

# HIT Technologies Inc.

Consolidated Financial Statements  
June 30, 2020 and 2019  
(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 statements of financial position as at June 30, 2020 and June 30, 2019, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in shareholders' (deficiency) equity and consolidated statements of cash flows for the years 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, 2020 and June 30, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### ***Basis for Opinion***

We conducted our audits 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 audits 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 in our audits 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 events and 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 Information***

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion & 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 audits 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 audits and remain alert for indications that the other information appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, 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.  
October 30, 2020

HIT Technologies Inc.  
 Consolidated Statements of Financial Position  
 As at June 30, 2020 and 2019

(expressed in Canadian dollars)

	2020 \$	2019 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	8,999	114,696
Restricted cash (note 3)	13,042	12,736
Trade accounts receivable (note 2)	121,312	65,958
Government assistance and other receivables	6,508	14,730
Inventory (note 4)	61,060	311,733
Prepaid expenses and deposits	35,118	7,444
	<u>246,039</u>	<u>527,297</u>
<b>Property and equipment</b> (note 5)	-	113,069
<b>Intangible assets</b> (note 6)	-	75,333
	<u>246,039</u>	<u>715,699</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (notes 7 and 10)	979,648	660,055
Deferred revenue	2,460	12,427
Provision for sales returns (note 2)	8,345	38,247
Promissory notes and loans payable (note 10)	513,500	-
Convertible notes (note 11)	1,889,278	221,566
	<u>3,393,231</u>	<u>932,295</u>
<b>Convertible notes</b> (note 11)	-	1,530,372
	<u>3,393,231</u>	<u>2,462,667</u>
<b>Shareholders' (Deficiency) Equity</b>		
<b>Share capital</b> (note 0)	11,112,326	11,112,326
<b>Contributed surplus</b>	1,559,883	1,554,625
<b>Deficit</b>	(15,819,401)	(14,413,919)
	<u>(3,147,192)</u>	<u>(1,746,968)</u>
	<u>246,039</u>	<u>715,699</u>
<b>Nature of operations and going concern</b> (note 1)		
<b>Subsequent events</b> (note 18)		

Approved and authorized for issue by the Board of Directors

"Brooks Bergreen"

Director

"Alex McAulay"

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, 2020 and 2019

(expressed in Canadian dollars)

	<b>2020</b>	2019
	<b>\$</b>	<b>\$</b>
<b>Revenue</b>	717,109	2,638,689
<b>Cost of sales</b> (notes 4 and 9)	310,419	1,367,453
	<u>406,690</u>	<u>1,271,236</u>
<b>Expenses</b>		
Selling and marketing (note 9)	333,919	919,947
General and administrative (notes 8 and 9)	589,269	685,701
Stock-based compensation (note 13)	5,258	89,304
Depreciation (note 5 and 6)	72,110	75,766
Research and development	28,876	65,483
	<u>1,029,432</u>	<u>1,836,201</u>
<b>Loss before other income (expense)</b>	<u>(622,742)</u>	<u>(564,965)</u>
<b>Other income (expense)</b>		
Finance costs	(401,182)	(258,274)
Gain (loss) on debt reorganization (note 11)	-	(88,576)
Loss on intangible asset impairment (note 6)	(67,857)	(193,889)
Loss on property and equipment impairment (note 5)	(56,863)	-
Loss on impairment of inventory (note 4)	(243,571)	-
Foreign exchange (loss) gain	(13,267)	(21,388)
	<u>(782,740)</u>	<u>(562,127)</u>
<b>Loss and comprehensive loss for the year</b>	<u>(1,405,482)</u>	<u>(1,127,092)</u>
<b>Basic and diluted loss per share</b>	(0.29)	(0.23)
<b>Weighted average number of shares outstanding</b>	4,859,560	4,821,651

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, 2020 and 2019

(expressed in Canadian dollars)

	Number of shares	Share capital \$	Contributed surplus \$	Deficit \$	Total shareholders' equity (deficiency) \$
<b>Balance - June 30, 2018</b>	4,707,923	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)	151,637	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
<b>Balance - June 30, 2019</b>	4,859,560	11,112,326	1,554,625	(14,413,919)	(1,746,968)
Stock-based compensation expense	-	-	5,258	-	5,258
Loss and comprehensive loss for the year	-	-	-	(1,405,482)	(1,405,482)
<b>Balance - June 30, 2020</b>	4,859,560	11,112,326	1,559,883	(15,819,401)	(3,147,192)

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, 2020 and 2019

(expressed in Canadian dollars)

