Audited Consolidated Financial Statements of

TRAKOPOLIS IOT CORP.

(FORMERLY KNOWN AS LATERAL GOLD CORP.)

For the 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, 2016 and June 30, 2016, the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the six month period ended December 31, 2016 and the year ended June 30, 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, 2016 and June 30, 2016, and its consolidated financial performance and its consolidated cash flows for the six month period ended December 31, 2016 and the year ended June 30, 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 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 the Company's ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants

April 27, 2017

Calgary, Canada

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

	December 31, 2016	June 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	$4,311,880	$910,963
Accounts receivable	868,909	647,395
Inventory (note 4)	496,438	322,076
Prepaid expenses	128,648	129,374
GST receivable	103,602	86,486
	5,909,477	2,096,294
Intangible assets (note 6)	758,042	-
Property and equipment (note 5)	112,051	83,976
	$6,779,570	$2,180,270
Liabilities and Shareholders' equity (deficiency)		
Current liabilities:		
Accounts payable and accrued liabilities	$1,803,443	$1,878,928
Deferred revenue	29,460	31,079
Provision for onerous lease (note 16)	73,396	48,784
Current shareholder loans (note 7)	100,000	100,000
Current portion of lease (note 20)	22,381	16,906
Current portion of long term debt (note 8)	406,355	1,472,410
Other liability short term (note 6)	33,800	-
Current portion of restricted share unit (note 12)	100,000	-
	2,568,835	3,548,107
Shareholder loans (note 7)	156,980	107,454
Long term portion of lease (note 20)	45,622	35,905
Provision for onerous lease (note 16)	34,198	37,786
Restricted share unit liability (note 12)	40,963	174,900
Long term debt (note 8)	1,227,350	-
Other liabilities long term (notes 6 and 9(b))	900,846	-
Preference shares (note 10)	-	2,314,020
	2,405,959	2,670,065
Shareholders' equity (deficiency)		
Share capital (note 9)	23,895,466	12,624,486
Share deposits	-	162
Warrants (note 9)	221,480	329,005
Contributed surplus	1,690,655	1,581,962
Equity component of convertible debt (note 7)	29,057	29,057
Equity component of preference shares (note 10)	-	312,919
Deficit	(24,031,882)	(18,915,493)
	1,804,776	(4,037,902)
Going concern (note 1)		
Subsequent events (notes 8 and 21)		
	$6,779,570	$2,180,270

See accompanying notes to consolidated financial statements.

Approved by the Board:

Director

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

	Six months ended December 31, 2016	Year ended June 30, 2016
Revenue:		
Hardware sales	$721,350	$1,293,689
Subscription sales	1,635,126	3,422,814
Software development	9,762	25,982
Other revenue	8,323	11,771
	2,374,561	4,754,256
Cost of sales	1,082,906	2,066,345
Gross profit	1,291,655	2,687,911
Expenses (note 17):		
General and administrative	1,281,688	3,430,440
Sales and marketing	690,845	1,132,411
Operations	199,137	511,225
Technology	775,806	1,232,179
	2,947,476	6,306,255
Loss before undernoted	(1,655,821)	(3,618,344)
Reverse takeover transaction costs (note 3)	3,285,302	-
Finance expense:		
Derivative liability fair value adjustment	(180,717)	-
Interest on debt and loans	158,244	475,864
Other interest and bank charges	9,460	6,371
Accretion expense	145,902	72,047
	132,889	554,282
Amortization (notes 5 and 6)	42,377	21,589
Net loss and comprehensive loss	$ (5,116,389)	$(4,194,215)
Loss per share (note 19):		
Basic and diluted	$ (0.34)	$ (0.39)
Weighted average number of shares:		
Basic	15,161,703	10,676,658

See accompanying notes to consolidated financial statements.

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

	Share capital	Share deposits	Warrants	Contributed surplus	Deficit	Equity component of convertible debt	Equity component of preference shares	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)	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)	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	$ (18,915,493)	$ 29,057	$ 312,919	$ (4,037,902)
Share deposits	–	(162)	–	–	–	–	–	(162)
Retention shares issued (note 9)	140,412	–	–	(140,412)	–	–	–	–
Shares issued for services (note 9)	10,010	–	–	–	–	–	–	10,010
Restricted share units (note 12)	–	–	–	(235,944)	–	–	–	(235,944)
Shares issued for wages (note 9)	18,782	–	–	(18,782)	–	–	–	–
Equity allocation of preference shares (note 10)	–	–	–	–	–	–	37,230	37,230
Warrants issued (note 9)	(166,164)	–	166,164	–	–	–	–	–
Expiry of warrants (note 9)	–	–	(273,689)	273,689	–	–	–	–
Share-based compensation (note 12)	–	–	–	230,142	–	–	–	230,142
Conversion of preferred shares (note10)	3,154,998	–	–	–	–	–	(350,149)	2,804,849
Common shares issued (note 9)	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	$ (24,031,882)	$ 29,057	$ –	$ 1,804,776

See accompanying notes to consolidated financial statements.

