardware sales when the associated risks and rewards are transferred to the customer. Revenue from subscription sales is recognized in the period that the service has been provided to the customer. Software development and consulting revenue are recognized as work is performed. Payments received in advance of the services provided under the Company's revenue recognition policies are recorded as deferred revenue.

(k) Government assistance:

The Company is entitled to certain Canadian investment tax credits for qualifying research and development activities performed in Canada. The investment tax credits are accounted for as a reduction of the related expenditures for items expensed in the consolidated statement of operations or a reduction of the related asset's cost for items capitalized in the consolidated statement of financial position provided that a reasonable assurance over collection of the tax credits exists and the Company will comply with any conditions attached.

(l) Foreign currency:

Transactions denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at transaction dates. Carrying values of monetary assets and liabilities are subsequently adjusted to reflect the exchange rates in effect at the reporting date. Non-monetary items denominated in a foreign currency are translated into Canadian dollars at historical exchange rates. Foreign exchange gains and losses are included in the determination of net loss for the year. The Company's functional currency is Canadian dollars.

(m) Use of estimates:

The preparation of financial statements in compliance with IFRS requires management to apply estimates and assumptions that affect the reported amount of assets, liabilities, revenues, and expenses as well as certain disclosures within the consolidated financial statements. It also requires management to exercise judgement in applying the Company's accounting policies. Estimates and other judgements are periodically evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results could differ significantly from those estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The significant areas requiring estimates and assumptions in determining the reported amounts in the financial statements are as follows:

(i) Provision for onerous lease:

The Company recognizes a provision on a head lease for space that is not occupied by the Company. Management determines the net recoverable amount on the space from a sublease and offsets this estimate against the head lease obligation. The carrying obligation is measured at each financial period.

2. Significant accounting policies (continued):

(m) Use of estimates (continued):

(ii) Discount rate to fair value debt:

The Company will measure the fair value of debt where warrants and/or conversion features are attached. The Company estimates the discount rate based on current market rates for borrowing for a company of similar size and nature. The discount rate is used to first calculate the financial liability with the residual amount applied to equity.

(iii) Share-based compensation:

In measuring the grant date fair value of share-based payments, the Company makes estimates of risk free interest rates, volatility, and expected life.

(iv) Intangible assets:

In measuring the fair value of intangible assets and corresponding liabilities the Company estimates the future cash flows using an appropriate discount rate that reflects the current market assessments of the time value of money and risks specific to the asset. Estimating future cash flows involves significant judgements, estimates and assumptions, including those associated with the future cash flows of asset, discount rate and timing of cash flows.

(n) Financial instruments:

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired. Financial liabilities are derecognized when cash flows have transferred to the counterparty or the obligation to transfer such cash flows has expired. Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the financial asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired, as follows:

(i) Financial assets and financial liabilities at fair value through profit and loss:

A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of operations. Gains and losses arising from changes in fair value are presented in the consolidated statement of operations within general and administrative expenses in the period in which they arise. Financial assets and financial liabilities at fair value through profit or loss are classified as current, except for the portion expected to be realized or paid beyond 12 months of the reporting date, which is classified as non-current. The Company does not carry financial assets or financial liabilities at fair value through profit or loss other than an onerous lease obligation which is classified as a liability.

2. Significant accounting policies (continued):

(n) Financial instruments (continued):

(ii) Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's receivables are comprised of trade receivables. These financial assets are initially recognized at fair value. Subsequently, they are measured at amortized cost using the effective interest method less any impairment.

(iii) Financial liabilities at amortized cost:

Financial liabilities at amortized cost include accounts payable, accrued liabilities, long term debt, shareholder loans and finance leases. These financial liabilities are initially recognized at fair value. Subsequently, these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities

(iv) Impairment:

Each reporting period, the Company assesses whether there are any indications that a financial asset measured at cost or amortized cost may be impaired. For purposes of impairment testing, each individually significant asset is assessed individually; the balance of the assets are grouped on the basis of similar credit risk characteristics. When there is an indication of impairment, the Company determines whether a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset. When there has been a significant adverse change, the carrying value of the asset is reduced to the highest of:

- The present value of expected cash flows;
- The amount that could be realized by selling the asset; and
- The amount that could be realized by exercising its right to any collateral held as security.

When the extent of impairment decreases and the decrease can be related to an event occurring after the impairment was recognized, the impairment is reversed.

2. Significant accounting policies (continued):

(o) Provisions:

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reasonably estimated. Provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

The Company may provide limited warranties on certain products extending beyond the manufacturer's warranty. In such cases, it provides for the estimated cost of these product warranties.

(p) Earnings per share:

Basic earnings per share is calculated by dividing the net income for the period attributable to the Company's shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding for dilutive instruments. The number of dilutive instruments is computed using the treasury stock method. The Company's potential dilutive instruments include stock options, retention shares not issued, warrants, RSUs.

(q) Cost of sales:

Cost of sales includes the cost of purchasing and assembling inventory, provisioning the necessary hardware with custom software scripts, delivery and installation costs. Cost of sales also includes the cost of data from third party data providers in the form of cellular and satellite network data and communication services.

(r) Preference shares:

Preference shares are a financial instrument that may provide the holder with various rights including voting, conversion and retraction. Preference shares are recognized as equity or a financial liability dependent upon an assessment of these rights and the requirements under IFRS. Where preference shares contain both equity and liability characteristics the financial instrument is bifurcated into these separate components for presentation in the Company's statement of financial position.

(s) Cash and cash equivalents:

Cash and cash equivalents includes cash on hand, cash at the bank and Guaranteed Investment Certificates that are readily convertible into cash at the Company's discretion and are at no risk of changes in value.

2. Significant accounting policies (continued):

(t) Future accounting policy changes:

The IASB has issued the following new standards that will be relevant to the Company in preparing its consolidated financial statements in the future periods.

