

# **Hit Technologies Inc.**

Condensed Interim Financial Statements

**March 31, 2017 and 2016**

(in Canadian dollars)

## **NOTICE TO READER**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the 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 interim consolidated financial statements have been prepared by and are the responsibility of the management.

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

**Hit Technologies Inc. (Formerly Friday Capital Inc.)****Statements of Financial Position**

(Unaudited)

(Expressed in Canadian dollars)

|  | <b>As at<br/>March 31,<br/>2017</b> | <b>As at<br/>June 30,<br/>2016</b> |
|--|-------------------------------------|------------------------------------|
| <b>Assets</b>                                      |                                     |                                    |
| <b>Current assets</b>                              |                                     |                                    |
| Cash   | 256,049                             | 355,607                            |
| Restricted cash (note 7)                           | 12,612                              | 12,412                             |
| Accounts receivable (note 8)                       | 32,669                              | 40,355                             |
| Other Receivables                                  | -                                   | 23,217                             |
| Government assistance and other receivables        | -                                   | 65,887                             |
| Inventory (note 3 )                                | 412,339                             | 471,436                            |
| Prepaid expenses and deposits                      | 205,966                             | 190,768                            |
|  | <u>919,636</u>                      | <u>1,159,682</u>                   |
| <b>Property and equipment (note 4)</b>             | 201,244                             | 290,114                            |
| <b>Intangible assets (note 5)</b>                  | 235,140                             | 214,058                            |
|  | <u>1,356,019</u>                    | <u>1,663,854</u>                   |
| <b>Liabilities</b>                                 |                                     |                                    |
| <b>Current liabilities</b>                         |                                     |                                    |
| Accounts payable and accrued liabilities (note 6 ) | 775,169                             | 760,730                            |
| Deferred revenue                                   | 72,096                              | 62,786                             |
| Current portion of lease liability (note 11)       | 7,391                               | 7,227                              |
|  | 854,656                             | 830,743                            |
| <b>Lease liability (note 11)</b>                   | 24,848                              | 30,413                             |
| <b>Convertible notes and advance (note 12)</b>     | 806,495                             | -                                  |
| <b>Shareholders' Equity</b>                        |                                     |                                    |
| Share capital (note 13)                            | 10,039,667                          | 9,865,699                          |
| Contributed surplus                                | 993,479                             | 838,311                            |
| Deficit  | (11,363,125)                        | (9,901,312)                        |
|  | (329,979)                           | 802,698                            |
|  | <u>1,356,019</u>                    | <u>1,663,854</u>                   |
| Going concern (note 1)                             |                                     |                                    |
| Commitments (note 17)                              |                                     |                                    |
| Subsequent events (note 18)                        |                                     |                                    |

**Hit Technologies Inc. (Formerly Friday Capital Inc.)**  
**Statements of Operations and Comprehensive Loss**  
**For the quarter and nine months ended March 31, 2017 & 2016**

(Unaudited)

(Expressed in Canadian dollars)

|  | <b>Quarter ended March 31</b> |                   | <b>Nine months ended</b> |                    |
|--|-------------------------------|-------------------|--------------------------|--------------------|
|  | <b>2017</b>                   | <b>2016</b>       | <b>2017</b>              | <b>2016</b>        |
| <b>Revenue</b>                                 | 147,459                       | 365,749           | 599,510                  | 1,457,231          |
| <b>Cost of sales</b>                           | 103,780                       | 229,450           | 394,462                  | 1,004,218          |
|  | 43,679                        | 136,299           | 205,048                  | 453,013            |
|  | 30%                           | 37%               | 34%                      | 31%                |
| <b>Expenses</b>                                |                               |                   |                          |                    |
| Depreciation (note 4)                          | 37,170                        | 49,347            | 138,848                  | 158,394            |
| Share based compensation (note 14)             | 31,693                        | 49,804            | 111,304                  | 222,003            |
| General and administrative (note 10)           | 311,666                       | 414,852           | 893,569                  | 1,396,854          |
| Research and development                       | 17,842                        | 56,580            | 63,897                   | 224,629            |
| Selling and marketing (note 10)                | 118,319                       | 245,299           | 413,736                  | 1,182,117          |
|  | 516,689                       | 815,882           | 1,621,354                | 3,183,997          |
| <b>Loss before other income (expenses)</b>     | <b>(473,010)</b>              | <b>(679,583)</b>  | <b>(1,416,307)</b>       | <b>(2,730,984)</b> |
| <b>Other income (expenses)</b>                 |                               |                   |                          |                    |
| Finance costs                                  | (25,753)                      | (2,819)           | (40,251)                 | (4,375)            |
| Foreign exchange loss                          | 3,071                         | 20,504            | (5,256)                  | 10,553             |
|  | (22,682)                      | 17,685            | (45,507)                 | 6,178              |
| <b>Loss and comprehensive loss for the per</b> | <b>(495,692)</b>              | <b>(661,898)</b>  | <b>(1,461,813)</b>       | <b>(2,724,806)</b> |
| <b>Basic and diluted loss per share</b>        | <b>(0.01)</b>                 | <b>(0.02)</b>     | <b>(0.02)</b>            | <b>(0.06)</b>      |
| <b>Weighted average shares outstanding</b>     | <b>70,435,615</b>             | <b>42,769,584</b> | <b>68,791,598</b>        | <b>42,769,584</b>  |