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

	Six months ended December 31, 2016	Year ended June 30, 2016
Cash flows (used in) from operating activities		
Net loss	$(5,116,389)	$(4,194,215)
Items not involving cash:		
Reverse take over transaction costs	3,009,147	-
Amortization	42,377	21,589
Amortization of debt issuance costs	22,254	-
Provision for onerous lease	67,956	-
Share based compensation	230,142	1,698,070
Fair value gain on RSUs	(69,882)	-
Derivative liability fair value adjustment	(180,717)	-
Accretion interest	145,902	72,047
	(1,849,210)	(2,402,509)
Changes in non-cash working capital:		
Accounts receivable	(221,514)	(70,121)
Inventory	(174,362)	(154,760)
Prepaid expenses	726	(77,108)
GST receivable	(17,116)	107,111
Accounts payable and accrued liabilities	(75,485)	833,392
Deferred revenue	(1,619)	19,894
	(2,338,580)	(1,744,101)
Cash flows (used in) from investing activities		
Additions to property and equipment	(13,500)	-
Proceeds from reverse take over (note 3)	84,203	-
Net change in non-cash working capital	836	-
	71,539	-
Cash flows (used in) from financing activities		
Repayments of lease	(8,331)	(20,374)
Proceeds from shareholder loans	-	511,396
Repayments of shareholder loans	42,172	-
Restricted share units redeemed for cash	(200,000)	-
Payment of onerous lease (note 16)	(46,932)	(60,666)
Issuance of preference shares (note 10)	465,400	1,762,163
Preference share issuance costs (note 10)	(17,420)	-
Issuance of common shares (note 3)	5,750,000	309,995
Common share issuance costs (note 9)	(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)	(1,591,080)	-
	5,667,958	2,452,290
Increase in cash and cash equivalents	3,400,917	708,189
Cash and cash equivalents, beginning of period	910,963	202,174
Cash and cash equivalents, end of period	$4,311,880	$910,363
Supplementary Information: Interest paid	$ 352,682	$364,830

See accompanying notes to consolidated financial statements

1. Reporting Entity and Going Concern

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 ("the Company").

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".

On December 1, 2016, Trakopolis 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 CAN Haul International Corp. (CANHaul) under the Business Corporations Act (Alberta). The amalgamated entity operates under the name Trakopolis SAAS Corp.

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 was incorporated under the Alberta Business Corporations Act in December 2002.

On October 28, 2016, 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. 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 International Corp., the accounting acquirer. Additional information on the arrangement is available in note 3.

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 June 30, 2016.

These consolidated financial statements were authorized for issue by the Company's Board of Directors on April 27, 2017.

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 six month period ended December 31, 2016, the Company incurred a loss of $5,116,389 and utilized funds amounting to $2,338,580 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 the lending

1. Reporting Entity and Going Concern (continued):

agreement, generate sufficient funds from operations, and 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 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. 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 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 and its subsidiary's functional currency is Canadian dollars.

(m) Use of estimates:

The preparation of financials 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 its 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 share value, risk free interest rates, volatility, and expected life.

(iv) Intangible assets:

In measuring the fair value of the intangible asset and its corresponding liability 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 and convertible debt.

(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. The Company is currently assessing the impact of IFRS 9 on its consolidated 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 15 on its consolidated financial statements

(iv) IAS 7 Disclosure Initiative, the amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The new standard is effective prospectively for financials years beginning on or after January 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

(v) 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. The extent of the impact of adoption of the amendments has not yet been determined.

3. Reverse takeover transaction:

On October 28, 2016, under the terms of the 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 (“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. At the time of the transaction, Lateral did not have any current 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)	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.

In conjunction with the closing of the RTO transaction, the Company entered an agreement with a new lender for a new loan facility (note 8).

