

**TRACKX HOLDINGS INC.**  
**BUSINESS ACQUISITION REPORT**  
**FORM 51-102F4**

**Item 1. Identity of Company**

**1.1 Name and Address of Company**

TrackX Holdings Inc.

800 West Pender Street

Vancouver, British Columbia V6C 2V6

**1.2 Executive Officer**

The following executive officer of the Company is knowledgeable about the significant acquisition and this business acquisition report:

Executive Officer: Tim Harvie, CEO

Telephone: 604-638-8063

**Item 2. Details of Acquisition**

**2.1 Nature of Business Acquired**

**Asset Purchase Agreement**

On June 28, 2017, the Company (through its wholly owned subsidiary TrackX Inc.) acquired all of the assets and certain liabilities (the "**Acquisition**") of broTECH Solutions LLC ("**broTECH**") pursuant to the terms of an Asset Purchase Agreement dated June 19, 2017 (the "**Purchase Agreement**").

broTECH is a California based provider of asset management and IIoT (Industrial Internet of Things) solutions. broTECH provides software solutions and services primarily to transportation, distribution and logistics industries. broTECH has experience providing solutions that span the entire supply chain including asset management, yard management, transportation management, dock management, warehouse management and carrier management.

The acquisition of broTECH complements the Company's business by (i) broadening the Company's product offerings for customers; (ii) expanding the TrackX GAME (Global Asset Management for Enterprises) platform with complimentary technologies including support of iOS and Android mobile devices; (iii) expanding technical and development resources to more effectively respond to customer implementation and service demand; and (iv) extending industry leadership in asset tracking and IIoT technologies and markets.

## **2.2 Date of Acquisition**

The Company completed the Acquisition on June 28, 2017.

## **2.3 Consideration**

In consideration of the Acquisition, the Company paid aggregate consideration of US\$2,500,000 as follows: (i) payment of US\$1,000,000 on closing; (ii) payment of an additional US\$500,000 on a quarterly basis at US\$41,666 per quarter over a period of 36 months from the closing date; and (iii) issuance of 3,492,842 common shares of the Company at a deemed price of CDN\$0.38 per share representing an aggregate deemed value of US\$1,000,000 to be held by the Company in trust and released on a quarterly basis of 8.33% of the total number of shares, per quarter for a period of 36 months from the closing date with the initial release on January 2, 2018.

Further information regarding the Acquisition can be found in the Company's material change reports dated June 20, 2017 and June 29, 2017, copies of which have been filed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## **2.4 Effect on Financial Position**

The Company does not have any current plans or proposals for material changes in its business affairs or the affairs of any of its subsidiaries, including broTECH, which may have a significant effect on the results of operations and financial position of the Company.

## **2.5 Prior Valuations**

Not Applicable

## **2.6 Parties to the Transaction**

The Acquisition was not with an informed person, associate or affiliate of the Company as defined in Section 1.1 of National Instrument 51 – 102 *Continuous Disclosure Obligations*.

## **2.7 Date of Report**

September 8, 2017

## **Item 3. Financial Statements**

The following financial statements are attached to this Business Acquisition Report:

- audited financial statements of broTECH for the fiscal year ended December 31, 2016;
- unaudited financial statements of broTECH for the fiscal year ended December 31, 2015; and
- unaudited interim financial statements for the three month interim periods ended March 31, 2017 and 2016.

**BROTECH SOLUTIONS, LLC**

**Financial Statements  
and  
Independent Auditors' Report  
December 31, 2016**

**EKS&H**

**BROTECH SOLUTIONS, LLC**

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EKS&H LLLP

## **INDEPENDENT AUDITORS' REPORT**

Members  
broTECH Solutions, LLC  
Riverside, California

We have audited the accompanying financial statements of broTECH Solutions, LLC, which are comprised of the balance sheet as of December 31, 2016, and the related statements of operations and members' equity and cash flows for the year then ended, and the related notes to the financial statements.

