

HIT Technologies Inc.

Condensed Interim Consolidated Financial Statements
Three months ended September 30, 2019 and 2018
(Expressed in Canadian dollars)
(Unaudited)

NOTE TO READER

Under National Instrument 51-102, if an auditor has not performed a review of the interim financial statements they must be accompanied by a note indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements have been prepared by and are the responsibility of the management. The Company's independent auditor has not performed a review of these interim financial statements.

HIT Technologies Inc.

Consolidated Statements of Financial Position As at September 30, 2019 and June 30, 2019

(expressed in Canadian dollars)

	September 30, 2019	June 30, 2019
	\$	\$
Assets		
Current assets		
Cash	112,773	114,696
Restricted cash (note 7)	12,845	12,736
Accounts receivable	14,926	27,711
Government assistance and other receivable	13,428	14,730
Inventory (note 3)	250,060	311,733
Deposits	25,817	-
Prepaid expenses and deposits	8,626	7,444
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	438,475	489,050
Property and equipment (note 4)	103,929	113,069
Intangible assets (note 5)	73,539	75,333
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	615,943	677,452
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	584,204	660,055
Deferred revenue	15,185	12,427
Loans payable (note 10)	275,000	-
Convertible notes (note 11)	226,402	221,566
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	1,100,791	894,048
Convertible notes (note 11)	1,556,815	1,530,372
	<hr/>	<hr/>
	2,657,606	2,424,420
Shareholders' (Deficiency) Equity		
Share capital (note 12)	11,112,326	11,112,326
Contributed surplus	1,558,472	1,554,625
Deficit	(14,712,461)	(14,413,919)
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	(2,041,663)	(1,746,968)
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	615,943	677,452
Going concern (note 1)		

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 quarters ended September 30, 2019 and 2018

(expressed in Canadian dollars)

	Quarter ended September 30,	2019	2018
		\$	\$
Revenue		357,215	300,612
Cost of sales (note 3)		<u>157,245</u>	<u>199,870</u>
		<u>199,970</u>	<u>100,742</u>
Expenses			
Selling and marketing (note 9)		195,385	193,756
General and administrative (notes 8 and 9)		170,162	248,474
Stock-based compensation (note 13)		3,847	11,456
Depreciation		19,239	19,149
Research and development		<u>21,852</u>	<u>12,618</u>
		<u>410,485</u>	<u>485,453</u>
Loss before other income (expense)		<u>(210,515)</u>	<u>(384,711)</u>
Other income (expense)			
Finance costs		(85,950)	(36,308)
Foreign currency exchange gain (loss)		<u>(2,077)</u>	<u>3,637</u>
		<u>-</u>	<u>-</u>
		<u>(88,027)</u>	<u>(32,671)</u>
Loss and comprehensive loss for the year		<u>(298,542)</u>	<u>(417,382)</u>
Basic and diluted loss per share		(0.00)	(0.00)
Weighted average number of shares outstanding		97,191,207	94,192,169

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 quarters ended September 30, 2019 and 2018

(expressed in Canadian dollars)

	Number of shares	Share capital \$	Contributed surplus \$	Deficit \$	Total shareholders' equity (deficiency) \$
Balance - June 30, 2018	94,158,472	11,021,344	1,316,538	(13,286,827)	(948,945)
Conversion of secured convertible notes to common shares	3,032,735	151,637	-	-	151,637
Stock-based compensation expense	-	-	11,456	-	11,456
Loss and comprehensive loss for the year	-	-	-	(417,382)	(417,382)
Balance - September 30, 2018	97,191,207	11,172,981	1,327,994	(13,704,209)	(1,203,234)
Balance - June 30, 2019	97,191,207	11,112,326	1,554,625	(14,413,919)	(1,746,968)
Stock-based compensation expense	-	-	3,847	-	3,847
Loss and comprehensive loss for the year	-	-	-	(298,542)	(298,542)
Balance - September 30, 2019	97,191,207	11,112,326	1,558,472	(14,712,461)	(2,041,663)

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

HIT Technologies Inc.