	2020 \$	2019 \$
<b>Cash flows from operating activities</b>		
Loss for the year	(1,405,482)	(1,127,092)
Items not involving cash		
Interest accretion	137,340	80,501
Stock-based compensation	5,258	89,304
Depreciation	72,110	75,766
Gain (loss) on debt reorganization	-	88,576
Loss on intangible asset impairment	67,857	193,889
Loss on property and equipment impairment	56,862	-
Write down of inventory	243,571	-
	<u>(822,484)</u>	<u>(599,056)</u>
Changes in non-cash working capital items		
Accounts receivable	(55,660)	162,468
Government assistance and other receivable	8,222	(1,982)
Inventory	7,104	(92,034)
Prepaid expenses and deposits	(27,674)	101,805
Accounts payable and accrued liabilities	319,592	(448,874)
Provision for sales returns	(29,902)	(92,470)
Deferred revenue	(9,967)	12,427
	<u>(610,769)</u>	<u>(957,716)</u>
<b>Cash flows from investing activities</b>		
Restricted cash	-	(224)
Acquisition of property and equipment	(8,428)	(119,054)
Acquisition of intangible assets	-	(27,904)
	<u>(8,428)</u>	<u>(147,182)</u>
<b>Cash flows from financing activities</b>		
Proceeds from promissory notes and loans issued	513,500	150,000
Proceeds from convertible notes issued	-	796,000
	<u>513,500</u>	<u>946,000</u>
<b>Decrease in Cash</b>	<b>(105,697)</b>	<b>(158,898)</b>
<b>Cash - Beginning of year</b>	<b>114,696</b>	<b>273,594</b>
<b>Cash - End of year</b>	<b>8,999</b>	<b>114,696</b>

Supplemental cash-flow information

	2020 \$	2019 \$
Interest paid (received)	-	-
Income tax paid (recovered)	-	-
Non cash financing activities		
Shares issued to settled accounts payable and accrued liabilities	-	90,982

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

# HIT Technologies Inc.

## Notes to the Consolidated Financial Statements

June 30, 2020 and 2019

(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. HIT Technologies Inc. ("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, 2020, the Company has incurred a loss of \$1,405,482 (year ended June 30, 2019 - loss of \$1,127,092), negative cash flows from operating activities of \$610,769 (year ended June 30, 2019 - \$957,716), and has accumulated deficit of \$15,819,401 at June 30, 2020 (June 30, 2019 - accumulated deficit of \$14,413,919). The events described therein and conditions indicate the existence of a material uncertainty that may cast significant doubt regarding the Company's ability to continue as a going concern.

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.

On June 24, 2020, the Company entered into a binding letter of intent (the "LOI") pursuant to which the Company has agreed to acquire all of the issued and outstanding securities of Carbeeza Ltd. ("Carbeeza"). The LOI contemplates a share exchange, a three-way amalgamation or other similar form of transaction, pursuant to which Carbeeza will become a wholly-owned subsidiary of HIT Tech on closing (the "Acquisition"). Upon completion of the Acquisition, the resulting issuer will carry on the business of Carbeeza. Prior to completion of the proposed Acquisition, the Company intends to complete a loan or equity financing (the "Financing") of up to \$4,000,000 in gross proceeds. All or a portion of the Financing may be further loaned to Carbeeza as a secured loan for Carbeeza's continuing operations on terms to be agreed by the parties. Furthermore, it is a condition of the Acquisition that, the Company will settle certain of its outstanding debt of not more than \$3,000,000 into 11,000,000 common shares of the resulting issuer. The Acquisition is subject to approval from the TSX Venture Exchange.

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.

# HIT Technologies Inc.

## Notes to the Consolidated Financial Statements

June 30, 2020 and 2019

(expressed in Canadian dollars)

### *COVID-19*

The recent outbreak of the coronavirus, also known as "COVID-19", has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures may have an adverse impact on global economic conditions as well as on the Company's business activities. The extent to which COVID-19 may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. These events are highly uncertain and as such, the Company cannot determine their financial impact at this time.

## 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 were approved by the Board of Directors of the Company for issue on October 30, 2020.

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments measured 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.

In order to conform with financial statement presentation adopted in the current year, provisions for returns of \$38,237 has been reclassified from accounts receivable in the comparative period.

### 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

# HIT Technologies Inc.

## Notes to the Consolidated Financial Statements

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(expressed in Canadian dollars)

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 valuations 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.

### Cash and cash equivalents

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. There were no cash equivalents as at June 30, 2020 (2019 - \$Nil).