### **MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Members  
broTECH Solutions, LLC  
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**OPINION**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of broTECH Solutions, LLC as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*EKS+H LLLP*  
EKS&H LLLP

August 30, 2017  
Denver, Colorado

**BROTECH SOLUTIONS, LLC**

**Balance Sheet  
December 31, 2016**

**Assets**

Current assets	
Cash	\$ 33,651
Accounts receivable	281,155
Prepaid expenses	<u>7,507</u>
Total current assets	<u>322,313</u>
 Total assets	 \$ <u>322,313</u>

**Liabilities and Members' Equity**

Current liabilities	
Accounts payable	\$ 155,285
Accrued payroll	26,096
Deferred revenue	<u>3,166</u>
Total current liabilities	<u>184,547</u>
 Commitments and contingencies (Note 2)	
 Members' equity (Note 4)	
Members' equity	1,818
Retained earnings	<u>135,948</u>
Total members' equity	<u>137,766</u>
 Total liabilities and members' equity	 \$ <u>322,313</u>

See notes to financial statements.

**BROTECH SOLUTIONS, LLC**

**Statement of Operations and Members' Equity  
For the Year Ended December 31, 2016**

Consulting revenue	<u>\$ 1,981,363</u>
Operating expenses	
Sub-contract labor	916,565
Payroll and related costs	898,176
Travel	120,346
Other	<u>97,960</u>
Total operating expenses	<u>2,033,047</u>
Other income	<u>50</u>
Net loss	(51,634)
Beginning members' equity	484,767
Distributions to members	<u>295,367</u>
Ending members' equity	<u>\$ 137,766</u>

See notes to financial statements.

**BROTECH SOLUTIONS, LLC**

**Statement of Cash Flows  
For the Year Ended December 31, 2016**

Cash flows from operating activities	
Net loss	\$ (51,634)
Changes in operating assets and liabilities	
Accounts receivable	274,945
Prepaid expenses	(7,507)
Accounts payable	152,845
Deferred revenue	(12,065)
Accrued payroll	<u>(50,293)</u>
Net cash provided by operating activities	<u>306,291</u>
Cash flows from financing activities	
Member distributions	<u>(295,367)</u>
Net cash used in financing activities	<u>(295,367)</u>
Net increase in cash	10,924
Cash - beginning of year	<u>22,727</u>
Cash - end of year	<u>\$ 33,651</u>

See notes to financial statements.

# BROTECH SOLUTIONS, LLC

## Notes to Financial Statements

### **Note 1 - Description of Business and Summary of Significant Accounting Policies**

broTECH Solutions, LLC (the “Company”) was formed on April 2, 2013 as a limited liability company under the laws of the state of California. The Company is a consulting company offering consulting and development services specializing in mobile and cloud development products to the logistics industry. The Company offers various software development consulting services to its customers, including implementation services, design and architecture, technical planning, and other related services.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Company continually monitors its positions with, and the credit quality of, the financial institutions with which it invests. At December 31, 2016, the Company did not have cash equivalents.

#### Accounts Receivable

The Company records accounts receivable in the normal course of business based upon the billing terms contained in the respective customer agreements. The Company periodically evaluates the collectibility of receivables and considers a reserve for doubtful accounts based on the creditworthiness of the customer. Management determined that no allowance was necessary as of December 31, 2016.

#### Concentrations of Credit Risk

The Company grants credit in the normal course of business to customers in the United States. The Company periodically performs credit analysis and monitors the financial condition of its customers to reduce credit risk, however, the Company generally does not require collateral to support accounts receivable.

During the year ended December 31, 2016, two customers accounted for 100% of total revenues. At December 31, 2016, the same two customers accounted for 100% of total accounts receivable. During the year ended December 31, 2016, one supplier accounted for 37% of the Company’s total operating expenses.

#### Prepaid Expenses

Prepaid expenses consist primarily of prepaid insurance, prepaid license fees, and other expenses paid in advance.

# BROTECH SOLUTIONS, LLC

## Notes to Financial Statements

### **Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)**

#### Software Development Costs

The Company accounts for costs incurred in the development of computer software as software research and development costs until the preliminary project stage is completed. Direct costs incurred in the development of software are capitalized once the preliminary project stage is completed, management has committed to funding the project, and completion and use of the software for its intended purpose are probable. At December 31, 2016, there were no computer software projects where the preliminary project stage was complete. As such, the Company does not capitalize any software development costs.

#### Income Taxes

The Company has elected to be treated as a partnership for income tax purposes. Accordingly, taxable income and losses of the Company are reported on the income tax returns of the Company's members, and no provision for federal income taxes has been recorded in the accompanying financial statements.

