Condensed Consolidated Interim Financial Statements

TRAKOPOLIS IOT CORP.

For the three and six months ended June 30, 2017 and 2016
(Unaudited)

TRAKOPOLIS IOT CORP.
Condensed Consolidated Interim Statements of Financial Position
Unaudited (Canadian $)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$2,229,111	$4,311,880
Accounts receivable	1,207,698	868,909
Inventory	778,966	496,438
Prepaid expenses	127,599	128,648
GST receivable	94,439	103,602
	4,437,813	5,909,477
Intangible assets (note 4)	626,147	758,042
Property and equipment	121,850	112,051
	$5,185,810	$6,779,570
Liabilities and Shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	$2,098,386	$1,803,443
Deferred revenue	29,336	29,460
Provision for onerous lease	71,923	73,396
Current shareholder loans (note 5)	215,972	100,000
Current portion of lease	23,466	22,381
Current portion of long term debt (note 6)	139,128	406,355
Other liabilities short term (note 9)	57,308	33,800
Current portion of restricted share unit liability (“RSU”) (note 8(b))	25,000	100,000
	2,660,519	2,568,835
Shareholder loans (note 5)	-	156,980
Long term portion of lease	33,329	45,622
Provision for onerous lease	-	34,198
Restricted share unit liability (note 8 (b))	30,292	40,963
Long term debt (note 6)	1,157,933	1,227,350
Other liability long term (notes 9 and note 7(b))	1,034,178	900,846
	2,255,732	2,405,959
Shareholders' equity		
Share capital (note 7 (a))	24,103,260	23,895,466
Warrants (note 7 (b))	219,210	221,480
Contributed surplus	1,936,767	1,690,655
Equity component of convertible debt	29,057	29,057
Accumulated other comprehensive income	(90)	-
Deficit	(26,018,645)	(24,031,882)
	269,559	1,804,776
Going concern (note 1)		
	$5,185,810	$6,779,570

See accompanying notes to condensed consolidated interim financial statements.

Approved by the Board:

B Olson ____________ Director

TRAKOPOLIS IOT CORP.
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
Unaudited (Canadian dollars except number of shares)

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Revenue:				
Subscription sales	$909,102	$809,193	$1,798,004	$1,653,600
Hardware sales	609,741	303,050	1,141,563	725,738
Software development	59,587	25,982	93,071	25,982
Other revenue	9,010	2,980	15,101	6,667
	1,587,440	1,141,205	3,047,739	2,411,987
Cost of sales	776,143	439,703	1,473,291	1,013,660
Gross profit	811,297	701,502	1,574,448	1,398,327
Expenses:				
General and administrative	927,882	1,012,236	1,592,137	1,554,935
Sales and marketing	432,621	284,897	848,890	564,624
Operations	185,905	87,423	340,494	184,147
Technology	372,982	396,304	269,003	337,361
	1,919,390	1,780,860	3,050,524	2,641,067
Loss before undernoted	(1,108,093)	(1,079,358)	(1,476,076)	(1,242,740)
Finance expense:				
Derivative fair value (gain) loss (note 7 (b))	(11,434)	-	107,693	-
Interest on debt and loans	76,201	120,598	154,622	244,233
Other expense	585	1,427	6,685	2,984
Accretion expense	73,012	24,207	120,725	49,763
	138,364	146,232	389,725	296,980
Amortization and depreciation expense	75,680	5,057	144,868	9,273
Gain on insured property and equipment	(23,906)	-	(23,906)	-
Loss for the period	(1,298,231)	(1,230,647)	(1,986,763)	(1,548,993)
Other comprehensive loss				
Foreign currency translation loss	90	-	90	-
Net loss and comprehensive loss	$(1,298,321)	$(1,230,647)	$(1,986,853)	$(1,548,993)
Loss per share:				
Basic and diluted	$ (0.06)	$ (0.12)	$ (0.09)	$ (0.14)
Weighted average number of shares:				
Basic	23,392,807	10,676,653	23,346,393	10,743,320

See accompanying notes to condensed consolidated interim financial statements.

