ZONETAIL INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

Notice To Reader

The accompanying unaudited condensed interim consolidated financial statements of Zonetail Inc. (the "Company") have been prepared by and are the responsibility of management. The unaudited condensed interim consolidated financial statements have not been reviewed by the Company's auditors.

Zonetail Inc.
Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
Unaudited

	March 31, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	**$ 434,072**	$ 932,650
Trade and other receivables	**238,461**	202,169
Prepaid expenses and deposits	**199,430**	270,254
Total current assets	**871,963**	1,405,073
Non-current assets		
Property and equipment (note 4)	**10,664**	11,227
Right-of-use asset (note 5)	**90,352**	-
Total assets	**$ 972,979**	$ 1,416,300
EQUITY AND LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	**$ 359,412**	$ 338,088
Deferred revenue	**13,110**	11,145
Promissory notes (note 7)	**325,000**	325,000
Derivative liability	**4,508**	4,508
Lease liability (note 6)	**63,040**	-
Total current liabilities	**765,070**	678,741
Non-current liabilities		
Lease liability (note 6)	**24,193**	-
Total liabilities	**789,263**	678,741
Equity		
Share capital (note 8)	**7,554,973**	7,554,973
Warrants (note 10)	**772,868**	772,868
Contributed surplus (note 9)	**697,580**	697,580
Subscription receipt costs	**(403,658)**	(403,658)
Deficit	**(8,438,047)**	(7,884,204)
Total equity	**183,716**	737,559
Total equity and liabilities	**$ 972,979**	$ 1,416,300

The accompanying notes to the unaudited condensed interim consolidated financial statements are an integral part of these statements.

Nature of operations and going concern (note 1)
Subsequent events (note 13)

Approved on behalf of the Board:

"Mark Holmes", Director

"Adam Topp", Director

Zonetail Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
Unaudited

		March 31, 2019		March 31, 2018
Revenue	$	**14,543**	$	5,749
Commission Expense		**(2,794)**		(25)
Gross Margin		**11,749**		5,724
Operating expenses				
Salaries (note 12)	$	**227,836**	$	54,446
Professional fees		**217,259**		115,570
Software development expense		**15,560**		2,878
Web hosting and maintenance		**15,825**		6,061
General and administrative		**44,628**		12,398
Rent		**1,815**		15,434
Advertising and promotions		**9,721**		1,581
Travel and marketing		**19,743**		6,649
Depreciation of property and equipment (note 4)		**563**		2,623
Lease liability expense		**2,590**		-
Amortization of right-of-use asset		**10,052**		-
Interest and accretion		**-**		116,928
		565,592		334,568
Other income				
Change in derivative liability		**-**		(34,304)
Net loss and comprehensive loss for the period	$	**553,843**	$	294,540
Basic and diluted net loss per share (note 11)	$	**0.01**	$	0.01
Weighted average number of common shares outstanding		**64,774,130**		37,088,482

The accompanying notes to the unaudited condensed interim consolidated financial statements are an integral part of these statements.

Zonetail Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
Unaudited

	March 31, 2019	March 31, 2018
Operating activities		
Net loss for the period	**$ (553,843)**	$ (294,540)
Adjustments for:		
Depreciation of property and equipment	**563**	2,623
Depreciation on right-of-use asset	**10,052**	-
Change in derivative liability	**-**	(75,070)
Interest and accretion on convertible debentures	**-**	93,287
Warrants issued for services	**-**	9,520
Changes in non-cash working capital items:		
Trade and other receivables	**(36,292)**	9,276
Prepaid expenses and deposits	**70,824**	5,551
Accounts payable and accrued liabilities	**21,324**	87,495
Deferred revenue	**1,965**	(5,750)
Net cash used in operating activities	**(485,407)**	(167,608)
Financing activities		
Accretion of lease liability	**(13,171)**	-
Proceeds from private placements, net of costs	**-**	347,831
Advances repaid	**-**	(7,750)
Net cash provided by (used in) financing activities	**(13,171)**	340,081
Net change in cash and cash equivalents	**(498,578)**	172,473
Cash and cash equivalents, beginning of period	**932,650**	75,359
Cash and cash equivalents, end of period	**$ 434,072**	$ 247,832

The accompanying notes to the unaudited condensed interim consolidated financial statements are an integral part of these statements.

