Condensed Consolidated Interim Financial Statements

TRAKOPOLIS IOT CORP.

For the three months ended March 31, 2018 and 2017
(Unaudited)

TRAKOPOLIS IOT CORP.
Condensed Consolidated Interim Statements of Financial Position
As at March 31, 2018 and December 31, 2017
Unaudited

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	1,448,518	$2,073,521
Accounts receivable	1,327,337	1,763,390
Inventory	428,330	570,821
Prepaid expenses	116,297	119,823
	3,320,482	4,527,555
Property and equipment	127,029	106,193
	$3,447,511	$4,633,748
Liabilities and Shareholders' equity (deficiency)		
Current liabilities:		
Accounts payable and accrued liabilities	1,835,812	$2,375,337
Deferred revenue	26,162	26,219
Provision for onerous lease	16,022	35,962
Current shareholder loans (note 4)	88,223	223,461
Current portion of lease	30,176	24,260
Current portion of long term debt (note 5)	608,205	230,171
	2,604,600	2,915,410
Shareholder loans (note 4)	166,565	-
Long term portion of lease	33,342	20,974
Long term debt (note 5)	1,197,237	1,079,877
	1,397,144	1,100,851
Shareholders' equity (deficiency)		
Share capital (note 6(a))	25,859,383	25,859,383
Warrants (note 6(b))	763,835	763,835
Contributed surplus	2,220,805	2,098,208
Equity component of convertible debt	-	29,057
Accumulated other comprehensive income	3,506	(5,859)
Deficit	(29,401,762)	(28,127,137)
	(554,233)	617,487
Going concern (note 1)		
Subsequent events (notes 12)		
	$3,447,511	$4,633,748

See accompanying notes to condensed consolidated interim financial statements.

Approved by the Board:

______________________ Director

TRAKOPOLIS IOT CORP.
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
Three months ended March 31
Unaudited

	2018	2017
Revenue:		
Subscription sales	$1,212,888	$888,902
Hardware sales	371,606	531,822
Software development	-	33,484
Other revenue	6,615	6,091
	1,591,109	1,460,299
Cost of sales	648,488	697,148
Gross profit	942,621	763,151
Expenses:		
General and administrative	637,634	664,255
Sales and marketing	395,308	416,269
Services and support	162,081	154,589
Technology	503,143	(103,979)
	1,698,166	1,131,134
Loss before undernoted	(755,545)	(367,983)
Finance and other expenses (note 11)	512,406	251,361
Amortization	6,674	69,188
Net loss	(1,274,625)	(688,532)
Other comprehensive income		
Foreign currency translation gain	9,365	-
Net loss and comprehensive loss	$(1,265,260)	$(688,532)
Loss per share:		
Basic and diluted	$(0.05)	$ (0.03)
Weighted average number of shares:		
Basic	26,069,379	23,300,067

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, 2018 and 2017
Unaudited

	Share Capital	Warrants	Contributed surplus	Equity component of convertible debt	Accumulated other comprehensive income	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	99,143	-	(99,143)	-		-	-
RSU liability	-	-	4,215	-		-	4,215
Stock based compensation (note 7(d))	-	-	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

	Share Capital	Warrants	Contributed surplus	Equity component of convertible debt	Accumulated other comprehensive income	Deficit	Total Equity (Deficiency)
Balance December 31, 2017	$ 25,859,383	$ 763,835	$ 2,098,208	$ 29,057	$ (5,859)	$ (28,127,137)	$ 617,487
Stock based compensation (note 7(d))	-	-	93,540	-	-	-	93,540
Debt extinguishment (note 4(i))	-	-	29,057	(29,057)	-	-	-
Foreign currency translation gain	-	-	-	-	9,365	-	9,365
Net loss for the period	-	-	-	-	-	(1,274,625)	(1,274,625)
Balance March 31, 2018	$ 25,859,383	$ 763,835	$ 2,220,805	$ -	$ 3,506	$ (29,401,762)	$ (554,233)

