

TOTAL TELCOM INC.
Condensed Interim Consolidated Financial Statements
For the three months ended September 30, 2017
(Unaudited)

Notice to Reader

The following condensed interim consolidated financial statements and notes have not been reviewed by the Company's auditors but have been reviewed and approved by the Company's Audit Committee and Board of Directors.

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TOTAL TELCOM INC.
Condensed Interim Consolidated Balance Sheets

	September 30, <u>2017</u> (unaudited)	June 30, <u>2017</u> (audited)
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 1,389,113	\$ 1,347,606
Trade and other receivables	167,152	174,663
Inventories	96,515	114,068
Prepaid expenses	12,297	3,537
	1,665,077	1,639,874
RENTAL EQUIPMENT (Note 4)	171,137	88,848
PROPERTY, PLANT AND EQUIPMENT (Note 5)	1,209	1,527
	\$ 1,837,423	\$ 1,730,249
LIABILITIES		
CURRENT		
Trade and other payables	\$ 217,114	\$ 126,125
Deferred revenue	27,942	25,834
	245,056	151,959
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	11,353,783	11,318,583
Contributed surplus	350,637	365,837
Deficit	(10,112,053)	(10,106,130)
	1,592,367	1,578,290
	\$ 1,837,423	\$ 1,730,249

TOTAL TELCOM INC.

Condensed Interim Consolidated Statements of Income and Comprehensive Income Unaudited

	Three months ended September 30,	
	2017	2016
SALES	\$ 345,535	\$ 359,447
COST OF SALES (Note 4)	127,185	137,425
GROSS PROFIT	218,350	222,022
GENERAL AND ADMINISTRATIVE EXPENSES	117,496	105,974
RESEARCH AND DEVELOPMENT COSTS	75,328	71,882
DEPRECIATION (Note 5)	318	715
	193,142	178,571
INCOME FROM OPERATIONS	25,208	43,451
OTHER ITEMS		
Foreign exchange gains (losses)	(32,442)	3,159
Finance income	1,311	1,029
	(31,131)	4,188
INCOME (LOSS) BEFORE INCOME TAXES	(5,923)	47,639
PROVISION FOR INCOME TAXES		
Current	-	12,000
Application of income tax losses carried forward	-	(12,000)
	-	-
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	\$ (5,923)	\$ 47,639
EARNINGS (LOSS) PER SHARE (Note 7)		
Basic	\$ (0.000)	\$ 0.002
Diluted	\$ (0.000)	\$ 0.002
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	24,815,014	24,715,014

TOTAL TELCOM INC.**Condensed Interim Consolidated Statement of Changes in Shareholders' Equity**

Unaudited

	2017				Total shareholders' equity
	Number of shares	Share capital	Contributed surplus	Deficit	
Balance at June 30, 2017	24,715,014	\$ 11,318,583	\$ 365,837	\$ (10,106,130)	1,578,290
Shares issued from exercise of stock options	200,000	20,000			20,000
Contributed surplus transferred on exercise of stock options		15,200	(15,200)		-
Net loss for the three months ended September 30, 2017		-	-	(5,923)	(5,923)
Balance at September 30, 2017	24,915,014	\$ 11,353,783	\$ 350,637	\$ (10,112,053)	1,592,367

	2016				Total shareholders' equity
	Number of shares	Share capital	Contributed surplus	Deficit	
Balance at June 30, 2016	24,715,014	\$ 11,318,583	\$ 283,757	\$ (10,406,357)	1,195,983
Net income for the three months ended September 30, 2016		-	-	47,639	47,639
Balance at September 30, 2016	24,715,014	\$ 11,318,583	\$ 283,757	\$ (10,358,718)	1,243,622

TOTAL TELCOM INC.
Condensed Interim Consolidated Statements of Cash Flows
Unaudited

	Three months ended	
	September 30	
	2017	2016
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net income (loss) for the period	\$ (5,923)	\$ 47,639
Items not affecting cash:		
Amortization of rental equipment	13,657	4,710.00
Loss (gain) on disposal of rental equipment	10,429	(574)
Depreciation	318	715
	18,481	52,490
Net change in non-cash working capital	109,401	(4,331)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	127,882	48,159
FINANCING		
Proceeds from the exercise of share options	20,000	-
INVESTING		
Purchase of rental equipment	(106,375)	(75,625)
Proceeds on sale of rental equipment	-	849.00
	(106,375)	(74,776)
Net increase (decrease) in cash and cash equivalents	41,507	(26,617)
CASH, BEGINNING OF PERIOD	1,347,606	1,062,998
CASH, END OF PERIOD	\$ 1,389,113	\$ 1,036,381
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest received	\$ 1,311	\$ 1,029

TOTAL TELCOM INC.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2017

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1. NATURE OF OPERATIONS

Total Telcom Inc. (the “Company”), through its wholly owned subsidiary ROM Communications Inc. is a developer and provider of web to wireless products and services.