Zonetail Inc.
Condensed Interim Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)
Unaudited

	Share capital		Subscription		Contributed		
	Number	Amount	receipt costs	Warrants	Surplus	Deficit	Total
Balance, December 31, 2017	**36,485,174**	**$ 2,953,504**	**$ -**	**$ 90,740**	**$ 198,128**	**$ (5,036,229)**	**$ (1,793,857)**
Private placements	1,451,200	362,800	-	-	-	-	362,800
Share issuance costs	-	(18,000)	-	-	-	-	(18,000)
Valuation of warrants	-	(96,969)	-	-	-	-	(96,969)
Warrants issued for services	-	-	-	9,520	-	-	9,520
Net loss for the period	-	-	-	-	-	(294,540)	(294,540)
Balance, March 31, 2018	**37,936,374**	**$ 3,201,335**	**$ -**	**$ 100,260**	**$ 198,128**	**$ (5,330,769)**	**$ (1,831,046)**
Balance, December 31, 2018	**64,774,130**	**$ 7,554,973**	**$ (403,658)**	**$ 772,868**	**$ 697,580**	**$ (7,884,204)**	**$ 737,559**
Net loss for the period	-	-	-	-	-	(553,843)	(553,843)
Balance, March 31, 2019	**64,774,130**	**$ 7,554,973**	**$ (403,658)**	**$ 772,868**	**$ 697,580**	**$ (8,438,047)**	**$ 183,716**

The accompanying notes to the unaudited condensed interim consolidated financial statements are an integral part of these statements.

1. Nature of operations and going concern

Zonetail Inc. ("Zonetail" or the "Company") was incorporated on March 14, 2013 under the Canada Business Corporations Act. The corporate office is located at 20 Dalhousie St, Toronto, Ontario, Canada.

Zonetail provides mobile platforms to hotels and condominiums connecting the guests of a hotel and the residents of a condo to the amenities and services of their building through the convenience of their personal mobile device. Included on both platforms is an explore section highlighting the businesses and services in the local area.

The Company trades on the TSX Venture Exchange ("TSXV") under the symbol "ZONE".

The unaudited condensed interim consolidated financial statements have been prepared on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has accumulated a deficit amounting to $8,438,047 as at March 31, 2019 (December 31, 2018 - $7,884,204). The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds therefrom, and to continue to obtain equity investment and borrowings sufficient to meet current and future obligations. The Company had a net loss and comprehensive loss for the three months ended March 31, 2019 of $553,843 (three months ended March 31, 2018 - $294,540).

As the Company continues to develop its core offerings, it will require additional financing to meet its working capital requirements. These conditions cast significant doubt about the Company's ability to continue as a going concern. These financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue its operations. These adjustments could be material.

2. Significant accounting policies

Statement of compliance

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRSs issued and outstanding as of May 23, 2019, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed interim consolidated financial statements as compared with the most recent annual financial statements as at and for the year ended December 31, 2018, except as noted below. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2019 could result in restatement of these unaudited condensed interim consolidated financial statements.

Adoption of new accounting pronouncements

(a) Leases and right-of-use assets

In January 2016, the IASB issued IFRS 16 - Leases ("IFRS 16"), replacing IAS 17 - Leases. IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its statement of financial position, providing the reader with greater transparency of an entity's lease obligations.

2. Significant accounting policies (continued)

At January 1, 2019, the Company adopted the following:

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:
- Leases of low value assets; and
- Leases with a duration of twelve months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by the incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:
- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted if it is reasonable certain to assess that option;
- Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:
- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognised where the Company is contractually required to dismantle, remove or restore the leased asset.