Consolidated Statements of Cash Flows For the quarters ended September 30, 2019 and 2018

(expressed in Canadian dollars)

	September 30, 2019	September 30, 2018
	\$	\$
Cash flows from operating activities		
Loss for the year	(298,542)	(417,382)
Items not involving cash		
Interest accretion	31,279	12,926
Stock-based compensation	3,847	11,456
Depreciation	19,239	19,149
Gain on debt settlement through issuance of shares	-	-
Gain (loss) on debt reorganization	-	-
Loss on intangible asset impairment	-	-
Write down of inventory	-	-
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	(244,177)	(373,851)
Changes in non-cash working capital items		
Accounts receivable	12,785	85,213
Government assistance and other receivable	1,302	(288)
Inventory	61,673	18,654
Prepaid expenses and deposits	(1,182)	17,077
Accounts payable and accrued liabilities	(75,851)	(97,456)
Deposits on inventory	(25,817)	-
Deferred revenue	2,758	111,156
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	(268,509)	(239,495)
Cash flows from investing activities		
Restricted cash	(109)	165
Acquisition of property and equipment	(8,305)	(80,413)
Acquisition of intangible assets	-	(7,074)
	<hr/>	<hr/>
	(8,414)	(87,322)
Cash flows from financing activities		
Share capital issuance	-	-
Proceeds from promissory note issuance	275,000	127,869
Proceeds from convertible note issuance	-	-
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	275,000	127,869
Increase / (Decrease) in Cash	(1,923)	(198,948)
Cash - Beginning of year	114,696	273,549
Cash - End of year	<hr/>	<hr/>
	112,773	74,601

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

HIT Technologies Inc.

Notes to the Consolidated Financial Statements September 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 condensed interim consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. For the quarter ended September 30, 2019, the Company has incurred a loss of \$298,542, negative cash flows from operating activities of \$268,509, and has accumulated deficit of \$14,712,461 at September 30, 2019. 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 condensed interim consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements. These adjustments could be material.

HIT Technologies Inc.

Notes to the Consolidated Financial Statements September 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 condensed interim consolidated financial statements are prepared on an accrual basis, except for cash flow information. The condensed interim consolidated financial statements are presented in Canadian dollars, which is also the Company’s functional currency.

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on November 29, 2019.

Principles of consolidation

The condensed interim 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 condensed interim 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.

Basis of presentation

These unaudited condensed consolidated financial statements have been prepared by management of the Company in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”, following the same accounting principles and methods of computation as outlined in the Company’s consolidated financial statements for the year ended June 30, 2019. A description of accounting standards and interpretations that have been adopted by the Company can be found in the notes of the annual consolidated financial statements for the year ended June 30, 2019. These unaudited condensed consolidated interim financial statements include all necessary disclosures required for interim financial statements but do not include all disclosures required for annual financial statements. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the most recent audited annual consolidated financial statements and the notes thereto for the year ended June 30, 2019.

HIT Technologies Inc.

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

(expressed in Canadian dollars)

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.

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.

New accounting standards adopted

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 is required to reflect an asset and related liability for any relevant lease. Adoption of this standard has not resulted in material impact to these financial statements.

HIT Technologies Inc.

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

(expressed in Canadian dollars)

3 Inventory

	2019 \$	2018 \$
Component inventory	-	-
Finished goods	250,060	311,733
	<u>250,060</u>	<u>311,733</u>

Cost of inventory recognized as expense in cost of sales for the quarter ended September 30, 2019 totalled \$69,917 (2018 - \$151,275).

4 Property and equipment

	Marketing assets \$	Computer equipment \$	Computer software \$	Furniture and fixtures \$	Equipment \$	Total \$
Cost						
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	100,028	98,535	24,256	13,205	267,295	503,319
Additions	-	-	-	-	8,305	8,305
Balance - September 30, 2019	<u>100,028</u>	<u>98,535</u>	<u>24,256</u>	<u>13,205</u>	<u>275,600</u>	<u>511,624</u>
Accumulated depreciation						
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	100,028	91,725	24,194	11,832	162,471	390,250
Additions	-	867	62	373	16,143	17,445
Balance - September 30, 2019	<u>100,028</u>	<u>92,592</u>	<u>24,256</u>	<u>12,205</u>	<u>178,614</u>	<u>407,695</u>
Carrying amounts						
Balance - June 30, 2019	-	6,810	62	1,373	104,824	113,069
Balance - September 30, 2019	<u>-</u>	<u>5,943</u>	<u>-</u>	<u>1,000</u>	<u>96,986</u>	<u>103,929</u>

HIT Technologies Inc.

