

HIT Technologies Inc.

Consolidated Financial Statements

June 30, 2017 and 2016

(expressed in Canadian dollars)



December 18, 2017

Independent Auditor's Report

To the Shareholders of HIT Technologies Inc.

We have audited the accompanying consolidated financial statements of HIT Technologies Inc., which comprise the consolidated statements of financial position as at June 30, 2017 and 2016 and the consolidated statements of operations and comprehensive loss, changes in shareholders' (deficiency) equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of HIT Technologies Inc. as at June 30, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about HIT Technologies Inc.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

HIT Technologies Inc.

Consolidated Statements of Financial Position

As at June 30, 2017 and 2016

(expressed in Canadian dollars)

	2017 \$	2016 \$
Assets		
Current assets		
Cash and cash equivalents	60,346	355,607
Restricted cash (note 7)	12,415	12,412
Accounts receivable (note 8)	10,994	40,355
Other receivables	-	23,217
Government assistance receivable	37,000	65,887
Inventory (note 3)	374,429	471,436
Prepaid expenses and deposits	133,677	190,768
	<u>628,861</u>	<u>1,159,682</u>
Property and equipment (note 4)	83,779	290,114
Intangible assets (note 5)	239,982	214,058
	<u>952,622</u>	<u>1,663,854</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	767,198	760,730
Deferred revenue	134,800	62,786
Current portion of capital lease liability (note 11)	-	7,227
	<u>901,998</u>	<u>830,743</u>
Convertible notes (note 12)	889,852	-
Capital lease liability (note 11)	-	30,413
	<u>1,791,850</u>	<u>861,156</u>
Shareholders' (Deficiency) Equity		
Share capital (note 13)	10,025,712	9,865,699
Contributed surplus	1,047,958	838,311
Deficit	(11,912,898)	(9,901,312)
	<u>(839,228)</u>	<u>802,698</u>
	<u>952,622</u>	<u>1,663,854</u>
Going concern (note 1)		
Commitments (note 18)		
Subsequent events (note 20)		

Approved and authorized for issue by the Board of Directors

_____ Director _____ Director

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

HIT Technologies Inc.

Consolidated Statements of Operations and Comprehensive Loss For the years ended June 30, 2017 and 2016

(expressed in Canadian dollars)

	2017 \$	2016 \$
Revenue	735,249	1,720,128
Cost of sales	497,600	1,168,794
	<u>237,649</u>	<u>551,334</u>
Expenses		
Selling and marketing (note 10)	518,189	1,339,042
General and administrative (notes 9 and 10)	1,243,130	1,683,140
Stock-based compensation	129,688	252,773
Depreciation	157,453	207,506
Loss on writeoff of equipment	89,081	-
Research and development - net of tax credits of \$37,000 (2016 - \$nil)	29,275	326,381
	<u>2,166,816</u>	<u>3,808,842</u>
Loss before other income (expense)	<u>(1,929,167)</u>	<u>(3,257,508)</u>
Other income (expense)		
Finance costs	(79,651)	(7,241)
Foreign exchange (loss) gain	(2,768)	6,801
	<u>(82,419)</u>	<u>(440)</u>
Loss and comprehensive loss for the year	<u>(2,011,586)</u>	<u>(3,257,948)</u>
Basic and diluted loss per share	(0.03)	(0.07)
Weighted average number of shares outstanding	69,305,395	46,004,658

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

HIT Technologies Inc.

Consolidated Statements of Changes in Shareholders' (Deficiency) Equity For the years ended June 30, 2017 and 2016

(expressed in Canadian dollars)

	Number of shares	Share capital \$	Contributed surplus \$	Deficit \$	Total shareholders' equity (deficiency) \$
Balance - June 30, 2015	42,769,589	9,158,838	349,918	(6,643,364)	2,865,392
Shares issued towards financial advisory fee	1,000,000	-	-	-	-
Private placement units issued for cash (net of expenses of \$373,919) (note 13)	23,600,000	706,861	235,620	-	942,481
Stock-based compensation expense	-	-	252,773	-	252,773
Loss for the year	-	-	-	(3,257,948)	(3,257,948)
Balance - June 30, 2016	67,369,589	9,865,699	838,311	(9,901,312)	802,698
Shares issued on settlement of amounts owing (notes 9 and 13)	439,359	21,968	-	-	21,968
Private placement (note 13)	3,040,000	138,045	13,955	-	152,000
Stock-based compensation expense	-	-	129,688	-	129,688
Loss for the year	-	-	-	(2,011,586)	(2,011,586)
Equity component of convertible debenture (note 12)	-	-	66,004	-	66,004
Balance - June 30, 2017	70,848,948	10,025,712	1,047,958	(11,912,898)	(839,228)

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

HIT Technologies Inc.
Consolidated Statements of Cash Flows
For the years ended June 30, 2017 and 2016

(expressed in Canadian dollars)