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)

	2018	2017
Cash flows (used in) from operating activities		
Net loss	$(1,274,625)	$(688,532)
Items not involving cash:		
Amortization	6,674	69,188
Amortization of debt issuance costs	167,147	30,433
Provision for onerous lease	-	5,291
Share based compensation (note 7 (d))	93,540	72,694
Fair value loss on RSUs	-	21,164
Derivative liability fair value adjustment (note 4)	29,209	119,127
Unrealized loss on foreign exchange	49,623	-
Accretion expense (note 11)	166,352	47,713
	(762,080)	(322,922)
Changes in non-cash working capital:		
Accounts receivable	445,414	(102,375)
Inventory	142,491	78,236
Prepaid expenses	3,526	7,925
Accounts payable and accrued liabilities	(539,525)	(211,629)
Deferred revenue	(57)	(789)
	(710,231)	(551,554)
Cash flows (used in) from investing activities		
Additions to property and equipment	(2,500)	-
	(2,500)	-
Cash flows (used in) from financing activities		
Repayments of lease	(6,726)	(5,568)
Repayments of shareholder loans	-	(51,720)
Restricted share units redeemed for cash	-	(25,000)
Payment of onerous lease	(19,940)	(20,981)
Proceeds from debt	1,884,300	-
Debt issuance costs paid (note 5)	(81,726)	-
Repayment of debt	(1,688,180)	(460,920)
	87,728	(564,189)
(Decrease) in cash and cash equivalents	(625,003)	(1,115,743)
Cash and cash equivalents, beginning of period	2,073,521	4,311,880
Cash and cash equivalents, end of period	$1,448,518	$3,196,137
Supplementary information		
Interest paid	$243,339	$ 52,305

See accompanying notes to condensed consolidated interim financial statements

1. Reporting Entity and Going Concern:

The registered address of Trakopolis IoT Corp. ("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.

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".

These condensed consolidated interim financial statements were authorized for issue by the Company's Board of Directors on May 30, 2018.

These condensed consolidated interim financial statements have been prepared using 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, 2018, the Company incurred a loss of $1,274,625 and utilized funds amounting to $710,231 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 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 year ended December 31, 2017.

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, 2017 and should be read in conjunction with the annual consolidated financial statements as at and for the year ended December 31, 2017.

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 year ended December 31, 2017.

Adoption of new and amended standards

IFRS 9 Financial Instruments

The Company has adopted IFRS 9 Financial Instruments effective January 1, 2018. IFRS 9 relates to the accounting and presentation of financial instruments and applies a principal-based approach to the classification and measurement of financial assets and financial liabilities, including an expected credit loss model for calculating impairment, and includes new requirements for hedge accounting. The adoption of IFRS 9 has not had a significant impact on the Company's financial statements.

IFRS 15 Revenue from Contracts with Customers

The Company adopted IFRS 15 Revenue from Contracts with Customers effective January 1, 2018. IFRS 15 establishes a single comprehensive model to address how and when to recognize revenue as well as requiring entities to provide users of the financial statements with more informative, relevant disclosures in order to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The application of IFRS 15 has not had any significant impact on the recognition of revenue.

The Company enters into a variety of contracts and recognizes revenue when performance obligations have been fulfilled. The following describes the recognition of revenue for each of the Company's contracts.

Subscription Revenue

Subscription revenue is generated in the form of monthly service subscription access to the Company's proprietary software platform. The Company satisfies its performance obligations and recognizes subscription revenue over time based on the subscription service being provided. Revenue transactions do not contain significant financing components or variable considerations. Payment terms with customers are typically 30 days from invoice date; however, extended terms can be provided.

Hardware Revenue

Revenue is recognized when the customer obtains control of the equipment product. Revenue is not recognized before there are indicators that control has passed, including the customer having a present obligation to pay, physical possession or legal title and risks and rewards of ownership. Payment is due upon receipt of the invoice; however, extended terms can be provided.