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

(expressed in Canadian dollars)

5 Intangible assets

	Patents \$	Trademarks \$	Total \$
Cost			
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	52,386	52,123	104,509
Additions	-	-	-
Balance - September 30, 2019	<u>52,386</u>	<u>52,123</u>	<u>104,509</u>
Accumulated depreciation			
Balance - September 30, 2017	15,725	13,360	29,085
Additions	2,820	4,640	7,460
Impairment	(7,369)	-	(7,369)
Balance - September 30, 2018	11,176	18,000	29,176
Additions	705	1,089	1,794
Balance - June 30, 2019	<u>11,881</u>	<u>19,089</u>	<u>30,970</u>
Carrying amounts			
Balance - June 30, 2019	41,210	34,123	75,333
Balance - September 30, 2019	<u>40,505</u>	<u>33,034</u>	<u>73,539</u>

6 Accounts payable and accrued liabilities

	September 30, 2019 \$	June 30, 2019 \$
Trade accounts payable	453,170	520,292
Accrued liabilities	<u>131,034</u>	<u>139,763</u>
	<u>584,204</u>	<u>660,055</u>

7 Credit facilities

As at September 30, 2019, the Company has credit card facilities of \$5,000 (June 30, 2019 - \$5,000) and US\$5,000 (2018 - US\$5,000). Guaranteed Investment Certificates of \$12,845 (June 30, 2019 - \$12,736) are pledged as security for the credit card facilities.

HIT Technologies Inc.

Notes to the Consolidated Financial Statements September 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 quarters ended September 30, 2019 and 2018 is outlined below:

	Quarters ended September 30	2019	2018
		\$	\$
Salaries and management fees		25,000	73,750
Stock-based compensation		-	-

As at September 30, 2019, accounts payable and accrued liabilities included \$9,651 (June 30, 2019 - \$4,978) relating to key management personnel compensation.

9 Expenses

	Quarters ended September 30	2019	2018
		\$	\$
Selling and marketing expenses			
Personnel		11,679	89,111
Marketing and content		183,460	104,645
		<u>195,139</u>	<u>193,756</u>
General and administrative			
Personnel		113,505	116,699
Professional fees		31,675	59,997
Office		24,982	71,778
		<u>170,162</u>	<u>248,474</u>

10 Secured promissory note

During the quarter ended September 30, 2019, the Company entered into two loan transactions with an arm’s length third party in the form of secured promissory notes in the amount of \$125,000 and \$150,000, issued July 29, 2019, and September 9, 2019, respectively. The secured promissory notes bear interest at 15% per annum and are payable on demand.

HIT Technologies Inc.

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

(expressed in Canadian dollars)

11 Convertible notes

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.

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.

HIT Technologies Inc.

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

(expressed in Canadian dollars)

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.

Amendments during the year ended June 30, 2019

During the fiscal quarter ended September 30, 2019 tranche one of the secured 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 secured 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.

Activity during the quarter ended September 30, 2019

There were no issuance, extinguishments, or modifications of secured convertible notes during the quarter ended September 30, 2019. Total interest accretion during the quarter ended September 30, 2019 was \$31,279 (September 30, 2018 – 12,926), and total coupon interest expense was \$48,395 (September 30, 2018 – 21,244).

HIT Technologies Inc.

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

(expressed in Canadian dollars)

The following table summarizes the convertible note activity during the year ended June 30, 2019 and quarter ended September 30, 2019:

	Face Value	Carrying value
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	-	136,915
Accretion	-	80,501
Interest disbursements and change in payables and prepaids	-	(136,915)
Balance, June 30, 2019	1,908,500	1,751,938
Issued during the period	-	-
Extinguished with the issuance of new notes	-	-
Transaction costs	-	-
Coupon interest	-	48,395
Accretion	-	31,279
Interest disbursements and change in payables and prepaids	-	(48,395)
Balance, September 30, 2019	1,908,500	1,783,217
Current portion	(248,500)	(226,402)
Long-term	\$ 1,660,000	\$ 1,556,815

12 Share capital

Authorized

Unlimited number of voting common shares without par value

Share issuances for the year ended June 30, 2019 and quarter ended September 30, 2019

During the quarter ended September 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.