	2017	2016
	\$	\$
Cash flows from operating activities		
Loss for the year	(2,011,586)	(3,257,948)
Items not involving cash		
Interest expense	32,805	-
Stock-based compensation	129,688	252,773
Depreciation	157,453	207,506
Loss on writeoff of equipment	89,081	-
	<u>(1,602,559)</u>	<u>(2,797,669)</u>
Changes in non-cash working capital items		
Accounts receivable	29,361	(8,035)
Other receivables	23,217	21,700
Government assistance receivable	28,887	77,465
Inventory	97,007	(156,582)
Prepaid expenses and deposits	57,091	(135,417)
Accounts payable and accrued liabilities	6,468	(252,341)
Deferred revenue	72,014	(52,558)
	<u>(1,288,514)</u>	<u>(3,303,437)</u>
Cash flows from investing activities		
Restricted cash	(3)	118,234
Acquisition of property and equipment	(66,674)	(94,895)
Acquisition of intangible assets	(32,596)	(88,681)
	<u>(99,273)</u>	<u>(65,342)</u>
Cash flows from financing activities		
Share capital issuance	173,968	942,481
Net proceeds from convertible notes	923,052	-
Lease liability	(4,494)	(7,230)
	<u>1,092,526</u>	<u>935,251</u>
Decrease in cash and cash equivalents	<u>(295,261)</u>	<u>(2,433,528)</u>
Cash and cash equivalents - Beginning of year	<u>355,607</u>	<u>2,789,135</u>
Cash and cash equivalents - End of year	<u>60,346</u>	<u>355,607</u>
Non-cash transactions		
Leased asset	-	(37,640)
Lease liability	-	37,640

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

HIT Technologies Inc.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(expressed in Canadian dollars)

1 Nature of operations and going concern

HIT Technologies Inc. (the “Company”), formerly known as Friday Capital Inc., was incorporated on February 3, 2012 under the Business Corporations Act (Ontario). 1039219 B.C. Ltd (“HIT”), a wholly owned subsidiary of the Company is in the business of developing, manufacturing and selling accessories for mobile devices. The Company’s registered and records office is located at #105 - 2050 Scotia Street, Vancouver, BC, V5T 4T1.

The Company began trading on the TSX Venture Exchange (the “TSXV”) under the symbol “HIT” on June 16, 2015, after the completion of a three-cornered amalgamation with Friday Capital Inc. (“Friday”), a capital pool company incorporated under the *Business Corporations Act (Ontario)*. In accordance with the policies of the TSXV, Friday completed its qualifying transaction (“Qualifying Transaction”) on June 10, 2015 with HIT Technologies Inc. (“HIT Tech”), a private company pursuant to the terms of a business combination agreement between Friday, HIT Tech and 1030937 B.C. Ltd. (“1030937”), a subsidiary of Friday incorporated under the *Business Corporation Act (British Columbia)*. After the completion of the Qualifying Transaction, Friday’s name was changed to HIT Technologies Inc. HIT Tech and 1030937 amalgamated and became 1039219 B.C. Ltd., a wholly owned subsidiary of HIT. The Qualifying Transaction was accounted for as a reverse takeover.

HIT Tech was incorporated under the *Business Corporations Act (British Columbia)* on July 8, 2008, under the name Iceberg Commerce Inc. (“Iceberg”). Iceberg’s name was changed to Hit Technologies Inc. on April 15, 2014.

These consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. For the year ended June 30, 2017, the Company has incurred a loss of \$2,011,586 (year ended June 30, 2016 - loss of \$3,257,948), negative cash flows from operating activities of \$1,288,514 (year ended June 30, 2016 - \$3,303,437), and an accumulated deficit of \$11,912,898 at June 30, 2017 (June 30, 2016 - accumulated deficit of \$9,901,312). These conditions indicate the existence of a material uncertainty that may cast significant doubt regarding the Company’s ability to continue as a going concern.

The continued operations of the Company are dependent on its ability to generate future cash flows from operations and to obtain external financing. Since the Company’s Qualifying Transaction, the Company has launched several product lines, the Hitcase Pro, the Hitcase Snap and the Hitcase Shield. Even with these new product lines, the Company has not generated sufficient cash flow from operations. Revenues have declined on a year over year basis, but the Company continues to seek new distribution partners to increase revenues as well as increasing its direct sales through better conversion rates.

The Company undertook a reduction in its operating expenditures in the prior fiscal year which continued into the current fiscal year, reducing its loss from operations, on a year over year basis, by \$1,246,362 for the year ended June 30, 2017. In addition, the Company has slowed payments to its suppliers, in some cases negotiating extended payment terms with certain suppliers. Through these measures, the Company has been managing its working capital and expects that these strategies will be an integral part of managing its working capital going forward, until it generates sufficient revenues or obtains additional external financing.

HIT Technologies Inc.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(expressed in Canadian dollars)

The Company realized net proceeds from external financing during the year ended June 30, 2017 of \$1,125,330, completing the three tranches of private placements of secured convertible debentures for net proceeds of \$955,857 and two equity issues of common shares and Units for net proceeds of \$173,968. Subsequent to the year-end, the Company completed a fourth tranche of private placements of secured convertible debentures for gross proceeds of \$57,000 and an equity issuance of Units for gross proceeds of \$157,500.

Management is of the opinion that the combination of sales, lower operating costs, extended terms with suppliers and additional external financing, the Company will have the working capital to meet its liabilities and commitments as they become due. There is a risk that these measures will not be sufficient and that additional financing will not be available on a timely basis or on terms acceptable to the Company.

These consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements. These adjustments could be material.

2 Significant accounting policies

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is also the Company’s functional currency.

Intercompany balances and transactions, and unrealized gains arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires the Company’s management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Significant areas requiring the use of estimates include the collectibility of accounts receivable, valuation of inventory, the useful lives and recoverability of long-lived assets, and deferred income tax asset valuation allowances and allocation fair value of convertible note components. Actual results could differ from those estimates.

