

HIT Technologies Inc.

Consolidated Financial Statements
June 30, 2019 and 2018
(expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of HIT Technologies Inc.:

Opinion

We have audited the consolidated financial statements of HIT Technologies Inc. and its subsidiary (together the "Company"), which comprise the consolidated statement of financial position as at June 30, 2019, and the consolidated statement of operations and comprehensive loss, consolidated statement of changes in shareholders' (deficiency) equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which describes the conditions indicating that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The consolidated financial statements of the Company for the year ended June 30, 2018, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on December 17, 2018.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis filed with the relevant Canadian securities commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated. If, based on the work we have performed on this other information, we conclude that there is a material misstatement, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Anna C. Moreton.

Baker Tilly WM LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, B.C.
November 14, 2019

HIT Technologies Inc.

Consolidated Statements of Financial Position

As at June 2019 and 2018

(expressed in Canadian dollars)

	2019 \$	2018 \$
Assets		
Current assets		
Cash	114,696	273,594
Restricted cash (note 7)	12,736	12,512
Accounts receivable	27,711	97,709
Government assistance and other receivable	14,730	12,748
Inventory (note 3)	311,733	219,699
Prepaid expenses and deposits	7,444	109,249
	<u>489,050</u>	<u>725,511</u>
Property and equipment (note 4)	113,069	62,321
Intangible assets (note 5)	75,333	248,778
	<u>677,452</u>	<u>1,036,610</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	660,055	1,199,915
Deferred revenue	12,427	-
Convertible notes (note 11)	221,566	-
	<u>894,048</u>	<u>1,199,915</u>
Convertible notes (note 11)	1,530,372	785,640
	<u>2,424,420</u>	<u>1,985,555</u>
Shareholders' (Deficiency) Equity		
Share capital (note 12)	11,112,326	11,021,344
Contributed surplus	1,554,625	1,316,538
Deficit	<u>(14,413,919)</u>	<u>(13,286,827)</u>
	<u>(1,746,968)</u>	<u>(948,945)</u>
	<u>677,452</u>	<u>1,036,610</u>

Going concern (note 1)

Subsequent events (note 18)

Approved and authorized for issue by the Board of Directors

"Brooks Bergreen"

Director

"Michael Liggett"

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, 2019 and 2018

(expressed in Canadian dollars)

	2019	2018
	\$	\$
Revenue	2,638,689	983,112
Cost of sales (note 3)	1,367,453	758,716
	<u>1,271,236</u>	<u>224,396</u>
Expenses		
Selling and marketing (note 9)	919,947	436,246
General and administrative (notes 8 and 9)	685,701	815,679
Stock-based compensation (note 13)	89,304	120,054
Depreciation	75,766	57,047
Research and development	65,483	86,810
	<u>1,836,201</u>	<u>1,515,836</u>
Loss before other income (expense)	<u>(564,965)</u>	<u>(1,291,440)</u>
Other income (expense)		
Finance costs	(258,274)	(159,653)
Gain on debt settlement through issuance of shares (note 12)	-	60,654
Gain (loss) on debt reorganization (note 11)	(88,576)	25,535
Loss on intangible asset impairment	(193,889)	-
Foreign exchange (loss) gain	(21,388)	(9,025)
	<u>(562,127)</u>	<u>(82,489)</u>
Loss and comprehensive loss for the year	<u>(1,127,092)</u>	<u>(1,373,929)</u>
Basic and diluted loss per share	(0.01)	(0.02)
Weighted average number of shares outstanding	96,542,539	80,109,626

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

HIT Technologies Inc.