Lease liabilities, on initial measurement, increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

The Company adopted this standard and the impact on the Company's unaudited condensed interim consolidated financial statements are disclosed in note 5 and 6.

(Expressed in Canadian Dollars)

3. Trade and other receivables

		March 31, 2019		December 31, 2018
Sales tax receivable	**$**	**217,449**	$	192,677
Trade receivable, net of allowance for doubtful accounts		**21,012**		9,492
Other receivables		**-**		-
	$	**238,461**	$	202,169

Trade receivable, net of allowance for doubtful accounts:

		March 31, 2019		December 31, 2018
Trade receivable	**$**	**25,978**	$	14,458
Allowance for doubtful accounts		**(4,966)**		(4,966)
Other receivables		**-**		-
	$	**21,012**	$	9,492

4. Property and equipment

Cost		Furniture and fixtures		Leasehold improvements		Total
Balance, December 31, 2017	$	24,442	$	14,586	$	39,028
Balance, December 31, 2018		24,442		14,586		39,028
Balance, March 31, 2019	$	24,442	$	14,586	$	39,028

Accumulated Depreciation		Furniture and fixtures		Leasehold improvements		Total
Balance, December 31, 2017	$	10,364	$	11,407	$	21,771
Depreciation for the year		2,851		3,179		6,030
Balance, December 31, 2018	$	13,215	$	14,586	$	27,801
Depreciation for the period		563		-		563
Balance, March 31, 2019	$	13,778	$	14,586	$	28,364

Carrying Value		Furniture and fixtures		Leasehold improvements		Total
Balance, December 31, 2018	$	11,227	$	-	$	11,227
Balance, March 31, 2019	$	10,664	$	-	$	10,664

(Expressed in Canadian Dollars)

5. Rights-of-use assets

IFRS 16 - right-of-use asset recognition	$	100,404
Right-of-use asset at January 1, 2019		**100,404**
Depreciation		(10,052)
Balance, March 31, 2019	$	90,352

Right-of-use assets consist of office space amortized over 22 months and office equipment amortized over 47 months.

Maturity analysis - contractual undiscounted cash flows		
As at March 31, 2019		
Less than one year	$	63,040
Greater than one year		31,670
Total undiscounted lease obligation	$	94,710

6. Lease liabilities

At the commencement date of the leases, the lease liability was measured at the present value of the lease payments that were not paid at that date. Effective interest rate used in the present value calculation is 10%. The continuity of the lease liabilities are presented in the table below:

Balance, December 31, 2018	$	100,404
Interest expense		2,590
Lease payments		(15,761)
Balance, March 31, 2019	$	87,233

As at March 31, 2019		
Less than one year	$	63,040
Greater than one year		24,193
Total lease obligation	$	87,233

7. Promissory notes

The Company holds an unsecured promissory note of $325,000, bearing interest at 18% to be settled with cash and 144,444 common shares, and maturing November 1, 2019.

(Expressed in Canadian Dollars)

8. Share capital

a) Authorized share capital

The authorized share capital consisted of unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

b) Common shares issued

	Number of common shares		Amount
Balance, December 31, 2017	36,485,174	$	2,953,504
Private placements (i),	1,451,200		362,800
Share issuance costs	-		(18,000)
Valuation of warrants, (i)	-		(96,969)
Balance, March 31, 2018	37,936,374	$	3,201,335
Balance, December 31, 2018 and March 31, 2019	64,774,130	$	7,554,973

(i) During the three months ended March 31, 2018, the Company completed bridge financing of a total of 1,451,200 units at $0.25 per unit for gross proceeds of $362,800. Each unit consisted of one common share and one common share purchase warrant, exercisable at a $0.144 expiring on the November 8, 2018.

The fair value of the warrants at issuance was estimated to be $96,969 using the Black-Scholes option pricing model with the following weighted average assumptions share price - $0.20, exercise price - $0.16, dividend yield - 0%; expected volatility (based on comparative companies) - 100%; risk-free interest rate -1.15%; and an expected life - 0.38 years.

