

# Hit Technologies Inc. (Formerly Friday Capital Inc.)

## Statement of Financial Position

(Unaudited)

(Expressed in Canadian dollars)

	As at September 30 2015	As at June 30, 2015
<b>Assets</b>		
<b>Current assets</b>		
Cash	1,257,373	2,789,135
Restricted cash (note 7)	164,734	130,646
Accounts receivable (note 8)	18,102	32,320
Government assistance and other receivables	212,564	188,269
Inventory (note 3 )	514,341	314,854
Prepaid expenses and deposits	35,266	55,351
	<u>2,202,380</u>	<u>3,510,575</u>
<b>Property and equipment (note 4)</b>	391,467	396,598
<b>Intangible assets (note 5)</b>	143,659	131,504
	<u>2,737,506</u>	<u>4,038,677</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 6 )	809,834	1,013,284
Deferred revenue	35,417	115,344
Current portion of lease liability (note 11)	7,067	7,015
	<u>852,318</u>	<u>1,135,643</u>
<b>Lease liability (Note 11)</b>	35,856	37,642
<b>Shareholders' Equity/(Deficiency)</b>		
Share capital (note 12)	9,158,838	9,158,838
Contributed surplus	442,344	349,918
Deficit	(7,751,850)	(6,643,364)
	<u>1,849,332</u>	<u>2,865,392</u>
	<u>2,737,506</u>	<u>4,038,677</u>

**Hit Technologies Inc. (Formerly Friday Capital Inc.)**  
**Statements of Operations and Comprehensive Loss**  
**For the Quarter ended September 30**

(Unaudited)

(Expressed in Canadian dollars)

	<b>2015</b>	<b>2014</b>
	<b>QTR</b>	<b>QTR</b>
<b>Revenue</b>	406,751	275,909
<b>Cost of sales</b>	340,566	234,856
	<hr/>	<hr/>
	66,184	41,053
<b>Expenses</b>		
Depreciation (note 4)	53,346	11,787
Share based compensation (note 13)	92,426	126,667
General and administrative (note 10)	464,620	192,007
Research and development	88,389	30,431
Selling and marketing (note 10)	476,411	96,034
	<hr/>	<hr/>
	1,175,193	456,926
	<hr/>	<hr/>
<b>Loss before other income (expenses)</b>	<b>(1,109,008)</b>	<b>(415,873)</b>
<b>Other income (expenses)</b>		
Finance costs	(1,104)	(5,453)
Foreign exchange loss	1,626	(8,432)
	<hr/>	<hr/>
	523	(13,885)
	<hr/>	<hr/>
<b>Loss and comprehensive loss for the period</b>	<b>(1,108,486)</b>	<b>(429,758)</b>
	<hr/>	<hr/>
<b>Basic and diluted loss per share</b>	<b>(0.03)</b>	<b>(0.02)</b>
	<hr/>	<hr/>
<b>Weighted average shares outstanding</b>	<b>42,769,589</b>	<b>24,733,333</b>
	<hr/>	<hr/>

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

**Share capital**

	Number of shares	Amount \$	Contributed Surplus \$	Deficit \$	Total Shareholders' equity/(deficit) \$
<b>Balance - June 30, 2014</b>	<b>24,000,000</b>	<b>528,507</b>		<b>(1,143,857)</b>	<b>(615,350)</b>
Loss for the period				(429,758)	(429,758)
Shares issued for cash	200,000	50,000			50,000
Shares issued pursuant to offset agreement	2,000,000	500,000			500,000
Share based compensation expense			126,667		126,667
<b>Balance - September 30, 2014</b>	<b>26,200,000</b>	<b>1,078,507</b>	<b>126,667</b>	<b>(1,573,615)</b>	<b>(368,441)</b>
<b>Balance - June 30, 2015</b>	<b>42,769,589</b>	<b>9,158,838</b>	<b>349,918</b>	<b>(6,643,364)</b>	<b>2,865,392</b>
Loss for the period				(1,108,486)	(1,108,486)
Share based compensation expense			92,426		92,426
<b>Balance - September 30, 2015</b>	<b>42,769,589</b>	<b>9,158,838</b>	<b>442,344</b>	<b>(7,751,850)</b>	<b>1,849,332</b>