TRAKOPOLIS IOT CORP.
Condensed Consolidated Interim Statements of Changes in Equity
Unaudited (Canadian $)

	Share Capital	Share deposits	Warrants	Contributed surplus	Equity component of convertible debt	Equity component of preference shares	Accumulated other comprehensive income	Deficit	Total equity (deficiency)
Balance December 31, 2015	$ 12,424,472	$ 162	$ 329,005	$ 1,347,921	$ 29,057	$ -	$ -	$ (17,366,500)	$ (3,235,883)
Common shares issued	200,014	-	-	(200,014)	-	-	-	-	-
Equity allocation of debt instrument	-	-	-	4,566	-	312,919	-	-	317,485
Stock based compensation	-	-	-	429,489	-	-	-	-	429,489
Net loss for the period	-	-	-	-	-	-		(1,548,993)	(1,548,993)
Balance June 30, 2016	$ 12,624,486	$ 162	$ 329,005	$1,581,962	$ 29,057	$ 312,919	$ -	$ (18,915,493)	$ (4,037,902)
Share deposits	-	(162)	-	-	-	-	-	-	(162)
Retention shares issued	140,412	-	-	(140,412)	-	-	-	-	-
Shares issued for services	10,010	-	-	-	-	-	-	-	10,010
Restricted share units	-	-	-	(235,944)	-	-	-	-	(235,944)
Shares issued for wages	18,782	-	-	(18,782)	-	-	-	-	-
Equity allocation of preference share	-	-	-	-	-	37,230	-	-	37,230
Warrants issued	(166,164)	-	166,164	-	-	-	-	-	-
Expiry of warrants	-	-	(273,689)	273,689	-	-	-	-	-
Share-based compensation	-	-	-	230,142	-	-	-	-	230,142
Conversion of preferred shares	3,154,998	-	-	-	-	(350,149)	-	-	2,804,849
Common shares issued	8,112,942	-	-	-	-	-	-	-	8,112,942
Net loss for the period	-	-	-	-	-	-	-	(5,116,389)	(5,116,389)
Balance, December 31, 2016	$ 23,895,466	$ -	$ 221,480	$ 1,690,655	$ 29,057	$ -	$ -	$ (24,031,882)	$ 1,804,776
Common shares issued (note 7(a))	200,025	-	-	(200,025)	-	-	-	-	-
Vesting of RSUs (note 8 (b))	-	-	-	34,381	-	-	-	-	34,381
Stock based compensation (note 8 (d))	-	-	-	411,756	-	-	-	-	411,756
Exercise of warrants (note 7(a) and (b))	7,769	-	(2,270)	-	-	-	-	-	5,499
Foreign currency translation loss	-	-	-	-	-	-	(90)	-	(90)
Net loss for the period	-	-	-	-	-	-	-	(1,986,763)	(1,986,763)
Balance June 30, 2017	$ 24,103,260	$ -	$ 219,210	$ 1,936,767	$ 29,057	$ -	$ (90)	$ (26,018,645)	$ 269,559

See accompanying notes to condensed consolidated interim financial statements.

TRAKOPOLIS IOT CORP.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Cash flows from (used in) operating activities				
Net loss	$(1,298,231)	$(1,230,647)	$(1,986,763)	$(1,548,993)
Items not involving cash:				
Amortization and depreciation expense	75,680	5,057	144,868	9,273
Amortization of debt issuance costs	30,436	-	60,869	-
Provision for onerous lease	-	-	5,291	-
Share based compensation (note 8 (d))	339,062	327,106	411,756	535,393
Fair value loss on RSUs (note 8 (b))	2,546	-	23,710	-
Fair value (gain) loss on warrants (note 7(b))	(11,434)	-	107,693	-
Accretion expense	73,012	24,207	120,725	49,763
Gain on insured property and equipment	(23,906)	-	(23,906)	-
	(812,835)	(874,277)	(1,135,757)	(954,564)
Changes in non-cash working capital:				
Accounts receivable	(227,752)	61,881	(338,789)	(63,636)
Inventory	(360,764)	(214,635)	(282,528)	(182,340)
Prepaid expenses	(6,876)	25,718	1,049	49,441
GST receivable	501	(89,791)	9,163	(39,660)
Accounts payable and accrued liabilities	506,572	(42,270)	294,943	261,650
Deferred revenue	665	11,321	(124)	10,205
	(900,489)	(1,122,053)	(1,452,043)	(918,904)
Cash flows from (used in) investing activities				
Additions to property and equipment	(41,456)	-	(41,456)	-
Insurance proceeds	42,588	-	42,588	-
	1,132	-	1,132	-
Cash flows from (used in) financing activities				
Repayments of lease	(5,640)	(5,436)	(11,208)	(7,997)
Proceeds from shareholder loans	2,543	247,081	2,543	347,081
Repayments of shareholder loans	-	-	(51,720)	(73,665)
Common shares issued for warrants (note 7 (b))	5,499	-	5,499	-
Preference shares issued for cash	-	1,762,163	-	1,762,163
Share issuance costs	-	(50,224)	-	(50,224)
Restricted share units redeemed for cash	(50,000)	-	(75,000)	-
Payment of onerous lease	(19,981)	(15,446)	(40,962)	(30,892)
Repayment of debt	-	-	(460,920)	(200,000)
	(67,579)	1,938,136	(631,768)	1,746,466
(Decrease) increase in cash and cash equivalents	(966,936)	816,084	(2,082,679)	827,562
Cash and cash equivalents, beginning of period	3,196,137	94,879	4,311,880	83,401
Effects of foreign currency translation	(90)	-	(90)	-
Cash and cash equivalents, end of period	$2,229,111	$910,963	$2,229,111	$910,963
Supplementary information				
Interest paid	$ 65,852	$ 71,400	$ 118,157	$ 72,297

