

# **HIT Technologies Inc.**

Consolidated Financial Statements  
**June 30, 2018 and 2017**  
(expressed in Canadian dollars)



December 17, 2018

## **Independent Auditor's Report**

**To the Shareholders of  
HIT Technologies Inc.**

We have audited the accompanying consolidated financial statements of HIT Technologies Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at June 30, 2018 and 2017 and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency 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. and its subsidiaries as at June 30, 2018 and 2017 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Emphasis of matter**

Without qualifying the 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.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Professional Accountants**

# HIT Technologies Inc.

## Consolidated Statements of Financial Position

As at June 30, 2018 and 2017

(expressed in Canadian dollars)

	2018 \$	2017 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	273,594	60,346
Restricted cash	12,512	12,415
Accounts receivable (note 3)	97,709	10,994
Government assistance and other receivable	12,748	37,000
Inventory (note 4)	219,699	374,429
Prepaid expenses and deposits	109,249	133,677
	<u>725,511</u>	<u>628,861</u>
<b>Property and equipment</b> (note 5)	62,321	83,779
<b>Intangible assets</b> (note 6)	<u>248,778</u>	<u>239,982</u>
	<u>1,036,610</u>	<u>952,622</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 7)	1,199,915	767,198
Deferred revenue	-	134,800
	<u>1,199,915</u>	<u>901,998</u>
<b>Convertible notes</b> (note 11)	<u>785,640</u>	<u>889,852</u>
	<u>1,985,555</u>	<u>1,791,850</u>
<b>Shareholders' Deficiency</b>		
<b>Share capital</b> (note 12)	11,021,344	10,025,712
<b>Contributed surplus</b>	1,316,538	1,047,958
<b>Deficit</b>	<u>(13,286,827)</u>	<u>(11,912,898)</u>
	<u>(948,945)</u>	<u>(839,228)</u>
	<u>1,036,610</u>	<u>952,622</u>
<b>Going concern</b> (note 1)		
<b>Subsequent events</b> (note 18)		

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, 2018 and 2017

(expressed in Canadian dollars)

	2018 \$	2017 \$
<b>Revenue</b>	983,112	735,249
<b>Cost of sales</b>	758,716	497,600
	<u>224,396</u>	<u>237,649</u>
<b>Expenses</b>		
Selling and marketing (note 10)	436,246	518,189
General and administrative (notes 9 and 10)	815,679	1,243,130
Stock-based compensation (note 13)	120,054	129,688
Depreciation	57,047	157,453
Loss on writeoff of equipment	-	89,081
Research and development - net of tax credits of \$nil	86,810	29,275
	<u>1,515,836</u>	<u>2,166,816</u>
<b>Loss before other expenses</b>	<u>(1,291,440)</u>	<u>(1,929,167)</u>
<b>Other expenses</b>		
Finance costs	(159,653)	(79,651)
Gain on debt settlement through issuance of shares	60,654	-
Gain on modification of convertible notes	25,535	-
Foreign exchange loss	(9,025)	(2,768)
	<u>(82,489)</u>	<u>(82,419)</u>
<b>Loss and comprehensive loss for the year</b>	<u>(1,373,929)</u>	<u>(2,011,586)</u>
<b>Basic and diluted loss per share</b>	(0.02)	(0.03)
<b>Weighted average number of shares outstanding</b>	80,109,626	69,305,395

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

# HIT Technologies Inc.

## Consolidated Statements of Changes in Shareholders' Deficiency For the years ended June 30, 2018 and 2017

(expressed in Canadian dollars)