# Hit Technologies Inc. (Formerly Friday Capital Inc.)

## Statements of Cashflow

### Quarters ended September 30

(Unaudited)

(Expressed in Canadian dollars)

	QTR	QTR
	2015	2014
<b>Cash flows from/(used in) operating activities</b>		
Loss for the period	(1,108,486)	(429,758)
Item not involving cash - depreciation	53,346	11,787
Interest expense		
Share based compensation	92,426	126,667
Loss on write down of assets		
Reversed takeover listing expense		
<b>Changes in non-cash working capital items</b>		
Accounts receivable	14,218	3,092
Government assistance receivable	(24,295)	
Inventory	(199,487)	10,418
Accounts payable and accrued liabilities	(203,450)	(18,315)
Deferred revenue	(79,927)	4,902
Prepaid expenses and deposits	20,085	(23,538)
	<hr/>	<hr/>
	(1,435,569)	(314,745)
<b>Cash flows from/(used in) investing activities</b>		
Restricted cash	(34,088)	
Cash acquired on acquisition		
Acquisition of property and equipment	(46,811)	(12,309)
Acquisition of intangible assets	(13,560)	(5,079)
	<hr/>	<hr/>
	(94,459)	(17,388)
<b>Cash flows from/(used in) financing activities</b>		
Advances (to)/from related parties		65,500
Interest paid		
Lease liability	(1,734)	
Share capital issuance		50,000
Net proceeds from convertible notes (note 11)		797,814
Net proceeds from subscription receipts (note 11)		
Increase (decrease) in bank and other indebtedness		(94,251)
	<hr/>	<hr/>
	(1,734)	819,063
<b>Increase in cash</b>	<hr/>	<hr/>
	(1,531,762)	486,930
<b>Cash - Beginning of period</b>	2,789,135	41,442
<b>Cash - End of period</b>	<hr/>	<hr/>
	1,257,373	528,372

**Hit Technologies Inc.**  
(formerly Friday Capital Inc.)  
Notes to Interim Consolidated Financial Statements  
Quarters ended September 30 2015 & 2014

**1 Nature of operations and going concern**

HIT Technologies Inc. (formerly Friday Capital Inc.) (the “Company”) was incorporated on February 3, 2012 under the Business Corporations Act (Ontario). 1039219 B.C. Ltd (“HIT”), a wholly owned subsidiary of the Company is in the business of developing, manufacturing and selling accessories for mobile devices. The Company’s registered and records office is located at #105 - 2050 Scotia Street, Vancouver, BC, V5T 4T1.

On June 10, 2015, Friday Capital Inc. entered into a share exchange agreement with HIT pursuant to which Friday Capital Inc. acquired from the HIT shareholders all of the issued and outstanding shares of HIT in exchange for an equal number of common shares in Friday Capital Inc. (the “Acquisition”). Friday Capital Inc. was a capital pool company prior to the Acquisition. Upon completion of the Acquisition, HIT became a wholly owned subsidiary of Friday Capital Inc., and Friday Capital Inc. changed its name to HIT Technologies Inc. The Acquisition was accounted for as a reverse takeover.

HIT was incorporated under the laws of the Business Corporations Act of British Columbia on July 8, 2008, under the name “Iceberg Commerce Inc.” On April 15, 2014, HIT filed a Notice of Alteration to change its name to “HIT Technologies Inc.”.

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 quarter ended September 30, 2015, the Company has incurred a loss of \$1,108,486 (year ended June 30, 2015 - loss of 5,499,507), negative cash flows from operating activities of \$1,435,569 (year ended June 30, 2015 - \$3,150,773), and an accumulated deficit of \$7,751,850 at September 30, 2015 (June 30, 2015 - accumulated deficit of \$6,643,364). 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.

During the year ended June 30, 2015, HIT completed a series of financings. On September 26, 2014 and October 2, 2014, HIT issued convertible notes for net proceeds of \$1,370,001. On January 16, 2015 and April 20, 2015, HIT issued 8,861,266 subscription receipts for aggregate net proceeds of \$4,864,713.

The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management is of the opinion that sufficient working capital will be obtained from external financing and operations to meet the Company’s liabilities and commitments as they become due. There is a risk that in the future, additional financing will not be available on a timely basis or on terms acceptable to the Company.

These consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements. These adjustments could be material.