(i) *IFRS 15 Revenue from contracts with customers*, the standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs

The new standard is effective retrospectively for financials years beginning on or after January 1, 2018. The Company is currently assessing the impact of IFRS 15 on its consolidated financial statements.

(ii) *IFRS 9 Financial Instruments*, IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

The standard introduces additional changes relating to financial liabilities.

It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

The new standard is effective retrospectively for financials years beginning on or after January 1, 2018 and the Company has concluded that the new standard will not have a material impact on the Company’s financial statements.

2. Significant accounting policies (continued):

(t) Recent accounting pronouncements (continued):

(iii) *IFRS Leases IFRS 16*, this standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The new standard is effective retrospectively for financials years beginning on or after January 1, 2019. The Company is currently assessing the impact of IFRS 16 on its consolidated financial statements

(iv) IFRS 2 Measurement of Share-based payment transactions, the amendments provide requirements on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled

The new standard is effective prospectively for financials years beginning on or after January 1, 2018 and the Company has concluded that the new standard will not have a material impact on the Company's financial statements.

3. Reverse takeover transaction:

On October 28, 2016, under the terms of the RTO transaction, Lateral acquired all of the issued and outstanding shares of CANHaul by way of issuance of 14,285,183 Lateral common shares, which constituted 84.9% of the total shares issued and outstanding of the Lateral common shares on a non-diluted basis. Pursuant to the transaction, Lateral changed its name to “Trakopolis IoT Corp.” (“Trakopolis”).

The acquisition of CANHaul by Lateral has been accounted for using the reverse-takeover method of acquisition accounting in accordance with the reverse acquisition accounting method of IFRS 2. CANHaul is considered to have acquired Lateral as the accounting acquirer, with Lateral being the accounting acquiree. At the time of the transaction, Lateral did not have any operations.

The following summarizes the estimated fair value of the Lateral assets acquired and liabilities assumed as at October 28, 2016:

Net assets acquired	
Cash	$ 84,203
Accounts receivable	14,902
Prepaid expenses	14,137
Accounts payable	(37,943)
	$ 75,299
Consideration paid:	
Common shares in the Company (2,547,697)	$ 2,547,697
Net assets acquired	75,299
Excess paid	2,472,398
Finders fee (note 9(xi))	536,749
RTO transaction costs - non cash	$ 3,009,147
Other transaction costs	276,155
	$ 3,285,302

The excess of the consideration paid over the net assets acquired has been recognized within the statement of operations as transaction costs.

In addition, the Company paid a finder’s fee, comprised of the issuance of 536,749 common shares at a value of $1.00 per share, recognized in the statement of operations as reverse takeover transaction costs.

The Company incurred $276,155 in legal and financial transaction costs associated with the reverse takeover transaction.

Pursuant to the RTO, Trakopolis completed a public offering of subscription receipts for gross proceeds of $5,750,000 at a price of $1.00 per subscription receipt. The Company received the proceeds less financial services and legal fees associated with completing the equity issuance of $534,607 for a net proceeds of $5,215,393.

3. Reverse takeover transaction (continued):

The terms of the RTO transaction included a performance bonus share issuance whereby 949,993 common shares were placed into escrow to be received by the current holders of common shares of the Company. The escrowed shares were to be released if the Company was successful in closing a business deal on or before December 31, 2016 consisting of a binding contract evidencing revenue of not less than $1,500,000 for the first year, and an aggregate of $1,500,000 for the second and third years following the execution of such contract. As at December 31, 2016, the conditions required for release of the escrowed shares were not met. Accordingly, the shares have been canceled from escrow.

4. Inventory:

During the year ended December 31, 2017, the Company recognized an expense of $nil (Six month period ended December 31, 2016 - $36,126 and year ended June 30, 2016 – $nil) related to inventory for which the net realizable value has been determined to be less than the expected selling price, less any costs to complete and applicable selling expenses. This expense has been recorded within costs of goods sold.

5. Property and equipment:

The following table summarizes the Company's property and equipment as at December 31, 2017, December 31, 2016, and June 30, 2016:

	Computer equipment	Furniture & office equipment	Leasehold improvements	Vehicles	Signage	Total
Cost - June 30, 2015	$ 35,667	$ 119,159	$ 7,083	$ 2,325	$ 1,681	$ 165,915
Balance June 30, 2016	$ 35,667	$ 119,159	$ 7,083	$ 2,325	$ 1,681	$ 165,915
Additions	16,058	-	-	13,500	7,566	37,124
Balance December 31, 2016	$ 51,725	$ 119,159	$ 7,083	$ 15,825	$ 9,247	$ 203,039
Additions	40,547	2,885	-	-	-	43,432
Disposals	(51,725)	(1,705)	-	-	-	(53,430)
Balance December 31, 2017	$ 40,547	$ 120,339	$ 7,083	$ 15,825	$ 9,247	$ 193,041

5. Property and equipment (continued):

Accumulated depreciation:

	Computer equipment	Furniture & office equipment	Leasehold improvements	Vehicles	Signage	Total
Balance at June 30, 2015	$ 30,011	$ 20,296	$ 6,533	$ 2,325	$ 1,185	$ 60,350
Depreciation for the year	1,809	19,406	275	-	99	21,589
Balance June 30, 2016	$ 31,820	$ 39,702	$ 6,808	$ 2,325	$ 1,284	$ 81,939
Depreciation for the period	708	7,946	137	109	149	9,049
Balance December 31, 2016	$ 32,528	$ 47,648	$ 6,945	$ 2,434	$ 1,433	$ 90,988
Disposal	(33,952)	-	-	-	-	(33,952)
Depreciation for the year	10,546	13,548	138	4,017	1,563	29,812
Balance December 31, 2017	$ (9,122)	$ (61,196)	$ (7,083)	$ (6,451)	$ (2,996)	$ (86,848)