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 with a large enterprise opportunity on or before December 31, 2016 into a customer with 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 period ended December 31, 2016, the Company recognized an expense of $36,126 (Year ended June 30, 2016 – $nil) related to inventory 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, 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

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

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

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 is $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. If the purchase price is not paid in full over the 10-year period, both parties agree to mutually extend the agreement. If the agreement is not extended, the right of first offer to purchase the ELOG software is provided to the vendor at a price determined by the Company at such time, acting commercially reasonable. Any balance owing under the purchase agreement will be credited toward the buyback price.

The fair value of the ELOG software was determined using a discounted cash flow model to present value the future payments. A discount rate of 20% was used to reflect the risk associated with of 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. Amortization expense $33,328 and accretion expense of $18,243 was recorded during the period ended December 31, 2016.

7. Shareholder loans:

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

(i) This shareholder loan is unsecured, due on demand and has a 10% annual interest rate.

(ii) This convertible debenture is unsecured and held by a shareholder, due on January 31, 2018 and has a 10% annual interest rate.

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 amount allocated to equity value of the convertible shareholder loan was $29,057. At each reporting period, the effective interest method is used and accretion expense is recognized as a finance expense. For the six months ended December 31, 2016, $7,362 (year ended June 2016 - $24,558) was recognized as accretion expense relating to the convertible debenture.

8. Long term debt:

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

On October 28, 2016, the Company entered an agreement with a new lender for a new loan facility, replacing the current venture debt facility of $1.5 million.

The new facility has a principal loan amount of $2.3 million, of which the Company has $2.2 million outstanding as at December 31, 2016 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 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 new debt facility arrangement, the Company paid debt issuance costs of $304,347. As at December 31, 2016, $282,093 remained unamortized against the carrying value of the loan. These costs will be amortized over the remaining term of the loan.

Of the $2,208,920 outstanding at December 31, 2016, $530,141 is due for payment in 2017, $361,413 is due in 2018 with the remaining $1,317,366 due in 2019. Refer to note 21 (b).

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:

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%

(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 negative cash flow of the Company but such calculation shall not include negative cash flow in relation to capital expenditures and intangible asset acquisitions for patents.

8. Long term debt (continued):

A summary of the covenants as at December 31, 2016 is below:

		Covenant		December 31, 2016
Minimum Working Capital(1) (2)(3)(4)	$	500,000	$	2,611,954
Minimum Current Assets to Principal outstanding(2)(3)(4)		65%		235%
Cash runway		9x		Not applicable

(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 uncollectible.

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

Prior to December 31, 2016, the Company had received an amendment that states the cash runway covenant does not apply until after December 31, 2016. As at December 31, 2016 the Company was in compliance with all applicable covenants related to its loan facility.

Subsequent to December 31, 2016, the calculation of “burn” in calculating the cash runway debt covenant has been amended. Beginning January 31, 2017, 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, 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.

The loan facility included the issuance of 666,667 warrants. The fair value of each warrant was estimated on the date of the grant using the Black-Scholes option pricing model. 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. The warrants are a liability-classified derivative and were valued on the date of issuance at $305,749 (note 9). At December 31, 2016, the warrant liability has been remeasured at $125,033 (note 9).

At each reporting period, the effective interest method is used and accretion expense is recognized as a finance expense. In the six months ended December 31, 2016, $12,628 (2015 - nil) was recognized as accretion expense related to the loan facility warrants.

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 below chart represents the Class A and B common shares from prior period.

(a) Issued common shares:

	December 31, 2016	
	Shares	Amount
	(#)	($)
Common shares:		
Balance, June 30, 2015	9,742,175	11,332,807
Issued for cash (viii)	410,610	615,918
Issued for wages (viii)	450,502	675,761
Other issuance (viii)	73,366	-
Balance, June 30, 2016	10,676,653	12,624,486
Issued for cash (i)	17,887	18,782
Issued for wages (ii)	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 (note 3)	(14,285,183)	-
Outstanding shares of Lateral at RTO ((iii) and note 3)	2,547,697	2,547,697
Issuance of common shares on the RTO (note 3)	14,285,183	-
Issued for subscription receipts (iv)	5,750,000	5,750,000
Issued for finder's fee (v)	536,749	536,749
Issued for corporate finance fee (vi)	75,000	75,000
Share issuance costs (vii)	-	(962,668)
Balance, December 31, 2016	23,194,629	$ 23,895,466

(i) 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.

(ii) 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.

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

9. Share capital (continued):

(iv) 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.

(v) 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).

(vi) 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.

(vii) 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 (iv)) and warrants issued (note 9 (b)). In accordance with Company's accounting policy, the Company deducted the costs against the equity value issued.