There were no share issuances during the quarter ended September 30, 2019.

HIT Technologies Inc.

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

(expressed in Canadian dollars)

Warrants

At September 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 1.30 years. A summary of outstanding warrants is shown below.

	September 30, 2019		June 30, 2019	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Balance - Beginning of period	34,638,546	0.05	16,179,697	0.07
Granted	-	-	31,699,499	0.05
Expired	-	-	(13,240,650)	0.05
Forfeited	-	-	-	-
Balance - End of period	34,638,546	0.05	34,638,546	0.05

13 Stock options

In 2015, the Company adopted a stock option plan. A summary of the Company's stock options outstanding for the year ended June 30, 2019, and quarter ended September 30, 2019 is shown below.

	September 30, 2019		June 30, 2019	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance - Beginning of year	9,147,394	0.13	6,927,394	0.15
Granted	-	-	2,220,000	0.05
Expired	-	-	-	-
Forfeited	-	-	-	-
Balance - End of year	9,147,394	0.13	9,147,394	0.13

HIT Technologies Inc.

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

(expressed in Canadian dollars)

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

Exercise price	Number of options	Weighted average remaining contractual life in years
\$0.25	1,117,894	4.98
\$0.60	744,500	1.18
\$0.17	525,000	2.13
\$0.05	6,760,000	2.08

At September 30, 2019, 8,201,269 (June 30, 2019 - 8,201,269) options were exercisable.

During the quarter ended September 30, 2019, the Company granted nil options (year ended June 30, 2019– 2,220,000) to employees, officers and directors.

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 year ended June 30, 2019, the Company used the following assumptions:

	June 30,
	2019
Risk-free rate	2.38%
Expected volatility	162%
Expected life in years	4
Expected dividend yield	\$nil

The estimated aggregate fair values of the options granted during the quarter ended September 30, 2019 was \$nil (year ended June 30, 2019 – \$68,820). The Company recognized stock-based compensation expense of \$3,847 for the quarter ended September 30, 2019 (year ended June 30, 2019 - \$89,304).

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.

HIT Technologies Inc.

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

(expressed in Canadian dollars)

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.

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

	Quarters ended September 30	2019	2018
		\$	\$
United States		125,260	147,869
Canada		231,955	835,243
		<u>357,215</u>	<u>983,112</u>

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

	September 30,	June 30,
	2019	2019
	\$	\$
Canada	6,943	8,305
The People's Republic of China	96,986	104,764
	<u>103,929</u>	<u>113,069</u>

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

	September 30,	June 30,
	2019	2019
	\$	\$
Canada	46,748	47,888
United States	23,922	24,506
United Kingdom	2,869	2,939
	<u>73,539</u>	<u>75,333</u>

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15 Financial instruments

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

	September 30, 2019	June 30, 2019
	\$	\$
Cash	112,773	114,696
Accounts receivable	14,926	27,711
Restricted cash	12,845	12,736
Other receivables	13,428	14,730
Accounts payable and accrued liabilities	584,204	660,055
Convertible notes	275,000	1,751,938

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.

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:

	September 30, 2019	June 30, 2019
	USD\$	USD\$
Cash	674	74,782
Restricted cash	5,504	5,496
Accounts receivable	14,919	49,790
Accounts payable and accrued liabilities	(140,109)	(279,903)
Net position	(119,012)	(149,835)

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The Company does not have a formal policy to mitigate risks arising from changes in foreign currency exchange rates. Based on the balances at September 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 \$17,500 greater. If the Canadian dollar were to strengthen against the US dollar by 10% relative to the rate at September 30, 2019, the loss for the period would be approximately \$14,000 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 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.

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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 quarter ended September 30, 2019.