The Company is incorporated under the Business Corporations Act of Alberta. The Company’s head office is located at #540, 1632 Dickson Avenue, Kelowna, British Columbia V1Y 7T2. The Company’s common shares are traded on the TSX Venture Exchange under the symbol TTZ.

2. BASIS OF PRESENTATION

These financial statements for the three months ended September 30, 2017 have been prepared in accordance with International Financial Accounting Standard (“IAS”) 34 *Interim Financial Reporting* on a basis consistent with the accounting policies disclosed in the Company’s annual audited consolidated financial statements for the fiscal year ended June 30, 2017. Certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) have been omitted or condensed. These financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended June 30, 2017.

These condensed consolidated interim financial statements include the accounts of Total Telcom Inc. and its wholly owned subsidiary ROM Communications Inc. All intercompany balances and transactions have been eliminated.

These financial statements have been prepared on the historical cost basis except for cash and cash equivalents and share-based payment arrangements that have been measured at fair value.

All amounts are reported in Canadian dollars, unless otherwise noted.

These financial statements were approved and authorized for issue by the Board of Directors on November 28, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

The preparation of interim financial statements requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these interim financial statements, the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended June 30, 2017.

TOTAL TELCOM INC.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2017

Unaudited

4. RENTAL EQUIPMENT

	Rental Units
Cost or deemed cost	
Balance at June 30, 2017	\$ 112,125
Additions	106,375
Disposals	(11,125)
Balance at September 30, 2017	207,375
Depreciation and impairment losses	
Balance at June 30, 2017	23,277
Amortization	13,657
Disposals	- 696
Balance at September 30, 2016	36,238
Carrying amounts	
At June 30, 2017	\$ 88,848
At September 30, 2017	\$ 171,137

Cost of sales includes \$13,657 (September 30, 2016 - \$4,710) for amortization of rental units and a loss of disposal of rental units of \$10,429 (September 30, 2016 – gain on disposal of \$574).

5. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment	Equipment and furniture	Mobile equipment	Leasehold improvements	Total
Cost or deemed cost					
Balance at June 30, 2017	\$ 58,385	\$ 36,913	\$ 15,896	\$ 35,000	\$ 146,194
Additions	-	-	-	-	-
Balance at September 30, 2017	58,385	36,913	15,896	35,000	146,194
Depreciation and impairment losses					
Balance at June 30, 2017	56,858	36,913	15,896	35,000	144,667
Depreciation	318	-	-	-	318
Balance at September 30, 2016	57,176	36,913	15,896	35,000	144,985
Carrying amounts					
At June 30, 2016	\$ 1,527	\$ -	\$ -	\$ -	\$ 1,527
At September 30, 2016	\$ 1,209	\$ -	\$ -	\$ -	\$ 1,209

TOTAL TELCOM INC.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2017

Unaudited

6. SHARE CAPITAL

During the quarter, the Company issued 200,00 common shares for \$20,000 on the exercise of stock options (2016 – nil shares issued). Share based compensation of \$15,200 (2016 - \$nil) charged to contributed surplus at the time the stock options were issued was also transferred to share capital on the exercise of the stock options.

7. EARNINGS PER SHARE

Earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the period, which was 24,815,014 (2016 – 24,715,014).

For both the three months ended September 30, 2017 and September 30, 2016, the inclusion of the Company's stock options in the computation of diluted earnings per share would have an antidilutive effect on the earnings per share and are therefore excluded from the computation. Consequently, there is no difference between basic and diluted earnings per share.

8. LEASE COMMITMENT

The Company is obligated under an operating lease for rented premises which expire in May, 2019. The Company's total obligations under this lease is as follows:

	September 30	June 30
	2017	2017
Less than one year	\$ 57,000	\$ 57,000
Between one and three years	38,000	52,250
	\$ 95,000	\$ 109,250

TOTAL TELCOM INC.