Consolidated Statements of Changes in Shareholders' (Deficiency) Equity For the years ended June 30, 2019 and 2018

(expressed in Canadian dollars)

	Number of shares	Share capital \$	Contributed surplus \$	Deficit \$	Total shareholders' equity (deficiency) \$
Balance - June 30, 2017	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 notes to common shares	16,350,000	775,411	(29,348)	-	746,063
Stock-based compensation expense	-	-	120,054	-	120,054
Loss and comprehensive loss for the year	-	-	-	(1,373,929)	(1,373,929)
Equity component of convertible notes	-	-	55,145	-	55,145
Balance - June 30, 2018	94,158,472	11,021,344	1,316,538	(13,286,827)	(948,945)
Stock-based compensation expense	-	-	89,304	-	89,304
Shares issued on settlement of amounts owing (notes 8 and 12)	3,032,735	90,982	-	-	90,982
Loss and comprehensive loss for the year	-	-	-	(1,127,092)	(1,127,092)
Equity component of convertible notes	-	-	148,783	-	148,783
Balance - June 30, 2019	97,191,207	11,112,326	1,554,625	(14,413,919)	(1,746,968)

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, 2019 and 2018

(expressed in Canadian dollars)

	2019	2018
	\$	\$
Cash flows from operating activities		
Loss for the year	(1,127,092)	(1,373,929)
Items not involving cash		
Interest accretion	80,501	111,522
Stock-based compensation	89,304	120,054
Depreciation	75,766	57,047
Gain on debt settlement through issuance of shares	-	(151,637)
Gain (loss) on debt reorganization	88,576	(25,535)
Loss on intangible asset impairment	193,889	-
Write down of inventory	-	71,117
	<hr/>	<hr/>
	(599,056)	(1,191,361)
Changes in non-cash working capital items		
Accounts receivable	69,998	(87,717)
Government assistance and other receivable	(1,982)	24,252
Inventory	(92,034)	83,613
Prepaid expenses and deposits	101,805	24,428
Accounts payable and accrued liabilities	(448,874)	585,354
Deferred revenue	12,427	(134,800)
	<hr/>	<hr/>
	(957,716)	(696,231)
Cash flows from investing activities		
Restricted cash	(224)	(97)
Acquisition of property and equipment	(119,054)	(28,651)
Acquisition of intangible assets	(27,904)	(15,734)
	<hr/>	<hr/>
	(147,182)	(44,482)
Cash flows from financing activities		
Share capital issuance	-	342,950
Proceeds from promissory note issuance	150,000	-
Proceeds from convertible note issuance	796,000	611,009
	<hr/>	<hr/>
	946,000	953,959
Increase / (Decrease) in Cash	<hr/>	<hr/>
	(158,898)	213,248
Cash - Beginning of year	<hr/>	<hr/>
	273,594	60,346
Cash - End of year	<hr/>	<hr/>
	114,696	273,594

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

HIT Technologies Inc.

Notes to the Consolidated Financial Statements June 30, 2019 and 2018

(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, 2019, the Company has incurred a loss of \$1,127,092 (year ended June 30, 2018 - loss of \$1,373,929), negative cash flows from operating activities of \$957,716 (year ended June 30, 2018 - \$696,231), and has accumulated deficit of \$14,413,919 at June 30, 2019 (June 30, 2018 - accumulated deficit of \$13,286,827). 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.

Management is of the opinion that through a combination of increased sales, improved margins, 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.

HIT Technologies Inc.

Notes to the Consolidated Financial Statements June 30, 2019 and 2018

(expressed in Canadian dollars)

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, except for certain financial instruments carried at fair value. In addition, the consolidated financial statements are prepared on an accrual basis, except for cash flow information. The consolidated financial statements are presented in Canadian dollars, which is also the Company’s functional currency.

Principles of Consolidation

The consolidated financial statements include the accounts of HIT Technologies Inc., and its wholly owned subsidiary, 1039219 BC Ltd., collectively referred to as the Company. Intercompany balances and transactions, and unrealized gains arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

These consolidated financial statements include the financial statements of the Company and entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the Company’s subsidiary are included in these consolidated financial statements. All intercompany balances and transactions, income and expenses have been eliminated upon consolidation.

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.

The Company’s core operations are subject to a number of critical estimates, such as collectability of accounts receivables, valuation of inventory including provisions for obsolete or impaired inventory, and provisions for returned product which include regular judgment by management based on historical experience and assumptions on current facts. Deviations from management estimates could have adverse and material effects on sales and cost of goods sold, and asset valuation reported in these consolidated financial statements.