See accompanying notes to condensed consolidated interim financial statements

1. Reporting Entity and Going Concern:

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

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

These condensed consolidated interim financial statements were authorized for issue by the Company's Board of Directors on July 26, 2017.

These condensed consolidated interim financial statements have been prepared on accounting policies applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. During the six month period ended June 30, 2017, the Company incurred a loss of $1,986,763 and utilized funds amounting to $1,452,043 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, continue receiving financial support from its shareholders and to 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 condensed consolidated interim financial statements do not reflect adjustments that may be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these condensed consolidated interim financial statements, adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses and the statement of financial position classification used.

2. Basis of preparation:

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

2. Basis of preparation (continued):

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

(a) 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. Basis of preparation (continued):

(a) 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

3. Significant accounting policies:

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

4. Intangible asset:

Cost		
Balance as at June 30, 2017 and December 31, 2016	$	791,370
Accumulated amortization		
Balance December 31, 2016		(33,328)
Amortization		(131,895)
Balance June 30, 2017		(165,223)
Net book value		
December 31, 2016		$758,042
June 30, 2017		$626,147

5. Shareholder loans:

	June 30, 2017		December 31, 2016	
	Face value	Carrying value	Face value	Carrying value
Shareholder loans (current) (i)	$225,000	$215,972	$100,000	$100,000
Shareholder loan (long term)	-	-	175,000	157,803
Other shareholder loans (net)	-	-	(823)	(823)
	$225,000	$215,972	$274,177	$256,980

(i) The shareholder loans are comprised of an unsecured, due on demand loan that has a 10% annual interest rate with a carrying value of $50,000 (December 31, 2016 - $100,000) and an unsecured convertible debenture due on January 31, 2018 that has a 10% annual interest rate with a face value of $175,000 and a carrying value of $165,972 (December 31, 2016 - $157,803).

6. Long term debt:

	June 30, 2017		December 31, 2016	
	Face value	Carrying value	Face value	Carrying value
Long term debt	$1,748,000	$1,518,285	$2,208,920	$1,915,798
Unamortized issue costs	-	(221,224)	-	(282,093)
	$1,748,000	$1,297,061	$2,208,920	$1,633,705

As at June 30, 2017, the Company's long term debt consisted of a principal loan with $1,748,000 outstanding at 11% annual interest with a maturity date of April 28, 2019. The Company is required to make principal payments of 2% of the principal balance on a monthly basis, monthly interest payments and assign any Scientific Research and Experimental Development ("SR&ED") rebates received in cash against the principal balance. If the combined SR&ED and 2% monthly repayments are equal to or greater than 24% of the principal amount, no further payments shall be required until the trailing twelve months principal payments are less than 24% of the principal amount as of the applicable payment date. If the SR&ED rebates received and applied to reduce the outstanding facility balance in any twelve-month period are less than 10% of the outstanding principal at the beginning of the specified period, the Company shall make an additional payment at the end of that period.

During the six months ended June 30, 2017, the Company has received $402,621 from the SR&ED tax incentive program. These funds were used to repay the long term debt. Under the terms of the debt agreement, the Company has reached the maximum principal repayments over the trailing twelve month period and will not be required to make any further principal repayments until November 2017.

Of the $1,748,000 outstanding at June 30, 2017, $260,866 is due for principal repayment within the next twelve months.

The Company's long term debt facility requires compliance with 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:

April 30, 2017 - June 30, 2017	July 31, 2017 - December 31, 2017	January 31, 2018 - June 30, 2018	July 31, 2018 - Maturity
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 the average monthly net loss, if any, over the preceding three month period adjusted for hardware gross margin, non-cash items and debt repayment. To calculate adjusted net income (loss), the hardware gross margin during the 3 month period will be subtracted from net income (loss), and the monthly average hardware gross margin from the previous twelve months will be added, the non-cash items will be added back to net income (loss) and debt repayments subtracted. Non-cash items include amortization, accretion, fair value adjustments and stock based compensation.