	Number of shares	Share capital \$	Contributed surplus \$	Deficit \$	Total shareholders' equity (deficiency) \$
<b>Balance - June 30, 2016</b>	67,369,589	9,865,699	838,311	(9,901,312)	802,698
Shares issued on settlement of amounts owing (notes 9 and 12)	439,359	21,968	-	-	21,968
Private placement (note 12)	3,040,000	138,045	13,955	-	152,000
Stock-based compensation expense (note 13)	-	-	129,688	-	129,688
Loss for the year	-	-	-	(2,011,586)	(2,011,586)
Equity component of convertible debentures	-	-	66,004	-	66,004
<b>Balance - June 30, 2017</b>	70,848,948	10,025,712	1,047,958	(11,912,898)	(839,228)
Private placement (note 12)	6,959,524	220,221	122,729	-	342,950
Conversion of secured convertible debentures to common shares	16,350,000	775,411	(29,348)	-	746,063
Stock-based compensation expense (note 13)	-	-	120,054	-	120,054
Loss for the year	-	-	-	(1,373,929)	(1,373,929)
Equity component of convertible debentures	-	-	55,145	-	55,145
<b>Balance - June 30, 2018</b>	94,158,472	11,021,344	1,316,538	(13,286,827)	(948,945)

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, 2018 and 2017

(expressed in Canadian dollars)

	2018 \$	2017 \$
<b>Cash flows from operating activities</b>		
Loss for the year	(1,373,929)	(2,011,586)
Items not involving cash		
Interest expense	111,522	32,805
Stock-based compensation	120,054	129,688
Depreciation	57,047	157,453
Gain on share for debt settlement	(151,637)	-
Gain on modification of convertible notes	(25,535)	-
Writedown of inventory	71,117	-
Loss on writeoff of equipment	-	89,081
	(1,191,361)	(1,602,559)
Changes in non-cash working capital items		
Accounts receivable	(86,715)	29,361
Other receivables	-	23,217
Government assistance and other receivable	24,252	28,887
Inventory	83,613	97,007
Prepaid expenses and deposits	24,428	57,091
Accounts payable and accrued liabilities	585,354	6,468
Deferred revenue	(134,800)	72,014
	(695,229)	(1,288,514)
<b>Cash flows from investing activities</b>		
Restricted cash	(97)	(3)
Acquisition of property and equipment	(28,651)	(66,674)
Acquisition of intangible assets	(15,734)	(32,596)
	(44,482)	(99,273)
<b>Cash flows from financing activities</b>		
Share capital issuance	342,950	173,968
Net proceeds from convertible notes	611,009	923,052
Lease liability	-	(4,494)
	953,959	1,092,526
<b>Increase (decrease) in cash and cash equivalents</b>	214,248	(295,261)
<b>Cash and cash equivalents - Beginning of year</b>	60,346	355,607
<b>Cash and cash equivalents - End of year</b>	274,594	60,346

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

# HIT Technologies Inc.

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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(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, 2018, the Company has incurred a loss of \$1,373,929 (year ended June 30, 2017 - loss of \$2,011,586), negative cash flows from operating activities of \$696,229 (year ended June 30, 2017 - \$1,288,514), and an accumulated deficit of \$13,286,827 at June 30, 2018 (June 30, 2017 - accumulated deficit of \$11,912,898). 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. Even with these new product lines, the Company has not generated sufficient cash flow from operations. 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 \$637,727 for the year ended June 30, 2018. The Company realized net proceeds from external financing during the year ended June 30, 2018 of \$953,959, completing three tranches of private placements of secured convertible debentures for net proceeds of \$611,009 and two equity issues of Units for net proceeds of \$342,950. Subsequent to the year-end, the Company completed a seventh tranche of private placements of secured convertible debentures for gross proceeds of \$460,000 term loans resulting in proceeds of \$277,869 and issued shares in settlement of \$151,637 accounts payable to certain vendors.

# **HIT Technologies Inc.**

## **Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

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(expressed in Canadian dollars)

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 collectability 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 convertible notes and stock-based compensation.

# HIT Technologies Inc.

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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(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:

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**

**June 30, 2018 and 2017**

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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 (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

June 30, 2018 and 2017

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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, 2018 and 2017

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(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

a) 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, 2018 and 2017

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(expressed in Canadian dollars)

b) 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, 2018 and 2017**

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(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.