Net book value:

At June 30, 2016	$ 3,847	$ 79,457	$ 275	$ -	$ 397	$ 83,976
At December 31, 2016	$ 19,197	$ 71,511	$ 138	$ 13,391	$ 7,814	$ 112,051
At December 31, 2017	$ 31,425	$ 59,143	$ -	$ 9,374	$ 6,251	$ 106,193

6. Intangible asset:

On November 14, 2016, the Company acquired all rights from a third party for a software named Electronic Logbook (ELOG). The purchase price of the ELOG software was $1,500,000 and was payable through a $3 per-user fixed payment over a period not to exceed the 10-year period commencing on the closing date. If the purchase price was not paid in full over the 10-year period, both parties could agree to mutually extend the agreement. If the agreement was not extended, the right of first offer to purchase the ELOG software was provided to the vendor at a price determined by the Company at such time, acting commercially reasonable. Any balance owing under the purchase agreement would be credited toward the buyback price.

The fair value of the ELOG software was determined at the acquisition date using a discounted cash flow model to present value the forecasted future payments. A discount rate of 20% was used to reflect the risk associated with the related cash flows. Using the discounted cash flows, the fair value of the ELOG software was determined to be $791,370 as at the date of purchase, which was the basis of recording the intangible asset and its related liability upon initial recognition.

As at December 31, 2017 the Company determined to take a different approach to Electronic Logbook product offerings through a strategic partnership and has discontinued the development and commercialization of the current ELOG software. Subsequent to the year ended December 31, 2017 the Company provided notice to the vendor (note 23) of such discontinuance. As a result, no future revenue is expected to be earned from the discontinued ELOG software, and as such, no future payments will be owing to the vendor. As a result, management has determined the recoverable amount of the intangible asset and the value of the liability due to

6. Intangible asset (continued):

the vendor to be $nil and has adjusted the carrying values resulting in a non-cash gain on the disposal on the ELOG software of $390,970.

7. Shareholder loans:

	December 31, 2017		December 31, 2016		June 30, 2016	
	Face value	Carrying value	Face value	Carrying value	Face value	Carrying value
Shareholder loan (current) (i)	$225,000	$223,461	$100,000	$100,000	$100,000	$100,000
Shareholder loan (long term)	-	-	175,000	157,803	175,000	150,447
Other shareholder loans (net)	-	-	(823)	(823)	(42,993)	(42,993)
	$225,000	$223,461	$274,177	$256,980	$232,007	$207,454

(i) The shareholder loans are comprised of an unsecured, due on demand loan that has a 10% annual interest rate with a face and carrying value of $50,000 (December 31, 2016 – face and carrying value of $100,000) and an unsecured convertible debenture due on January 31, 2018 that has a 10% annual interest rate with a face value of $175,000 and a carrying value of $173,461 (December 31, 2016 - $157,803, June 30, 2016 – $150,447).

In accordance with Company's accounting policy, shareholder loans that have equity features such as warrants or conversion features are recognized at fair value by first calculating the financial liability with the residual recognized in equity. The lender has the right to convert either full or partial amount of the value of the principle outstanding at any point throughout the term of the loan at a predetermined price of $1.50 per common share. The amount allocated to the equity value of the convertible shareholder loan was $29,057.

8. Long term debt:

	December 31, 2017		December 31, 2016		June 30, 2016	
	Face value	Carrying value	Face value	Carrying value	Face value	Carrying value
Long term debt	$1,634,634	$1,470,402	$2,208,920	$1,915,798	$1,500,000	$1,472,410
Unamortized issue costs	-	(160,354)	-	(282,093)	-	-
	$1,634,634	$1,310,048	$2,208,920	$1,633,705	$1,500,000	$1,472,410

The debt facility has a principal loan amount of $2.3 million, of which the Company has $1.634.634 outstanding as at December 31, 2017 at 11% annual interest with a maturity date of April 28, 2019. The Company is required to make principal payments of 2% of the principal balance on a monthly basis, monthly interest payments and assign any SR&ED rebates received in cash against the principal balance. If the combined SR&ED and 2% monthly repayments are equal to or greater than 24% of the principal amount, no further payments shall be required until the trailing twelve months payments are less than 24% of the principal amount as of the applicable payment date. If the SR&ED rebates received and applied to reduce the outstanding facility balance in any twelve-month period

8. Long term debt (continued):

are less than 10% of the outstanding principal at the beginning of the specified period, the Company shall make an additional payment at the end of that period.

As part of the debt facility arrangement, the Company paid debt issuance costs of $304,347. As at December 31, 2017, $160,354 remained unamortized against the carrying value of the loan. These costs will be amortized over the remaining term of the loan.

Of the $1,634,634 outstanding at December 31, 2017, $351,909 is due for payment in 2018 with the remaining $1,317,366 due in 2019.

The loan facility is secured against all of the assets of the Company and its subsidiaries.

The Company's loan facility is subject to the following financial covenants:

(i) Working capital shall be at least $500,000 at the end of each calendar month;

(ii) The ratio of Current Assets to Principal amount outstanding expressed as a percentage, shall be equal to or greater than the percentages set forth below:

July 31, 2017 - December 31, 2017	January 31, 2018 - June 30, 2018	July 31, 2018 - Maturity
100%	110%	125%

(iii) At the time of relevant testing date, the Company's cash runway must be equal to or greater than 9x the average trailing 3 month period monthly (including the month in which the testing date falls) burn rate. Burn is equal to the average monthly net loss, if any, over the preceding three month period adjusted for hardware gross margin, non-cash items and debt repayment. To calculate adjusted net income (loss), the hardware gross margin during the 3 month period will be subtracted from net income (loss), and the monthly average hardware gross margin from the previous twelve months will be added, the non-cash items will be added back to net income (loss) and debt repayments subtracted. Non-cash items include amortization, accretion, fair value adjustments and stock based compensation.