The Company applies a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. If taxing authorities were to disallow any tax positions taken by the Company, the additional income taxes, if any, would be imposed on the members rather than the Company.

Interest and penalties associated with tax positions are recorded in the period assessed as operating expenses. However, no interest or penalties have been assessed as of December 31, 2016.

#### Revenue Recognition

The Company recognizes revenue only when all of the following criteria have been met: persuasive evidence of an arrangement exists, delivery has occurred or services have been performed, the fee for the arrangement is fixed or determinable, and collectibility is reasonably assured. The Company offers various software development consulting services to its customers, including things such as implementation services, design and architecture, technical planning, and other customer services. The Company generally recognizes revenue as the services are performed. In some arrangements, services are performed under a fixed fee. Under these arrangements, the Company recognizes revenue ratably over the contract period in which services are performed.

In some arrangements, the Company may bill the customer prior to performing services, which would require the Company to record deferred revenue. In other arrangements, the Company may perform services prior to billing the customer, which could require the Company to record unbilled receivables or to defer the costs associated with the services, depending on the terms of the arrangement and the application of the revenue separation criteria prescribed by US GAAP.

#### Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense for the year ended December 31, 2016 was \$1,124.

# BROTECH SOLUTIONS, LLC

## Notes to Financial Statements

### **Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)**

#### Research and Development Costs

Expenditures made for research and development are charged to expense as incurred. During the year ended December 31, 2016, the Company expensed approximately \$150,000 to research and development, which is included in payroll and related costs on the accompanying statement of operations and members' equity.

#### Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes current revenue recognition requirements and industry-specific guidance. The codification was amended through additional ASUs and, as amended, requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. The Company is required to adopt the new standard in 2019 and may adopt either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption using one of two retrospective application methods. The Company is continuing to evaluate the provisions of this new guidance and has not determined the impact this standard may have on its financial condition, results of operations, cash flows, and related disclosures or decided upon the method of adoption.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The amendments in ASU No. 2014-15 are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under generally accepted accounting principles, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. ASU No. 2014-15 is effective for periods ending after December 15, 2016. The Company adopted this guidance as of December 31, 2016 and determined that no substantial doubt exists about the Company's ability to continue as a going concern. Management will continue to evaluate the impact of this standard on the Company's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new ASU establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The new ASU is effective for fiscal years beginning after December 15, 2019 for private entities. Management is currently evaluating the effect that adoption of this ASU will have on the Company's financial statements.

# BROTECH SOLUTIONS, LLC

## Notes to Financial Statements

### **Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)**

#### Recently Issued Accounting Pronouncements (continued)

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The new ASU is effective for fiscal years beginning after December 15, 2020 for private entities. Management is currently evaluating the effect that adoption of this ASU will have on the Company's financial statements.

### **Note 2 - Commitments and Contingencies**

#### Operating Leases

The Company leases its office space under non-cancelable operating leases. Rent expense for the year ended December 31, 2016 was \$18,647.

Future minimum lease payments under these leases are approximately as follows:

#### Year Ending December 31,

2017	\$	30,000
2018		<u>25,000</u>
	\$	<u>55,000</u>

### **Note 3 - Employee Benefit Plan**

The Company has a 401(k) Plan ("Plan") to provide retirement and incidental benefits for its employees. Employees may contribute from 0% to 100% of their annual compensation to the Plan, limited to a maximum annual amount as updated annually by the IRS. The Plan provides for discretionary contributions as determined by the Members. Such contributions to the Plan are allocated among eligible participants in the proportion of their salaries to the total salaries of all participants. The Company's discretionary contributions were \$21,727 during the year ended December 31, 2016.

# **BROTECH SOLUTIONS, LLC**

## **Notes to Financial Statements**

### **Note 4 - Members' Equity**

As of December 31, 2016, the Company is authorized to issue Class A Voting Capital ("Voting Capital") with no stated par value and Class B Non-Voting Capital ("Non-Voting Capital"). At December 31, 2016 there was \$1,818 of Voting Capital issued and outstanding, and no Non-Voting Capital issued and outstanding.

#### **Voting Rights**

The holders of Voting Capital shall manage the Company and shall have the right to vote, in their capacity as Managers, upon all matters upon which Managers have the right to vote under the Act or under the Operating Agreement (the "Agreement"), in proportion to their respective Percentage Voting Interests in the Company. The holders of Non-Voting Capital shall have no right to vote or otherwise participate in the management of the Company.