The Company’s policies for property, plant, and equipment, and intangible assets require a number of significant estimates which have material impact on the carrying value of the Company’s long-term assets. Management estimates such as the useful life of assets and whether future economic value exceeds carrying value are subject to significant management judgment.

HIT Technologies Inc.

Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

(expressed in Canadian dollars)

The accounting for stock-based compensation and convertible notes, a complex compound financial instrument, require a choice of valuation methodology and a number of judgmental inputs which can materially affect the carrying value and the recognition of expense across the life of the instrument. Actual results could differ materially from forward looking estimates used in valuation inputs at the time of recognition.

Cash

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, which 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 expected credit losses in the existing accounts receivable balance. The Company determines allowance for doubtful accounts based upon expected credit losses over the life of the financial instrument. 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. Net realizable value represents the estimated selling price for inventories in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale. Trade discounts and rebates are deducted from the purchase price. Reserves for excess and obsolete inventory are based upon quantities on hand, projected volumes from demand forecast and net realizable value. The impact of changes in inventory reserves is reflected in cost of sales. 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 at the following annual rates:

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

HIT Technologies Inc.

Notes to the Consolidated Financial Statements

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(expressed in Canadian dollars)

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 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.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date, or when facts and circumstances suggest 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 operation that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit or "CGU").

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

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

HIT Technologies Inc.

Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

(expressed in Canadian dollars)

Convertible notes

The convertible notes are compound financial instruments for accounting purposes and consist 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 detachable warrants are accounted for as an equity component. The Company's policy for accounting for individual components of convertible notes upon recognition is to discount the debt component using an estimated discount rate for a similar debt instrument without a conversion feature and allocating the residual value to the equity components.

Financial instruments

Recognition, classification and measurement

Financial assets are classified and measured based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 contains three primary measurement categories for financial instruments: amortized cost, fair value through other comprehensive income ("FVTOCI"), and fair value through profit and loss ("FVTPL"). Financial assets are recognized in the statements of financial position if the Company has a contractual right to receive cash or other financial assets from another entity. Financial assets are derecognized when the rights to receive cash flows from the asset have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership.

All financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instruments. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial instruments are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company has classified its trade accounts receivables, accounts payable and other liabilities, due to related parties, and convertible notes as financial assets and financial liabilities measured at amortized cost. Such assets and liabilities are recognized initially at fair value inclusive of any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment losses.

Financial instruments carried at FVTPL are recognized at their fair value at acquisition with any directly attributable transactions costs expensed as they are incurred. Subsequent measurement requires adjustment to fair value at the date of the statement of financial position, with any remeasurement gains or losses recognized in profit and loss as they arise. Instruments classified as FVTPL during the year ended June 30, 2019 include cash, and restricted cash

Financial instruments carried at FVTOCI are recognized at their fair value at acquisition inclusive of any directly attributable transactions costs. Subsequent measurement requires adjustment to fair value at the date of the statement of financial position, with any remeasurement gains or losses recognized in other comprehensive income. The Company has recognized no FVTOCI instruments during the year ended June 30, 2019.

HIT Technologies Inc.

Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

(expressed in Canadian dollars)

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Basis of fair value

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

The carrying value of the Company's financial instruments approximate their fair values due to their short-term maturities.

The following table sets forth the Company's financial instruments measured at fair value on a recurring basis by level within the fair value hierarchy as at June 30, 2019:

<u>June 30, 2019</u>		<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>
Cash	\$	114,696	\$	-	\$	-
Restricted cash		12,736				
<u>June 30, 2018</u>		<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>
Cash	\$	273,594	\$	-	\$	-
Restricted cash		12,512				

HIT Technologies Inc.

Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

(expressed in Canadian dollars)

Impairment of financial assets

The Company recognizes expected credit losses on financial assets measured at amortized cost. Loss allowances for accounts receivables are measured at an amount equal to lifetime expected credit losses if the amount is not considered fully recoverable. A financial asset carried at amortized cost is considered credit-impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Individually significant financial assets are tested for credit-impairment on an individual basis. The remaining financial assets are assessed collectively.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

Revenue is recognized in accordance with IFRS 15 *Revenue from Contracts with Customers*. Revenue recognition will occur to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, and collection is reasonably assured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described below must also be met before revenue is recognized: (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 is recognized when consideration for a product is received in advance of shipment to the customer. Deferred revenue will be recorded upon receipt of consideration and recognized as revenue upon shipment.