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. The Company uses critical accounting judgments in accounting for business combinations and stock-based compensation.

HIT Technologies Inc.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(expressed in Canadian dollars)

Cash and cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in fair value to be cash equivalents.

Accounts receivable

Accounts receivable represent amounts owed from customers for the sale of products and are presented net of the allowance for doubtful accounts which represents the Company's best estimates of the amount of probable credit losses in the existing accounts receivable balance. The Company determines allowance for doubtful accounts based upon historical experience and current economic conditions. The Company reviews the adequacy of its allowance for doubtful accounts on a regular basis.

Inventory

Inventory consists of finished goods, accessories for mobile devices and components used in the manufacture of those accessories. Inventory is stated at the lower of cost or net realizable value. The cost of inventories is based on the first-in, first-out principle.

Property and equipment

Property and equipment are stated at historical cost net of accumulated depreciation and any impairment losses. Depreciation is recorded over the useful lives of the assets on a straight-line basis with a half-year's provision in the year of acquisition at the following annual rates:

Automotive	20%
Marketing assets	33%
Computer equipment	33%
Computer software	50%
Furniture and fixtures	20%
Equipment	33%

Intangible assets

Intangible assets are initially recorded at cost. Intangible assets with finite useful lives are amortized using the straight-line method over the remaining life of the intangible asset:

Patents	20 years
Trademarks	10 to 15 years

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for intangible assets and any changes arising from the assessment are applied by the Company prospectively.

HIT Technologies Inc.

Notes to Consolidated Financial Statements

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(expressed in Canadian dollars)

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If indicators exist, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit or "CGU").

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

In respect of assets other than goodwill and intangible assets that have indefinite useful lives, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed in a subsequent period when there has been an increase in the recoverable amount of a previously impaired asset or CGU. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported on the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

HIT Technologies Inc.

Notes to Consolidated Financial Statements

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(expressed in Canadian dollars)

At initial recognition, the Company classifies its financial instruments into the following categories depending on the purpose for which the instruments were acquired:

a) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The Company's loans and receivables comprise cash and cash equivalents, trade and accounts receivable and government assistance receivable, and are included in current assets due to their short-term nature.

b) Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been impacted.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

An impairment loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate.

The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of operations.

With the exception of available-for-sale equity instruments, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of available-for-sale equity securities, impairment losses previously recognized through the consolidated statement of operations are not reversed through the consolidated statement of operations. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

HIT Technologies Inc.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(expressed in Canadian dollars)

c) Financial liabilities at amortized cost

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the date on which the Company becomes a party to the contractual provisions of the instrument.

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities and capital lease liability.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation, and it is probable that an outflow of economic benefits will be required to settle the obligation and it can be estimated reliably.

Revenue recognition

The Company recognizes and accounts for revenue as a principal on the sale of goods in accordance with International Accounting Standards ("IAS") IAS 18 - *Revenue*. Revenue consists of sale of accessories for mobile devices and is recognized only when: (i) persuasive evidence of an arrangement exists; (ii) the product has been delivered to a customer and title has been transferred or services have been rendered; (iii) the sales price is fixed and determinable; and (iv) collection is reasonably assured. This generally occurs when the product is shipped. Revenue is measured at the fair value of the consideration received, net of returns, discounts, sales tax or duty. Deferred revenue includes revenue in advance of the product being shipped to the customer.

Income taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in the consolidated statement of operations. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

HIT Technologies Inc.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(expressed in Canadian dollars)

Deferred income tax

Deferred income tax is provided using the consolidated statement of financial position method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

Foreign currency translation

The Company's functional and reporting currency is the Canadian dollar. Transactions denominated in foreign currencies are translated using the exchange rate in effect on the transaction date or at an average rate. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the consolidated statement of financial position date. Non-monetary items are translated using the historical rate on the date of the transaction. Foreign exchange gains and losses are included in the consolidated statement of operations.

Comprehensive income (loss)

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in the consolidated statement of operations. The Company does not have items representing comprehensive income (loss).

Income (loss) per share

Basic income (loss) per share is computed using the weighted average number of common shares outstanding during the year. The treasury stock method is used for the calculation of diluted loss per share, whereby all "in the money" stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per share is the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive.

HIT Technologies Inc.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(expressed in Canadian dollars)

Government assistance

Government grants are recognized where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Reimbursements of eligible costs pursuant to government assistance programs are recorded as revenue when there is reasonable assurance regarding collection of the claim. Any claim not settled by the consolidated statement of financial position date is recorded as a receivable. The determination of the amount of the claim, and hence the receivable amount, requires management to make calculations based on its interpretation of eligible expenditures in accordance with the terms of the programs. The reimbursement claims submitted by the Company are subject to review by the relevant government agencies. Although the Company has used its best judgment and understanding of the related program agreements in determining the receivable amount, it is possible that the amount could increase or decrease by a material amount in the near term depending on the review and audit by the government agency. The benefits of investment tax credits for scientific research and development expenditures are recognized in the year the qualifying expenditure is made provided there is reasonable assurance of recoverability. The investment tax credit reduces the expenditures for research and development expense.