#### **Distributions to the Members**

Distributions of the Company's assets shall be made only in accordance with the Agreement. Generally, all distributions shall be made to all of the Members, in proportion to their percentage ownership interests. Except as otherwise provided with the Agreement, the decision as to whether to make distributions shall be within the sole discretion of the holders of Voting Capital. All such distributions shall be made only to the Members who, according to the books and records of the Company, are the holders of record on the actual date of distribution.

#### **Redemption**

Subject to the terms set forth in the Agreement, a Member may voluntarily resign membership and shall be entitled to receive from the Company the fair market value of the Member's Ownership Interest, adjusted for profits and losses to the date of resignation.

#### **Transfer of Ownership**

Subject to the terms set forth in the Agreement or upon the unanimous consent of all of the other voting Members, no Member shall sell, hypothecate, pledge, assign, or otherwise transfer, with or without consideration, any part or all of the Member's Ownership Interest in the Company to any other person or entity without first offering that portion of his or her Ownership Interest in the Company subject to the contemplated transfer first to the Company, and secondly, to the other voting Members, at the purchase price.

### **Note 5 - Subsequent Events**

In June 2017, the Company sold all of its assets and liabilities to TrackX Holdings, Inc. (TKX.V) and TrackX, Inc. for USD \$2,500,000.

# **BROTECH SOLUTIONS, LLC**

## **Notes to Financial Statements**

### **Note 5 - Subsequent Events (continued)**

The Company has evaluated all subsequent events through the auditors' report date, which is the date these financial statements available to be issued. There were no other material subsequent events that required recognition or additional disclosure in these financial statements.

**BROTECH SOLUTIONS, LLC**

**Financial Statements**

**For the year ended**

**December 31, 2015**

**(Unaudited – Prepared by Management)**

# BROTECH SOLUTIONS, LLC

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**BROTECH SOLUTIONS, LLC**

**Balance Sheet  
December 31, 2015**

**Assets**

Current assets	
Cash	\$ 22,728
Accounts receivable	<u>556,100</u>
Total current assets	<u>578,828</u>
 Total assets	 <u>\$ 578,828</u>

**Liabilities and Members' Equity**

Current liabilities	
Accounts payable	\$ 2,449
Accrued payroll	76,381
Deferred revenue	<u>15,231</u>
Total current liabilities	<u>94,061</u>
 Commitments and contingencies (Note 2)	
 Members' equity (Note 4)	
Members' equity	1,818
Retained earnings	<u>482,949</u>
Total members' equity	<u>484,767</u>
 Total liabilities and members' equity	 <u>\$ 578,828</u>

See notes to financial statements.

**BROTECH SOLUTIONS, LLC**

**Statement of Operations and Members' Equity  
For the Year Ended December 31, 2015**

Consulting revenue	<u>\$ 2,100,939</u>
Operating expenses	
Sub-contract labor	706,236
Payroll and related costs	668,389
Travel	107,666
Other	<u>85,022</u>
Total operating expenses	<u>1,567,313</u>
Other income	<u>50</u>
Net income	<u>533,676</u>
Beginning members' equity	201,091
Distributions to members	<u>250,000</u>
Ending members' equity	<u><u>\$ 484,767</u></u>

See notes to financial statements.

**BROTECH SOLUTIONS, LLC**

**Statement of Cash Flows  
For the Year Ended December 31, 2015**

Cash flows from operating activities	
Net income	\$ 533,676
Changes in operating assets and liabilities	
Accounts receivable	(376,754)
Accounts payable	2,427
Deferred revenue	15,231
Accrued payroll	<u>69,177</u>
Net cash provided by operating activities	(289,919)
 Cash flows from financing activities	
Member distributions	<u>(250,000)</u>
Net cash used in financing activities	<u>(250,000)</u>
 Net increase in cash	(6,243)
Cash - beginning of year	<u>28,971</u>
 Cash - end of year	<u><u>\$ 22,728</u></u>

See notes to financial statements.