9. Stock options

	Number of stock options		Weighted average exercise price
Balance, December 31, 2017, and March 31, 2018	1,144,000	$	0.20
Balance,December 31, 2018 and March 31, 2019	5,192,930	$	0.19

The following table reflects the actual stock options issued and outstanding as of March 31, 2019:

Expiry date	Exercise price ($)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)
November 8, 2019	0.18	0.61	428,930	428,930
November 8, 2020	0.25	1.61	404,000	404,000
February 16, 2021	0.15	1.88	360,000	360,000
November 22, 2023	0.18	4.65	4,000,000	4,000,000
		4.13	5,192,930	5,192,930

(Expressed in Canadian Dollars)

10. Warrants

	Number of warrants		Amount
Balance, December 31, 2017	3,067,000	$	357,445
Issued in private placement (note 8(i))	1,451,200		96,969
Issued (i)	100,000		9,520
Balance, March 31, 2018	4,618,200	$	463,934
Balance, December 31, 2018, and March 31, 2019	11,428,613	$	956,053

(i) In March 2018, the Company issued 100,000 warrants to a consultant for services expiring 2 years from grant. The fair value of the warrants was estimated to be $9,520 using the Black-Scholes option pricing model with the following weighted average assumptions share price - $0.20, exercise price - $0.25, dividend yield - 0%; expected volatility (based on comparative companies) - 100%; risk-free interest rate -1.93%; and an expected life - 2 years.

The following table reflects the actual warrants issued and outstanding as of March 31, 2019:

Expiry date	Exercise price ($)	Number of warrants outstanding	Grant date fair value ($)
August 1, 2019	0.18	1,805,555	126,358
November 8, 2019	0.18	6,621,762	466,104
November 8, 2019	0.18 (1)	1,400,000	196,563
November 8, 2019	0.25	312,000	25,444
November 29,2019	0.25	16,000	1,511
December 15, 2019	0.25	100,000	9,445
March 1, 2020	0.25	100,000	9,520
November 8, 2020	0.25	339,000	47,961
November 8, 2020	0.18	734,296	73,147
	0.18	11,428,613	956,053

(1) Considered a derivative liability as at the time of issuance was exercisable at lesser of $0.25 and the price of the Company's next equity financing unit price ($0.18).

11. Loss per share

For the three months ended March 31, 2019, basic and diluted loss per share has been calculated based on the loss attributable to common shareholders of $553,843 (three months ended March 31, 2018 - $294,540) and the weighted average number of common shares outstanding of 64,774,130 (three months ended March 31, 2018 - 37,088,482). Diluted loss per share did not include the effect of stock options and warrants as they are anti-dilutive.

(Expressed in Canadian Dollars)

12. Related party transactions

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. Remuneration of directors and key management personnel of the Company was as follows:

	March 31, 2019 $	March 31, 2018 $
Salaries and benefits	**40,500**	26,250

The Chief Financial Officer ("CFO") of the Company is a senior employee of Marrelli Support Services Inc. ("MSSI"). During the three months ended March 31, 2019, the Company paid or accrued professional fees of $13,876 (three months ended March 31, 2018 - $1,127) to MSSI. These services were incurred in the normal course of operations for general accounting and financial reporting matters. MSSI also provides bookkeeping services to the Company. As at March 31, 2019, MSSI was owed $2,461 (December 31, 2018 - $2,383) with respect to services provided.

13. Subsequent events

On April 24, 2019 the Company received a statement of claim filed by a former consultant of the Company with the Ontario Superior Court of Justice. The statements claims the Company owes $70,000 for a breach of a contract that began in the 2019 fiscal year. The Company denies the legitimacy of this claim and has attained council to defend the claim. Management does not believe there to be any likelihood of payment to exist and as such there has been nothing accrued in the consolidated financial statements with regards to this claim.