Condensed Consolidated Interim Financial Statements

TRAKOPOLIS IOT CORP.

For the three months ended March 31, 2017 and 2016
(Unaudited)

TRAKOPOLIS IOT CORP.
Condensed Consolidated Interim Statements of Financial Position
As at March 31, 2017 and December 31, 2016
Unaudited (Canadian $)

	March 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$3,196,137	$4,311,880
Accounts receivable	979,946	868,909
Inventory	418,202	496,438
Prepaid expenses	120,723	128,648
GST receivable	94,940	103,602
	4,809,948	5,909,477
Intangible assets (note 4)	692,095	758,042
Property and equipment	108,812	112,051
	$5,610,855	$6,779,570
Liabilities and Shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	$1,591,814	$1,803,443
Deferred revenue	28,671	29,460
Provision for onerous lease	79,923	73,396
Current shareholder loans (note 5)	209,238	100,000
Current portion of lease	23,111	22,381
Current portion of long term debt (note 6)	46,208	406,355
Other liabilities short term (note 9)	38,793	33,800
Current portion of restricted share unit liability (note 8(b))	75,000	100,000
	2,092,758	2,568,835
Shareholder loans (note 5)	-	156,980
Long term portion of lease	39,324	45,622
Provision for onerous lease	11,981	34,198
Restricted share unit liability (note 8 (b))	57,911	40,963
Long term debt (note 6)	1,189,862	1,227,350
Other liability long term (notes 9 and note 7(b))	1,025,866	900,846
	2,324,944	2,405,959
Shareholders' equity		
Share capital (note 7)	23,994,609	23,895,466
Warrants (note 7)	221,480	221,480
Contributed surplus	1,668,421	1,690,655
Equity component of convertible debt	29,057	29,057
Deficit	(24,720,414)	(24,031,882)
	1,193,153	1,804,776
Going concern (note 1)		
Subsequent events (note 13)		
	$5,610,855	$6,779,570

See accompanying notes to condensed consolidated interim financial statements.

Approved by the Board:

B Olson ____________ Director

TRAKOPOLIS IOT CORP.
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
Three months ended March 31,
Unaudited (Canadian $)

	2017	2016
Revenue:		
Hardware sales	$531,822	$422,688
Subscription sales	888,902	844,407
Software development	33,484	-
Other revenue	6,091	3,687
	1,460,299	1,270,782
Cost of sales	697,148	573,957
Gross profit	763,151	696,825
Expenses:		
General and administrative	664,255	542,699
Sales and marketing	416,269	279,727
Operations	154,589	96,724
Technology	(103,979)	(58,943)
	1,131,134	860,207
Loss before undernoted	(367,983)	(163,382)
Finance expense:		
Derivative liability fair value adjustment	119,127	-
Interest on debt and loans	78,421	123,635
Other interest and bank charges	6,100	1,557
Accretion expense	47,713	25,556
	251,361	150,748
Amortization	69,188	4,216
Net loss and comprehensive loss	$(688,532)	$(318,346)
Loss per share:		
Basic and diluted	$ (0.03)	$ (0.03)
Weighted average number of shares:		
Basic	23,300,067	10,676,653

See accompanying notes to condensed consolidated interim financial statements.

TRAKOPOLIS IOT CORP.
Condensed Consolidated Interim Statements of Changes in Equity
For the three months ended March 31, 2016 and 2015
Unaudited (Canadian $)

	Share Capital	Share deposits	Warrants	Contributed surplus	Equity component of convertible debt	Deficit	Total Equity (Deficiency)
Balance December 31, 2015	$ 12,424,472	$ 162	$ 329,005	$ 1,347,921	$ 29,057	$ (17,366,500)	$ (3,235,883)
Common shares issued	200,014	-	-	(200,014)	-	-	-
Equity allocation of debt instrument	-	-	-	4,566	-	-	4,566
Stock based compensation	-	-	-	178,967	-	-	178,967
Net Loss for the period	-	-	-	-	-	(318,346)	(318,346)
Balance March 31, 2016	$ 12,624,486	$ 162	$ 329,005	$ 1,331,440	$ 29,057	$ (17,684,846)	$ (3,370,696)