Research and development costs

Research costs are charged as an expense in the period in which they are incurred. Development costs are charged as an expense in the period in which they are incurred unless certain criteria, including technical feasibility, intent and ability to develop and use the technology, are met for capitalization and amortization. No development costs have been capitalized to date.

Stock-based compensation

The Company grants stock options to employees and directors of the Company. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each option is measured at the date of grant using the Black-Scholes option pricing model. Stock-based compensation expense is recognized over the option's vesting period by increasing contributed surplus based on the number of awards expected to vest. This number of options expected to vest is reviewed at least annually, with any change in estimate recognized immediately in compensation expense with a corresponding adjustment to contributed surplus. All stock options are equity settled.

HIT Technologies Inc.

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Accounting standards issued but not yet effective

The following new accounting standards, amendments and interpretations, that have not been early adopted in these consolidated financial statements, will or may have an effect on the Company's future results and financial position:

Revenue recognition

In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers*, which supersedes IAS 11 - *Construction Contracts*; IAS 18 - *Revenue*; Interpretations issued by the IFRS Interpretations Committee of the IASB ("IFRIC") IFRIC 13 - *Customer Loyalty Programmes*; IFRIC 15 - *Agreements for the Construction of Real Estate*; IFRIC 18 - *Transfers of Assets from Customers*; and Interpretations issued by the Standing Interpretations Committee ("SIC") SIC 31 - *Revenue - Barter Transactions Involving Advertising Services*. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 - *Financial Instruments* ("IFRS 9") to replace IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. IFRS 9 also includes a substantially reformed approach to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

Annual improvements

In December 2013, the IASB issued the Annual Improvements 2010-2012 and 2011-2013 cycles, effective for annual periods beginning on or after July 1, 2014. In September 2014, the IASB issued the Annual Improvements 2012-2014 cycle, effective for annual periods beginning on or after July 1, 2016. These Annual Improvements made necessary but non-urgent amendments to existing IFRSs. These amendments are not expected to have a significant impact on the Company's consolidated financial statements.

HIT Technologies Inc.

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(expressed in Canadian dollars)

Leases

The IASB adopted IAS 16 - *Leases* in January 2016, effective for financial years beginning on or after January 1, 2019. The new standard requires a lessee to recognize a “right-of-use” asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee recognizes depreciation of the right-of-use asset and interest on the lease liability and also classifies cash repayments of the lease liability into a principal portion and an interest portion. Assets and liabilities are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

Effective for its financial year ending June 30, 2020, the Company will be required to reflect an asset and related liability for any relevant lease. The Company has not yet quantified the impact this will have on its financial position.

3 Inventory

	2017 \$	2016 \$
Component inventory	28,512	106,937
Finished goods	345,917	364,499
	<u>374,429</u>	<u>471,436</u>

Cost of inventory recognized as expense in cost of sales for the year ended June 30, 2017 totalled \$497,600 (2016 - \$1,168,794). Inventory writedowns included in cost of sales during the year was \$64,195 (2016 - \$nil).

4 Property and equipment

Property and equipment are stated at historical cost net of accumulated depreciation and any impairment losses. In the first quarter, the Company reviewed the useful life and the method of depreciation related to its property and equipment. The Company determined that based on recent historical experience that a change to both the useful life and method of depreciation was required effective July 1, 2015. This was a change in estimate and was accounted for prospectively, there was no restatement in property and equipment. The changes are outlined in the following table:

	Old method and rates		New method and rates	
Automotive	Straight-line	20%	Straight-line	20%
Marketing assets	Declining balance	20%	Straight-line	33%
Computer equipment	Declining balance	55%	Straight-line	33%
Computer software	Declining balance	100%	Straight-line	50%
Furniture and fixtures	Declining balance	20%	Straight-line	20%
Equipment	Declining balance	20%	Straight-line	33%

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The effect of these changes on future years' depreciation expense are as follows:

			2017 \$	2018 \$	2019 \$	Later \$
Increase in depreciation expense			66,321	3,601	(31,393)	(124,245)

	Automotive \$	Marketing assets \$	Computer equipment \$	Computer software \$	Furniture and fixtures \$	Equipment \$	Total \$
Cost							
Balance - June 30, 2016	53,854	100,040	88,120	24,123	12,949	328,297	607,383
Additions	-	-	2,547	11	-	64,116	66,674
Disposals	(53,854)	(12)	-	-	-	(264,577)	(318,443)
Balance - June 30, 2017	-	100,028	90,667	24,134	12,949	127,836	355,614
Accumulated depreciation							
Balance - June 30, 2016	8,094	73,822	48,535	19,739	6,815	160,264	317,269
Additions	6,775	24,893	21,773	4,174	2,025	91,141	150,781
Disposals	(14,869)	-	-	-	-	(181,346)	(196,215)
Balance - June 30, 2017	-	98,715	70,308	23,913	8,840	70,059	271,835
Carrying amounts							
Balance - June 30, 2016	45,760	26,218	39,585	4,384	6,134	168,033	290,114
Balance - June 30, 2017	-	1,313	20,359	221	4,109	57,777	83,779

During the year ended June 30, 2017, the Company changed its design for the Hitcase Pro 6 and utilized new moulds to produce this model. As a result of this change, the Company retired from service the moulds used to manufacture the older version of its Hitcase Pro 6 and recognized a loss on writedown of these moulds of \$68,030, equivalent to the carrying value of moulds at the time of retirement.