A summary of the covenants as at December 31, 2017 is below:

		Covenant		December 31, 2017
Minimum Working Capital(1) (2)(3)(4)	$	500,000	$	921,504
Minimum Current Assets to Principal outstanding(2)(3)(4)		100%		232%
Cash runway		9x		11.04

(1) Working Capital is defined as Current Assets minus Current Liabilities.

(2) Current Assets is defined as cash, cash equivalents and accounts receivable.

(3) Accounts Receivable is defined as all accounts receivable, notes receivable and other debts due or accruing to the Company excluding any amounts overdue by more than 90 days or amounts that the Company reasonably determines are uncollectible.

(4) Current Liabilities is defined as accounts payable and amounts to be paid to creditors within twelve (12) months from the applicable date.

As at December 31, 2017, the Company was in compliance with all applicable covenants related to its long term debt facility.

8. Long term debt (continued):

Subsequent to December 31, 2017, the Company entered an agreement with a new lender for a new loan facility replacing the current debt facility (note 23).

9. Share capital

Prior to the RTO that was completed on October 28, 2016, the Company had Class A and B common shares with equal rights and privileges. Under the terms of the RTO the Class A and B common shares were combined. The following chart represents the Class A and B common shares from prior period.

(a) Issued common shares:

	Shares	Amount
	(#)	($)
Common shares:		
Balance, June 30, 2015	9,742,175	11,332,807
Issued for cash (xiv)	410,610	615,918
Issued for wages (xiv)	450,502	675,761
Other issuance (xiv)	73,366	-
Balance, June 30, 2016	10,676,653	12,624,486
Issued for cash (vii)	17,887	18,782
Issued for wages (viii)	149,089	150,422
Conversion of Class L shares (note 10)	3,441,554	3,154,998
CANHaul common shares prior to RTO	14,285,183	$15,948,688
Cancellation of CANHaul common shares ((ix) and note 3)	(14,285,183)	-
Outstanding shares of Lateral at RTO ((ix) and note 3)	2,547,697	2,547,697
Issuance of common shares on the RTO ((ix) and note 3)	14,285,183	-
Issued for subscription receipts (x)	5,750,000	5,750,000
Issued for finder’s fee (xi)	536,749	536,749
Issued for corporate finance fee (xii)	75,000	75,000
Share issuance costs (xiil)	-	(962,668)
Balance, December 31, 2016	23,194,629	$ 23,895,466
Issued for RSUs (i)	402,444	368,647
Issued for wages (ii)	197,375	175,056
Issued for warrants (iii)	5,499	7,769
Issued for subscription receipts (iv)	2,249,988	2,024,989
Issued for corporate finance fee (v)	19,444	17,500
Share issuance costs (vi)	-	(630,044)
Balance, December 31, 2017	26,069,379	$25,859,383

(i) During the year ended December 31, 2017, the Company issued 402,444 common shares upon redemption of RSUs.

(ii) During the year ended December 31, 2017, the Company issued 197,375 common shares as equity based retention compensation to management in accordance with vesting schedules set out in executive employment contracts.

9. Share capital (continued):

(iii) During the year ended December 31, 2017, the Company issued 5,499 common shares for warrants exercised.

(iv) During the year ended December 31, 2017, the Company completed a subscription receipt offering issuing 2,249,988 common shares at a value of $0.90 per share for gross proceeds of $2,024,989.

(v) The Company paid the agents a corporate finance fee in connection with the subscription receipt offering, comprised of 19,444 commons shares issued at $0.90 per share, recognizing share issuance cost of $17,500.

(vi) The Company incurred $630,044 in financial transaction costs associated with the issuance of new shares for the subscription receipt offering, of which $257,314 were cash expenses. The remaining are non-cash items relating to warrants issued (note 9 (b)) and common shares issued (note 9(a)(v)). In accordance with Company's accounting policy, the Company deducted the costs against the equity value issued.

(vii) During the period ended December 31, 2016, employees of the Company purchased 17,887 common shares by way of deduction from salary and were purchased at $1.05 per share and expensed to wages and salaries.

(viii) During the period ended December 31, 2016, the Company issued 25,002 shares relating to equity based retention compensation granted in an earlier period. At the time of grant, the shares were valued at $1.50 per share which had previously been expensed to share based compensation.

During the period ended December 31, 2016, the Company issued equity based retention compensation to management and employees of 103,087 common shares and 10,000 common shares, respectively. The shares were valued at $0.91 per share at time of grant and expensed to share-based compensation. At issuance, a total value of $102,909 was allocated from contributed surplus to share capital.

During the period ended December 31, 2016, the Company issued 11,000 common shares for services rendered with a former executive officer of the Company. The shares were valued at $0.91 per share at the time of the grant and expensed as consulting services within general and administration expense.

(ix) On October 28, 2016, the Company acquired all the issued and outstanding CANHaul securities in exchange for 14,258,183 common shares.

(x) Pursuant to the RTO, the Company completed a subscription receipt offering issuing 5,750,000 new common shares at a value of $1.00 per share for gross proceeds of $5,750,000.

(xi) The Company paid a finder's fees in connection with the RTO, comprised of the issuance of 536,749 common shares at a value of $1.00 per share, recognizing as a RTO transaction cost (note 3).

(xii) The Company paid the agents a corporate finance fee in connection with the subscription receipt offering, comprised of 75,000 common shares issued at $1.00 per share, recognizing a share issuance cost of $75,000.

(xiii) The Company incurred $962,668 in legal and financial transaction costs associated with the issuance of new shares for the subscription receipt offering, of which $721,504 were cash expenses. The remaining are non-cash items relating to common shares issued (note 9 (iii)) and warrants issued (note 9 (b)). In accordance with Company's accounting policy, the Company deducted the costs against the equity value issued.