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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(expressed in Canadian dollars)

### 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:

a) 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 has performed an assessment of the impact of the new standard, and has determined that adoption of this standard will not have a significant impact on the Company's consolidated financial statements. The Company expects to apply this standard on a modified retrospective basis using certain practical expedients. Under this approach, the 2017 comparative period will not be restated and a cumulative transitional adjustment to the opening balance of retained earnings will be recognized at the date of initial application.

b) 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.

c) 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.

# HIT Technologies Inc.

## Notes to Consolidated Financial Statements

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(expressed in Canadian dollars)

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 statements.

### 3 Accounts receivable

Accounts receivable are recorded net of \$nil (2017 - \$35,540) allowance for doubtful accounts.

### 4 Inventory

	2018 \$	2017 \$
Component inventory	17,033	28,512
Finished goods	202,666	345,917
	<u>219,699</u>	<u>374,429</u>

Cost of inventory recognized as expense in cost of sales for the year ended June 30, 2018 totalled \$771,022 (2017 - \$497,600). Inventory writedowns included in cost of sales during the year was \$71,117 (2017 - \$64,195).

### 5 Property and equipment

	Marketing assets \$	Computer equipment \$	Computer software \$	Furniture and fixtures \$	Equipment \$	Total \$
<b>Cost</b>						
Balance - June 30, 2017	100,028	90,667	24,134	12,949	127,836	355,614
Additions	-	1,974	-	-	26,677	28,651
Balance - June 30, 2018	<u>100,028</u>	<u>92,641</u>	<u>24,134</u>	<u>12,949</u>	<u>154,513</u>	<u>384,265</u>
<b>Accumulated depreciation</b>						
Balance - June 30, 2017	98,715	70,308	23,913	8,840	70,059	271,835
Additions	1,313	16,895	221	1,488	30,192	50,109
Balance - June 30, 2018	<u>100,028</u>	<u>87,203</u>	<u>24,134</u>	<u>10,328</u>	<u>100,251</u>	<u>321,944</u>
<b>Carrying amounts</b>						
Balance - June 30, 2017	1,313	20,359	221	4,109	57,777	83,779
Balance - June 30, 2018	-	5,438	-	2,621	54,262	62,321

# HIT Technologies Inc.

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(expressed in Canadian dollars)

### 6 Intangible assets

	Patents \$	Trademarks \$	Total \$
<b>Cost</b>			
Balance - June 30, 2017	221,794	40,335	262,129
Additions	14,000	1,734	15,734
Balance - June 30, 2018	235,794	42,069	277,863
<b>Accumulated depreciation</b>			
Balance - June 30, 2017	12,905	9,242	22,147
Additions	2,820	4,118	6,938
Balance - June 30, 2018	15,725	13,360	29,085
<b>Carrying amounts</b>			
Balance - June 30, 2017	208,889	31,093	239,982
Balance - June 30, 2018	220,069	28,709	248,778

### 7 Accounts payable and accrued liabilities

	2018 \$	2017 \$
Trade accounts payable	830,971	489,274
Accrued liabilities	368,944	277,924
	1,199,915	767,198

### 8 Credit facilities

During the year ended June 30, 2018, the Company has credit card facilities of \$5,000 (2017 - \$5,000) and US\$5,000 (2017 - US\$5,000). Guaranteed Investment Certificates of \$12,512 (2017 - \$12,415) were pledged as security for the credit card facilities.

# HIT Technologies Inc.

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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(expressed in Canadian dollars)

### 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, 2018 and 2017 is outlined below:

	2018 \$	2017 \$
Salaries and management fees	131,117	159,628
Stock-based compensation	13,225	-
	<hr/>	<hr/>
	144,342	159,628
	<hr/>	<hr/>

As at June 30, 2018, accounts payable and accrued liabilities included \$109,881 (2017 - \$56,859) relating to key management personnel compensation.

Effective June 29, 2018, the Company entered into a debt settlement agreement with an officer of the Company pursuant to which, the Company agreed to issue 1,000,000 common shares to settle outstanding amounts of \$50,000.