## **Note 1 - Description of Business and Summary of Significant Accounting Policies**

BroTECH Solutions, LLC (the "Company") was formed on April 2, 2013 as a limited liability company under the laws of the state of California. The Company is a consulting company offering consulting and development services specializing in mobile and cloud development products to the logistics industry. The Company offers various software development consulting services to its customers including implementation services, design and architecture, technical planning, and other related services.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Cash

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Company continually monitors its positions with, and the credit quality of, the financial institutions with which it invests. At December 31, 2015 the Company did not have cash equivalents.

### Accounts Receivable

The Company records accounts receivable in the normal course of business based upon the billing terms contained in the respective customer agreements. The Company periodically evaluates the collectability of receivables and considers a reserve for doubtful accounts based on the creditworthiness of the customer. Management determined that no allowance was necessary as of December 31, 2015.

### Concentrations of Credit Risk

The Company grants credit in the normal course of business to customers in the United States. The Company periodically performs credit analysis and monitors the financial condition of its customers to reduce credit risk, however, the Company generally does not require collateral to support accounts receivable.

During the year ended December 31, 2015, two customers accounted for 100% of total revenues. At December 31, 2015, the same two customers accounted for 100% of total accounts receivable. During the year ended December 31, 2015, one supplier accounted for 44% of the Company's total operating expenses.

# BROTECH SOLUTIONS, LLC

## Notes to Financial Statements

### **Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)**

#### Software Development Costs

The Company accounts for costs incurred in the development of computer software as software research and development costs until the preliminary project stage is completed. Direct costs incurred in the development of software are capitalized once the preliminary project stage is completed, management has committed to funding the project and completion and use of the software for its intended purpose are probable. At December 31, 2015 there were no computer software projects where the preliminary project stage was complete. As such, the Company does not capitalize any software development costs.

#### Income Taxes

The Company has elected to be treated as a partnership for income tax purposes. Accordingly, taxable income and losses of the Company are reported on the income tax returns of the Company's members, and no provision for federal income taxes has been recorded in the accompanying financial statements.

The Company applies a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. If taxing authorities were to disallow any tax positions taken by the Company, the additional income taxes, if any, would be imposed on the members rather than the Company.

Interest and penalties associated with tax positions are recorded in the period assessed as operating expenses. However, no interest or penalties have been assessed as of December 31, 2015.

#### Revenue Recognition

The Company recognizes revenue only when all of the following criteria have been met: persuasive evidence of an arrangement exists, delivery has occurred or services have been performed, the fee for the arrangement is fixed or determinable, and collectability is reasonably assured. The Company offers various software development consulting services to its customers including things as implementation services, design and architecture, technical planning, and other customer services. The Company generally recognizes revenue as the services are performed. In some arrangements, services are performed under a fixed fee. Under these arrangements, the Company recognizes revenue ratably over the contract period in which services are performed.

In some arrangements, the Company may bill the customer prior to performing services, which would require the Company to record deferred revenue. In other arrangements, the Company may perform services prior to billing the customer, which could require the Company to record unbilled receivables or to defer the costs associated with the services, depending on the terms of the arrangement and the application of the revenue separation criteria prescribed by US GAAP.

#### Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense for the year ended December 31, 2015 was \$1,721.

# BROTECH SOLUTIONS, LLC

## Notes to Financial Statements

### **Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)**

#### Research and Development Costs

Expenditures made for research and development are charged to expense as incurred. During the year ended December 31, 2015, the Company expensed approximately \$150,000 to research and development, and is included in payroll and related costs on the accompanying Statement of Operations.

#### Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes current revenue recognition requirements and industry-specific guidance. The codification was amended through additional ASUs and, as amended, requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. The Company is required to adopt the new standard in 2019 and may adopt either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption using one of two retrospective application methods. The Company is continuing to evaluate the provisions of this new guidance and has not determined the impact this standard may have on its financial condition, results of operations, cash flows, and related disclosures or decided upon the method of adoption.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The amendments in ASU No. 2014-15 are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. ASU No. 2014-15 is effective for periods ending after December 15, 2015. The Company adopted this guidance as of December 31, 2015 and determined that no substantial doubt exists about the Company's ability to continue as a going concern. Management will continue to evaluate the impact of this standard on the Company's financial statements.

In February 2015, the FASB issued ASU No. 2015-02, *Leases (Topic 842)*. The new ASU establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The new ASU is effective for fiscal years beginning after December 15, 2019 for private entities. Management is currently evaluating the effect that adoption of this ASU will have, on the Company's financial statements.