**Hit Technologies Inc.**  
(formerly Friday Capital Inc.)  
Notes to Interim Consolidated Financial Statements  
Quarters ended September 30 2015 & 2014

**2 Significant accounting policies**

These unaudited condensed interim consolidated financial statements were prepared using the same accounting policies and methods as those used in the Company's audited consolidated financial statements for the year ended June 30, 2015, except for changes in estimates related to useful lives in property, plant and equipment identified below. These unaudited interim condensed consolidated financial statements have been prepared in compliance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Accordingly, these unaudited interim condensed consolidated financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the Company's annual consolidated financial statements for the year ended June 30, 2015, which are available at [www.sedar.com](http://www.sedar.com) and on the Company's

These unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on November 11, 2015.

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is also the Company's functional currency.

**Basis of consolidation**

As a result of a reverse takeover on June 10, 2015, these unaudited interim consolidated financial statements include the accounts of HIT (the legal subsidiary), as the accounting acquirer, at historical carrying amounts and the accounts of the Company (the legal parent), as the accounting subsidiary, from the date of acquisition, June 10, 2015, at fair values. Comparative amounts presented for the quarter ended September 30, 2014 are those of HIT.

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

Intercompany balances and transactions, and unrealized gains arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

**Use of estimates and judgments**

The preparation of the consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Significant areas requiring the use of estimates include the collectibility of accounts receivable, valuation of inventory, the useful lives and recoverability of long-lived assets, and deferred income tax asset valuation allowances. Actual results could differ from those estimates.

**Hit Technologies Inc.**  
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Notes to Interim Consolidated Financial Statements  
Quarters ended September 30 2015 & 2014

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. The Company uses critical accounting judgements in accounting for business combinations and stock-based compensation.

**3 Inventory**

	September 30, 2015 \$	June 30, 2015 \$
Component inventory	150,809	74,834
Finished goods	363,533	240,020
	514,341	314,854

Cost of inventory recognized as expense in cost of sales for the quarter ended September 30, 2015 totalled \$340,566 (2014 - \$229,055).

**4 Property and equipment**

During the quarter, the Company reviewed the useful life and the method of depreciation related to its property, plant and equipment. The Company determined that based on recent historical experience that a change to both the useful life and method of depreciation was required. The changes are outlined in the following table.

	Old method and rates		New method and rates	
Automotive	Straight line	20%	Straight line	20%
Marketing assets	Declining balance	20%	Straight line	33%
Computer equipment	Declining balance	55%	Straight line	33%
Computer software	Declining balance	100%	Straight line	50%
Furniture and fixtures	Declining balance	20%	Straight line	20%
Equipment	Declining balance	20%	Straight line	33%

The effect of these changes on future years depreciation expense are as follows:

	2016	2017	2018	2019	Later
Increase (decrease) in depreciation expense	85,711	66,321	3,601	(31,393)	(124,245)

**Hit Technologies Inc.**  
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	Automotive \$	Marketing assets \$	Computer equipment \$	Computer software \$	Furniture and fixtures \$	Equipment \$	Total \$
<b>Cost</b>							
Balance - June 30, 2015	53,854	100,040	59,794	23,179	10,791	264,830	512,488
Additions			12,588	55		34,168	46,811
Balance – September 30, 2015	53,854	100,040	72,382	23,236	10,791	298,998	559,299
<b>Accumulated depreciation</b>							
Balance – June 30, 2015	1,319	26,686	28,300	12,090	4,423	43,072	115,890
Additions	1,693	11,784	4,744	1,853	532	31,335	51,941
Balance – September 30, 2015	3,012	38,470	33,044	13,943	4,955	74,407	167,832
<b>Carrying amounts</b>							
Balance - June 30, 2015	52,535	73,354	31,494	11,089	6,368	221,758	396,598
Balance - September 30, 2015	50,842	61,570	39,338	9,293	5,836	224,591	391,467

Included in automotive is a truck used by the Company's employees to create brand awareness at events. The carrying value of this leased asset at September 31, 2015 is \$50,842 (2014 - \$nil).