(viii) 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:

	December 31, 2016	June 30, 2016
	(#)	(#)
Balance, beginning of year	900,332	1,000,332
Issued	1,069,167	-
Expired	(633,666)	(100,000)
Balance, end of period (#)	1,335,833	900,332
Equity balance, end of period	$221,480	$329,005
Liability balance, end of period	$125,033	-

During the period, the Company issued 666,667 warrants attached to the new debt facility (note 8). Each warrant is exercisable into a common shares, 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. The warrants are a liability-classified derivative and were valued on the date of issuance at $305,749 and as at December 31, 2016 at $125,033. The fair value of each warrant was estimated on the date of the grant, and December 31, 2016, using the Black-Scholes option pricing model. The warrants have been presented within the other long term liabilities on the statement of financial position.

9. Share capital (continued):

The estimated value of the warrants was $125,033 as at December 31, 2016 using the following assumptions:

Assumptions	
Risk free rate	0.73%
Expected volatility	72%
Expected life in years	2.83 years
Expected dividend yield	-

During the period, 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 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, 2016		June 30, 2016	
	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 during the period.

10. Preference shares (continued):

At each reporting period, the effective interest method is used and accretion expense is recognized as a finance expense. In the six months ended December 31, 2016, $80,079 (June, 2016 - nil) was recognized as an accretion expense.

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:

	Six months ended December 31, 2016	Year ended June 30, 2016
Net Income before taxes	$ (5,116,389)	$ (4,194,215)
Statutory Income tax rate	27%	27%
Computed income tax (recovery)	(1,381,425)	(1,132,438)
Increase (decrease) result from:		
Non-deductible expenses	998,109	469,755
Change in unrecognized deferred tax asset	533,217	643,730
Other	(149,901)	18,953
Total income tax expenses	$ -	$ -

11. Income taxes (continued):

Unrecognized deferred tax assets:

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

	December 31, 2016	June 30, 2016
Unrecognized tax loss carry forward	$ 2,703,501	$ 2,271,096
Other deductible temporary differences	122,841	122,529
	$ 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 initiated a stock option plan (“the Option Plan”) in June 2015 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:

	Share options	Weighted Average Exercise Price	Expiry date
	(#)	($)	
September 23, 2015	794,376	1.50	September 23, 2020
January 7, 2016	173,567	1.50	January 7, 2021
Options forfeited	(156,468)	1.50	
Outstanding at December 31, 2016	811,475	1.50	
Exercisable at December 31, 2016	442,084	1.50	

On September 23, 2015, the Company granted 794,376 options to executive officers in connection with employment agreements. Each option represents an option to purchase a common share. The options were granted at an exercise price of $1.50 with 199,346 options being vested upon issuance and the remainder vesting quarterly over 4 years. The options expire 5 years from grant date.

On January 7, 2016, the Company granted 173,567 options to executive officers. Each option represents an option to purchase a common share. The options were granted at an exercise price of $1.50 and options granted vest quarterly over a 4-year period and expire 5 years from grant date.

For the period ended December 31, 2016, the Company recognized share-based compensation expense on the vesting of stock options of $79,145 (Year ended June 30, 2016 - $359,017).

No options were granted or forfeited during the period ended December 31, 2016.

12. Share based payments (continued):

The fair value of each stock option is estimated on the date of the grant using the Black-Scholes option pricing model. The options were valued using the following weighted average assumptions:

Assumptions	
Risk free rate	1.46%
Expected volatility	75%
Expected life in years	4 years
Expected dividend yield	–

(b) Restricted share unit plan:

The Company initiated a restricted share unit plan (the "RSU Plan") in June 2015 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 the estimated fair value of the Company's stock on the date of the grant.

No RSUs were granted during the six months ended December 31, 2016. RSU activity is as follows:

Number of RSUs	December 31, 2016	June 30, 2016
Outstanding, beginning of period	701,732	-
Granted	-	701,732
Settled in cash	(203,397)	-
Outstanding, end of period	498,335	701,732

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.

As at December 31, 2016, the Company has 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. The issue price of the common shares will be determined using the 20 day volume weighted average closing price.

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.

On September 23, 2015, the Company issued 541,649 RSUs to the Board of Directors pursuant to the RSU Plan. Each RSU provides the holder the right to elect to be issued one common share or redeem the RSU for cash settlement after vesting. Upon issuance, 255,765 RSUs were vested with the remainder vesting quarterly over 3 years. The fair value of RSUs granted initially was $1.50 and recognized as general and administration expense as the RSUs vest. At December 31, 2016, the RSU liability has been remeasured at the fair value of the Company's common shares.