# BROTECH SOLUTIONS, LLC

## Notes to Financial Statements

### **Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)**

#### Recently Issued Accounting Pronouncements (continued)

In June 2015, the FASB issued ASU 2015-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The new ASU is effective for fiscal years beginning after December 15, 2020 for private entities. Management is currently evaluating the effect that adoption of this ASU will have on the Company's financial statements.

### **Note 2 - Commitments and Contingencies**

#### Operating Leases

The Company leases its office space under non-cancelable operating leases. Rent expense for the year ended December 31, 2015 was \$12,244.

Future minimum lease payments under these leases are approximately as follows:

<u>Year Ending December 31,</u>	
2016	\$ 18,647
2017	30,000
2018	<u>25,000</u>
	<u>\$ 73,647</u>

### **Note 3 - Employee Benefit Plan**

The Company has a 401(k) Plan ("Plan") to provide retirement and incidental benefits for its employees. Employees may contribute from 0% to 100% of their annual compensation to the Plan, limited to a maximum annual amount as updated annually by the IRS. The Plan provides for discretionary contributions as determined by the Members. Such contributions to the Plan are allocated among eligible participants in the proportion of their salaries to the total salaries of all participants. The Company's discretionary contributions were \$63,600 during the year ended December 31, 2015.

### **Note 4 – Members' Equity**

As of December 31, 2015, the Company is authorized to issue Class A Voting Capital ("Voting Capital") with no stated par value and Class B Nonvoting Capital ("Nonvoting Capital"). At December 31, 2015 there was \$1,818 of Voting Capital issued and outstanding.

# **BROTECH SOLUTIONS, LLC**

## **Notes to Financial Statements**

### **Note 4 - Members' Equity (continued)**

#### Voting Rights

The holders of Voting Units shall manage the Company and shall have the right to vote, in their capacity as Managers, upon all matters upon which Managers have the right to vote under the Act or under the Operating Agreement (the "Agreement"), in proportion to their respective Percentage Voting Interests in the Company. The holders of Nonvoting Units shall have no right to vote or otherwise participate in the management of the Company.

#### Distributions to the Members

Distributions of the Company's assets shall be made only in accordance with the Agreement. Generally, all distributions shall be made to all of the Members, in proportion to their percentage ownership interests. Except as otherwise provided with the Agreement, the decision as to whether to make distributions shall be within the sole discretion of the holders of Voting Capital. All such distributions shall be made only to the Members who, according to the books and records of the Company, are the holders of record on the actual date of distribution.

#### Redemption

Subject to the terms set forth in the Agreement, a Member may voluntarily resign his membership and shall be entitled to receive from the Company the fair market value of his Ownership Interest, adjusted for profits and losses to the date of resignation.

#### Transfer of Ownership

Subject to the terms set forth in the Agreement or upon the unanimous consent of all of the other Voting Members, no Member shall sell, hypothecate, pledge, assign or otherwise transfer, with or without consideration, any part or all of his Ownership Interest in the Company to any other person or entity without first offering that portion of his or her Ownership Interest in the Company subject to the contemplated transfer first to the Company, and secondly, to the other Voting Members, at the purchase price.

**BROTECH SOLUTIONS, LLC**

**Financial Statements**

**For the Quarters ended**

**March 31, 2017 and March 31, 2016**

**(Unaudited – Prepared by Management)**

# BROTECH SOLUTIONS, LLC

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# BROTECH SOLUTIONS, LLC

## Balance Sheet As of March 31,

### Assets

	<u>2017</u>	<u>2016</u>
Current assets		
Cash	\$ 173,092	\$ 384,021
Accounts receivable	141,605	239,419
Total current assets	<u>314,697</u>	<u>623,440</u>
Total assets	<u>\$ 314,697</u>	<u>\$ 623,440</u>

### Liabilities and Members' Equity

Current liabilities		
Accounts payable	\$ 78,060	\$ 84,335
Accrued payroll	(2,330)	2,690
Deferred revenue	54,063	-
Total current liabilities	<u>129,793</u>	<u>87,025</u>
Commitments and contingencies (Note 2)		
Members' equity (Note 4)		
Members' equity	1,818	1,818
Retained earnings	183,086	534,597
Total members' equity	<u>184,904</u>	<u>536,415</u>
Total liabilities and members' equity	<u>\$ 314,697</u>	<u>\$ 623,440</u>

See notes to financial statements.