**Hit Technologies Inc. (Formerly Friday Capital Inc.)****Statements of Cashflow****Quarters ended March 31, 2017 & 2016**

(Unaudited)

(Expressed in Canadian dollars)

|   | Quarter ended March 31 |                  | Nine months ended March 31, |                    |
|---|------------------------|------------------|-----------------------------|--------------------|
|   | 2017                   | 2016             | 2017                        | 2016               |
| <b>Cash flows from/(used in) operating activities</b> |                        |                  |                             |                    |
| Loss for the period                                   | (495,692)              | (661,898)        | (1,461,813)                 | (2,724,806)        |
| Item not involving cash - depreciation                | 37,170                 | 49,347           | 138,848                     | 158,394            |
| Share based compensation                              | 31,693                 | 49,804           | 111,304                     | 222,003            |
| Accounts receivable                                   | (8,030)                | 3,218            | 7,686                       | (148,541)          |
| Other receivable                                      | -                      | -                | 23,217                      | -                  |
| Government assistance and other receivable            | -                      | 66,011           | 65,887                      | (74,044)           |
| Inventory   | 28,382                 | 115,478          | 59,097                      | (269,507)          |
| Accounts payable and accrued liabilities              | (13,380)               | 160,552          | 36,407                      | 174,944            |
| Deferred revenue                                      | 43,375                 | 47,863           | 9,310                       | (21,788)           |
| Prepaid expenses and deposits                         | 17,180                 | 19,309           | (15,198)                    | 36,539             |
|   | <u>(359,302)</u>       | <u>(150,316)</u> | <u>(1,025,255)</u>          | <u>(2,646,806)</u> |
| <b>Cash flows from/(used in) investing activities</b> |                        |                  |                             |                    |
| Restricted cash                                       | 64                     | 156,843          | (200)                       | 118,193            |
| Acquisition of property and equipment                 | (24,934)               | (9,319)          | (45,017)                    | (82,123)           |
| Acquisition of intangible assets                      | (11,573)               | (20,712)         | (26,046)                    | (70,265)           |
|   | <u>(36,443)</u>        | <u>126,812</u>   | <u>(71,262)</u>             | <u>(34,195)</u>    |
| <b>Cash flows from/(used in) financing activities</b> |                        |                  |                             |                    |
| Lease liability                                       | (1,813)                | (1,814)          | (5,401)                     | (5,401)            |
| Share capital issuance                                | 62,000                 |                  | 152,000                     |                    |
| Net proceeds from convertible notes & advances        | 507,879                |                  | 850,360                     |                    |
|   | <u>568,066</u>         | <u>(1,814)</u>   | <u>996,959</u>              | <u>(5,401)</u>     |
| <b>Increase/(decrease) in cash</b>                    | <u>172,321</u>         | <u>(25,318)</u>  | <u>(99,558)</u>             | <u>(2,686,402)</u> |
| <b>Cash - Beginning of period</b>                     | <u>83,727</u>          | <u>128,051</u>   | <u>355,607</u>              | <u>2,789,135</u>   |
| <b>Cash - End of period</b>                           | <u>256,049</u>         | <u>102,733</u>   | <u>256,049</u>              | <u>102,733</u>     |