HIT Technologies Inc.

Notes to the Consolidated Financial Statements

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(expressed in Canadian dollars)

Income taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. 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.

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

Both the Company and its wholly owned subsidiary's functional and presentation 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 profit or 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 income 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 are the same, as the inclusion of stock options and share purchase warrants is anti-dilutive.

HIT Technologies Inc.

Notes to the Consolidated Financial Statements

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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. 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.

Share-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 are recorded at measurement date fair value. Share-based awards are recognized as an expense in profit or loss, and an increase to contributed surplus under the graded attribution method. The fair value of each option is measured at the date of grant using the Black-Scholes option pricing model. Share-based compensation expense is recognized over the option's vesting period by increasing contributed surplus based on the number of awards expected to vest. The 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.

Share-based payments granted to parties other than employees and those providing similar services are measured at the fair value of the goods and services received on the date of receipt. If the fair value of the goods and services received cannot be reliably measured, their value is estimated using the Black-Scholes option pricing model.

Any consideration received on the exercise of share-based awards together with the related portion of contributed surplus attributed to the exercised share-based awards is credited to share capital. When share-based awards expire unexercised the amounts recorded in contributed surplus with respect to those share-based awards are not reclassified within equity.

HIT Technologies Inc.

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New accounting standards adopted

Revenue from Contracts with Customers

On July 1, 2018, the Company adopted a new accounting standard IFRS 15 – Revenue from Contracts with Customers, effective for annual periods beginning on or after January 1, 2018 using the retrospective method of adoption. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. The Company has reviewed its sources of revenue using the guidance found in IFRS 15 and determined that there are no material changes to the recognition and measurement of the Company’s revenue sources as a result of the adoption of IFRS 15.

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 classification categories for financial assets under IAS 39 of held to maturity, loans and receivables, FVTPL, and available-for-sale are replaced in IFRS 9 with categories that reflect the measurement, namely amortized cost, fair value through other comprehensive income (FVOCI) and FVTPL. The standard became effective for annual periods beginning on or after January 1, 2018. The Company has performed an assessment of the impact of the new standard and determined that adoption of this standard did not have a significant impact on the Company’s consolidated financial statements.

Accounting standards issued but not yet effective

The following new accounting standard has not been early adopted in these consolidated financial statements:

Leases

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

Effective for its financial year ending June 30, 2020, the Company will be required to reflect an asset and related liability for any relevant lease. The Company has determined adoption of this standard will not have a material impact on the Company’s consolidated financial statements.

HIT Technologies Inc.

Notes to the Consolidated Financial Statements

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3 Inventory

	2019 \$	2018 \$
Component inventory	-	17,033
Finished goods	311,733	202,666
	<u>311,733</u>	<u>219,699</u>

Cost of inventory recognized as expense in cost of sales for the year ended June 30, 2019 totalled \$1,016,850 (2018 - \$621,372). Write down of inventory included in cost of sales during the year was \$nil (2018 \$71,117).

4 Property and equipment

	Marketing assets \$	Computer equipment \$	Computer software \$	Furniture and fixtures \$	Equipment \$	Total \$
Cost						
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	100,028	92,641	24,134	12,949	154,513	384,265
Additions	-	5,894	122	256	112,782	119,054
Balance - June 30, 2019	<u>100,028</u>	<u>98,535</u>	<u>24,256</u>	<u>13,205</u>	<u>267,295</u>	<u>503,319</u>
Accumulated depreciation						
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	100,028	87,203	24,134	10,328	100,251	321,944
Additions	-	4,522	60	1,504	62,220	68,306
Balance - June 30, 2019	<u>100,028</u>	<u>91,725</u>	<u>24,194</u>	<u>11,832</u>	<u>162,471</u>	<u>390,250</u>
Carrying amounts						
Balance - June 30, 2018	-	5,438	-	2,621	54,262	62,321
Balance - June 30, 2019	<u>-</u>	<u>6,810</u>	<u>62</u>	<u>1,373</u>	<u>104,840</u>	<u>113,069</u>

HIT Technologies Inc.