**BROTECH SOLUTIONS, LLC**

**Statement of Operations and Members' Equity  
For the Quarters Ended March 31,**

	<u>2017</u>	<u>2016</u>
Consulting revenue	\$ 499,819	\$ 482,641
Operating expenses		
Sub-contract labor	197,581	138,294
Payroll and related costs	181,055	190,100
Travel	21,386	12,650
Other	38,961	24,947
Total operating expenses	<u>438,983</u>	<u>365,991</u>
Other income	<u>202</u>	<u>9</u>
Net income	<u>\$ 61,038</u>	<u>\$ 116,659</u>
Beginning members' equity	137,766	484,767
Distributions to members	<u>13,900</u>	<u>65,011</u>
Ending members' equity	<u>\$ 184,904</u>	<u>\$ 536,415</u>

See notes to financial statements.

**BROTECH SOLUTIONS, LLC**

**Statement of Cash Flows  
For the Quarters Ended March 31,**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Net income	\$ 61,038	\$ 116,659
Changes in operating assets and liabilities		
Accounts receivable	139,550	316,681
Prepaid expenses	7,507	-
Accounts payable	(77,225)	81,886
Deferred revenue	50,897	(73,691)
Accrued payroll	(28,426)	(15,231)
Net cash provided by operating activities	<u>92,303</u>	<u>309,645</u>
Cash flows from financing activities		
Member distributions	<u>13,900</u>	<u>65,011</u>
Net cash used in financing activities	<u>13,900</u>	<u>65,011</u>
Net increase in cash	139,441	361,293
Cash - beginning of quarter	<u>33,651</u>	<u>22,728</u>
Cash - end of quarter	<u>\$ 173,092</u>	<u>\$ 384,021</u>

See notes to financial statements.

## **Note 1 - Description of Business and Summary of Significant Accounting Policies**

BroTECH Solutions, LLC (the "Company") was formed on April 2, 2013 as a limited liability company under the laws of the state of California. The Company is a consulting company offering consulting and development services specializing in mobile and cloud development products to the logistics industry. The Company offers various software development consulting services to its customers including implementation services, design and architecture, technical planning, and other related services.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Cash

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Company continually monitors its positions with, and the credit quality of, the financial institutions with which it invests. At March 31, 2017 and 2016 the Company did not have cash equivalents.

### Accounts Receivable

The Company records accounts receivable in the normal course of business based upon the billing terms contained in the respective customer agreements. The Company periodically evaluates the collectability of receivables and considers a reserve for doubtful accounts based on the creditworthiness of the customer. Management determined that no allowance was necessary as of March 31, 2017 and 2016.

### Concentrations of Credit Risk

The Company grants credit in the normal course of business to customers in the United States. The Company periodically performs credit analysis and monitors the financial condition of its customers to reduce credit risk, however, the Company generally does not require collateral to support accounts receivable.

During the quarters ended March 31, 2017 and 2016, two customers accounted for 100% of total revenues. At March 31, 2017 and 2016, the same two customers accounted for 100% of total accounts receivable. During the quarters ended March 31, 2017 and 2016, one supplier accounted for 44% and 50%, respectively, of the Company's total operating expenses.

# BROTECH SOLUTIONS, LLC

## Notes to Financial Statements

### **Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)**

#### Software Development Costs

The Company accounts for costs incurred in the development of computer software as software research and development costs until the preliminary project stage is completed. Direct costs incurred in the development of software are capitalized once the preliminary project stage is completed, management has committed to funding the project and completion and use of the software for its intended purpose are probable. At March 31, 2017 and 2016 there were no computer software projects where the preliminary project stage was complete. As such, the Company does not capitalize any software development costs.

#### Income Taxes

The Company has elected to be treated as a partnership for income tax purposes. Accordingly, taxable income and losses of the Company are reported on the income tax returns of the Company's members, and no provision for federal income taxes has been recorded in the accompanying financial statements.

The Company applies a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. If taxing authorities were to disallow any tax positions taken by the Company, the additional income taxes, if any, would be imposed on the members rather than the Company.