**5 Intangible assets**

	Patents \$	Trademarks \$	Total \$
<b>Cost</b>			
Balance - June 30, 2015	111,202	29,650	140,852
Additions	10,372	3,188	13,560
Balance – September 30, 2015	121,574	32,838	154,412
<b>Accumulated depreciation</b>			
Balance - June 30, 2015	7,369	1,979	9,348
Additions	601	804	1,405
Balance – September 30, 2015	7,970	2,783	10,753
<b>Carrying amounts</b>			
Balance - June 30, 2015	103,833	27,671	131,504
Balance – September 30, 2015	113,604	30,055	143,659

**Hit Technologies Inc.**  
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**6 Accounts payable and accrued liabilities**

	<b>September 30, 2015 \$</b>	<b>June 30, 2015 \$</b>
Trade accounts payable	565,117	828,035
Accrued liabilities	244,717	185,248
Other		-
	<hr/> 809,834	<hr/> 1,013,283

**7 Credit facility**

The Company has credit card facilities of \$50,000 and US\$75,000. The Company has \$55,000 and US\$82,500 pledged as security for these facilities in the form of GIC's.

**8 Accounts receivable**

Accounts receivable are recorded net of \$9,071 (June 30, 2015 - \$nil) allowance for doubtful accounts.

**9 Related party transactions**

- a) Key management includes directors, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), who have the authority and responsibility for the planning, directing and controlling the activities of the Company. The compensation paid to these key management personnel for the quarter ended September 30, 2015 and 2014 is outlined below:

	<b>2015 \$</b>	<b>2014 \$</b>
Salaries and management fees	86,714	18,000
Stock-based compensation		126,667
	<hr/> 86,714	<hr/> 144,667

As at September 30, 2015, accounts payable and accrued liabilities included \$28,407 (June 30, 2015 - \$25,000) relating to key management personnel compensation.

**Hit Technologies Inc.**  
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Notes to Interim Consolidated Financial Statements  
Quarters ended September 30 2015 & 2014

**10 Expenses**

	September 30, 2015 \$	September 30, 2014 \$
<b>Selling and marketing expenses</b>		
Personnel	112,054	\$54,648
Marketing and content	364,358	41,386
	<hr/> 476,411	<hr/> 96,034
<b>General and administrative</b>		
Personnel	226,757	\$94,564
Professional fees	129,006	\$50,928
Office	108,857	46,515
	<hr/> 464,620	<hr/> 192,007

**11 Capital lease liability**

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

	Future minimum lease liability \$	Interest \$	Present value of minimum lease payments \$
Less than one year	8,282	1,215	7,067
Between one and five years	20,705	2,369	18,337
	<hr/> 28,987	<hr/> 3,585	<hr/> 25,404

**Hit Technologies Inc.**  
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**12 Share capital**

Authorized

- Unlimited number of Class A voting common shares without par value
- Unlimited number of Class A preferred shares without par value
- Unlimited number of Class B preferred shares without par value

- a) On August 28, 2014, the Company issued 200,000 Class A common shares for cash proceeds of \$50,000.
- b) On August 29, 2014, the Company issued 2,000,000 Class A common shares to a company related to a director for the settlement of \$500,000 of amounts owing.

**13 Stock options and agents' warrants**

A summary of the Company's stock options outstanding for the quarter ended September 30, 2015 and 2014 is presented below.

	2015		2014	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance - June 30	3,449,500	0.40	-	-
Granted	130,000	0.40	2,000,000	0.25
Forfeited	(25,000)	0.60		
Balance - September 30	<u>3,554,500</u>	<u>0.40</u>	<u>2,000,000</u>	<u>0.25</u>

The following table summarizes information about stock options outstanding as at September 30, 2015.

Exercise price	Number of options	Weighted average remaining contractual life in years
0.25	2,000,000	8.99
0.40	130,000	5.79
0.60	1,424,500	5.18

At September 30, 2015, 728,528 (at June 30, 2015 – 706,695) options were exercisable.

During the quarter, the Company granted 130,000 options to employees and a consultant. These options have an exercise price of \$0.40, vest over four years from the date of grant with 25% of the options vesting on the first anniversary of the grant and the balance pro rata on a monthly basis for the remaining three years. The options have a six-year life.

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The Company used the Black-Scholes option pricing model to estimate the fair value of each option on the grant date. For the options granted during the quarter ended September 30, 2015, the Company used the following assumptions:

Risk-free rate	0.8%
Expected volatility	114%
Expected life in years	5
Expected dividend yield	nil

The estimated aggregate fair values of the options granted during the quarter ended September 30, 2015 was \$41,470 (2014 - \$380,000). The Company recognized stock-based compensation expense of \$92,426 (2014 - \$126,667) for the quarter ended September 30, 2015.