Notes to the Consolidated Financial Statements June 30, 2019 and 2018

(expressed in Canadian dollars)

5 Intangible assets

	Patents \$	Trademarks \$	Total \$
Cost			
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
Additions	17,850	10,054	27,904
Impairment	(201,258)	-	(201,258)
Balance - June 30, 2019	<u>52,386</u>	<u>52,123</u>	<u>104,509</u>
Accumulated depreciation			
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
Additions	2,820	4,640	7,460
Impairment	(7,369)	-	(7,369)
Balance - June 30, 2019	<u>11,176</u>	<u>18,000</u>	<u>29,176</u>
Carrying amounts			
Balance - June 30, 2018	220,069	28,709	248,778
Balance - June 30, 2019	41,210	34,123	75,333

During the year ended June 30, 2019 patent assets with a carrying value of \$193,889 were determined to have no expected use in future product development, and no recoverable value or value in use, resulting in a write-down of the full carrying value. A loss on intangible asset impairment for the full amount was recognized in other expenses.

6 Accounts payable and accrued liabilities

	2019 \$	2018 \$
Trade accounts payable	520,292	830,971
Accrued liabilities	139,763	368,944
	<u>660,055</u>	<u>1,199,915</u>

7 Credit facilities

During the year ended June 30, 2019, the Company has credit card facilities of \$5,000 (2018 - \$5,000) and US\$5,000 (2018 - US\$5,000). Guaranteed Investment Certificates of \$12,736 (2018 - \$12,512) are pledged as security for the credit card facilities.

HIT Technologies Inc.

Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

(expressed in Canadian dollars)

8 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, 2019 and 2018 is outlined below:

	2019	2018
	\$	\$
Salaries and management fees	116,926	131,117
Stock-based compensation	43,782	13,225

As at June 30, 2019, accounts payable and accrued liabilities included \$4,978 (2018 - \$109,881) relating to key management personnel compensation.

Effective June 29, 2018, the Company entered into a debt settlement agreement with an officer of the Company in which the Company agreed to issue 1,000,000 common shares to settle outstanding amounts of \$50,000. On September 20, 2018 pursuant to this settlement, 1,000,000 shares with a fair value of \$30,000 were issued to an officer of the company, refer to Note 12. A gain of \$20,000 was recognized in the Consolidated statements of Operations for the year-ended June 30, 2018.

9 Expenses

	2019	2018
	\$	\$
Selling and marketing expenses		
Personnel	297,132	211,820
Marketing and content	622,815	224,426
	<hr/>	<hr/>
	919,947	436,246
	<hr/>	<hr/>
General and administrative		
Personnel	456,322	360,021
Professional fees	30,409	279,830
Office	198,970	175,828
	<hr/>	<hr/>
	685,701	815,679
	<hr/>	<hr/>

HIT Technologies Inc.

Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

(expressed in Canadian dollars)

10 Secured promissory note

On November 27, 2018, the Company 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, bearing interest at 2.5% per month. The loan was extinguished on April 11, 2019 as part of the Tranche 8 of the convertible note issuances, refer to Note 11.

11 Convertible notes

Issuances during the year ended June 30, 2018

a) Tranche 4

On November 7, 2017, the Company issued a fourth tranche of secured convertible notes with a face value of \$57,000 and a term to maturity of two years. This tranche bears 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 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%.

b) Tranche 5

On February 16, 2018, the Company issued a fifth tranche of the secured convertible notes 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 Notes. Monthly interest payments are required after the first anniversary, with the principal due at maturity.

Up to and including the first anniversary of the secured convertible notes, 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.

Also, in connection with the secured convertible notes, 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.

HIT Technologies Inc.