**Hit Technologies Inc. (Formerly Friday Capital Inc.)**  
**Statements of Changes in Shareholders' Equity/(Deficiency)**  
(Unaudited)  
(Expressed in Canadian dollars)

|  | Share capital     |                   |                       |                        |                     | Total Shareholders' equity/(deficit)<br>\$ |
|--|-------------------|-------------------|-----------------------|------------------------|---------------------|--|
|  | Number of shares  | Amount \$         | Subscription receipts | Contributed Surplus \$ | Deficit \$          |  |
| <b>Balance - June 30, 2015</b>                             | 42,769,584        | 9,158,838         |                       | 349,918                | (6,643,364)         | 2,865,392                                  |
| Loss for the period  |                   |                   |                       |                        | (2,724,806)         | (2,724,806)                                |
| Share based compensation expense                           |                   |                   |                       | 222,003                |                     | 222,003                                    |
| <b>Balance - March 31, 2016</b>                            | <b>42,769,584</b> | <b>9,158,838</b>  |                       | <b>571,921</b>         | <b>(9,368,170)</b>  | <b>362,589</b>                             |
| <b>Balance - June 30, 2016</b>                             | 67,369,589        | 9,865,699         |                       | 838,311                | (9,901,312)         | 802,698                                    |
| Loss for the period  |                   |                   |                       |                        | (1,461,813)         | (1,461,813)                                |
| Share based compensation expense                           |                   |                   |                       | 111,304                |                     | 111,304                                    |
| Equity component of convertible debenture (Note 12)        |                   |                   |                       | 43,864                 |                     | 43,864                                     |
| Private placement (Note 13)                                | 3,040,000         | 152,000           |                       |                        |                     | 152,000                                    |
| Shares issued on settlement of amounts owing (Note 9 & 13) | 439,359           | 21,968            |                       |                        |                     | 21,968                                     |
| <b>Balance - March 31, 2017</b>                            | <b>70,848,948</b> | <b>10,039,667</b> |                       | <b>993,479</b>         | <b>(11,363,125)</b> | <b>(329,979)</b>                           |

## **Hit Technologies Inc.**

(formerly Friday Capital Inc.)

Notes to Interim Consolidated Financial Statements

Quarter and nine months ended March 31, 2017 & 2016

### **1 Nature of operations and going concern**

HIT Technologies Inc. (formerly Friday Capital Inc.) (the “Company”) 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 66 Wellington street West, Suite 5300, Toronto, Ontario, M5K1E6.

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 unaudited interim 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 nine months ended March 31, 2017, the Company incurred a loss of \$1,461,813 (nine months ended March 31, 2016 - loss of \$2,724,806), negative cash flows from operating activities of \$1,025,255 (nine months ended March 31, 2016 - \$2,646,806), and an accumulated deficit of \$11,363,125 at March 31, 2017 (June 30, 2016 - accumulated deficit of \$9,901,312). These conditions indicate the existence of a material uncertainty that may cast substantial 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 three new product lines, the Hitcase Pro for iPhone 6, the Hitcase Snap and the Hitcase Shield. These products helped the Company achieve cumulative revenues of \$2,319,639 for the 21 months since the Qualifying Transaction. Even with these revenues, the Company has not generated sufficient cash flow from operations. Revenues have declined on a year over year basis for the nine months ended March 31, 2017 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, reducing its loss from operations, on a year over year basis, by \$1,262,993 for the nine months ended December 31, 2016. The Company continues to look for ways to reduce its operating expenditures. 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 accesses additional external financing. The

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Company has obtained net proceeds from external financing of approximately \$7,176,895 over the past two fiscal years (for the year ended June 30, 2016 - \$942,181; for the year ended June 30, 2015 - \$6,234,714). During the nine months to March 31, 2017 the Company completed the two tranches of private placements of secured convertible debentures for net proceeds of \$507,879 and common shares and Units for gross proceeds of \$152,000. Subsequent to the quarter, the Company completed a third tranche of private placements of secured convertible debentures for gross proceeds of \$330,000. 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 unaudited interim 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 unaudited condensed interim consolidated financial statements were prepared using the same accounting policies and methods as those used in the Company's audited consolidated financial statements for the year ended June 30, 2016. These unaudited interim condensed consolidated financial statements have been prepared in compliance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Accordingly, these unaudited interim condensed consolidated financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the Company's annual consolidated financial statements for the year ended June 30, 2016, which are available at [www.sedar.com](http://www.sedar.com).

These unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on May 30, 2017.

These unaudited condensed interim 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.

**Hit Technologies Inc.**  
(formerly Friday Capital Inc.)  
Notes to Interim Consolidated Financial Statements  
Quarter and nine months ended March 31, 2017 & 2016

**Basis of consolidation**

As a result of a reverse takeover on June 10, 2015, these unaudited interim consolidated financial statements include the accounts of HIT Tech (the legal subsidiary), as the accounting acquirer, at historical carrying amounts and the accounts of the Company (the legal parent), as the accounting subsidiary, from the date of acquisition, June 10, 2015, at fair values.

The functional currency of the Company and HIT is the Canadian dollar, which is the presentation currency of the consolidated financial statements.

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 collectability of accounts receivable, valuation of inventory, the useful lives and recoverability of long-lived assets, accounting for convertible notes, and deferred income tax asset valuation allowances. 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 judgements in accounting for business combinations and stock-based compensation.

**3 Inventory**

|                     | <b>March 31,<br/>2017</b> | <b>June 30,<br/>2016</b> |
|---------------------|---------------------------|--------------------------|
|                     | <b>\$</b>                 | <b>\$</b>                |
| Component inventory | 14,553                    | 106,937                  |
| Finished goods      | 397,786                   | 364,499                  |
|                     | <hr/>                     | <hr/>                    |
|                     | 412,339                   | 471,436                  |

Cost of inventory recognized as expense in cost of sales for the quarter and nine months ended March 31, 2017 totalled \$103,780 and \$394,462 (quarter and nine months ended March 31, 2016 - \$261,634)

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and \$1036,403). For the nine-month period, cost of sales is net of an estimated recovery from a vendor of \$28,600. Inventory write-downs recognized during the quarter was nil and for the nine months ended March 31, 2017 cost of sales included write-downs of \$35,753.

**4 Property and equipment**

In the quarter ended September 30, 2015, the Company reviewed the useful life and the method of depreciation related to its property, plant 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. 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% |

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

|   | 2017   | 2018  | 2019     | Later     |
|---|--------|-------|----------|-----------|
| Increase (decrease) in depreciation expense | 66,321 | 3,601 | (31,393) | (124,245) |

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|                                 | Automotive<br>\$ | Marketing<br>assets<br>\$ | Computer<br>equipment<br>\$ | Computer<br>software<br>\$ | Furniture<br>and<br>fixtures<br>\$ | Equipment<br>\$ | Total<br>\$ |
|---------------------------------|------------------|---------------------------|-----------------------------|----------------------------|------------------------------------|-----------------|-------------|
| <b>Cost</b>                     |                  |                           |                             |                            |                                    |                 |             |
| Balance - June 30, 2016         | 53,854           | 100,040                   | 88,120                      | 24,123                     | 12,949                             | 328,297         | 607,383     |
| Additions                       |                  |                           | 2,547                       | 11                         |                                    | 42,458          | 45,016      |
| Balance – March 31, 2017        | 53,854           | 100,040                   | 90,667                      | 24,134                     | 12,949                             | 370,755         | 652,399     |
| <b>Accumulated depreciation</b> |                  |                           |                             |                            |                                    |                 |             |
| Balance – June 30, 2016         | 8,094            | 73,822                    | 48,535                      | 19,739                     | 6,815                              | 160,264         | 317,269     |
| Additions                       | 5,081            | 24,230                    | 16,170                      | 4,054                      | 1,653                              | 82,695          | 133,883     |
| Balance – March 31, 2017        | 13,175           | 98,052                    | 64,705                      | 23,793                     | 8,468                              | 242,959         | 451,152     |
| <b>Carrying amounts</b>         |                  |                           |                             |                            |                                    |                 |             |
| Balance - June 30, 2016         | 45,760           | 26,218                    | 39,585                      | 4,384                      | 6,134                              | 168,033         | 290,114     |
| Balance – March 31, 2017        | 40,679           | 1,988                     | 25,962                      | 341                        | 4,481                              | 127,796         | 201,244     |

Included in automotive is a truck used by the Company's employees to create brand awareness at events. The carrying value of this leased asset at March 31, 2017 is \$40,679 (June 30, 2016 - \$45,760).