Also during the year ended June 30, 2017, the Company returned its leased truck (included in automotive) to the Lessor. Upon return of the truck, the lessor paid the Company \$7,227, including the Company's deposit of \$4,500, and the Company had no further lease obligations under the lease. The Company recognized a loss on return of the truck of \$5,850.

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5 Intangible assets

	Patents \$	Trademarks \$	Total \$
Cost			
Balance - June 30, 2016	193,401	36,132	229,533
Additions	28,393	4,203	32,596
Balance - June 30, 2017	221,794	40,335	262,129
Accumulated depreciation			
Balance - June 30, 2016	10,085	5,390	15,475
Additions	2,820	3,852	6,672
Balance - June 30, 2017	12,905	9,242	22,147
Carrying amounts			
Balance - June 30, 2016	183,316	30,742	214,058
Balance - June 30, 2017	208,889	31,093	239,982

6 Accounts payable and accrued liabilities

	2017 \$	2016 \$
Trade accounts payable	489,274	580,426
Accrued liabilities	277,924	180,304
	767,198	760,730

7 Credit facilities

During the year ended June 30, 2017, the Company has credit card facilities of \$5,000 (2016 - \$5,000) and US\$5,000 (2016 - US\$5,000) in order to release cash pledged as security. This was pledged in the form of Guaranteed Investment Certificates of \$12,415 (2016 - \$12,412).

8 Accounts receivable

Accounts receivable are recorded net of \$35,540 (2016 - \$24,548) allowance for doubtful accounts.

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9 Related party transactions

Key management includes Directors, the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), who have the authority and responsibility for the planning, directing and controlling the activities of the Company. The compensation paid to these key management personnel for the years ended June 30, 2017 and 2016 is outlined below:

	2017 \$	2016 \$
Salaries and management fees	159,628	296,106
Stock-based compensation	-	35,250
	<hr/> 159,628	<hr/> 331,356

As at June 30, 2017, accounts payable and accrued liabilities included \$56,859 (2016 - \$56,948) relating to key management personnel compensation.

During the year ended June 30, 2017, a portion of the amounts owed to a director were settled by the issuance of shares pursuant to a settlement agreement. The Company issued 439,359 common shares at \$0.05 per share to settle outstanding amounts of \$21,968.

During the year ended June 30, 2017, a director subscribed to the secured convertible note offering (note 12) purchasing \$220,000 secured convertible notes.

10 Expenses

	2017 \$	2016 \$
Selling and marketing expenses		
Personnel	223,742	359,510
Marketing and content	294,447	979,532
	<hr/> 518,189	<hr/> 1,339,042
General and administrative		
Personnel	498,597	924,826
Professional fees	483,657	312,409
Office	260,876	445,905
	<hr/> 1,243,130	<hr/> 1,683,140

11 Capital lease liability

During the year ended June 30, 2017, the Company returned its leased truck to the lessor (see note 4) and no longer has a capital lease liability related to this lease.

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12 Convertible notes

Tranche 1

On October 31, 2016, the Company issued secured convertible debentures (“Debentures”) having a face value of \$375,000 and a term to maturity of two years. The Debentures bear interest at 10% per annum with the first year’s interest prepaid on the issuance of the Debentures. Monthly interest payments are required after the first anniversary, with the principal due at maturity. The Debentures are secured by the assets of the Company.

The conversion features of the Debentures allow the holder to convert the Debentures into common shares of the Company. The number of shares that can be issued upon conversion is calculated using the face value of the Debentures divided by the conversion price. Up to and including the first anniversary of the Debentures, the conversion price is \$0.05 per common share. Subsequent to the first anniversary, and up to and including the second anniversary, the conversion price is \$0.10.

The conversion feature is also subject to an anti-dilution provision such that if the Company completes an offering during the term of the Debentures and issues shares below the conversion price in effect at that time, the conversion price is set to the lower of the conversion price and the offering price.

Subsequent to December 31, 2016, the Debentures were amended to be consistent with a second tranche of secured convertible debentures issued on February 1, 2017. Under the Debentures amendment agreement, the maturity date is extended to February 1, 2019 and the conversion price is amended accordingly.

The Debentures are a compound financial instrument for accounting purposes consisting of a liability and an equity component. The host contract is a liability accounted for at its amortized cost and the conversion feature is accounted for as an equity component.

The initial recognition of the host liability was determined using an estimated discount rate (15%) for a similar debt instrument without a conversion feature. The host liability was initially recognized at a carrying value of \$316,549 after deducting transaction costs of \$31,795. The effective interest rate calculated for purpose of determining the amortized cost is 19.5%.

The fair value of the conversion feature was the residual value after deducting the fair value of the host liability from the fair value of the compound financial instrument, less transaction costs of \$2,433.

Tranche 2

On February 1, 2017, the Company issued a second tranche of the Debentures having a face value of \$300,000 and a term to maturity of two years. The Debentures bear interest at 10% per annum with the first year’s interest prepaid on the issuance of the Debentures. Monthly interest payments are required after the first anniversary, with the principal due at maturity. The Debentures are secured by the assets of the Company.

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The conversion features of the Debentures allow the holder to convert the Debentures into common shares of the Company. The number of shares that can be issued upon conversion is calculated using the face value of the Debentures divided by the conversion price. Up to and including the first anniversary of the Debentures, the conversion price is \$0.05 per common share. Subsequent to the first anniversary, and up to and including the second anniversary, the conversion price is \$0.10.