Notes to the Consolidated Financial Statements

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(expressed in Canadian dollars)

c) Tranche 6

On May 11, 2018, the Company issued a sixth tranche of the secured convertible notes 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 secured convertible notes. Monthly interest payments are required after the first anniversary, with the principal due at maturity.

Up to and including the first anniversary of the secured convertible notes, 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.

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.

Conversion limits are set such that the maximum volume of shares an individual may acquire through conversion is limited to 10% or less of the total outstanding common stock at time of conversion, and are subject to standard anti-dilution clauses.

Issuances during the year ended June 30, 2019

a) Tranche 7

On October 4, 2018, the Company issued a seventh tranche of secured convertible notes with a face value of \$460,000 and term of two years. The notes bear interest of 10% and the interest compounds daily to the note's principal for the first year and is payable monthly thereafter. The notes are convertible into common shares of the Company at \$0.05 per share in the first 12 months and at \$0.10 in the following 12 months to maturity.

Also, in connection with the issuance, the Company issued 9,200,000 share purchase warrants, with each warrant entitling the holder to purchase one common share at a price of \$0.05 per share until October 4, 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 \$415,620 after deducting transaction costs of \$8,380. The effective interest rate calculated for purpose of determining the amortized cost is 15.65%.

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 \$711.

HIT Technologies Inc.

Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

(expressed in Canadian dollars)

b) Tranche 8

On April 11, 2019, the Company issued an eighth tranche of secured convertible notes, with a face value of \$1,032,631 and a term of two years. This tranche bears interest of 10% per annum. Interest treatment varies between the 3 individual convertible notes within the tranche, with two notes with a combined face value of \$405,297 accruing interest to the principal up to the first anniversary, with subsequent interest payable monthly until maturity. The third convertible note with a face value of \$627,334 carries interest payable monthly from inception until maturity. The notes are convertible into common shares of the Company at \$0.05 per share in the first 12 months and at \$0.10 thereafter.

Also, in connection with this tranche the Company issued an aggregate 19,152,126 share purchase warrants, with each warrant entitling the holder to purchase an additional common share at a price of \$0.05 per share until April 11, 2021.

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 \$934,558. The effective interest rate calculated for purpose of determining the amortized cost is 17.02%.

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.

c) Tranche 9

On April 17, 2019, the Company issued a ninth tranche of secured convertible notes with a face value of \$167,369 and a term of two years. This tranche bears interest of 10% per annum. Interest accrues to the principal up to the first anniversary, with subsequent interest payable monthly until maturity. The notes are convertible into common shares of the Company at \$0.05 per share in the first 12 months and at \$0.10 thereafter.

Also, in connection with this tranche the Company issued 3,347,373 share purchase warrants, with each warrant entitling the holder to purchase one common share at a price of \$0.05 per share until April 17, 2021.

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 \$146,948 after deducting transaction costs of \$4,525. The effective interest rate calculated for purpose of determining the amortized cost is 21.54%.

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 \$475.

Conversion limits are set such that the maximum volume of shares an individual may acquire through conversion is limited to 10% or less of the total outstanding common stock at time of conversion, and are subject to standard anti-dilution clauses.

HIT Technologies Inc.

Notes to the Consolidated Financial Statements June 30, 2019 and 2018

(expressed in Canadian dollars)

Amendments during the year ended June 30, 2019

During the fiscal year ended June 30, 2019 tranche one of the convertible notes was amended to extend the maturity date of Oct. 31, 2018 to November 7, 2019. The extension of maturity resulted in a gain on debt modification of \$15,900.

Extinguishments during the year ended June 30, 2019

Proceeds from the eighth tranche of notes issued April 11, 2019 were used to extinguish existing convertible notes with a carrying value of \$598,424. Carrying value differences between issued and extinguished debt resulted in a loss on debt reorganization of \$104,476. Outstanding warrants totaling 11,046,190 were also extinguished as part of the transaction. The following table summarizes the convertible note activity during the years ended June 30, 2019 and 2018:

		Face Value		Carrying value
Balance, June 30, 2017	\$	1,005,000	\$	889,852
Issued during the year		689,500		633,009
Extinguished with the issuance of new notes		-		-
Note amendments		-		(25,535)
Note conversions		(817,500)		(748,744)
Transaction costs		-		(22,000)
Coupon interest		-		103,683
Accretion		-		59,058
Interest disbursements and change in payables		-		(103,683)
Balance, June 30, 2018		877,000		785,640
Issued during the period		1,660,000		1,497,126
Extinguished with the issuance of new notes		(628,500)		(598,424)
Transaction costs		-		(12,905)
Coupon interest		-		115,280
Accretion		-		80,501
Interest disbursements and change in payables and prepaids		-		(115,280)
Balance, June 30, 2019		1,908,500		1,751,938
Current portion		(248,500)		(221,566)
Long-term	\$	1,660,000	\$	1,530,372

HIT Technologies Inc.

Notes to the Consolidated Financial Statements

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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.

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.

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Share issuances for the year ended June 30, 2019

During the year ended June 30, 2018, the Company entered into a debt settlement agreement to issue 3,032,735 shares for \$151,637 in outstanding debt, including amounts owed to related parties (note 8). As a result of the settlement, a gain of \$60,654 was recorded on the execution date. On September 20, 2018, the Company issued 3,032,735 common shares in connection with the debt settlement at a fair value of \$90,982.

Warrants

At June 30, 2019, the Company had 34,638,546 warrants outstanding with expiry dates ranging from November 7, 2019 to April 17, 2021 with exercise prices of \$0.05. The weighted average remaining contractual life on outstanding warrants is 1.55 years. A summary of outstanding warrants is shown below.

		2019		2018
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Balance - Beginning of year	16,179,697	0.07	24,240,238	0.07
Granted	31,699,499	0.05	15,559,697	0.07
Expired	(13,240,650)	0.05	(23,620,238)	0.07
Forfeited	-	-	-	-
Balance - End of year	34,638,546	0.05	16,179,697	0.07

HIT Technologies Inc.

Notes to the Consolidated Financial Statements June 30, 2019 and 2018

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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, 2019 and 2018 is presented below.

		2019		2018
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance - Beginning of year	6,927,394	0.15	5,917,000	0.21
Granted	2,220,000	0.05	2,200,000	0.05
Expired	-	-	(104,844)	0.06
Forfeited	-	-	(1,084,762)	0.24
Balance - End of year	<u>9,147,394</u>	<u>0.13</u>	<u>6,927,394</u>	<u>0.15</u>

The following table summarizes information about stock options outstanding as at June 30, 2019:

Exercise price	Number of options	Weighted average remaining contractual life in years
\$0.25	1,117,894	5.24
\$0.60	744,500	1.44
\$0.17	525,000	2.39
\$0.05	6,760,000	2.33

At June 30, 2019, 8,201,269 (2018 - 4,585,872) options were exercisable.

During the year ended June 30, 2019, the Company granted 2,220,000 options (2018 - 2,200,000) to employees, officers and directors. The options had an exercise price of \$0.05, and a 4-year term. Of the options granted 2,020,000 vested immediately, and 200,000 carry a 4-year vesting period.

HIT Technologies Inc.

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(expressed in Canadian dollars)

The Company uses the Black-Scholes option pricing model to estimate the fair value of each option on the grant date. For the options granted during the years ended June 30, 2019 and 2018, the Company used the following assumptions:

	2019	2018
Risk-free rate	2.38%	1.59%
Expected volatility	162%	145%
Expected life in years	4	2
Expected dividend yield	\$nil	\$nil

The estimated aggregate fair values of the options granted during the year ended June 30, 2019 was \$68,820 (2018 – \$50,600). The Company recognized stock-based compensation expense of \$89,304 for the year ended June 30, 2019 (2018 - \$120,054).

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.

HIT Technologies Inc.

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

	2019	2018
	\$	\$
United States	1,441,931	147,869
Canada	1,196,758	835,243
	<u>2,638,689</u>	<u>983,112</u>

A single customer represented 49% of the Company's sales for the year ended June 30, 2019.