	Share Capital	Share deposits	Warrants	Contributed surplus	Equity component of convertible debt	Deficit	Total Equity (Deficiency)
Balance December 31, 2016	$ 23,895,466	$ -	$ 221,480	$ 1,690,655	$ 29,057	$ (24,031,882)	$ 1,804,776
Common shares issued (note 7)	99,143	-	-	(99,143)	-	-	-
RSU liability	-	-	-	4,215	-	-	4,215
Stock based compensation	-	-	-	72,694	-	-	72,694
Net loss for the period	-	-	-	-	-	(688,532)	(688,532)
Balance March 31, 2017	$ 23,994,609	$ -	$ 221,480	$ 1,668,421	$ 29,057	$ (24,720,414)	$ 1,193,153

See accompanying notes to condensed consolidated interim financial statements.

TRAKOPOLIS IOT CORP.
Condensed Consolidated Interim Statements of Cash Flows
Three months ended March 31,
(Unaudited)

	2017	2016
Cash flows from operating activities		
Net loss	$(688,532)	$(318,346)
Items not involving cash:		
Amortization	69,188	4,216
Amortization of debt issuance costs	30,433	-
Provision for onerous lease	5,291	-
Share based compensation (note 8 (d))	72,694	208,287
Fair value loss on RSUs (note 8 (b))	21,164	-
Fair value loss on warrants (note 7(b))	119,127	-
Accretion expense	47,713	25,556
	(322,922)	(80,287)
Changes in non-cash working capital:		
Accounts receivable	(111,037)	(125,517)
Inventory	78,236	32,295
Prepaid expenses	7,925	23,723
GST receivable	8,662	50,131
Accounts payable and accrued liabilities	(211,629)	303,920
Deferred revenue	(789)	(1,116)
	(551,554)	203,149
Cash flows from financing activities		
Repayments of lease	(5,568)	(2,560)
Proceeds from shareholder loans	-	100,000
Repayments of shareholder loans	(51,720)	(73,665)
Restricted share units redeemed for cash	(25,000)	-
Payment of onerous lease	(20,981)	(15,446)
Repayment of debt	(460,920)	(200,000)
	(564,189)	(191,673)
Increase (decrease) in cash and cash equivalents	(1,115,743)	11,478
Cash and cash equivalents, beginning of period	4,311,880	83,401
Cash and cash equivalents, end of period	$3,196,137	$94,879
Supplementary information		
Interest paid	$ 52,305	$71,400

See accompanying notes to condensed consolidated interim financial statements

1. Reporting Entity and Going Concern:

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

The Company head office is located at 1711-10th Avenue S.W. Calgary, Alberta, Canada. The Company is listed on the TSX Venture Exchange under the symbol TRAK. The Company is incorporated under the Alberta Business Corporations Act. The condensed consolidated interim financial statements of the Company are comprised of the Company and its wholly owned subsidiary.

These condensed consolidated interim financial statements were authorized for issue by the Company's Board of Directors on May 1, 2017.

These condensed consolidated interim financial statements have been prepared 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 three month period ended March 31, 2017, the Company incurred a loss of $688,532 and utilized funds amounting to $551,554 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, maintain compliance with covenants relating to its lending agreements, generate sufficient funds from operations, and continue receiving financial support from its shareholders and to obtain new financing, if required. 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 condensed consolidated interim 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 condensed consolidated interim 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:

These condensed consolidated interim financial statements are unaudited and have been prepared in accordance with IAS 34, Interim Financial Reporting. These condensed consolidated interim financial statements are presented in Canadian dollars which is the Company's functional currency. In preparing these condensed consolidated interim financial statements, the accounting policies, methods of computation and significant judgements made by management in applying the Company's accounting policies and key sources of estimation of uncertainty were the same as those that applied to the audited consolidated financial statements as at and for the six-month period ended December 31, 2016.

2. Basis of preparation (continued):

Certain information and disclosures normally included in the notes to the annual financial statements have been condensed or have been disclosed on an annual basis only. The disclosures herein are incremental to those included with the audited annual consolidated financial statements as at and for the year ended December 31, 2016 and should be read in conjunction with the annual consolidated financial statements as at and for the year ended December 31, 2016.

3. Significant accounting policies:

There have been no significant accounting policy changes; refer to the audited annual consolidated financial statements as at and for the six month period ended December 31, 2016.