9. Share capital (continued):

(xiv) In the year ended June 30, 2016, the Company issued 73,366 common shares in accordance with the terms of a unit subscription completed in prior periods.

During the year ended June 30, 2016, 410,610 shares were issued for cash at $1.50 per share.

During the year ended June 30, 2016, the Company issued equity based retention compensation to management and employees of 353,279 common shares at $1.50 per share. In addition, the Company issued 97,223 common shares in accordance with a severance agreement with a former executive officer of the Company at $1.50 per share.

(b) Warrants:

Balance, June 30, 2015	1,000,332
Issued	-
Expired	(100,000)
Balance, June 30, 2016	900,332
Issued	1,069,167
Expired	(633,666)
Balance, December 31, 2016	1,335,833
Issued	1,235,861
Exercised	(5,499)
Balance, December 31, 2017	2,566,195
Weighted average exercise price	$1.15
Equity balance, end of period	$763,835

During the year ended December 31, 2017, the Company issued 1,124,993 warrants as a financing fee upon completion of the private placement. Each purchase warrant entitles the holder to acquire one common share at $1.20 per share and expires on September 6, 2019. The fair value of each warrant was estimated on the date of the grant using the Black-Scholes option pricing model. The estimated value of the warrants is recorded as a share issuance cost and was calculated to be $315,559 using the following assumptions:

- Risk free interest rate: 1.35%
- Expected volatility: 72%
- Expected life in years: 2
- Expected dividend yield: nil

During the year ended December 31, 2017, the Company issued 110,868 warrants as a financing fee upon completion of the private placement. Each purchase warrant entitles the holder to acquire one common share at $0.90 per share and expires on September 6, 2019. The fair value of each warrant was estimated on the date of the grant using the Black-Scholes option pricing model. The estimated value of the warrants is recorded as a share issuance cost and was calculated to be $39,671 using the following assumptions:

- Risk free interest rate: 1.35%
- Expected volatility: 72%

9. Share capital (continued):

- Expected life in years: 2
- Expected dividend yield: nil

During the period ended December 31, 2016, the Company issued 666,667 warrants attached to the debt facility. Each warrant is exercisable into a common share, with an exercise price equal to the greater of: (i) $1.05; and (ii) a 15% discount to the price per share at which securities are issued pursuant to a financing of the Company within 12 months from the date of issuance of the warrants for gross proceeds of at least $500,000 with an arm's length third party. As a result of this price discount clause the warrants were determined to be liability-classified derivative and were recorded at fair value on the date of issuance at $305,749 and as at December 31, 2016 at $125,032. Upon expiry of the price discount clause discussed above, the warrant liability was revalued and classified as an equity instrument. As at December 31, 2017, the warrants have been presented within equity on the statement of financial position.

Upon expiry of the pricing discount at October 28, 2017, the warrant liability was reclassified as an equity instrument. Prior to reclassification the warrants were remeasured using the Black-Scholes option pricing model resulting in a fair value loss of $64,362. The estimated value of the warrants was $189,395 as at October 28, 2017 using the following assumptions:

- Risk free interest rate: 1.40%
- Expected volatility: 72%
- Expected life in years: 2
- Expected dividend yield: nil

During the year ended December 31, 2016, the Company issued 402,500 warrants as a financing fee upon completion of the RTO. Each purchase warrant entitles the holder to acquire one common share at $1.00 per share and expires on October 25, 2018. The fair value of each warrant was estimated on the date of the grant using the Black-Scholes option pricing model. The estimated fair value of the warrants was calculated to be $166,164 and was recorded as a reduction of proceeds received, using the following assumptions:

Assumptions	
Risk free rate	1.46%
Expected volatility	75%
Expected life in years	2 years
Expected dividend yield	-

10. Preference shares:

	December 31, 2017		December 31, 2016		June 30, 2016	
	Shares	Amount	Shares	Amount	Shares	Amount
Shares, beginning of the period	-	$ -	2,549,419	$2,314,020	-	$ -
Issued for cash	-	-	442,998	465,400	1,677,994	1,762,163
Issued on conversion of debt	-	-	-	-	871,425	915,000
Share issue costs	-	-	-	(17,420)	-	(50,224)
Equity allocation	-	-	-	(37,230)	-	(312,919)
Accretion interest	-	-	-	80,079	-	-
Conversion to common shares	-	-	(2,992,417)	(2,804,849)	-	-
Shares, end of the period	-	$ -	-	$ -	2,549,419	$2,314,020

During the six months ended December 31, 2016, the Company issued 442,998 Class L preference shares at a price of $1.05 per share for gross proceeds of $465,400 and net proceeds of $447,980 after broker fees of $17,420 were paid. In accordance with the Company's accounting policy, financial liabilities that have equity components, such as conversion features, are recorded by first calculating the financial liability fair value with the residual recognized in equity. The Company has allocated $37,230 to the equity component of the preference shares issued.

Each preference share was convertible to 1.15 common shares on completion of the RTO transaction (note 3). Upon completion of the RTO, 2,992,417 preference shares were converted to common shares at a value of $2,804,849.

During the year ended June 30, 2016, the Company completed a private offering of preference shares and simultaneously finalized a shareholder debt conversion. The aggregate cash proceeds of the preference share financing was $1,762,163. The aggregate amount of debt converted into the preference shares was $915,000 of which $410,000 was new debt received during the year ended June 30, 2016. Broker commission paid on the issuance of these preference shares was $50,224, resulting in net proceeds of $2,626,939. The Company separated the equity component of the preference shares by first calculating the fair value of the financial liability, $2,314,020, and recognizing the residual of $312,919 as the equity component of preference shares. On conversion of the preference shares into common shares during the period ended December 31, 2016, this amount was transferred from equity component of preference shares to common shares (note 9).