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

	2019	2018
	\$	\$
Canada	8,305	8,059
The People's Republic of China	104,764	54,262
	<u>113,069</u>	<u>62,321</u>

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

	2019	2018
	\$	\$
Canada	47,888	33,176
United States	24,506	212,663
United Kingdom	2,939	2,939
	<u>75,333</u>	<u>248,778</u>

15 Financial instruments

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

	2019	2018
	\$	\$
Cash	114,696	273,594
Accounts receivable	27,711	97,709
Restricted cash	12,736	12,512
Other receivables	14,730	12,748
Accounts payable and accrued liabilities	660,055	1,199,915
Convertible notes	1,751,938	785,640

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Interest income, expense, and gains and losses from financial assets and financial liabilities classified at amortized cost are recognized in the consolidated profit or loss.

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of Cash, and accounts receivable. The Company limits its exposure to credit loss by placing its Cash 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.

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

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, accounts receivable, and accounts payable and accrued liabilities.

The following table summarizes the Company's foreign denominated financial instruments:

	2019 USD\$	2018 USD\$
Cash	74,782	166,646
Restricted cash	5,496	5,492
Accounts receivable	49,790	134,561
Accounts payable and accrued liabilities	(279,903)	(500,994)
Net position	<u>(149,835)</u>	<u>(194,295)</u>

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, 2019, 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, 2019, the loss for the period would be approximately \$21,800 greater. If the Canadian dollar were to strengthen against the US dollar by 10% relative to the rate at June 30, 2019, the loss for the period would be approximately \$17,900 less.

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(expressed in Canadian dollars)

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 observable impacts on the fair value and future cash flows of financial instruments that can be directly attributable to interest rate risk include changes in profit or loss from financial instruments whose cash flows are determined with reference to floating interest rates and potential changes in value of financial instruments whose cash flows are fixed in nature. The Company does not have any financial liabilities with floating interest rates and accordingly is not exposed to cash flow risk.

d) Other price risk

Equity price risk is the potential adverse impacts on the Company's earnings due to movements in individual equities or the general movements in market prices. The Company does not hold investments in equity, commodity, or similar market-traded instruments that give rise to price risk, however adverse movements in the Company's own publicly traded shares could affect the Company's ability to generate favourable financing arrangements and impact future earnings through increased financing costs.

e) 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 equity comprising issued share capital, contributed surplus, 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, 2019.

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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:

	2019	2018
Canadian statutory income tax rate	27%	27%
	\$	\$
Loss for the year	(1,127,092)	(1,373,929)
Income tax recovery at statutory rate	(304,315)	(370,826)
Tax effect of		
Non-deductible expenses	26,406	35,296
Changes in unrecognized deferred tax assets	277,909	335,530
Income tax provision	-	-

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

	2019	2018
	\$	\$
Unrecognized deductible temporary differences		
Non-capital losses carried forward	3,245,187	2,891,022
Deductible SR&ED expenditures	104,666	81,028
Property and equipment	85,054	181,761
Intangible assets	22,557	1,905
Financing expense	38,880	95,227
Convertible notes	(42,272)	(24,667)
Change in estimate and true ups	-	(494,929)
	3,454,072	2,731,347
Unrecognized deferred tax assets	(3,454,072)	(2,731,347)
Net deferred income tax assets	-	-

As at June 30, 2019, the Company has non-capital losses carried forward of \$12,019,212 which are available to offset future years' taxable income. No deferred tax asset has been recognized in relation to these losses. These losses expire as follows:

	\$
2032	3,141
2033	350,253
2034	771,839
2035	3,467,980
2036	2,998,554
2037	1,886,480
2038	1,605,295
2039	935,670
	<u>12,019,212</u>

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(expressed in Canadian dollars)

The Company has a Scientific Research and Experimental Development (“SR&ED”) pool of approximately \$387,652 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) On July 29, 2019, the Company entered into a loan transaction with an arm’s length third party in a form of secured demand promissory note in the amount of \$125,000. The loan bears interest at 15% per annum and is payable on demand.
- b) On September 9, 2019, the Company entered into a loan transaction with an arm’s length third party in a form of secured demand promissory note in the amount of \$150,000. The loan bears interest at 15% per annum and is payable on demand.