Condensed Consolidated Interim Financial Statements of

Zonetail Inc.

For the three months ended
March 31, 2021 and March 31, 2020
(Expressed in Canadian Dollars)

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements (the “Financial Statements”) for Zonetail Inc. (the "Company") have been prepared by management in accordance with International Financial Reporting Standards consistently applied (“IFRS”). These financial statements have been prepared on a historical cost basis with the exception of financial instruments classified as fair value through profit and loss. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

NOTICE OF NO AUDITOR REVIEW OF REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited condensed consolidated interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Zonetail Inc.
Condensed Consolidated Interim Statements of Financial Position
(In Canadian dollars)

As at	**March 31 2021 $**	December 31 2020 $
ASSETS		
Current		
Cash	**667,187**	149,494
Trade and other receivables (note 5)	**38,266**	71,907
Prepaid expenses	**37,425**	15,318
	742,878	236,719
Non-current		
Property and equipment (note 6)	**-**	6,933
	742,878	243,652
LIABILITIES		
Current		
Trade and other payables	**259,828**	370,629
Convertible debentures and notes (note 9)	**408,951**	416,063
Promissory note (note 10)	**325,000**	325,000
Due to related parties (note 12)	**15,941**	18,250
	1,009,720	1,129,942
SHAREHOLDERS' DEFICIENCY		
Share capital, subscription receipts, warrants, share based compensation (note 11)	**10,040,152**	9,059,728
Deficit	**(10,308,994)**	(9,946,018)
	(266,842)	(886,290)
	742,878	243,652

The accompanying notes are an integral part of these condensed consolidated interim financial statements.
Nature of operations and going concern (note 1)

Approved on behalf of the board:

(signed) "Mark Holmes"
Director

(signed) "Paul Scott"
Director

Zonetail Inc.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(In Canadian dollars)

	For the three months ended	
	March 31 2021	March 31 2020
	$	$
Revenue	**21,011**	10,485
Operating expenses		
Salaries and benefits (note 12)	**139,148**	108,225
Software development and maintenance expense	**79,000**	-
Professional fees	**59,014**	54,833
Interest expense (note 9 and 10)	**22,164**	27,525
Share-based compensation (notes 11 and 12)	**38,009**	4,280
Consulting fees	**16,701**	-
General and administrative	**9,389**	2,912
Web hosting and maintenance	**7,042**	5,290
Travel and marketing	**1,000**	-
Rent	**3,587**	242
Amortization of right-of-use asset (note 7)	**-**	15,000
Depreciation of property and equipment	**6,933**	550
	381,987	218,857
Net loss and comprehensive loss for the period	**360,976**	208,012
Loss per share basic and diluted	**0.00**	0.00
Weighted average number of shares outstanding basic and diluted	**141,016,248**	64,784,130

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

Zonetail Inc.

Consolidated Statements of Cash Flows

(In Canadian dollars)

	For the three months ended March 31 2021 $	March 31 2020 $
Operating activities		
Comprehensive loss for the period	**(360,976)**	(208,012)
Adjustment for non-cash items:		
Depreciation of property and equipment	**6,933**	550
Amortization of right-of-use assets	**-**	15,000
Share based compensation	**38,009**	4,280
Convertible debenture accretion	**21,860**	5,465
Interest expense	**8,820**	8,726
Lease interest	**-**	4,280
Net change in non-cash working capital balances related to operating activities:		
Trade and other receivables	**33,641**	11,880
Prepaid expenses	**(22,107)**	4,453
Trade and other payables	**(110,801)**	155,000
Due to related parties	**11,375**	9,125
Net cash provided from (used in) operating activities	**(395,106)**	(6,467)
Financing activities		
Exercise of warrants	**892,799**	-
Proceeds from government loan	**20,000**	-
Repayment of lease liability	**-**	(17,560)
Net used in from financing activities	**912,799**	(17,560)
Net increase (decrease) in cash	**517,693**	(11,093)
Cash, beginning of the period	**149,494**	11,722
Cash, end of the period	**667,187**	629

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

Zonetail Inc.