The conversion feature is also subject to an anti-dilution provision such that if the Company completes an offering during the term of the Debentures and issues shares below the conversion price in effect at that time, the conversion price is set to the lower of the conversion price and the offering price.

The Debentures are a compound financial instrument for accounting purposes consisting of a liability and an equity component. The host contract is a liability accounted for at its amortized cost and the conversion feature is accounted for as an equity component.

The initial recognition of the host liability was determined using an estimated discount rate (15%) for a similar debt instrument without a conversion feature. The host liability was initially recognized at a carrying value of \$258,847 after deducting transaction costs of \$19,828. The effective interest rate calculated for purpose of determining the amortized cost is 18.2%.

The fair value of the conversion feature was the residual value after deducting the fair value of the host liability from the fair value of the compound financial instrument, less transaction costs of \$1,517.

Tranche 3

On April 24, 2017, the Company issued a third tranche of the Debentures having a face value of \$330,000 and a term to maturity of two years. The Debentures bear interest at 10% per annum with the first year's interest prepaid on the issuance of the Debentures. Monthly interest payments are required after the first anniversary, with the principal due at maturity. The Debentures are secured by the assets of the Company.

The conversion features of the Debentures allow the holder to convert the Debentures into common shares of the Company. The number of shares that can be issued upon conversion is calculated using the face value of the Debentures divided by the conversion price. Up to and including the first anniversary of the Debentures, the conversion price is \$0.05 per common share. Subsequent to the first anniversary, and up to and including the second anniversary, the conversion price is \$0.10.

The conversion feature is also subject to an anti-dilution provision such that if the Company completes an offering during the term of the Debentures and issues shares below the conversion price in effect at that time, the conversion price is set to the lower of the conversion price and the offering price.

The Debentures are a compound financial instrument for accounting purposes consisting of a liability and an equity component. The host contract is a liability accounted for at its amortized cost and, the conversion feature is accounted for as an equity component.

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The initial recognition of the host liability was determined using an estimated discount rate (15%) for a similar debt instrument without a conversion feature. The host liability was initially recognized at a carrying value of \$289,330 after deducting transaction costs of \$17,213. The effective interest rate calculated for purpose of determining the amortized cost is 17.3%.

The fair value of the conversion feature was the residual value after deducting the fair value of the host liability from the fair value of the compound financial instrument, less transaction costs of \$1,317.

13 Share capital

Authorized

Unlimited number of voting common shares without par value

Share issuances for year ended June 30, 2017

On October 31, 2016, the Company completed a private placement of common shares issuing 1,800,000 shares at \$0.05 per share for net proceeds of \$90,000.

On December 31, 2016, the Company settled a portion of the amounts owed to a director pursuant to a settlement agreement. The Company issued 439,359 common shares at \$0.05 per share to settle outstanding amounts of \$21,968.

On February 2, 2017, the Company closed a non-brokered private placement (the "Units") of 1,240,000 Units at \$0.05 per Unit for gross proceeds of \$62,000. Each Unit consists of one common share and one-half of one share purchase warrant, with a whole warrant entitling the holder to purchase one common share at a price of \$0.07 per share until February 1, 2019. All securities comprising the units were subject to a four-month statutory hold period which ended on June 2, 2017.

The Company allocated the net proceeds from issuance of Units to its component Common Share and one-half Warrant based on the relative fair value of each of the components. The fair value of the net proceeds allocated to share capital and contributed surplus was \$48,045 and \$13,955 respectively.

The fair value of each Warrant was determined by using the Black-Scholes option pricing model with the following assumptions:

Risk-free rate	0.77%
Expected volatility	139%
Expected life in years	2
Expected dividend yield	nil

At June 30, 2017, all of the Warrants were outstanding with a fair value of \$13,955.

Share issuances for the year ended June 30, 2016

Private placement

HIT Technologies Inc.

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(expressed in Canadian dollars)

In May 2016, the Company completed two tranches of a non-brokered private placement (the “Offering”) of units (the “Units”), issuing 23,600,000 Units at a subscription price of \$0.05 per Unit for aggregate gross proceeds to the Company of \$1,180,000. Each Unit comprises one common share in the capital of the Company (each, a “Common Share”) and one-half of one common share purchase warrant (each, a “Warrant”). Each Warrant entitles the holder to acquire one Common Share at an exercise price of \$0.07 and expires on November 13, 2017, provided that in the event that the Common Shares trade at or above \$0.15 per Common Share for 10 consecutive trading days on the TSX Venture Exchange or exceed a volume weighted average price of \$0.15 during a consecutive 30-day period, the Company will have the right to accelerate the expiry of the Warrants by providing 30 days’ prior written notice to the Warrant holders of such expiry.

The Common Shares and Warrants comprising the Units, as well as any Common Shares issued upon exercise of Warrants, are subject to a four-month hold period which will expire on September 14, 2016 for such securities issued as part of the first tranche of the Offering and September 27, 2016 for securities issued as part of the second tranche of the Offering.

The Company allocated the net proceeds from issuance of Units to its component Common Share and one-half Warrant based on the relative fair value of each of the components. The fair value of the net proceeds allocated to share capital and contributed surplus was \$706,861 and \$235,620 respectively.