11. Income taxes:

Reconciliation of effective tax rate:

	Year ended December 31, 2017	Six months ended December 31, 2016	Year ended June 30, 2016
Net Income before taxes	$ (4,095,255)	$ (5,116,389)	$ (4,194,215)
Statutory Income tax rate	27%	27%	27%
Computed income tax (recovery)	(1,105,719)	(1,381,425)	(1,132,438)
Increase (decrease) result from:			
Non-deductible expenses	311,321	998,109	469,755
Change in unrecognized deferred tax asset	811,019	533,217	643,730
Other	(23,379)	(149,901)	18,953
Foreign Tax Rate Differences	6,757	-	-
Total income tax expenses	$ -	$ -	$ -

Unrecognized deferred tax assets:

Deferred tax assets have not been recognized in respect of the following temporary differences:

	December 31, 2017	December 31, 2016	June 30, 2016
Unrecognized tax loss carry forward	$ 3,830,328	$ 2,703,501	$ 2,271,096
Other deductible temporary differences	473,896	122,841	122,529
	$ 4,304,224	$ 2,826,342	$ 2,393,625

The tax losses commence expiring in 2027. The deductible temporary differences and research and development expenses do not expire under current tax legislation. Deferred taxes have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

12. Share based payments:

(a) Stock option plan:

The Company has a stock option plan to encourage ownership of the Company's common shares by its directors, officers, employees and other eligible service providers. The exercise price of each option equals the Company's stock price on the date of the grant. Stock option terms and vesting periods are specified in the Option Plan. The Board has the full power to administer the issuance of options. Option activity is as follows:

12. Share based payments (continued):

	Number of share options	Weighted Average Exercise Price
Balance, June 30, 2015	-	$ -
Issued	967,943	1.50
Options forfeited	(156,468)	1.50
Balance, June 30, 2016, December 31, 2016	811,475	1.50
Issued	1,642,000	1.19
Balance, December 31, 2017	2,453,475	1.34
Exercisable at December 31, 2017	1,293,721	$1.37

On May 5, 2017, the Company granted an aggregate of 920,000 stock options. The options vest one third on the grant date, one third January 1, 2018 and one third January 1, 2019. Each option represents the right to purchase one common share of the Company at an exercise price of $1.19 per share for a period of five years from the grant date. The options were valued using the following assumptions:

- Stock price as of grant date $1.19
- Risk free interest rate 0.89%
- Expected volatility 72%
- Expected dividend yield nil
- Weighted average fair value per option $0.70

On October 10, 2017, the Company granted an aggregate of 722,000 stock options. The options vest one third on the grant date, one third October 10, 2018 and one third October 10, 2019. Each option represents the right to purchase one common share of the Company at an exercise price of $0.90 per share for a period of five years from the grant date. The options were valued using the following assumptions:

- Stock price as of grant date $0.90
- Risk free interest rate 1.71%
- Expected volatility 72%
- Expected dividend yield nil
- Weighted average fair value per option $0.54

On January 7, 2016, the Company granted an aggregate of 173,567 stock options. The options vest quarterly over a 4-year period. Each option represents the right to purchase one common share of the Company at an exercise price of $1.50 per share for a period of five years from the grant date. The options were valued using the following assumptions:

- Stock price as of grant date $1.50
- Risk free interest rate 1.46%
- Expected volatility 75%
- Expected dividend yield nil
- Weighted average fair value per option $0.72

12. Share based payments (continued):

On September 23, 2015, the Company granted an aggregate of 794,376 stock options. The options vest quarterly over a 4-year period. Each option represents the right to purchase one common share of the Company at an exercise price of $1.50 per share for a period of five years from the grant date. The options were valued using the following assumptions:

- Stock price as of grant date $1.50
- Risk free interest rate 1.46%
- Expected volatility 75%
- Expected dividend yield nil
- Weighted average fair value per option $0.72

(b) Restricted share unit plan:

The Company established a RSU plan to aid in attracting, retaining and motivating the directors, officers, employees and other eligible service providers. The exercise price of each RSU is set at the estimated fair value of the Company's stock on the date of the grant and the RSU's vest quarterly over four years and expire after five years.

The following table summarizes the movements in the Company's outstanding RSUs:

	Number of restricted share units
Balance, June 30, 2015	-
Granted	701,732
Equity settled	-
Settled in cash	-
Balance, June 30, 2016	701,732
Granted	-
Equity settled	-
Settled in cash	(203,397)
Balance at December 31, 2016	498,335
Granted	-
Equity settled	(384,275)
Settled in cash	(101,698)
Forfeited	(12,362)
Balance at December 31, 2017	-

RSUs can be exercised for common shares or cash at the determination of the holder. The Company accounts for issued but unvested RSUs which have been recognized as an expense and vested RSUs where the holder has elected for cash as a financial liability and share-based compensation. Upon vesting the estimated fair value of the RSU is transferred to contributed surplus i the holder has elected to settle in equity. At each reporting date, the RSU liability has been remeasured at the fair value of the Company's common shares. The RSU liability as at December 31, 2017 is $nil (December 31, 2016 $140,963, June 30, 2016, $174,900).

During the year ended December 31, 2017, the RSU liability was remeasured at the fair value of the Company's common shares resulting in a fair value loss of $22,753 (six months ended December 31, 2016 – fair value gain of $69,882, year ended June 30, 2016 - $nil)

12. Share based payments (continued):

During the year ended December 31, 2017, 68,271 RSUs, valued at $63,716 were elected as equity settlement and thus transferred from the RSU liability to contributed surplus upon vesting.

As at December 31, 2016, the Company received notification that 203,396 RSUs would be redeemed for a cash settlement of $100,000, and common shares having an aggregate value of $100,000. During the year ended December 31, 2017, the Company settled 101,698 RSUs for $100,000 and 101,698 RSUs for 119,867 common shares related to the settlement.