12. Share based payments (continued):

(b) Restricted share unit plan (continued):

On January 7, 2016, the Company issued 50,000 RSUs to the Board of Directors pursuant to the RSU Plan. Each RSU represents the right for the holder to elect to be issued one common share or redeem the RSU for cash settlement. 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.

The Company recognizes an RSU liability for RSUs recognized in share based compensation expense that have not yet vested. The RSU liability as at December 31, 2016 is $140,963 (June 2016 – $174,900).

(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	Six months ended December 31, 2016	Year ended June 30, 2016
Total granted, beginning of period	1,802,442	1,802,442
Vested/earned, beginning of period	(1,571,806)	(1,229,496)
Vested/earned in period	(114,042)	(342,310)
Outstanding, end of period	116,594	230,636

Retention shares are subject to quarterly vesting conditions as per each employment agreement. The Company has granted a total of 1,802,442 retention shares. No retention shares were granted during the six months ended December 31, 2016. As at December 31 2016, 1,685,848 had been vested (June 30, 2016 – 1,571,806). The Company recognizes the share-based compensation expense under the graded vesting method to contributed surplus. Upon issuance of the common shares, the amount is moved to share capital. During the period ended December 31, 2016, $64,061 was recognized as share-based compensation under the graded vesting method (2015 - $323,926).

13. Commitments:

As at December 31, 2016, the Company has total commitments which require payments based on the maturity terms as follows:

	2017	2018	2019	2020	2021	Total
Onerous lease	$ 204,755	$ 102,377	$ -	$ -	$ -	$ 307,132
Finance leases	29,696	27,706	21,152	2,160	1,980	82,694
Office lease	652,447	652,447	366,415	-	-	1,671,309
Debt payments	530,141	361,413	1,342,164	-	-	2,233,718
Debt interest	196,846	165,560	45,484	-	-	407,890
Total	$ 1,613,885	$ 1,309,503	$ 1,775,215	$ 2,160	$ 1,980	$ 4,702,743

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 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

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

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.

(f) Classification of financial instruments and fair value:

(i) Classification of financial instruments

	Classification	Measurement
Cash	Held of trading	Fair value
Accounts receivables	Receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Shareholder loans	Financial liabilities	Amortized cost
Long-term debt	Financial liabilities	Amortized cost
RSU liability	Financial liabilities	Fair value
Warrant liability (derivative)	Financial liabilities	Fair value

(ii) Determination of Fair values

Under IFRS, fair values are 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	$ 4,311,880	$ –	$ –
RSU Liability	140,963	–	–
Warrant liability	125,033	–	–

15. Related party transactions:

(i) During the period, the Company paid $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 (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, 2016, the Company carries a provision for the lease (net of subtenants) of $107,594 (2015 - $86,570).

17. Expenses by nature:

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

18. 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 (note 11). Directors participate in the Company's RSU plan (note 12(b)). The following table shows compensation paid to directors and officers:

	Six months ended December 31, 2016	Year ended June 30, 2016
Wages and salaries	$ 318,000	$ 519,008
Share-based compensation expense	230,142	1,373,195
Total	$ 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.

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

20. Finance lease obligation

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

21. Subsequent events:

(a) On January 23, 2017, the Company issued 141,633 common shares of which 102,699 were issued in relation to retention shares to executives and will be moved from contributed surplus to share capital. The remaining 38,934 common shares were issued for vested RSUs.

(b) During January and February, 2017, the Company has received $402,000 from the Canadian Scientific Research and Experimental Development (SR&ED) tax incentive program. These funds will be used to reduce the Company's current institutional debt facility. Combined with the principal repayments this will reduce the facility from approximately $2.2 million to approximately $1.75 million as at February 28, 2017. Under the terms of the debt agreement, the Company will not be required to make any further principal repayments until November 2017.

(c) Subsequent to period end, the Company has received $40,005 (total grant amount $164,000) from the National Research Council of Canada Industrial Research Assistance Program (NRC-IRAP).

(d) Subsequent to December 31, 2016, the calculation of “burn” in calculating the cash runway debt covenant has been amended. Beginning January 31, 2017, 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, 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.

As part of the amendment, the Company and the lender have agreed that by June 30, 2018, the Company will need to be in a net income position or have current assets, as defined in the lending agreement, at greater than three times the principal loan balance.