The Company paid an aggregate commission of \$86,400 and issued 1,728,000 Finder’s Warrants (“Finder’s Warrants”) to certain finders for services provided to the Company in connection with some of the subscriptions under the Offering. Each Finder’s Warrant entitles the holder to acquire one Unit at an exercise price of \$0.05 and expires on November 13, 2017. The Finder’s Warrants and the Common Shares and Warrants comprising any Units issued upon exercise of Finder’s Warrants will be subject to a four-month hold period which will expire on September 14, 2016 for such securities issued as part of the first tranche of the Offering and September 27, 2016 for such securities as part of the second tranche of the Offering. In addition, the Company issued 1,000,000 Common Shares pursuant to a financial advisory agreement for services related to the private placement. The fair value of the services received was \$50,000. The issuance of the shares and the recognition of the finance advisory fee were recorded in the share capital of the Company. Total expenses related to the offering including cash commissions were \$182,000.

Private placement - warrants

In May 2016, as part of the non-brokered private placement (see “*Private placement*”), the Company issued 11,800,000 Warrants and each Warrant entitles the holder to acquire one Common Share at an exercise price of \$0.07 and expires on November 13, 2017, provided that, in the event that the Common Shares trade at or above \$0.15 per Common Share for 10 consecutive trading days on the TSX Venture Exchange, or exceed a volume weighted average price of \$0.15 during a consecutive 30-day period, the Company will have the right to accelerate the expiry of the Warrants by providing 30 days’ prior written notice to the Warrant holders of such expiry. The fair value of each Warrant was determined by using the Black-Scholes option pricing model with the following assumptions:

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Risk-free rate	0.55%
Expected volatility	153%
Expected life in years	1.5
Expected dividend yield	nil

At June 30, 2017, all of the Warrants were outstanding with a fair value of \$295,000 (2016 - \$295,000).

Private placement - finder's warrants

In conjunction with the non-brokered private placement, the Company issued 1,728,000 Finder's Warrants to certain finders for services provided to the Company in connection with certain subscriptions for the private placement. Each Finder's Warrant entitles the holder to acquire one Unit at an exercise price of \$0.05 and expires on November 13, 2017. At June 30, 2017, all of the Finder's Warrants were outstanding with a fair value of \$86,400 (2016 - \$86,400).

14 Stock options

In 2015, the Company adopted a stock option plan. A summary of the Company's stock options outstanding for the years ended June 30, 2017 and 2016 is presented below.

	2017		2016	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance - Beginning of year	3,598,389	0.31	3,449,500	0.40
Granted	2,490,000	0.05	845,000	0.21
Expired	(13,889)	0.17	(31,250)	0.60
Forfeited	(157,500)	0.50	(664,861)	0.47
Balance - End of year	5,917,000	0.21	3,598,389	0.31

The following table summarizes information about stock options outstanding as at June 30, 2017:

Exercise price	Number of options	Weighted average remaining contractual life in years
\$0.25	2,000,000	8.75
\$0.60	902,000	3.46
\$0.17	525,000	4.39
\$0.05	2,490,500	5.37

At June 30, 2017, 1,440,258 (2016 - 1,137,559) options were exercisable.

During the year ended June 30, 2017, the Company granted 2,490,000 options to employees (excluding officers and directors of the Company) and athlete sponsors. The options had an exercise price of \$0.05 and a six-year

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term. The options vest over a three-year period, with the first-third of such options vesting on the first anniversary and the remaining options vesting in equal monthly instalments on each of the 24 subsequent monthly anniversaries thereof.

The Company used the Black-Scholes option pricing model to estimate the fair value of each option on the grant date. For the options granted during the year ended June 30, 2017, the Company used the following assumptions:

Risk-free rate	0.57 - 0.85%
Expected volatility	134 - 137%
Expected life in years	3
Expected dividend yield	nil

The estimated aggregate fair values of the options granted during the year ended June 30, 2017 was \$85,100. The Company recognized stock-based compensation expense of \$129,688 for the year ended June 30, 2017 (2016 - \$252,773).

15 Segmented information

Operating segment

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that related to transactions with any of the Company's other operations, and for which discrete financial information is available. Segment operating results are reviewed regularly by the Company's Chief Operating Decision Maker ("CODM") to make decisions about resources allocated to the segment and to assess the segment's performance.

The Company has one operating segment and the CODM is the CEO.

Segment information

The Company operates in Canada and generates sales revenue from various countries internationally. The Company's property and equipment are located in both British Columbia, Canada and in the People's Republic of China. The geographic information below analyses the Company's revenue and property and equipment by the Company's country of domicile and other countries. In presenting the following information, segment revenue is based on the geographic location of customers and segment assets are based on the geographic location of the assets.

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The Company's revenues were generated from the following geographic regions:

	2017 \$	2016 \$
Canada	276,648	612,408
United States	413,718	764,960
Other	44,883	342,760
	<u>735,249</u>	<u>1,720,128</u>

The Company's property and equipment, net of accumulated depreciation, are located in the following countries:

	2017 \$	2016 \$
Canada	26,235	123,473
USA	-	86,922
The People's Republic of China	57,544	79,719
	<u>83,779</u>	<u>290,114</u>

The Company's intangible assets, net of accumulated amortization, are located in the following countries:

	2017 \$	2016 \$
Canada	15,429	13,557
United States	221,609	196,874
United Kingdom	2,944	3,627
	<u>239,982</u>	<u>214,058</u>

The Company does not have significant customers representing more than 10% of total sales.