In addition to the above settlement, during the year ended December 31, 2017, the Company issued 282,577 common shares for the equity settlement of 282,577 RSUs.

During the year ended December 31, 2017, 12,362 RSUs were forfeited by a former director.

During the period ended December 31, 2016, 203,397 RSUs were settled for $200,000, of which $165,844 was recognized against the RSU liability and $34,156 against contributed surplus.

On January 7, 2016, the Company issued 50,000 RSUs to the Board of Directors pursuant to the RSU Plan. RSUs are vested quarterly over 4 years. The fair value of RSUs granted initially was $1.50 and recognized as general and administrative expense over the vesting period. At December 31, 2016, the RSU liability has been remeasured at the fair value of the Company's common shares.

During the year ended June 30, 2016, the Company issued 110,083 RSUs to the Board of Directors in lieu of director and meeting fees. RSUs issued in lieu of director and meeting fees vest upon issuance. The fair value of RSUs issued in lieu of director and meeting fees was $1.50 (42,500 RSUs) and $0.91 (67,583 RSUs).

For the period ended December 31, 2016, the Company recognized share-based compensation expense related to vesting of RSUs of $86,934 (Year ended June 2016 - $720,252). During the period ended December 31, 2016 the Company recognized a fair value gain of $69,882 upon remeasuring the RSUs as at December 31, 2016 which is recorded as share-based compensation expense within general and administrative expenses.

On September 23, 2015, the Company issued 541,649 RSUs to the Board of Directors pursuant to the RSU Plan. Upon issuance, 255,765 RSUs were immediately vested with the remainder vesting quarterly over 3 years and expire after a term of five years. The fair value of RSUs granted initially was $1.50 and recognized as general and administration expense as the RSUs vest.

12. Share based payments (continued):

(c) Retention shares:

The Company utilizes a retention share plan to aid in retaining and motivating executives and employees. Retention shares are valued based on the fair market value of common shares at the date of grant.

The following table summarizes retention share activity for the period:

	Number of retention shares
Outstanding June 30, 2015	456,280
Granted	116,666
Vested	(342,310)
Outstanding June 30, 2016	230,636
Vested	(114,042)
Outstanding, December 31, 2016	116,594
Vested	(94,680)
Outstanding, December 31, 2017	21,914

(d) Share-based compensation expense:

The stock option plan, restricted share unit plan and retention share based compensation expenses are summarized as follows:

	Year ended December 31, 2017	Six months ended December 31, 2016	Year ended June 30, 2016
Stock options	$775,504	$ 79,145	$ 359,017
RSUs	77,510	86,934	1,015,127
Retention shares	34,526	64,063	323,926
Share based compensation	$887,540	$230,142	$1,698,070

13. Commitments:

As at December 31, 2017, the Company has total commitments which require payments based on the maturity terms as follows:

	2018	2019	2020	2021	2022	Total
Onerous lease	$ 104,141	$ -	$ -	$ -	$ -	$ 104,141
Finance leases	27,706	21,152	2,160	1,980	-	52,998
Office lease	652,447	366,415	-	-	-	1,018,862
Debt payments	303,455	1,106,107	-	-	-	1,409,562
Debt interest	140,005	38,888	-	-	-	178,893
Total	$1,227,754	$1,532,562	$ 2,160	$ 1,980	$ -	$2,764,456

14. Financial risk management and financial instruments:

(a) Credit risk:

Credit risk reflects the risk the Company may be unable to recover accounts receivable. To mitigate this risk the Company reviews the creditworthiness of material new customers, monitors customer payment performance, where appropriate, reviews the financial conditions of existing customers. The Company establishes an allowance for doubtful accounts that corresponds to the specific credit risk of its customers and economic circumstances. The Company was engaged in contracts with one party, of whom individually

14. Financial risk management and financial instruments (continued):

represented approximately 36% of the Company's sales, and 20% of accounts receivable as at and for the year ended December 31, 2017. The Company employs established credit approval and monitoring practices to mitigate the risk.

(b) Currency risk:

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to foreign currency exchange risk on cash, accounts receivable, and accounts payable held in U.S. dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial obligations (note 1). The Company manages liquidity risk through management of its capital structure, monitoring and reviewing actual and forecasted cash flows and the effect on bank covenants, and maintaining unused credit facilities where possible to ensure there are available cash resources to meet the Company's liquidity needs.

(d) Capital management:

The Company's objective when managing capital is to ensure it has the appropriate capital structure to execute its strategic business plan while not creating risk to its ability to operate as a going concern. The Company's liquidity needs in short term and long term can be sourced multiple ways including: funds from operations, available cash balances, new debt instruments, equity issuances and government funding. The Company monitors its financing requirements through regular forecasting of its cash position. Financing decisions are based on the timing and extent of expected operating and capital cash outlays.

(e) Fair value:

The carrying values of cash, accounts receivable, investment tax credits (SR&ED), accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments. The difference in fair value and carrying value of shareholder loans and long-term debt is due to the significant difference in interest rates that arises due to the attachment of equity features such as warrants and conversion optionality.

14. Financial risk management and financial instruments (continued):

(f) Classification of financial instruments and fair value:

(i) Determination of Fair values

Under IFRS, fair values recorded on the consolidated statement of financial position are classified under a fair value hierarchy that reflects the significant inputs used in making the measurements.

- Level 1 inputs use quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 inputs use inputs other than quoted prices in level 1 that are observable for the asset or liability either directly or indirectly.
- Level 3 inputs are inputs for the assets that are not based on an observable market data.

Recurring Measurements	Level 1	Level 2	Level 3
Cash	$ 2,073,521	$ –	$ –
RSU liability	$ –	$ –	$ –

15. Related party transactions:

(i) During the period, the Company paid $nil (Six months ended December 31, 2016 - $nil, Year ended June 30, 2016 - $20,000) in subcontractor fees for consulting and sales support services to a Company in which the owner is a shareholder and director.