Notes to the Condensed Interim Consolidated Financial Statements

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9. SHARE-BASED COMPENSATION

Under the Total Telecom Inc. Employee Stock Option Plan, options to purchase common shares of the Company may be granted to key employees, independent contractors and directors of the Company that entitle the holder to purchase one common share at a subscription price of not less than 100% of the market value on the effective date of the grant. The holder has the right to exercise the options immediately after issue, but the resulting shares cannot be traded until four months after the date the options were granted. Options expire five years after being issued or 90 days after an employee ceases employment with the Company. The Board of Directors has the discretion to extend the expiration period on cessation of employment.

The maximum number of common shares authorized for issuance by the Board of Directors under the plan is limited to 10% of the total issued and outstanding common shares of the Company.

Under the Employee Stock Option Plan, certain key employees and directors have the following options to purchase common shares:

- (a) 250,000 common shares at \$0.10 per share – options expire February 18, 2021;
- (b) 100,000 common shares at \$0.10 per share – options expire May 31, 2021; and
- (c) 880,000 common shares at \$0.10 per share – options expire November 30, 2021;

The average remaining contracted life of outstanding stock options is 3.97 years.

The following stock options were outstanding as at September 30, 2017:

Share options outstanding	Number of options	Weighted average exercise price	Available for issuance
Balance at June 30, 2017	1,430,000	\$ 0.10	1,041,500
Exercised	(200,000)	\$ 0.10	200,000
Granted	-	-	-
Expired	-	-	-
Forfeited	-	-	-
Balance, September 30, 2017	1,230,000	\$ 0.10	1,241,500

At September 30, 2017 all stock options were exercisable.

The fair value of any stock options granted to directors, officers, employees and independent contractors is recorded in general and administrative expenses over the vesting period with the offset recorded to contributed surplus. During the period the Company did not issue any stock options nor did any stock options vest.

Subsequent to the end of the quarter 50,000 stock options were exercised for \$5,000.

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Notes to the Condensed Interim Consolidated Financial Statements

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10. RELATED PARTY TRANSACTIONS

Transactions with related parties

General and administrative expenses include \$7,500 (2016 - \$7,500) management fees payable to a company controlled by a director.

Key management personnel compensation

Aggregate compensation to the directors and key management personnel of the Company during the period was as follows:

	Three months ended September 30	
	<u>2017</u>	<u>2016</u>
Salaries and short-term employee benefits	\$ 32,550	\$ 32,550
Management fees	7,500	7,500
Director fees	<u>2,500</u>	<u>2,500</u>
	\$ <u>42,550</u>	\$ <u>42,550</u>

Salaries and short-term employee benefits consist of salaries, bonuses, directors' fees, and all other short-term monetary and non-monetary benefits. Share-based payment benefits consist of the fair value of share-option awards expensed in the period. There were no share-based benefits paid in the three months ended September 30, 2017 or 2016. No long-term, post-employment or termination benefits were recognized in the three months ended September 30, 2017 or the three months ended September 30, 2016.

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11. SEGMENTED INFORMATION

The Company operates within a single operating segment - the development and sale of web to wireless products and services. Management assesses performance and makes resource decisions based on the consolidated results of operations in this operating segment.

The Company operates in the following geographical segments. Revenue is attributed to these geographical segments based on the country to which the product sales or service are delivered.

	Three months ended September 30	
	2017	2016
Sales		
United States	\$ 234,042	\$ 220,491
Canada	108,472	133,451
Other	3,021	5,505
	<hr/>	<hr/>
	\$ 345,535	\$ 359,447

The Company's revenue is broken down into the following products and services:

	Three months ended September 30	
	2017	2016
Sales		
Communications	\$ 201,377	\$ 196,237
Equipment rental	112,930	99,589
Hardware sales, development and installation	31,228	63,621
	<hr/>	<hr/>
	\$ 345,535	\$ 359,447

During the three months ended September 30, 2017, the Company had one customer (2016 – one customers) that accounted for more than 10% of the Company's total revenue. The total revenue from this customer was \$94,655 (2016 – \$96,591).

Non-current assets consists equipment and rental equipment. Equipment is located in entirely in Canada, but the location of the rental equipment varies depending on where the units are being used. For the quarter ended September 30, 2016, the rental equipment was used exclusively in the United States.