16 Financial instruments

The following table summarizes the carrying and fair value of the Company's financial instruments:

	2017 \$	2016 \$
Cash and cash equivalents	60,346	355,607
Accounts receivable	10,994	40,355
Restricted cash	12,415	12,412
Other receivables	37,000	89,104
Other financial liabilities	767,198	760,730
Capital lease liability	-	37,640
Convertible notes	889,852	-

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Interest income, expense, and gains and losses from loans receivables and other financial liabilities are recognized in the consolidated statement of operations.

a) Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents, and accounts receivable. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions. The Company considers its credit risk with respect to accounts receivable to be limited, as the Company obtains accounts receivable insurance where possible. The carrying amount of financial assets represents the maximum credit exposure.

b) Foreign exchange rate risk

Foreign exchange risk arises from fluctuations in the future cash flows of a financial instrument because of changes in foreign exchange rates. The Company is exposed to foreign exchange rate risk on its foreign currency denominated cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities.

The Company does not have a formal policy to mitigate risks arising from changes in foreign currency exchange rates. Based on the balances at June 30, 2017, fluctuations in the Canadian dollar and US dollar exchange rates could have a potentially significant impact on the Company's results from operations. If the Canadian dollar were to weaken against the US dollar by 10% relative to the rate at June 30, 2017, the loss for the period would be approximately \$29,000 greater. If the Canadian dollar were to strengthen against the US dollar by 10% relative to the rate at June 30, 2017, the loss for the period would be approximately \$24,000 less.

c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not have any financial instruments that are affected by 100 basis point changes in market interest rates.

d) Liquidity and funding risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising debt or equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs (note 1).

Funding risk is the risk that market conditions will impact the Company's ability to raise capital through equity markets under acceptable terms and conditions.

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17 Capital management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders (note 1). The capital structure of the Company consists of cash and equity comprising issued share capital and deficit.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and its overall strategy with respect to capital risk management remains unchanged from the year ended June 30, 2017.

18 Commitments

Athlete sponsorships

The Company has entered into sponsorship agreements with several athletes to endorse the Company's Hitcase product line. At June 30, 2017, the Company had no financial commitments under these agreements (2016 - \$73,287).

Financial advisory commitments

On April 15, 2016, the Company entered into a financial services advisory agreement, under which the Company agreed to pay a monthly retainer of \$3,500 (plus applicable taxes) payable in cash or shares of the Company, at the Company's option. At June 30, 2017, the remaining commitment under this agreement was \$nil (2016 - \$35,000).

19 Income taxes

The tax effect (computed by applying the Canadian federal and provincial statutory rate) of the significant temporary differences, which comprise deferred income tax assets and liabilities, are as follows:

	2017	2016
Canadian statutory income tax rate	26%	26%
	\$	\$
Income tax recovery at statutory rate	(523,012)	(843,301)
Tax effect of		
Permanent differences and other	37,969	72,635
Change in valuation allowance	485,043	770,666
Income tax provision	-	-

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The significant components of deferred income tax assets and liabilities are as follows:

	2017 \$	2016 \$
Deferred income tax assets (liabilities)		
Non-capital losses carried forward	2,266,921	1,788,662
Deductible SR&ED expenditures	78,027	78,027
Property and equipment	161,978	90,995
Intangible assets	30	(1,704)
Financing expense	134,765	183,744
Change in estimate and true-ups	(245,904)	(228,951)
	<u>2,395,817</u>	<u>1,910,773</u>
Valuation allowance	(2,395,817)	(1,910,773)
Net deferred income tax assets	<u>-</u>	<u>-</u>

As at June 30, 2017, the Company has non-capital losses carried forward of \$9,364,808, which are available to offset future years' taxable income. No deferred tax asset has been recognized in relation to these losses. These losses expire as follows:

	\$
2032	14,930
2033	338,464
2034	833,363
2035	3,429,669
2036	2,908,925
2037	1,839,457
	<u>9,364,808</u>

The Company has a Scientific Research and Experimental Development ("SR&ED") pool of approximately \$300,105 available to reduce future years' taxable income. The SR&ED pool can be carried forward indefinitely.

20 Subsequent events

On September 21, 2017, the Company completed a non-brokered private placement of 3,150,000 units (the "Units") at a price of \$0.05 per Unit for gross proceeds of \$157,500. Each Unit comprises one common share of the Company and one-half of one share purchase warrant, with a whole warrant entitling the holder to purchase an additional common share at a price of \$0.05 per share subject to acceleration until September 20, 2019.

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On November 7, 2017, the Company completed a \$57,000 secured convertible debentures (the “Debentures”) offering on a private placement basis. The Debentures will bear interest at the rate of 10% per annum with a two-year term and are convertible into common shares of the Company at \$0.05 per share in the first 12 months and at \$0.10 per share in the second 12 months. In connection with the Debentures, the Company will be amending its previously issued convertible debentures in the aggregate amount of \$785,000 so that the respective maturity dates (and the corresponding conversion period) of the Existing Debentures will be extended to the date that is two years from the closing date of the Debentures. All securities issued in connection with the above transactions will be subject to a four-month statutory hold period.

Subsequent to year-end, the Company granted an aggregate of 2,200,000 incentive stock options to directors, officers and consultants exercisable at \$0.05 for a period of 24 months.