Condensed Consolidated Interim Statements of Changes in Deficiency

(In Canadian dollars)

	Share capital		Warrants	Equity portion of debentures	Share based compensation	Sub-total	Deficit	Total
	#	$	$	$	$	$	$	$
Balance, December 31, 2019	**64,774,130**	**7,151,315**	**140,992**	**43,838**	**539,203**	**7,875,348**	**(8,969,613)**	**(1,094,265)**
Warrants expired	-	-	(15,899)	-	-	(15,899)	15,899	-
Share based compensation	-	-	-	-	4,280	4,280	-	4,280
Net loss for the period	-	-	-	-	-	-	(208,012)	(208,012)
Balance, March 31, 2020	**64,774,130**	**7,151,315**	**125,093**	**43,838**	**543,483**	**7,863,729**	**(9,161,726)**	**(1,209,997)**
Private placement	64,774,130	1,295,483	-	-	-	1,295,483	-	1,295,483
Share issuance costs	-	(112,672)	28,404	-	-	(84,268)	-	(84,268)
Common shares issued for det settlement	1,585,000	79,250	-	-	-	79,250	-	79,250
Exercise of warrants	82,500	5,500	(1,375)	-	-	4,125	-	4,125
Warrants expired	-	-	(125,093)	-	-	(125,093)	140,992	-
Share based compensation	-	-	-	-	133,874	133,874	-	133,874
Stock options expired	-	-	-	-	(103,092)	(103,092)	103,092	-
Net loss for the year	-	-	-	-	-	-	(1,220,489)	(1,220,489)
Balance, December 31, 2020	**131,215,760**	**8,418,876**	**27,209**	**43,838**	**569,985**	**9,059,728**	**(9,946,018)**	**(886,290)**
Common shares issued for det settlement	781,324	49,616	-	-	-	49,616	-	49,616
Exercise of warrants	17,855,950	893,301	(502)	-	-	893,301	-	893,301
Share based compensation	-	-	-	-	38,009	38,009	-	38,009
Net loss for the period	-	-	-	-	-	-	(390,976)	(390,976)
Balance, March 31, 2021	**149,853,034**	**9,361,793**	**26,537**	**43,838**	**607,994**	**10,040,152**	**(10,306,994)**	**(266,842)**

The accompanying notes are an integral part of these condensed consolidated interim financial 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 70 University Avenue, Suite 1460, Toronto, Ontario, Canada.

Zonetail provides mobile platforms to hotels and condominiums connecting the guests of a hotel and the residents of a high-rise buildings to the amenities and services of their building through 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” and the OTCQB under the symbol “ZTLLF”.

The condensed consolidated interim 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 $10,308,994 as at March 31, 2021 (December 31, 2019 - $9,946,018). 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, 2021 of $360,976 (three months ended March 31, 2020 - $208,012).

As the Company continues to develop its core offerings, it will require additional financing to meet its working capital requirements. These conditions indicate a material uncertainty that may 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.

Since March 2020, several governmental measures have been implemented in Canada and the rest of the world in response to the coronavirus (COVID-19) pandemic. While the impact of COVID-19 and these measures are expected to be temporary, the current circumstances are dynamic and the continued impacts of COVID-19 on the Company’s business operations cannot be reasonably estimated at this time. The Company anticipates this could have a further adverse impact on its business, results of operations, financial position and cash flows in 2021. The Company continues to operate its business, and in response to Federal and Provincial emergency measures, has requested that its employees and consultants work remotely wherever possible. The Company is evaluating the best way to move its business activities forward during this pandemic and when the emergency measures are lifted.

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 27, 2021, 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, 2020, 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, 2021 could result in restatement of these unaudited condensed interim consolidated financial statements.

3. Capital risk management

The Company manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- to maximize shareholder return through enhancing the share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.

The Company considers its capital to be equity, which comprises share capital, subscription receipt costs, warrants, contributed surplus and deficit, which at March 31, 2021 totaled a deficit of $266,842 (December 31, 2020 - deficit of $886,290).