**5 Intangible assets**

|                                 | Patents<br>\$ | Trademarks<br>\$ | Total<br>\$ |
|---------------------------------|---------------|------------------|-------------|
| <b>Cost</b>                     |               |                  |             |
| Balance - June 30, 2016         | 193,401       | 36,132           | 229,533     |
| Additions                       | 22,393        | 3,651            | 26,044      |
| Balance – March 31, 2017        | 215,794       | 39,783           | 255,577     |
| <b>Accumulated depreciation</b> |               |                  |             |
| Balance - June 30, 2016         | 10,085        | 5,390            | 15,475      |
| Additions                       | 2,115         | 2,851            | 4,966       |
| Balance – March 31, 2017        | 12,200        | 8,241            | 20,441      |
| <b>Carrying amounts</b>         |               |                  |             |
| Balance - June 30, 2016         | 183,316       | 30,742           | 214,058     |
| Balance – March 31, 2017        | 203,594       | 31,542           | 235,140     |

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**6 Accounts payable and accrued liabilities**

|                        | March 31,<br>2017<br>\$ | June 30,<br>2016<br>\$ |
|------------------------|-------------------------|------------------------|
| Trade accounts payable | 598,521                 | 580,426                |
| Accrued liabilities    | 176,648                 | 180,304                |
|                        | 775,169                 | 760,730                |

**7 Restricted cash and credit card facility**

The Company has restricted cash of \$12,612 (June 30, 2016 – 12,412) which is cash pledged as security for credit card facilities of \$5,000 and US\$5,000.

**8 Accounts receivable**

Accounts receivable are recorded net of \$35,540 (June 30, 2016 - \$24,548) allowance for doubtful accounts.

**9 Related party transactions**

- a) 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 nine months ended March 31, 2017 and 2016 is outlined below:

|                              | 2017<br>\$ | 2016<br>\$ |
|------------------------------|------------|------------|
| Salaries and management fees | 126,178    | 170,993    |
| Stock based compensation     | -          | 35,250     |
|                              | 126,178    | 206,243    |

As at March 31, 2017, accounts payable and accrued liabilities included \$60,076 (June 30, 2016 - \$56,948) relating to key management personnel compensation.

During the nine months ended March 31, 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.

As at March 31, 2017, a director advanced \$220,000 to the Company (note 12) in anticipation of closing a third tranche of the convertible notes (note 18). The amount was treated as an advance at March 31, 2017 because the convertible note did not become effective until April 24, 2017. The advance was non-interest bearing.

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**10 Expenses**

|                                       | Quarter<br>ended March<br>31, 2017<br>\$ | Quarter<br>ended March<br>31, 2016<br>\$ | Nine months<br>ended March<br>31, 2017<br>\$ | Nine months<br>ended March<br>31, 2016<br>\$ |
|---------------------------------------|--|--|--|--|
| <b>Selling and marketing expenses</b> |  |  |  |  |
| Personnel                             | 56,176                                   | 88,791                                   | 174,035                                      | 313,354                                      |
| Marketing and content                 | 62,142                                   | 133,323                                  | 239,701                                      | 845,579                                      |
|                                       | <u>118,318</u>                           | <u>222,114</u>                           | <u>413,736</u>                               | <u>1,158,933</u>                             |
| <b>General and administrative</b>     |  |  |  |  |
| Personnel                             | 135,368                                  | 212,672                                  | 358,175                                      | 719,453                                      |
| Professional fees                     | 111,753                                  | 92,379                                   | 343,733                                      | 305,860                                      |
| Office                                | 64,527                                   | 91,841                                   | 191,661                                      | 353,580                                      |
|                                       | <u>311,648</u>                           | <u>396,892</u>                           | <u>893,569</u>                               | <u>1,378,893</u>                             |

**11 Capital lease liability**

The Company has leased a truck to create brand awareness at events attended by its employees. The lease is for a period of four years and the Company has an option to purchase the truck for \$16,739 at the end of the lease. The lease contains a provision for an excess kilometre charge if the Company exceeds the number of contracted kilometres. The future minimum lease payments under the non-cancellable lease are as follows:

|                            | Future<br>minimum<br>lease liability<br>\$ | Interest<br>\$ | Present<br>value of<br>minimum<br>lease<br>payments<br>\$ |
|----------------------------|--|----------------|---|
| Less than one year         | 8,282                                      | 891            | 7,391   |
| Between one and five years | 8,282                                      | 666            | 7,616   |
|                            | <u>16,564</u>                              | <u>1,557</u>   | <u>15,007</u>   |

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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 note. Monthly interest payments are required after the first anniversary, with the principal due at maturity. The Debenture is secured by the assets of the Company.