6. Long term debt (continued):

Prior to June 30, 2017, the Company had received an amendment to the loan facility covenants that states the cash runway is reduced to 7x from 9x for the months of June 2017, July 2017 and August, 2017. Subsequent to this period the cash runway covenant will return to 9x.

A summary of the financial covenants compliance as at June 30, 2017 is below:

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

	Financial covenant	June 30, 2017
Minimum Working Capital(1) (2)(3)(4)	$500,000	$776,290
Minimum Current Assets to Principal outstanding(2)(3)(4)	85%	197%
Minimum cash runway	7x	7.63x

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

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

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

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

As at June 30, 2017, the Company was in compliance with all applicable covenants related to its long term debt facility

7. Share capital:

(a) Issued common shares:

	Shares	Amount
Balance, June 30, 2015	9,742,175	$11,332,807
Issued for cash	410,610	615,918
Issued for wages	450,502	675,761
Other issuance	73,366	-
Balance June 30, 2016	10,676,653	12,624,486
Issued for cash	17,887	18,782
Issued for wages	149,089	150,422
Conversion of Class L shares	3,441,554	3,154,998
CANHaul common shares prior to RTO	14,285,183	$15,948,688
Cancellation of CANHaul common shares	(14,285,183)	-
Outstanding shares of Lateral at RTO	2,547,697	2,547,697
Issuance of common shares on the RTO	14,285,183	-
Issued for subscription receipts	5,750,000	5,750,000
Issued for finder's fee	536,749	536,749
Issued for corporate finance fee	75,000	75,000
Share issuance costs	-	(962,668)
Balance, December 31, 2016	23,194,629	$23,895,466
Issued for RSUs (i)	66,687	60,280
Issued for wages (ii)	159,720	139,745
Issued for warrants (iii)	5,499	7,769
Balance, June 30, 2017	23,426,535	$24,103,260

(i) During the six months ended June 30, 2017, the Company issued 66,687 common shares upon redemption of RSUs.

(ii) During the six months ended June 30, 2017, the Company issued 159,720 common shares as equity based retention compensation to management in accordance with vesting schedules set out in executive employment contracts.

(iii) During the six months ended June 30, 2017, the Company issued 5,499 common shares for warrants exercised.

7. Share capital (continued):

(b) Warrants:

Balance June 30, 2015	1,000,332
Issued	-
Expired	(100,000)
Balance June 30, 2016	900,332
Issued	1,069,167
Expired	(633,666)
Balance December 31, 2016	1,335,833
Exercised	(5,499)
Balance June 30, 2017	1,330,334
Equity balance, end of period	$219,210
Liability balance, end of period	$232,725

At June 30, 2017, the warrant liability was remeasured using the Black-Scholes option pricing model resulting in a fair value gain of $11,434. The estimated value of the warrants was $232,725 as at June 30, 2017 using the following assumptions:

- Risk free interest rate: 1.10%
- Expected volatility: 72%
- Expected life in years: 2.33
- Expected dividend yield: nil

8. Share based payments:

(a) Stock option plan:

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

	Number of share options	Weighted Average Exercise Price
Balance June 30, 2015	-	$ -
Issued	967,943	1.50
Options forfeited	(156,468)	1.50
Balance June 30, 2016, December 31, 2016	811,475	1.50
Issued	920,000	1.19
Balance June 30, 2017	1,731,475	1.34
Exercisable at June 30, 2017	850,185	$1.39

8. Share based payments (continued):

(a) Stock option plan (continued):

On May 5, 2017, the Company authorized for issuance 1,270,000 and issued an aggregate of 920,000 stock options, of which 820,000 stock options were granted to directors or officers of the Company. The options vest one third on the grant date, one third January 1, 2018 and one third January 1, 2019. Each option represents the right to purchase one common share of the Company at an exercise price of $1.19 per share for a period of five years from the grant date. The options were valued using the following assumptions:

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

(b) Restricted share unit plan:

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

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

	Number of restricted share units
Balance June 30, 2015	-
Granted	701,732
Equity settled	-
Settled in cash	-
Balance June 30, 2016	701,732
Granted	-
Equity settled	-
Settled in cash	(203,397)
Balance at December 31, 2016	498,335
Granted	-
Equity settled	(50,849)
Settled in cash	(76,273)
Balance at June 30, 2017	371,213

As at December 31, 2016, the Company received notification that 203,396 RSUs will be redeemed for a cash settlement of $100,000, and common shares having an aggregate value of $100,000 during the calendar year. During the six months ended June 30, 2017, the Company settled 76,273 RSUs for $75,000 and 50,849 RSUs for 66,687 common shares related to the settlement.