The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. Selected information is provided to the Board of Directors of the Company. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body.

4. Financial instruments

Financial risk
The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate and foreign currency risk).

Risk management is carried out by the Company's management team under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management. There were no changes to credit risk, liquidity risk or market risk for the three months ended March 31, 2021.

<u>Credit risk</u>
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's financial instruments that are exposed to concentrations of credit risk relate primarily to cash and cash equivalents, trade and other accounts receivables. The Company mitigates its risk by maintaining its funds with large reputable financial institutions. Management assesses the credit quality of the borrower for receivables.

(In Canadian dollars)

Liquidity risk
Liquidity risk is the risk that the Company encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Company will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value, which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from accounts payable and accrued liabilities, promissory note, convertible debentures and commitments. The Company limits its exposure to this risk by closely monitoring the cash flow. All liabilities are due with 1 year.

Market risk
Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

Interest rate risk
The Company currently does not have any short-term or long-term debt that is variable interest bearing.

Foreign currency risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The Company enters into foreign currency purchase transactions and has assets that are denominated in foreign currencies and thus is exposed to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company does not currently use derivative instruments to reduce its exposure to foreign currency risk.

5. Trade and other receivables

	March 31 2021 $	December 31 2020 $
Sales tax receivable	**17,756**	29,662
Trade receivable	**20,510**	42,245
	38,266	71,907

6. Property and equipment

	Furniture and fixtures $
Cost	
Balance, December 31 2019 and December 31, 2020 and March 31, 2021	**24,442**
Accumulated depreciation	
Balance, December 31, 2019	**15,431**
Depreciation for the year	2,078
Balance, December 31, 2020	**17,509**
Depreciation for the period	6,933
Balance, March 31, 2021	**24,442**

(In Canadian dollars)

Carrying value	
December 31, 2020	**6,933**
March 31, 2021	**-**

9. Convertible debentures and notes

As at	**March 31 2021**	December 31 2020
	$	$
Convertible debentures	**350,000**	350,000
Government loan	**60,000**	40,000
Interest and accretion	**15,606**	43,418
Unaccreted portion of convertible debentures	**(16,655)**	(17,355)
	408,951	416,063

During December 2019, the Company issued $30,000 of notes payable, the proceeds included commitment fees of $5,000 and bore interest at 20% per annum. The notes were repayable 12 months from date of advance or upon completion of an equity financing in excess of $250,000. During the year ended December 31, 2020, all of the notes were repaid.

On October 16, 2019, the Company closed a non-brokered private placement of convertible debenture securities generating aggregate gross proceeds of $350,000. The private placement involves the issuance of unsecured convertible notes bearing interest at 10% per annum, with a 24-month term from issuance and providing for a conversion price of $0.06 per share. The notes are convertible if the Company's shares trade in excess of $0.10 over any period of 10 trading days during the term, whether or not consecutive. The notes may also be extended for an additional 12 months by the Company or may be prepaid, subject in each case to certain bonus payments. The Company may, at its option, make payment of such interest and bonus amounts due in cash or in common shares, subject to the receipt of any required regulatory or stock exchange approvals.

For accounting purposes, the convertible debentures have been separated into liability and equity components using the effective interest rate method. The fair value of the liability component of the convertible debentures at the time of issue was calculated as being equivalent to the discounted cash flows for the debentures assuming an effective interest rate of 18%. The effective interest rate was based on the estimated rate for a debenture without a conversion feature. The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the face value of the convertible debenture and the fair value of the liability component.

On May 5, 2020 and January 14, 2021, the Company received a Canadian Emergency Business Account loan in the amount of $40,000 and $20,000 respectively. The loan is interest free until December 31, 2022, with $20,000 forgivable if $40,000 is repaid by December 31, 2022.

10. Promissory note

The Company issued 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. The note is currently in default, with the Company disputing the amount owing and the non-performance of services by the noteholder which were paid for in advance by the Company.