3. Significant accounting policies (continued):

Software Development

Software development revenue is recognized upon completion of the development work. Payment terms with customers are typically 30 days from invoice date; however, extended terms can be provided.

Future Accounting Policy Changes

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

4. Shareholder loans:

	March 31, 2018		December 31, 2017	
	Face value	Carrying value	Face value	Carrying value
Shareholder loans (current)	$50,000	$41,641	$225,000	$223,461
Shareholder loan (long term)	175,000	166,565	-	-
Conversion	-	46,582	-	-
	$225,000	$254,788	$225,000	$223,461

(i) During the period the Company restructured the shareholder loans extinguishing the previous loans and issuing new agreements with amended terms. Upon issuing the new agreements the equity component of debt related to the previous shareholder loan was reclassified to contributed surplus.

(ii) The shareholder loans are comprised of an unsecured convertible debenture due February 8, 2023, that has a 10% annual interest rate with a face value of $175,000 (December 31, 2017 – $nil) and an unsecured convertible debenture due on February 8, 2023, that has a 10% annual interest rate with a face value of $50,000 (December 31, 2017 - $nil).

(iii) The shareholder loans have a conversion right in which all or any of the principal amount outstanding at any point throughout the term of the loan can be converted into common shares equal to 80% of the volume weighted average price of the common shares for the 20 trading days immediately preceding the notice date. The conversion feature is a liability-classified derivative and was valued on the date of issuance. The estimated value of the conversion feature was $17,373 at the date of issuance and

4. Shareholder loans (continued):

been presented within current portion of shareholder loans on the statement of financial position.

5. Long term debt:

	March 31, 2018		December 31, 2017	
	Face value	Carrying value	Face value	Carrying value
Long term debt	$1,880,375	$1,880,375	$1,634,634	$1,470,402
Unamortized issue costs	-	(74,933)	-	(160,354)
	$1,880,375	$1,805,442	$1,634,634	$1,310,048

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. The proceeds from the Term Loan have been used to repay and retire the Company's previous outstanding indebtedness. The loan facility is secured against all of the assets of the Company and its subsidiaries.

As part of the debt facility arrangement, the Company paid debt issuance costs of $81,726. As at March 31, 2018, $74,933 remained unamortized against the carrying value of the loan. These costs will be amortized over the remaining term of the loan.

Of the $1,880,375 outstanding at March 31, 2018, $644,700 is due for payment within the next twelve months.

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

(i) Liquidity coverage ratio: A ratio of quick assets[1] to all obligations of co-borrowers to lender, in an amount equal to or greater than the amount set forth in the chart below for the corresponding measuring period:

(1) Quick assets is defined as cash, cash equivalents and accounts receivable

Measuring Periods Ending	Required Liquidity Coverage Ratio
Effective Date through June 30, 2018	1.25:1.00
July 31, 2018 through December 31, 2018	1.50:1.00
January 1, 2019 and each month thereafter	1.75:1.00

(ii) Tangible Net Worth[(2)]: A tangible net worth of not less than the amounts set forth in the table below for the corresponding periods; which amounts shall (i) automatically increase by an amount equal to fifty percent (50%) of the net cash proceeds received by any co-borrower after the effective date from the sale of such co-borrower’s equity securities or the incurrence of subordinated debt upon the receipt of such proceeds and (ii) increase quarterly by an amount equal to fifty percent (50%) of co-borrowers’ quarterly net income, as of the last day of each quarter;

5. Long term debt (continued):

Measuring Period Ending	Minimum Tangible Net Worth
January 31, 2018 through March 31, 2018	($665,000)
April 30, 2018 through June 30, 2018	($1,015,000)
July 31, 2018 through September 30, 2018	($1,015,000)
October 31, 2018 through December 31, 2018	($1,365,000)
January 31, 2019 through March 31, 2019	($1,715,000)
April 30, 2019 through June 30, 2019	($2,065,000)
July 31, 2019 through September 30, 2019	($2,415,000)
October 31, 2019 through December 31, 2019	($2,765,000)

(2) Tangible net worth is defined as aggregate value of total assets of co-borrowers and their subsidiaries less intangible assets less aggregate value of obligations that should, under IFRS, be classified as liabilities on co-Borrowers' consolidated balance sheet, including all Indebtedness and current portion of subordinated debt permitted by the Lender to be paid by co-borrowers, but excluding all other subordinated debt plus aggregate value of subordinated debt.