Interest and penalties associated with tax positions are recorded in the period assessed as operating expenses. However, no interest or penalties have been assessed as of March 31, 2017 and 2016.

#### Revenue Recognition

The Company recognizes revenue only when all of the following criteria have been met: persuasive evidence of an arrangement exists, delivery has occurred or services have been performed, the fee for the arrangement is fixed or determinable, and collectability is reasonably assured. The Company offers various software development consulting services to its customers including things as implementation services, design and architecture, technical planning, and other customer services. The Company generally recognizes revenue as the services are performed. In some arrangements, services are performed under a fixed fee. Under these arrangements, the Company recognizes revenue ratably over the contract period in which services are performed.

In some arrangements, the Company may bill the customer prior to performing services, which would require the Company to record deferred revenue. In other arrangements, the Company may perform services prior to billing the customer, which could require the Company to record unbilled receivables or to defer the costs associated with the services, depending on the terms of the arrangement and the application of the revenue separation criteria prescribed by US GAAP.

#### Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense for the quarters ended March 31, 2017 and 2016 was \$64, and \$2,718, respectively.

# BROTECH SOLUTIONS, LLC

## Notes to Financial Statements

### **Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)**

#### Research and Development Costs

Expenditures made for research and development are charged to expense as incurred. During the quarters ended March 31, 2017 and 2016, the Company expensed approximately \$37,500 and \$25,000, respectively, to research and development, and is included in payroll and related costs on the accompanying Statement of Operations.

#### Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes current revenue recognition requirements and industry-specific guidance. The codification was amended through additional ASUs and, as amended, requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. The Company is required to adopt the new standard in 2019 and may adopt either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption using one of two retrospective application methods. The Company is continuing to evaluate the provisions of this new guidance and has not determined the impact this standard may have on its financial condition, results of operations, cash flows, and related disclosures or decided upon the method of adoption.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The amendments in ASU No. 2014-15 are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. ASU No. 2014-15 is effective for periods ending after December 15, 2015. The Company adopted this guidance as of March 31, 2017 and 2016 and determined that no substantial doubt exists about the Company's ability to continue as a going concern. Management will continue to evaluate the impact of this standard on the Company's financial statements.

In February 2015, the FASB issued ASU No. 2015-02, *Leases (Topic 842)*. The new ASU establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The new ASU is effective for fiscal quarters beginning after December 15, 2019 for private entities. Management is currently evaluating the effect that adoption of this ASU will have, on the Company's financial statements.

# BROTECH SOLUTIONS, LLC

## Notes to Financial Statements

### **Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)**

#### Recently Issued Accounting Pronouncements (continued)

In June 2015, the FASB issued ASU 2015-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The new ASU is effective for fiscal quarters beginning after December 15, 2020 for private entities. Management is currently evaluating the effect that adoption of this ASU will have on the Company's financial statements.

### **Note 2 - Commitments and Contingencies**

#### Operating Leases

The Company leases its office space under non-cancelable operating leases. Rent expense for the quarters ended March 31, 2017 and 2016 was \$7,500 and \$4,098, respectively.

Future minimum lease payments under these leases are approximately as follows:

<u>As of March 31,</u>	
2017	22,500
2018	<u>25,000</u>
	<u>\$ 47,500</u>

### **Note 3 - Employee Benefit Plan**

The Company has a 401(k) Plan ("Plan") to provide retirement and incidental benefits for its employees. Employees may contribute from 0% to 100% of their annual compensation to the Plan, limited to a maximum annual amount as updated annually by the IRS. The Plan provides for discretionary contributions as determined by the Members. Such contributions to the Plan are allocated among eligible participants in the proportion of their salaries to the total salaries of all participants. The Company's discretionary contributions were \$2,561 and \$0, respectively, during the quarters ended March 31, 2017 and 2016.

### **Note 4 – Members' Equity**

As of March 31, 2017 and 2016, the Company is authorized to issue Class A Voting Capital ("Voting Capital") with no stated par value and Class B Nonvoting Capital ("Nonvoting Capital"). At March 31, 2017 and 2016 there was \$1,818 of Voting Capital issued and outstanding.

# BROTECH SOLUTIONS, LLC

## Notes to Financial Statements

### Note 4 - Members' Equity (continued)

#### Voting Rights

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