(In Canadian dollars)

11. Shareholders' equity

Authorized share capital
The Company is authorized to issue an unlimited number of common shares.

	Common shares issued	
	#	$
Balance, December 31, 2019	**64,774,130**	**7,151,315**
Private placement	64,774,130	1,295,483
Share issuance costs	-	(112,670)
Common shares issued for debt settlement	1,585,000	79,250
Exercise of warrants	82,500	5,500
Balance, December 31, 2020	**131,215,760**	**8,418,876**
Common shares issued for debt settlement	182,453	13,684
Common shares issued for payment of interest	598,871	35,932
Exercise of warrants	17,938,450	893,301
Balance, March 31, 2021	**149,853,034**	**9,361,793**

On June 2, 2020 and July 3, 2020, the Company completed a private placement (the "Offering"). The Offering consisted of units of the Company (the "Units") being issued at a price of $0.02 per Unit, with each Unit being comprised of one common share (a "Share") and one whole common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one additional Share of the Company at an exercise price of $0.05, for a period of twelve months from the closing date of the Offering.

The first tranche consisted of 23,960,000 Units, for gross proceeds of $479,200. The Company paid finders cash compensation of $13,272 and issued 663,600 finders warrants of the Company ("Finders Warrants"). Each Finder Warrant entitles the holder to purchase one Share of the Company at an exercise price of $0.05, for a period of twelve months from the closing date of the Offering.

The second tranche consisted of 40,814,130 Units, for gross proceeds of $816,283. The Company paid finders fees a cash compensation of $26,100 and issued 1,305,000 Finders Warrants of the Company. Each Finder Warrant entitles the holder to purchase one Share of the Company at an exercise price of $0.05, for a period of twelve months from the closing date of the second tranche.

In total, the Company issued an aggregate of 64,774,130 Units, for gross proceeds of $1,295,483. The Company also paid finders cash compensation of $39,372 and issued 1,968,600 finders warrants of the Company.

As at March 31, 2021, cumulative share issuance costs totaled $516,330 (December 31, 2020 - $516,330).

(In Canadian dollars)

Warrants

	Number of warrants #	Amount $
Balance, December 31, 2019	**1,173,296**	**140,992**
Private placement warrants	64,774,130	-
Finder fee warrants	1,968,600	28,404
Exercised	(82,500)	(1,375)
Expired	(1,173,296)	(140,992)
Balance, December 31, 2020	**66,660,230**	**27,029**
Exercised	(17,938,450)	(502)
Balance, March 31, 2021	**48,804,280**	**26,527**

The composition of the outstanding warrants as at March 31, 2021 consists of the following:

	Expiry date	Number	Exercise Price
Warrants	June 2, 2021	20,960,000	$0.05
Finder warrants	June 2, 2021	581,100	$0.05
Warrants	July 2, 2021	25,989,130	$0.05
Finder warrants	July 2, 2021	1,274,050	$0.05
		48,804,280	

Share based compensation
The Company adopted a fixed stock option plan (the "Plan") whereby the Board of Directors may grant to employees, officers, directors, management consultants and external consultants of the Company or of its subsidiary thereof, options to acquire common shares in such numbers, for such terms and at such exercise prices as may be determined by the Board. The exercise price of each option may not be lower than the market price of the common shares at the time of the grant of the options. The options vest at the date of the grant unless additional restrictions on the vesting of the options are imposed by the Board of Directors except for the consultants working in investor relations, whose options are vested in quarterly installments over a twelve-month period from grant. The option period is a period of time fixed by the Board of Directors but cannot exceed 5 years.