(ii) During the period, the Company paid $nil (Six months ended December 31, 2016 - $nil, Year ended June 30, 2016 - $14,140) in subcontractor fees for IT and support services to a Company in which the owner is a shareholder and director.

16. Provision for onerous lease:

Prior to 2016, the Company vacated its previous head office building and relocated to a new space. The Company had 48 months remaining on the lease. The Company sublet the office space to two subtenants for the remainder of the lease term reducing the net obligation. During the period, one subtenant breached its contract and the amount owing was determined to be unrecoverable. As at December 31, 2017, the Company carries a provision for the lease (net of subtenants) of $35,962 (December 31, 2016 - $107,594, June 30, 2016 - $86,570).

17. Expenses by nature:

	Year ended December 31, 2017	Six months ended December 31, 2016	Year ended June 30, 2016
Wages and salaries	$3,215,159	$1,150,250	$2,801,155
Share-based compensation expense	887,539	230,142	1,698,070

18. Executive compensation:

Key management personnel include directors and officers of the Company. In addition to their salaries, key management personnel participate in the Company's stock option plan, retention share plan and RSU plan. (note 12). The following table shows compensation paid to directors and officers:

	Year ended December 31, 2017	Six months ended December 31, 2016	Year ended June 30, 2016
Wages and salaries	$ 720,000	$ 318,000	$ 519,008
Share-based compensation expense	766,181	230,142	1,373,195
Total	$1,486,181	$ 548,138	$ 1,892,203

19. Loss per common share

The effects of potentially dilutive instruments such as stock options, warrants and RSUs on loss per common share are anti-dilutive and therefore have been excluded from the calculation of diluted loss per share.

	Year ended December 31, 2017	Six months ended December 31, 2016	Year ended June 30, 2016
Weighted average common shares outstanding – basic and diluted	24,215,200	15,161,703	10,676,658
Loss for the period	$(4,095,255)	$(5,116,389)	$(4,194,215)
Basic and diluted loss per common share	$(0.17)	$(0.34)	$(0.39)

20. Finance lease obligation

	As at December 31, 2017	As at December 31, 2016	As at June 30, 2016
Less than one year	$27,365	$27,308	$9,234
Between one and five years	22,992	48,052	47,020
	50,357	75,360	56,254
Interest	(5,123)	(7,357)	(3,443)
Present value of minimum lease payments	$45,234	$68,003	$52,811

21. Other liabilities

	December 31, 2017	December 31, 2016	June 30, 2016
ELOG payable	$ -	$809,613	$ -
Warrants (Note 9(b))	-	125,033	-
	$ -	$934,646	$ -

On November 14, 2016, the Company acquired all the rights from a third party for software named the Electronic Logbook (ELOG). The purchase price of the ELOG software was $1,500,000 and was payable through a $3 per-user fixed payment over a period not to exceed the 10-year period commencing on the closing date. The fair value of the ELOG software was determined using a discounted cash flow model to present value the future payments. This liability was considered a financial instrument and initially recorded at fair value based on discounted cash

21. Other liabilities (continued):

flows and subsequently to initial measurement, held at amortized cost. At each reporting date its carrying amount was adjusted for accretion and changes in the estimated timing of cash flows. The accretion over the expected term of the liability is based on future expected cash outflows. At December 31, 2017, the value of the liability was re-valued and determined to be $nil (refer to note 6).

	ELOG Payable
Balance at June 30, 2016	$ -
Addition	791,370
Accretion	18,243
Balance at December 31, 2016	$809,613
Accretion	155,989
Change in estimated timing of payments	(79,768)
Disposal of liability (note 6, 22)	(885,834)
Balance at December 31, 2017	$ -

22. Trade receivables

	As at December 31, 2017	As at December 31, 2016	As at June 30, 2016
Trade receivables, net of allowances for doubtful accounts	$1,695,721	$862,715	$639,277
Other receivables	$67,669	$109,796	$94,604
	$1,763,390	$972,511	$733,881

	As at December 31, 2017	As at December 31, 2016	As at June 30, 2016
Current	$811,839	$406,311	$493,495
31-60 days	300,688	290,470	88,712
61-90 days	201,382	82,278	34,721
Greater than 90 days	381,812	83,656	22,349
	$1,695,721	$862,715	$639,277

23. Subsequent events

(a) On February 14, 2018, the Company entered into a new USD $3.5 Million secured credit facility with California based Silicon Valley Bank. The credit facility consists of a 36-month term loan of USD $1.5 Million (the "Term Loan") and an accounts receivable line of credit of up to USD $2 Million (the "Revolving Line"). The Term Loan bears interest at a rate of US prime plus 1.5% and the Revolving Line bears interest at a rate ranging from US prime plus 1.75% to prime plus 2.25% based on certain operating metrics. Subsequent to December 31, 2017 proceeds from the Term Loan have been used to prepay and retire the Company's outstanding indebtedness. The loan facility is secured against all of the assets of the Company and its subsidiaries.

23. Subsequent events (continued):

(b) The Company determined to take a different approach to Electronic Logbook product offerings through a strategic partnership and has discontinued the development and commercialization of the current ELOG software. Subsequent to the year ended December 31, 2017 the Company provided notice to the vendor of the discontinuance.

(c) As at February 8, 2018, the Company has amended the shareholder loan agreements extending the maturity date of the two loans. Each shareholder loan has been extended to have a maturity date that is 60 months from the date of the agreement. All terms of the shareholder loans have remained the same with exception of the conversion right. The lender has the right to convert all or any of the principal amount outstanding at any point through the term of the loan into common shares of the Company at a price per common share equal to 80% of the volume weighted average price of common shares, for the 20 trading days immediately preceding the notice date.