The conversion features of the Debenture allow the holder to convert the Debenture into common shares of the Company. The number of shares that can be issued upon conversion is calculated using the face value of the Debenture divided by the conversion price. Up to and including the first anniversary of the Debenture, 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 Debenture 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 Debenture amendment agreement, the maturity date is extended to February 1, 2019 and the conversion price is amended accordingly.

The Debenture is a compound financial instrument for accounting purposes and consists of a liability and an equity component. The host contract is a liability accounted for at its amortized cost; the conversion feature is accounted for as an equity component and; the anti-dilution feature is accounted for as an embedded derivative liability with fair value through profit and loss.

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 embedded derivative liability was determined to be nil upon initial recognition and at December 31, 2016.

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.

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**Tranche 2**

On February 1, 2017, the Company issued a second tranche of secured convertible debentures (“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 note. Monthly interest payments are required after the first anniversary, with the principal due at maturity. The Debenture is secured by the assets of the Company.

The conversion features of the Debenture allow the holder to convert the Debenture into common shares of the Company. The number of shares that can be issued upon conversion is calculated using the face value of the Debenture divided by the conversion price. Up to and including the first anniversary of the Debenture, 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 Debenture 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 Debenture is a compound financial instrument for accounting purposes and consists of a liability and an equity component. The host contract is a liability accounted for at its amortized cost; the conversion feature is accounted for as an equity component and; the anti-dilution feature is accounted for as an embedded derivative liability with fair value through profit and loss.

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 embedded derivative liability was determined to be nil upon initial recognition and at March 31, 2017.

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.

**Advance**

In anticipation of closing a third tranche of the convertible notes (note 18), a director advanced to the Company \$220,000 prior to closing the third tranche. The amount was treated as an advance at March 31, 2017 because the convertible note did not become effective until April 24, 2017.

**13 Share capital**

Authorized  
Unlimited number of voting common shares without par value

**Share issuances for nine months ended March 31, 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.

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On December 31, 2016, the Company settled a portion of the amounts owed to 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 also 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 are subject to a four-month statutory hold period ending June 2, 2017.

**Share issuances for the year ended June 30, 2016**

**Private placement**

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 is comprised of 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 expired 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 were subject to a four-month hold period which expired 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-

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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:

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

At December 31, 2016, all of the Warrants were outstanding (December 31, 2015 – nil).

**Private placement – finders' warrants**

In conjunction with the non-brokered private placement the Company issued 1,728,000 Finders 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 September 30, 2016, all of the Finders' warrants were outstanding (September 30, 2015 – nil).

**14 Stock options**

The Company's stock option plan allows the directors to grant stock options of up to 10% of the issued and outstanding common shares at the time. At March 31, 2017, the stock option pool is at 6,960,895.

A summary of the Company's stock options activity for the nine months ended March 31, 2017 and 2016 is presented below.

|                                  | 2017              |                                 | 2016              |                                 |
|----------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|                                  | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| <b>Beginning balance June 30</b> | <b>3,598,389</b>  | <b>0.40</b>                     | <b>3,449,500</b>  | <b>0.40</b>                     |
| Granted                          | 2,490,000         | 0.05                            | 845,000           | 0.21                            |
| Exercised                        | -                 | -                               | -                 | -                               |
| Expired                          | (13,889)          | 0.17                            | (578,750)         | 0.51                            |
| Forfeited                        | (157,500)         | 0.50                            | -                 | -                               |
| <b>Balance at December 31</b>    | <b>5,917,000</b>  | <b>0.21</b>                     | <b>3,715,750</b>  | <b>0.31</b>                     |

The following table summarizes information about stock options outstanding as at March 31, 2017.

| Exercise price | Number of options | Weighted average remaining contractual life in years |
|----------------|-------------------|--|
| 0.25           | 2,000,000         | 7.48   |
| 0.60           | 902,000           | 3.67   |
| 0.17           | 525,000           | 4.64   |
| 0.05           | 2,490,000         | 5.62   |
|                | <u>5,917,000</u>  |  |

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At March 31, 2017, 1,359,945 (at June 30, 2016 – 1,137,559) options were exercisable.