RSUs can be exercised for common shares or cash at the determination of the holder. The Company accounts for issued but unvested RSUs which have been recognized as an expense and vested RSUs where the holder has elected for cash as a financial liability and share-based compensation. Upon vesting the estimated fair value of the RSU is transferred to contributed surplus as the holder has elected to settle in equity.

During the three months ended June 30, 2017, 31,753 RSUs, valued at $30,165, were elected as equity settlement and thus transferred from the RSU liability to contributed surplus upon vesting.

8. Share based payments (continued):

(b) Restricted share unit plan (continued):

During the six months ended June 30, 2017, 36,385 RSUs, valued at $34,381, were elected as equity settlement and thus transferred from the RSU liability to contributed surplus upon vesting.

The RSU liability as at June 30, 2017 is $55,292 (December 31, 2016 – $140,963). At June 30, 2017, the RSU liability was remeasured at the fair value of the Company's common shares resulting in a fair value loss of $2,546 which was recorded as share based compensation within general and administrative expenses.

(c) Retention shares:

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

The following table summarizes retention share activity for the period:

	Number of retention shares
Outstanding June 30, 2015	456,280
Granted	116,666
Vested/earned in the period	(342,310)
Outstanding June 30, 2016	230,636
Vest/earned in the period	(114,042)
Outstanding, December 31, 2016	116,594
Vested/earned in the period	(79,324)
Outstanding, June 30, 2017	37,270

No retention shares were granted during the three and six months ended June 30, 2017.

(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 June		Six months ended June	
	2017	2016	2017	2016
Stock options	$307,609	$55,620	$336,334	$111,238
RSUs	21,133	64,539	50,082	149,323
Retention shares	10,320	206,947	25,340	274,832
Share based compensation	$339,062	$327,106	$411,756	$535,393

For the three and six months ended June 30, 2017, $nil and $ nil respectively (three and six months ended June 30, 2016 - $7,07 and $37,027 respectively) was recognized against the RSU liability. For the three and six months ended June 30, 2017 $nil and $nil respectively (three and six months ended June 30, 2016 - $68,877 and $68,877 respectively) was transferred from wages and salaries to stock based compensation within general and administrative expenses for previously issued retention shares.

9. Other liabilities

	June 30, 2017	December 31, 2016
ELOG payable	$858,761	$809,613
Warrants (note 7(b))	232,725	125,033
	$1,091,486	$934,646

On November 14, 2016, the Company acquired all the rights from a third party for software named the Electronic Logbook (ELOG). The purchase price of the ELOG software was $1,500,000 and is payable through a $3 per-user fixed payment over a period not to exceed the 10-year period commencing on the closing date. The fair value of the ELOG software was determined using a discounted cash flow model to present value the future payments. This liability is considered a financial instrument and initially recorded at fair value based on discounted cash flows and subsequently to initial measurement, held at amortized cost. At each reporting date its carrying amount is adjusted for accretion and changes in the estimated timing of cash flows. The accretion over the expected term of the liability is based on future expected cash outflows.

	ELOG Payable
Balance at December 31, 2015	$ -
Addition	791,370
Accretion	18,243
Balance at December 31, 2016	$809,613
Accretion	76,013
Change in estimated timing of payments	(26,865)
Balance at June 30, 2017	$858,761

10. Financial risk management and financial instruments:

(a) Credit risk:

Credit risk reflects the risk the Company may be unable to recover accounts receivable. To mitigate this, risk the Company reviews the creditworthiness of material new customers, monitors customer payment performance, where appropriate, reviews the financial conditions of existing customers. The Company establishes an allowance for doubtful accounts that corresponds to the specific credit risk of its customers and 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 period 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.

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

(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 SR&ED grants. The Company monitors its financing requirements through regular forecasting of its cash position. Financing decisions are based on the timing and extent of expected operating and capital cash outlays.

(e) Fair value:

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

(g) Classification of financial instruments and fair value:

(ii) Determination of fair values

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

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

Recurring measurements	Level 1	Level 2	Level 3
Cash	$ 2,229,111	$ –	$ –
RSU liability	55,292	–	–
Warrant liability	232,725	–	–

11. Expenses by nature:

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Wages and salaries	$795,588	$426,282	$1,504,385	$975,249
Share-based compensation expense	339,062	327,106	411,756	535,393

12. Executive compensation:

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

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Wages and salaries	168,795	129,750	334,500	259,500
Share-based compensation expense	308,135	164,378	380,829	372,665
Total	476,930	294,128	715,329	632,165

13. Subsequent events:

Subsequent to June 30, 2017, the Company settled 25,425 RSUs for 26,476 common shares.