4. Intangible asset:

Balance as at June 30, 2016	$ -
Additions	791,370
Amortization	(33,328)
Balance December 31, 2016	758,042
Amortization	(65,947)
Balance March 31, 2017	$692,095

5. Shareholder loans:

	March 31, 2017		December 31, 2016	
	Face value	Carrying value	Face value	Carrying value
Shareholder loans (current) (i)	$225,000	$211,781	$100,000	$100,000
Shareholder loan (long term)	-	-	175,000	157,803
Other shareholder loans (net)	(2,543)	(2,543)	(823)	(823)
	$222,457	$209,238	$274,177	$256,980

(i) The shareholder loans are comprised of an unsecured, due on demand loan that has a 10% annual interest rate with a carrying value of $50,000 (December 31, 2016 - $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 $161,781 (December 31, 2016 - $157,803).

6. Long term debt:

	March 31, 2017		December 31, 2016	
	Face value	Carrying value	Face value	Carrying value
Long term debt	$1,748,000	$1,487,730	$2,208,920	$1,915,798
Unamortized issue costs	-	(251,660)	-	(282,093)
	$1,748,000	$1,236,070	$2,208,920	$1,633,705

As at March 31, 2017, the Company's long term debt consisted of a principal loan with $1.7M outstanding 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 Scientific Research and Experimental Development ("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 principal 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 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.

During the three months ended March 31, 2017, the Company has received $402,621 from the SR&ED tax incentive program. These funds were used to reduce the Company's long-term debt. Under the terms of the debt agreement, the Company has reached the maximum principal payments over the trailing twelve month period and will not be required to make any further principal repayments until November 2017.

Of the $1,748,000 outstanding at March 31, 2017, $167,946 is due for payment within the next twelve months.

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

Issue - December 31, 2016	Jan 31, 2017 - March 31, 2017	April 30, 2017 - June 30, 2017	July 31, 2017 - December 31, 2017	January 31, 2018 - June 30, 2018	July 31, 2018 - Maturity
65%	75%	85%	100%	110%	125%

6. Long term debt (continued):

The Company's loan facility is subject to the following covenants (continued):

(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 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 March 31, 2017 is below:

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

		Covenant		March 31, 2017
Minimum Working Capital[(1) (2)(3)(4)]	$	500,000	$	2,083,325
Minimum Current Assets to Principal outstanding[(2)(3)(4)]		75%		239%
Minimum cash runway		9x		10.98x

(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 March 31, 2017, the Company was in compliance with all covenants related to its loan facility.

7. Share capital:

(a) Issued common shares:

	Shares	Amount
Balance, June 30, 2015	9,742,175	$11,332,807
Issued for cash	410,610	615,918
Issued for wages	450,502	675,761
Other issuance	73,366	-
Balance June 30, 2016	10,676,653	12,624,486
Issued for cash	17,887	18,782
Issued for wages	149,089	150,422
Conversion of Class L shares	3,441,554	3,154,998
CANHaul common shares prior to RTO	14,285,183	$15,948,688
Cancellation of CANHaul common shares	(14,285,183)	-
Outstanding shares of Lateral at RTO	2,547,697	2,547,697
Issuance of common shares on the RTO	14,285,183	-
Issued for subscription receipts	5,750,000	5,750,000
Issued for finder's fee	536,749	536,749
Issued for corporate finance fee	75,000	75,000
Share issuance costs	-	(962,668)
Balance, December 31, 2016	23,194,629	$23,895,466
Issued for RSUs (i)	38,934	27,254
Issued for wages (ii)	102,699	71,889
Balance, March 31, 2017	23,336,262	$23,994,609

(i) During the three months ended March 31, 2017, the Company issued 38,934 common shares upon redemption of RSUs.

(ii) During the three months ended March 31, 2017, the Company issued 102,699 common shares as equity based retention compensation to management.