During the quarter all of the agents' 462,300 warrants expired without exercise. These warrants had been issued as part compensation for financings completed while the Company was a CPC.

## **14 Segmented information**

### **Operating segment**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that related to transactions with any of the Company's other operations, and for which discrete financial information is available. Segment operating results are reviewed regularly by the Company's Chief Operating Decision Maker ("CODM") to make decisions about resources allocated to the segment and to assess the segment's performance.

The Company has one operating segment and the CODM is the CEO.

### **Segment information**

The Company operates in Canada and generates sales revenue from various countries internationally. The Company's property and equipment are located in both British Columbia, Canada and in the People's Republic of China. The geographic information below analyses the Company's revenue and property and equipment by the Company's country of domicile and other countries. In presenting the following information, segment revenue is based on the geographic location of customers and segment assets are based on the geographic location of the assets.

**Hit Technologies Inc.**  
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Notes to Interim Consolidated Financial Statements  
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The Company's revenues were generated from the following geographic regions:

	<b>For the Quarter ended September 30</b>	<b>2015</b> \$	<b>2014</b> \$
Canada		86,115	141,203
United States		215,779	95,327
Other		104,857	39,379
		<u>406,751</u>	<u>275,909</u>

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

	<b>September</b> <b>2015</b> \$	<b>June 30,</b> <b>2015</b> \$
Canada	168,964	177,160
USA	122,467	136,076
The People's Republic of China	100,036	83,362
	<u>391,467</u>	<u>396,598</u>

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

	<b>September</b> <b>30, 2015</b> \$	<b>June 30,</b> <b>2015</b> \$
Canada	13,214	11,821
United States	126,818	115,654
United Kingdom	3,627	4,030
	<u>143,659</u>	<u>131,504</u>

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

**Hit Technologies Inc.**  
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**14 Financial instruments**

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

	<b>September 30, 2015</b>	<b>June 30, 2015 \$</b>
Cash and cash equivalents	1,257,373	2,789,135
Restricted cash	164,734	130,646
Trade receivables	18,102	32,320
Other receivables	69,212	44,917
Government assistance receivable	143,352	143,352
Other financial liabilities	809,834	1,013,283
Lease liability	42,923	44,658

Interest income, expense and gains and losses from loans receivables and other financial liabilities are recognized in the consolidated statement of operations.

a) Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents, and accounts receivable. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions. The Company considers its credit risk with respect to accounts receivable to be limited, as the Company obtains accounts receivable insurance where possible. The carrying amount of financial assets represents the maximum credit exposure.

b) Foreign exchange rate risk

Foreign exchange risk arises from fluctuations in the future cash flows of a financial instrument because of changes in foreign exchange rates. The Company is exposed to foreign exchange rate risk on its foreign currency denominated cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities. The Company does not have a formal policy to mitigate risks arising from changes in foreign currency exchange rates. Based on the balances at September 30, 2015, 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 September 30, 2015, the loss for the period would be approximately \$12,471 greater. If the Canadian dollar were to strengthen against the US dollar by 10% relative to the rate at September 30, 2015, the loss for the period would be approximately \$10,203 less.

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c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not have any financial instruments that are affected by 100 basis point changes in market interest rates.

d) Liquidity and funding risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising debt or equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

Funding risk is the risk that market conditions will impact the Company's ability to raise capital through equity markets under acceptable terms and conditions.

## **15 Capital management**

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders (note 1). The capital structure of the Company consists of cash and equity comprising issued share capital and deficit.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and its overall strategy with respect to capital risk management remains unchanged from the year ended June 30, 2015.

## **16 Commitments**

### **Athlete sponsorships**

The Company has entered into sponsorship agreements with several athletes to endorse the Company's Hitcase product line. At September 30, 2015, the Company had financial commitments under these agreements totalling \$22,350 with remaining terms ranging from one to twelve months.

### **Office space**

The Company leases office space and is committed to basic rent including, but not limited to, operating costs to the rented premises. The future minimum lease payment for 2016 is \$10,460.