A summary of the covenants as at March 31, 2018 is below:

	Covenant	March 31, 2018
Liquidity coverage ratio(1)	1.25	1.48
Tangible Net Worth(2)	$(665,000)	$(299,445)

As at March 31, 2018, the Company was in compliance with all covenants related to its loan facility.

Subsequent to March 31, 2018, the Company and the lender amended the loan facility covenant calculation to reflect the Company's de-recognition of the Electronic Logbook Software and its revised approach to the Electronic Logbook offering effective for the March 31, 2018 reporting date.

6. Share capital:

(a) Issued common shares:

	Shares	Amount
	(#)	($)
Balance, December 31, 2017 and March 31, 2018	26,069,379	$25,859,383

(b) Warrants:

	Warrants	Weighted average exercise price	Amount
	(#)	($)	($)
Balance, December 31, 2017 and March 31, 2018	2,566,195	$1.15	$763,835

7. 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:

	March 31, 2018		March 31, 2017	
	Stock options	Weighted average exercise price	Stock options	Weighted average exercise price
	(#)	($)	(#)	($)
Outstanding, beginning of period	2,453,475	1.34	637,908	1.50
Granted	-	-	173,567	1.50
Outstanding, end of period	2,453,475	1.34	811,475	1.50
Exercisable, end of period	1,293,721	1.37	492,801	1.50

7. Share based payments (continued):

(b) Restricted share unit plan:

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

	March 31, 2018	March 31, 2017
Outstanding, beginning of period	-	498,335
Granted	-	-
Equity settled	-	(25,424)
Settled in cash	-	(25,424)
Outstanding, end of period	-	447,487

(c) Retention shares:

The following table summarizes retention share activity for the period:

	March 31, 2018	March 31, 2017
Outstanding, beginning of period	21,914	116594
Vested	(10,957)	(57,024)
Outstanding, end of period	10,957	59,570

(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, 2018	Three months ended March 31, 2017
Stock options	$92,132	$15,020
RSUs	-	28,725
Retention shares	1,408	28,949
Share based compensation	$93,540	$72,694

8. 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 represented approximately an insignificant amount of the Company's sales during the period ended March 31, 2018, and 15% of accounts receivable at March 31, 2018. The Company employs established credit approval and monitoring practices to mitigate the risk.

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

(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, 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.

(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.

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

Recurring Measurements	Level 1	Level 2	Level 3
Cash	$1,448,518	$ -	$ -
Conversion liability	46,582	$ -	$ -

9. Expenses by nature:

	March 31, 2018	March 31, 2017
Wages and salaries	$777,304	$ 708,797
Share-based compensation expense	$93,540	72,694

10. 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 stock option plan and participated in the RSU plan which was discontinued in 2017. The following table shows compensation paid to directors and officers:

	March 31, 2018	March 31, 2017
Wages and salaries	$183,750	$165,705
Share-based compensation expense	71,867	72,694
Total	$257,025	$238,399

11. Finance and other expenses:

	March 31, 2018	March 31, 2017
Derivative liability fair value adjustment	29,209	119,127
Interest on debt and loans	257,431	84,521
Accretion expense	166,352	47,713
Loss on foreign exchange	59,414	-
Total	$512,406	$251,361

12. Subsequent events:

(i) On April 10, 2018, the Company issued 21,914 common shares to executives under the retention share plan.