(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 and March 31, 2017	1,335,833
Equity balance, end of period	$221,480
Liability balance, end of period	$244,160

7. Share capital (continued):

At March 31, 2017, the warrant liability has been remeasured using the Black-Scholes option pricing model resulting in a fair value loss of $119,127. The estimated value of the warrants was $244,160 as at March 31, 2017 using the following assumptions:

Assumptions	
Risk free rate	0.75%
Expected volatility	72%
Expected life in years	2.58 years
Expected dividend yield	-

8. 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 estimated fair value of the Company's stock 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:

	Number of share options	Weighted Average Exercise Price
Balance June 30, 2015	-	$ -
Granted	967,943	1.5
Options forfeited	(156,468)	1.5
Balance June 30, 2016, December 31, 2016 and March 31, 2017	811,475	1.5
Exercisable at March 31, 2017	492,801	$1.5

No options were granted, settled or forfeited during the three months ended March 31, 2017.

(b) Restricted share unit plan:

The Company initiated a restricted share unit plan (the "RSU Plan") to aid in attracting, retaining and motivating the directors, officers, employees and other eligible service providers. The exercise price of each restricted share unit ("RSU") is set at the estimated fair value of the Company's stock on the date of the grant.

8. Share based payments (continued):

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	(25,424)
Settled in cash	(25,424)
Balance at March 31, 2017	447,487

As at December 31, 2016, the Company received notification that 203,396 RSUs will be redeemed for a cash settlement of $100,000, and common shares having an aggregate value of $100,000 during the calendar year. During the three months ended March 31, 2017, the Company settled 25,424 RSUs for $25,000 and 25,424 RSUs for 38,934 common shares related to the settlement.

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.

The Company recognizes an RSU liability for RSUs recognized in share based compensation expense that have not yet vested. The RSU liability as at March 31, 2017 is $132,911 (December 31, 2016– $140,963). At March 31, 2017, the RSU liability has been remeasured at the fair value of the Company's common shares resulting in a fair value loss of $21,164 which has been recorded as share based compensation within general and administrative expenses.

(c) Retention shares:

The Company initiated 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/earned in the period	(342,310)
Outstanding June 30, 2016	230,636
Vest/earned in the period	(114,042)
Outstanding, December 31, 2016	116,594
Vested/earned in the period	(57,024)
Outstanding, March 31, 2017	59,570

No retention shares were granted during the three months ended March 31, 2017.

8. Share based payments (continued):

(d) Share based compensation expense:

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

	Three months ended March 31, 2017	Three months ended March 31, 2016
Stock options	$15,020	$55,618
RSUs	28,725	84,784
Retention shares	28,949	67,885
Share based compensation	$72,694	$208,287

For the three months ended March 31, 2017 $nil (three months ended March 31, 2016 - $29,320) was recognized against the RSU liability.

9. Other liabilities

	March 31, 2017	December 31, 2016
ELOG payable	$820,499	$809,613
Warrants	244,160	125,033
	$1,064,659	$934,646

On November 14, 2016, the Company acquired all rights from a third party for software named the Electronic Logbook (ELOG). The purchase price of the ELOG software was $1,500,000 and is 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 is considered a financial instrument and initially recorded at fair value based on discounted cash flows and at each reporting date its carrying amount is 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.

	ELOG Payable
Balance at December 31, 2015	$ -
Addition	791,370
Accretion	18,243
Balance at December 31, 2016	$809,613
Accretion	37,751
Change in estimated timing of payments	(26,865)
Balance at March 31, 2017	$820,499

10. 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

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

economic circumstances. The Company was engaged in contracts with one party, of whom individually represented approximately 10% of the Company's sales, and an insignificant amount of accounts receivable at year end. 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 2). 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 such as the Scientific Research and Experimental Development (SR&ED) grants. 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.

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

(g) Classification of financial instruments and fair value

(ii) Determination of Fair values

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate fair values.

- 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	$ 3,196,137	$ –	$ –
RSU Liability	132,911	–	–
Warrant liability	244,160	–	–

11. Expenses by nature:

	Three months March 31, 2017	Three months March 31, 2016
Wages and salaries	$ 708,797	$ 548,964
Share-based compensation expense	72,694	208,287

12. Executive compensation:

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

	March 31, 2017	March 31, 2016
Wages and salaries	$ 165,705	$ 157,500
Share-based compensation expense	72,694	208,287
Total	$238,399	$ 365,578

13. Subsequent events:

(a) Subsequent to March 31, 2017, the Company issued 84,774 common shares of which 57,021 were issued in relation to retention shares to executives and 27,753 common shares were issued for vested RSUs.