### 10 Expenses

	2018 \$	2017 \$
<b>Selling and marketing expenses</b>		
Personnel	211,820	223,742
Marketing and content	224,426	294,447
	<hr/>	<hr/>
	436,246	518,189
	<hr/>	<hr/>
<b>General and administrative</b>		
Personnel	360,021	498,597
Professional fees	279,830	483,657
Office	175,828	260,876
	<hr/>	<hr/>
	815,679	1,243,130
	<hr/>	<hr/>

During the year ended June 30, 2018, the Company recorded tax credits of \$nil, offsetting research and development expenses (2017 - \$37,000).

# HIT Technologies Inc.

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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(expressed in Canadian dollars)

### 11 Convertible notes

The Company has issued an aggregate of six tranches of secured convertible notes (the Debentures”) during the years ended June 30, 2018 and 2017. The Debentures are 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 or loss.

#### Issuances during the year ended June 30, 2018

##### a) Tranche 4

On November 7, 2017, the Company issued a fourth tranche of secured convertible debentures (the “Debentures”) having a face value of \$57,000 and a term to maturity of two years. The Debentures 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.

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 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 \$51,867 after deducting transaction costs of \$1,081. The effective interest rate calculated for purpose of determining the amortized cost is 15.3%.

The fair value of the embedded derivative liability was determined to be \$nil upon initial recognition and at June 30, 2018.

##### b) Tranche 5

On February 16, 2018, the Company issued a fifth tranche of the Debentures with a face value of \$300,000 and term of two years. This tranche bears interest of 9.1% and the first year’s interest was prepaid upon 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.

Up to and including the first anniversary of the Debentures, the conversion price is \$0.07 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.

# HIT Technologies Inc.

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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(expressed in Canadian dollars)

Also, in connection with the Debentures, the Company issued 4,285,714 share purchase warrants, with each warrant entitling the holder to purchase an additional common share at a price of \$0.07 per share until February 16, 2019 and after that \$0.10 per share until February 16, 2020.

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 \$260,820 after deducting transaction costs of \$12,763. The effective interest rate calculated for purpose of determining the amortized cost is 16.8%.

The fair value of the conversion feature and the warrants 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 \$1,232.

The fair value of the embedded derivative liability was determined to be \$nil upon initial recognition and at June 30, 2018.

c) Tranche 6

On May 11, 2018, the Company issued a sixth tranche of the Debentures with a face value of \$332,500 and a term of two years. This tranche bears interest of 10% per annum and the first year's interest was prepaid upon 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.

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.

Also, in connection with this tranche, the Company issued 4,750,000 share purchase warrants, with each warrant entitling the holder to purchase an additional common share at a price of \$0.07 per share until May 10, 2020.

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 \$298,322 after deducting transaction costs of \$8,156. The effective interest rate calculated for purpose of determining the amortized cost is 16.0%.

The fair value of the conversion feature and the warrants 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 \$692.

# HIT Technologies Inc.

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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(expressed in Canadian dollars)

### **Amendments during the year ended June 30, 2018**

On November 7, 2017, tranche one, two and one third of the tranche three of the Debentures were amended to be consistent with a fourth tranche of secured convertible debentures issued on November 7, 2017. Under the Debenture amendment agreement, the maturity date for the three tranches was extended to November 7, 2019 and the conversion price was amended accordingly. The Company accounted for amendment as modification to the existing convertible notes, which has resulted in gain of \$25,535.

### **Conversion of debentures during the year ended June 30, 2018**

During the year ended June 30, 2018, Debenture holders, holding Debentures with a face value of \$817,500, converted their debentures into 16,350,000 commons shares.

### **Issuances during the year ended June 30, 2017**

#### a) 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 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.

# HIT Technologies Inc.

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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(expressed in Canadian dollars)

b) 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.

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.

c) 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.

# HIT Technologies Inc.

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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(expressed in Canadian dollars)

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 \$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.