### 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 an 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.

# HIT Technologies Inc.

## Notes to the Consolidated Financial Statements

June 30, 2020 and 2019

(expressed in Canadian dollars)

### 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%

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

### 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.

# HIT Technologies Inc.

## Notes to the Consolidated Financial Statements

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(expressed in Canadian dollars)

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.

### 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 consolidated 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 at fair value 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 accrued liabilities, promissory notes and loans payable, 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. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument.

Financial instruments carried at FVTPL are recognized at their fair value at acquisition with any directly attributable transaction costs expensed as they are incurred. Subsequent measurement requires adjustment to fair value at the date of the consolidated statement of financial position, with any remeasurement gains or losses

HIT Technologies Inc.  
Notes to the Consolidated Financial Statements  
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(expressed in Canadian dollars)

recognized in profit and loss as they arise. Instruments classified as FVTPL during the year ended June 30, 2020 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, 2020 or 2019.

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, 2020 and 2019:

June 30, 2020	Level 1	Level 2	Level 3
Cash	\$ 8,999	\$ -	\$ -
Restricted cash	13,042		
June 30, 2019	Level 1	Level 2	Level 3
Cash	\$ 114,696	\$ -	\$ -
Restricted cash	12,736		

# HIT Technologies Inc.

## Notes to the Consolidated Financial Statements

June 30, 2020 and 2019

(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.

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### 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 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.

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### 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.

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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 adopted IFRS 16. Adoption of this standard has not resulted in a material impact to these consolidated financial statements as the Company is not party to any long-term leases to which the standard would apply. The Company has used the practical expedient on adoption of IFRS 16 for leases with terms less than 1 year, and it is the Company's policy not to recognize low value leases with carrying values below \$5,000.

Accounting standards issued but not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any new standards and determined that there are no standards that are expected to have a material impact to the Company.

3 Credit facilities

During the year ended June 30, 2020, the Company has credit card facilities of \$5,000 (2019 - \$5,000) and US\$5,000 (2019 - US\$5,000). Guaranteed Investment Certificates of \$13,042 (2019 - \$12,736) are pledged as security for the credit card facilities.

4 Inventory

	2020 \$	2019 \$
Finished goods	61,060	311,733
	<u>61,060</u>	<u>311,733</u>

Cost of inventory recognized as expense in cost of sales for the year ended June 30, 2020 totalled \$135,105 (2019 - \$1,016,850). During the year-ended June 30, 2020, the Company recorded an impairment on inventory of \$243,571 (2019 - \$Nil).

# HIT Technologies Inc.

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### 5 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	-	-	124	-	8,304	8,428
Balance - June 30, 2020	100,028	98,535	24,380	13,205	275,599	511,747
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	-	3,259	47	971	60,357	64,634
Impairment	-	3,551	139	402	52,771	56,863
Balance - June 30, 2020	100,028	98,535	24,380	13,205	275,599	511,747
Carrying amounts						
Balance - June 30, 2019	-	6,810	62	1,373	104,840	113,069
Balance - June 30, 2020	-	-	-	-	-	-

During the year ended June 30, 2019, property and equipment with a carrying value of \$56,863 were determined to have no recoverable value or value in use, resulting in a write-down of the full carrying value. A loss on property and equipment impairment was recognized in other expenses.

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6 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 and 2020	<u>52,386</u>	<u>52,123</u>	<u>104,509</u>
Accumulated depreciation			
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>
Additions	2,820	4,656	7,476
Impairment	38,390	29,467	67,857
Balance - June 30, 2020	<u>52,386</u>	<u>52,123</u>	<u>104,509</u>
Carrying amounts			
Balance - June 30, 2019	41,210	34,123	75,333
Balance - June 30, 2020	<u>-</u>	<u>-</u>	<u>-</u>

During the year ended June 30, 2020, patent assets with a carrying value of \$38,390 and trademark assets with a carrying value of \$29,467 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.

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.

7 Accounts payable and accrued liabilities

	<b>2020</b> \$	<b>2019</b> \$
Trade accounts payable	523,910	520,292
Accrued liabilities	455,738	139,763
	<u>979,648</u>	<u>660,055</u>

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8 Related party transactions

Key management personnel 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, 2020 and 2019 is outlined below:

	2020 \$	2019 \$
Salaries and management fees	180,000	116,926
Stock-based compensation	-	43,782
	<u>180,000</u>	<u>160,708</u>

As at June 30, 2020, accounts payable and accrued liabilities included \$163,542 (2019 - \$4,978) relating to key management personnel compensation.

During the year ended June 30, 2020, the Company incurred accounting fees of \$46,230 (2019 - \$Nil) paid to a company owned by the Company’s CFO.