	Options #	Weighted average exercise price $
Balance, December 31, 2019	**4,764,000**	**0.16**
Granted	8,050,000	0.05
Expired	(654,000)	0.18
Balance, December 31, 2020	**12,160,000**	**0.09**
Granted	30,000	0.075
Balance, March 31, 2021	**12,190,000**	**0.09**
Exercisable at March 31, 2021	**7,735,000**	**0.12**

(In Canadian dollars)

A summary of the outstanding stock options is presented below:

Date of grant	**Remaining life**	**Number of options #**	**Exercise price $**
February 16, 2016	1.89 years	360,000	0.15
November 22, 2018	2.65 years	2,750,000	0.18
October 30, 2019	3.60 years	1,000,000	0.09
July 16, 2020	4.31 years	7,300,000	0.05
September 15, 2020	4.48 years	750,000	0.05
January 4, 2021	0.77 years	30,000	0.075
		12,160,000	

On January 4, 2021, the Company granted a consultant 30,000 stock options at an exercise price of $0.075 per share exercisable until January 4, 2022. The options vest immediately. The fair value of the options was estimated to be $863 using the Black-Scholes option pricing model with the following weighted average assumptions share price - $0.075, dividend yield - 0%; expected volatility – 100%; risk-free interest rate – 0.18%; and an expected life - 1 years.

On September 15, 2020, the Company granted an investor relations provider 750,000 stock options at an exercise price of $0.05 per share exercisable until September 15, 2025. The options vest over 2 years. The fair value of the options was estimated to be $18,100 using the Black-Scholes option pricing model with the following weighted average assumptions share price - $0.035, dividend yield - 0%; expected volatility – 100%; risk-free interest rate – 0.32%; and an expected life - 5 years.

On July 16, 2020, the Company granted officers, directors and employees a total of 7,300,000 stock options at an exercise price of $0.05 per share exercisable until July 16, 2025. The options vest over 18 months. The fair value of the options was estimated to be $176,084 using the Black-Scholes option pricing model with the following weighted average assumptions share price - $0.035, dividend yield - 0%; expected volatility – 100%; risk-free interest rate – 0.27%; and an expected life - 5 years.

On October 30, 2019, the Company granted an officer 1,000,000 stock options at an exercise price of $0.09 per share exercisable until October 20, 2024. The options vest over 2 years. The fair value of the options was estimated to be $29,317 using the Black-Scholes option pricing model with the following weighted average assumptions share price - $0.05, dividend yield - 0%; expected volatility – 100%; risk-free interest rate – 1.88%; and an expected life - 5 years.

12. Key management compensation and 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:

	For the three months ended March 31	
	2021	2020
	$	$
Salaries and benefits	**85,295**	61,500
Share based compensation	**30,988**	4,280

Due to related parties includes $15,941 accrued for director's fees which have no terms of repayment and are unsecured.

During the year ended December 31, 2020 the Company entered into a promissory note with a director in the amount of $13,559, the note bore interest at 20% per annum and was due on demand. On July 15, 2020, the note was repaid.

13. Commitments and contingencies

On December 19, 2019, the Company served Belgravia Capital International Inc. ("Belgravia") with a statement of claim in the aggregate amount of $6,173,000 plus a declaration that the promissory note owed to Belgravia (see note 10) in the amount of $325,000 is not due or owing. On June 27, 2019 Belgravia brought an action of insolvency against the Company. Belgravia took no further steps in this action. The Company has asserted a right of off-set based on its position that Belgravia has breached the parties' management services agreements, for which Belgravia was paid by Zonetail, Belgravia's lack of investor relations guidance and for other wrongdoing, caused and continues to cause substantial consequential damages to the Company. On August 17, 2020, the action of insolvency was dismissed. On September 28, 2020, Belgravia filed a statement of defense and counterclaim in the amount of $2,500,000. The statement of claim and counterclaim remains unsettled.

14. Loss per share

For the year ended December 31, 2020, basic and diluted loss per share has been calculated based on the loss attributable to common shareholders of $1,220,489 (year ended December 31, 2019 - $1,879,942) and the weighted average number of common shares outstanding of 99,324,913 (year ended December 31, 2019 - 64,774,130). Diluted loss per share did not include the effect of stock options and warrants as they are anti-dilutive.

15. Subsequent events

From April 1, 2021 to May 27, 2021 a total of 11,360,000 warrants were exercised for gross proceeds of $568,000.