During the nine months ended March 31, 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 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 six months ended March 31, 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 nine months ended March 31, 2017 was \$85,100. The Company recognized stock-based compensation expense of \$111,304 (2015 - \$222,003) for the nine months ended March 31, 2017.

## **14 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 for the quarter and nine months ended March 31, 2017 were generated from the following geographic regions:

|               | 2017<br>\$     | 2016<br>\$     | 2017<br>\$     | 2016<br>\$       |
|---------------|----------------|----------------|----------------|------------------|
| Canada        | 68,458         | 186,693        | 224,738        | 553,712          |
| United States | 63,414         | 123,209        | 330,566        | 632,521          |
| Other         | 15,587         | 55,848         | 44,206         | 270,997          |
|               | <u>147,459</u> | <u>365,749</u> | <u>599,510</u> | <u>1,457,231</u> |

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

|                                | March 31,<br>2017<br>\$ | June 30,<br>2016<br>\$ |
|--------------------------------|-------------------------|------------------------|
| Canada                         | 73,913                  | 123,473                |
| USA                            | 67,569                  | 86,992                 |
| The People's Republic of China | 59,765                  | 79,719                 |
|                                | <u>201,247</u>          | <u>290,114</u>         |

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

|                | March 31,<br>2017<br>\$ | June 30,<br>2016<br>\$ |
|----------------|-------------------------|------------------------|
| Canada         | 15,381                  | 13,557                 |
| United States  | 216,821                 | 196,874                |
| United Kingdom | 2,938                   | 3,627                  |
|                | <u>235,140</u>          | <u>214,058</u>         |

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

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**15 Financial instruments**

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

|   | <b>March 31,<br/>2017</b> | <b>June 30,<br/>2016</b> |
|---|---------------------------|--------------------------|
|   | <b>\$</b>                 | <b>\$</b>                |
| Cash and cash equivalents                   | 256,049                   | 355,607                  |
| Restricted cash                             | 12,612                    | 12,412                   |
| Trade receivables                           | 32,669                    | 40,355                   |
| Government assistance and other receivables | -                         | 89,104                   |
| Other financial liabilities                 | 775,169                   | 760,730                  |
| Convertible note                            | 806,495                   |                          |
| Lease liability                             | 32,239                    | 37,640                   |

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 March 31, 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 March 31, 2017, the loss for the period would be approximately \$34,000 greater. If the Canadian dollar were to strengthen against the US dollar by 10% relative to the rate at March 31, 2017, the loss for the period would be approximately \$28,000 less.

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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.

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.

## **16 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, 2016.

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## **17 Commitments**

### **Athlete sponsorships**

The Company has entered into sponsorship agreements with several athletes to endorse the Company's Hitcase product line. At March 31, 2017, the Company had financial commitments under these agreements totalling \$17,194 with remaining terms ranging from two to five months.

### **Financial Advisory Commitment**

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 March 31, 2017, the remaining commitment under this agreement was \$7,000.

## **18 Subsequent events**

### **Private placement secured convertible Debentures**

On April 24, 2017, the Company issued Debentures in the principal amount of \$330,000 (the "Debenture Sum"). The Debentures will expire on April 3, 2019 (the "Maturity Date"). The Debenture Sum will bear interest at a rate of 10% per annum with prepayment of the first year's interest on closing. Interest is payable monthly after the first anniversary of the closing and the face amount is due at the Maturity Date. The Debenture is secured by a general security agreement covering the assets of the Company.

The Debenture may be converted, in whole or in part, at the sole discretion of the subscribers, at any time prior to the Maturity Date, into common shares in the capital of the Company ("Conversion Shares"). The conversion rate will be one Conversion Share for each \$0.05 of the Debenture Sum, if any portion of the Debenture Sum is converted within 12 months from the issue date, and one Conversion Share for each \$0.10 of the Debenture Sum, if any portion of the Debenture Sum is converted after 12 months from the issue date. The Debentures, as well as any Conversion Shares issued upon conversion of the Debenture Sum, will be subject to a four-month hold period which will expire on June 1, 2017.