9 Expenses

	2020 \$	2019 \$
Cost of sales		
Cost of goods	134,105	1,017,986
Courier and Shipping	176,314	349,467
	<u>310,419</u>	<u>1,367,453</u>
Selling and marketing expenses		
Personnel	70,130	297,132
Marketing and content	263,789	622,815
	<u>333,919</u>	<u>919,947</u>
General and administrative		
Personnel (note 8)	355,973	456,322
Professional fees	131,115	30,409
Office	102,181	198,970
	<u>589,269</u>	<u>685,701</u>

# HIT Technologies Inc.

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### 10 Promissory notes and loan payable

During the year ended June 30, 2020, the Company entered into four loan transactions in the form of secured promissory notes, totalling \$450,000. The secured promissory notes are secured by the assets of the Company, bear interest at 15% per annum and are payable on demand. As at June 30, 2020, \$450,000 in principal and \$53,979 in accrued interest included in accrued liabilities was outstanding.

On April 30, 2020, the Company issued a promissory note for \$26,500. The note is interest bearing at 15%, unsecured and due on July 29, 2020. As at June 30, 2020, \$26,500 in principal and \$664 in accrued interest was outstanding.

During the year ended June 30, 2020, the Company received \$37,000 from the federal government of Canada through the Canada Emergency Business Account ("CEBA") which provides up to \$40,000 in interest free loans to eligible businesses until December 31, 2022. Repayment of \$30,000 out of a possible total loan of \$40,000 by December 31, 2022, results in a \$10,000 loan forgiveness. If the balance is not paid prior to December 31, 2022, the remaining balance will be converted to a 3-year term loan at 5% annual interest, paid monthly. The full balance must be repaid no later than December 31, 2025.

### 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 460,000 share purchase warrants, with each warrant entitling the holder to purchase one common share at a price of \$1.00 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

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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 \$1.00 per share in the first 12 months and at \$2.00 thereafter.

Also, in connection with this tranche the Company issued an aggregate 957,606 share purchase warrants, with each warrant entitling the holder to purchase an additional common share at a price of \$1.00 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 \$1.00 per share in the first 12 months and at \$2.00 thereafter.

Also, in connection with this tranche the Company issued 167,369 share purchase warrants, with each warrant entitling the holder to purchase one common share at a price of \$1.00 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 year ended June 30, 2019, tranche one of the convertible notes was amended to extend the maturity date of October 31, 2018 to November 7, 2019. The extension of maturity resulted in a gain on debt modification of \$15,900.

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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 552,310 were also extinguished as part of the transaction.

Activity during the year ended June 30, 2020

There were no issuance, extinguishments, or modifications of secured convertible notes during the year ended June 30, 2020. The following table summarizes the convertible note activity during the year ended June 30, 2020:

	Carrying value
Balance, June 30, 2018	\$ 785,640
Issued during the period	1,497,126
Extinguished with the issuance of new notes	(598,424)
Transaction costs	(12,905)
Coupon interest	136,915
Accretion	80,501
Interest disbursements and change in payables and prepaids	<u>(136,915)</u>
Balance, June 30, 2019	1,751,938
Coupon interest	195,101
Accretion	137,340
Interest disbursements and change in payables and prepaids	<u>(195,101)</u>
Balance, June 30, 2020	1,889,278
Current portion	<u>(1,889,278)</u>
Long-term	<u>\$ -</u>

12 Share capital

Authorized

Unlimited number of voting common shares without par value

Effective July 3, 2020, the Company effected a share consolidation on a twenty for one basis. As such, the Company's issued and outstanding shares of common stock were decreased on the basis of twenty old shares for one new share. Changes to outstanding shares and per share amounts, have been applied and presented retroactively within these consolidated financial statements.

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Share issuances for the year ended June 30, 2020

There were no share issuances during the year ended June 30, 2020.

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 151,637 shares for \$151,636 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 151,637 common shares in connection with the debt settlement at a fair value of \$90,982.

Warrants

At June 30, 2020, the Company had 1,584,975 warrants outstanding with expiry dates ranging from October 4, 2020 to April 17, 2021 with exercise prices of \$1.00. The weighted average remaining contractual life on outstanding warrants is 0.63 years. A summary of outstanding warrants is shown below.

		2020		2019
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Balance - Beginning of year	1,731,927	1.00	808,985	1.40
Granted	-	1.00	1,584,975	1.00
Expired	(146,952)	1.00	(662,033)	1.00
Balance - End of year	1,584,975	1.00	1,731,927	1.00

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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, 2020 and 2019 is presented below.