The following table summarizes the outstanding Debentures and conversion price per share at June 30, 2018:

	Face value \$	Carrying value \$	Effective interest rate %	Conversion price per share at June 30, 2018 \$	Maturity date \$
Tranche 1	187,500	162,658	14.7	0.10	November 7, 2019
Tranche 4	57,000	54,270	15.3	0.05	November 7, 2019
Tranche 5	300,000	267,939	16.8	0.07	February 16, 2020
Tranche 6	332,500	300,773	16.0	0.05	May 10, 2020
	<u>877,000</u>	<u>785,640</u>			

<sup>1</sup> Conversion price assumes that anti-dilutive provisions will not apply.

# HIT Technologies Inc.

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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(expressed in Canadian dollars)

### 12 Share capital

Authorized

Unlimited number of voting common shares without par value

#### Share issuances for the year ended June 30, 2018

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 net proceeds of \$150,000. 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.

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 \$113,493 and \$36,507 respectively.

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

Risk-free rate	1.59%
Expected volatility	145%
Expected life in years	2
Expected dividend yield	\$nil

On February 16, 2018, the Company issued 3,809,524 Units at a price of \$0.0525 per Unit for gross proceeds of \$200,000. Each Unit consists of one common share and one share purchase warrant which has an exercise price of \$0.07 until February 16, 2020. All securities issued in connection with this transaction are subject to a four-month statutory hold period expiring June 16, 2018.

The Company allocated the net proceeds from issuance of Units to its component common share and 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 \$106,729 and \$86,221 respectively.

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

Risk-free rate	1.80%
Expected volatility	183%
Expected life in years	2
Expected dividend yield	\$nil

At June 30, 2018, all of the warrants were outstanding with a fair value of \$122,727.

# HIT Technologies Inc.

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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(expressed in Canadian dollars)

### 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.

### Warrants

At June 30, 2018, the Company had 15,040,238 warrants outstanding with expiry dates ranging from February 2019 to May 2020 with exercise prices ranging from \$0.05 to \$0.10.

Adjustments for a weighted average number of common shares of 17,540,000 for convertible debt, 15,040,238 warrants and 6,927,394 stock options, in total 39,507,632 antidilutive instrument have been excluded from the calculation of diluted loss per share as they are undilutive.

# HIT Technologies Inc.

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(expressed in Canadian dollars)

### 13 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, 2018 and 2017 is presented below.

	2018		2017	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance - Beginning of year	5,917,000	0.21	3,598,389	0.31
Granted	2,200,000	0.05	2,490,000	0.05
Expired	(104,844)	0.06	(13,889)	0.17
Forfeited	(1,084,762)	0.24	(157,500)	0.50
Balance - End of year	6,927,394	0.15	5,917,000	0.21

The following table summarizes information about stock options outstanding as at June 30, 2018:

Exercise price	Number of options	Weighted average remaining contractual life in years
\$0.25	1,117,894	6.24
\$0.60	744,500	2.44
\$0.17	525,000	3.39
\$0.05	4,540,000	2.78

At June 30, 2018, 4,585,872 (2017 - 1,440,258) options were exercisable.

During the year ended June 30, 2018, the Company granted 2,200,000 options to employees, officers and directors. The options had an exercise price of \$0.05, a two-year term and vested immediately.

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, 2018, the Company used the following assumptions:

Risk-free rate	1.59%
Expected volatility	145%
Expected life in years	2
Expected dividend yield	\$nil

The estimated aggregate fair values of the options granted during the year ended June 30, 2018 was \$50,600. The Company recognized stock-based compensation expense of \$120,054 for the year ended June 30, 2018 (2017 - \$129,688).

# HIT Technologies Inc.

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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(expressed in Canadian dollars)

### 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 analyzes 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.

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

	2018 \$	2017 \$
Canada	147,869	276,648
United States	835,243	413,718
Other	-	44,883
	<hr/> 983,112	<hr/> 735,249

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

	2018 \$	2017 \$
Canada	8,059	26,235
USA	-	-
The People's Republic of China	54,262	57,544
	<hr/> 62,321	<hr/> 83,779

# HIT Technologies Inc.

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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(expressed in Canadian dollars)

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

	2018 \$	2017 \$
Canada	33,176	15,429
United States	212,663	221,609
United Kingdom	2,939	2,944
	<hr/> 248,778	<hr/> 239,982

The Company has one significant customer representing more than 10% of total sales.

### 15 Financial instruments

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

	2018 \$	2017 \$
Cash and cash equivalents	273,594	60,346
Accounts receivable	97,709	10,994
Restricted cash	12,512	12,415
Other receivables	-	37,000
Accounts payable and accrued liabilities	1,199,915	767,198
Convertible notes	785,640	889,852

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.

# HIT Technologies Inc.

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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(expressed in Canadian dollars)

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, 2018, 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, 2018, the loss for the period would be approximately \$28,000 greater. If the Canadian dollar were to strengthen against the US dollar by 10% relative to the rate at June 30, 2018, the loss for the period would be approximately \$23,000 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.

## 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, 2018.

# HIT Technologies Inc.

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(expressed in Canadian dollars)

### 17 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:

	2018	2017
Canadian statutory income tax rate	27%	26%
	\$	\$
Income tax recovery at statutory rate	(370,826)	(523,012)
Tax effect of		
Permanent differences and other	35,296	37,969
Change in valuation allowance	335,530	485,043
Income tax provision	-	-

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

	2018	2017
	\$	\$
Deferred income tax assets (liabilities)		
Non-capital losses carried forward	2,891,022	2,266,921
Deductible SR&ED expenditures	81,028	78,027
Property and equipment	181,761	161,978
Intangible assets	1,905	30
Financing expense	95,227	134,765
Change in estimate and true-ups	(519,596)	(245,904)
	2,731,347	2,395,817
Valuation allowance	(2,731,347)	(2,395,817)
Net deferred income tax assets	-	-

As at June 30, 2018, the Company has non-capital losses carried forward of \$10,707,488, 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:

	\$
2033	14,930
2034	338,464
2035	833,363
2036	3,429,669
2037	2,908,925
2038	1,839,457
2039	1,342,680
	10,707,488

# HIT Technologies Inc.

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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(expressed in Canadian dollars)

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.

### 18 Subsequent events

Subsequent to the year-end:

- a) the Company issued 3,032,735 shares to vendors in settlement of \$151,637 in outstanding payables;
- b) On October 4, 2018, the Company completed a \$460,000 secured convertible debenture (the "Debentures") offering on a private placement basis. The Debentures 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 issued 9,200,000 share purchase warrants, with each warrant entitling the holder to purchase an additional common share at a price of \$0.05 per share until October 4, 2020.
- c) On October 18, 2018, the Company granted an aggregate of 2,220,000 options to an officer, an employee and a consultant with an exercise price of \$0.05 exercisable for a period of 48 months;
- d) On September 26, 2018, the Company received an advance of \$127,869 net of a 2% origination fee from a consultant in the form of a secured promissory note. The advance bears interest at 2.5% per month and is repayable on or before February 15, 2019.
- e) On November 27, 2018, the Company has entered into a loan transaction with an arm's length third party in a form of secured promissory note in the amount of \$150,000. The loan bears interest at 2.5% per month and is repayable on or before February 15, 2019. Additionally, the Company amended its previously issued convertible debentures in the aggregate amount of \$187,500 with an interest rate of 10% per annum, so that (i) the maturity date (and the corresponding conversion period) of the existing debentures will be extended to the date that is 2 years from the original maturity date of October 31, 2018; and (ii) the conversion price will be \$0.05 per share for the first year from the date of the amendment and \$0.10 per share for the second year from the date of the amendment. The Company accounted for amendment as modification to the existing convertible notes, which has resulted in gain of \$21,100 in the period ending June 30, 2019.