	2020		2019	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance - Beginning of year	457,370	2.52	346,370	3.00
Granted	-	-	111,000	1.00
Expired	(110,000)	1.00	-	-
Forfeited	(249,475)	2.89	-	-
Balance - End of year	<u>97,895</u>	<u>3.28</u>	<u>457,370</u>	<u>2.52</u>

The following table summarizes information about stock options outstanding as at June 30, 2020:

Exercise price	Number of options	Weighted average remaining contractual life in years
\$5.00	55,895	4.95
\$1.00	42,000	2.36

At June 30, 2020, 97,895 (2019 – 410,063) options were exercisable.

During the year ended June 30, 2019, the Company granted 111,000 options to employees, officers and directors. The options had an exercise price of \$1.00, and a 4-year term. Of the options granted 101,000 vested immediately, and 10,000 carry a 2-year vesting period.

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, the Company used the following assumptions:

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

The estimated aggregate fair values of the options granted during the year ended June 30, 2020 was \$Nil (2019 – \$68,820). The Company recognized stock-based compensation expense of \$5,258 for the year ended June 30, 2020 (2019 - \$89,304) on the vesting of options.

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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.

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

	2020 \$	2019 \$
United States	311,026	1,441,931
Canada	406,083	1,196,758
	<u>717,109</u>	<u>2,638,689</u>

A significant distribution platform represented 68% (2019: 4%) of the Company's sales for the year ended June 30, 2020. During the year ended June 30, 2019, a single customer represented 49% of the Company's sales for the year, from which the Company did not earn any sales in the year ended June 30, 2020.

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

	2020 \$	2019 \$
Canada	-	8,305
The People's Republic of China	-	104,764
	<u>-</u>	<u>113,069</u>

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

	2020 \$	2019 \$
Canada	-	47,888
United States	-	24,506
United Kingdom	-	2,939
	<hr/>	<hr/>
	-	75,333
	<hr/>	<hr/>

15 Financial instruments

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

	2020 \$	2019 \$
Cash	8,999	114,696
Accounts receivable	121,312	65,958
Restricted cash	13,042	12,736
Other receivables	6,508	14,730
Accounts payable and accrued liabilities	979,648	660,055
Convertible notes	1,889,278	1,751,938

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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 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.

For the year ended June 30, 2020, the Company had one significant distribution platform representing more than 75% (2019 – 34%) of accounts receivable.

For the year ended June 30, 2019, the Company had one significant customer representing 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, restricted cash, accounts receivable, and accounts payable and accrued liabilities.

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

	2020 USD\$	2019 USD\$
Cash	5,259	74,782
Restricted cash	5,500	5,496
Accounts receivable	87,537	49,790
Accounts payable and accrued liabilities	<u>(311,708)</u>	<u>(279,903)</u>
Net position	<u>(213,412)</u>	<u>(149,835)</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, 2020, 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, 2020, the loss for the year would be approximately \$32,000 greater. If the Canadian dollar were to strengthen against the US dollar by 10% relative to the rate at June 30, 2020, the loss for the year would be approximately \$26,000 less.

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c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The 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, 2020.

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).

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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.

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:

	2020	2019
Canadian statutory income tax rate	27%	27%
	\$	\$
Loss for the year	(1,405,482)	(1,127,092)
Income tax recovery at statutory rate	(379,480)	(304,315)
Tax effect of		
Non-deductible expenses	3,386	26,406
Change in statutory income rate		-
Changes in unrecognized deferred tax assets	376,094	277,909
Income tax provision	-	-

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

	2020	2019
	\$	\$
Unrecognized deductible temporary differences		
Non-capital losses carried forward	3,586,565	3,245,187
Deductible SR&ED expenditures	104,666	104,666
Property and equipment	92,037	85,054
Intangible assets	40,752	22,557
Financing expense	11,337	38,880
Convertible notes	(5,190)	(42,272)
Change in estimate and true ups	-	-
Unrecognized deferred tax assets	3,830,167	3,454,072
Net deferred income tax assets	-	-

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As at June 30, 2020, the Company has non-capital losses carried forward of \$13,283,570, 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
2040	1,264,358
	<u>13,283,570</u>

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

- a) On August 6, 2020, the Company entered into agreements to assign total debt amounts of \$132,109 for a payment of \$36,925.
- b) On October 4, 2020, 460,000 warrants expired unexercised.
- c) On October 20, 2020, the Company closed a non-brokered private placement for 1,250,000 units for gross proceeds of \$200,000. Each unit consists of one common share and one warrant. Each warrant is exercisable into one common share at \$0.40 per share for a period of 24 months.