

# **Hit Technologies Inc.**

Condensed Interim Financial Statements  
**September 30, 2017 and 2016**  
(in Canadian dollars)

## **NOTICE TO READER**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements have been prepared by and are the responsibility of the management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**Hit Technologies Inc. (Formerly Friday Capital Inc.)****Statements of Financial Position**

(Unaudited)

(Expressed in Canadian dollars)

	<b>As at September 30, 2017</b>	<b>As at June 30, 2017</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash	34,798	60,346
Restricted cash (note 7)	12,143	12,415
Accounts receivable (note 8)	11,581	10,994
Government assistance and other receivables	37,000	37,000
Inventory (note 3 )	336,781	374,429
Prepaid expenses and deposits	69,823	133,677
	<u>502,125</u>	<u>628,862</u>
<b>Property and equipment (note 4)</b>	71,066	83,778
<b>Intangible assets (note 5)</b>	238,672	239,984
	<u>811,862</u>	<u>952,623</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 6 )	697,629	767,198
Deferred revenue	98,582	134,801
	<u>796,211</u>	<u>901,999</u>
Convertible Notes (note 11)	906,015	889,853
<b>Shareholders' Equity</b>		
Share capital (note 12)	10,139,204	10,025,712
Contributed surplus	1,166,158	1,047,958
Deficit	(12,195,725)	(11,912,898)
	<u>(890,362)</u>	<u>(839,228)</u>
	<u>811,862</u>	<u>952,623</u>
Going concern (note 1)		
Subsequent events (note 16)		

**Hit Technologies Inc. (Formerly Friday Capital Inc.)**  
**Statements of Operations and Comprehensive Loss**  
**For the quarter ended September 30, 2017 & 2016**

(Unaudited)

(Expressed in Canadian dollars)

	<b>Quarter ended September 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenue</b>	230,207	213,037
<b>Cost of sales</b>	113,670	146,804
	<hr/>	<hr/>
	116,538	66,233
<b>Expenses</b>		
Depreciation (note 4)	17,252	50,819
Share based compensation (note 13)	81,692	42,314
General and administrative (note 10)	159,938	262,807
Research and development	20,667	22,236
Selling and marketing (note 10)	74,923	152,532
	<hr/>	<hr/>
	354,471	530,708
	<hr/>	<hr/>
<b>Loss before other income (expenses)</b>	<b>(237,934)</b>	<b>(464,475)</b>
<b>Other income (expenses)</b>		
Finance costs	(42,880)	(2,302)
Foreign exchange loss	(2,013)	(2,772)
	<hr/>	<hr/>
	(44,893)	(5,074)
	<hr/>	<hr/>
<b>Loss and comprehensive loss for the period</b>	<b>(282,827)</b>	<b>(469,549)</b>
	<hr/>	<hr/>
<b>Basic and diluted loss per share</b>	<b>(0.00)</b>	<b>(0.01)</b>
	<hr/>	<hr/>
<b>Weighted average shares outstanding</b>	<b>71,157,100</b>	<b>67,369,589</b>
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**Hit Technologies Inc. (Formerly Friday Capital Inc.)**  
**Statements of Changes in Shareholders' Equity/(Deficiency)**  
(Unaudited)  
(Expressed in Canadian dollars)

	Share capital		Contributed Surplus \$	Deficit \$	Total Shareholders' equity/(deficit) \$
	Number of shares	Amount \$			
<b>Balance - June 30, 2016</b>	67,369,589	9,865,699	838,311	(9,901,312)	802,698
Loss for the period				(469,549)	(469,549)
Share based compensation expense			42,314		42,314
<b>Balance - September 30, 2016</b>	<b>67,369,589</b>	<b>9,865,699</b>	<b>880,625</b>	<b>(10,370,861)</b>	<b>375,463</b>
<b>Balance - June 30, 2017</b>	<b>70,848,948</b>	<b>10,025,712</b>	<b>1,047,958</b>	<b>(11,912,898)</b>	<b>(839,227)</b>
Loss for the period				(282,827)	(282,827)
Share based compensation expense			81,692		81,692
Issue of private placement units	3,150,000	113,492	36,508		150,000
<b>Balance - September 30, 2017</b>	<b>73,998,948</b>	<b>10,139,204</b>	<b>1,166,158</b>	<b>(12,195,725)</b>	<b>(890,362)</b>

**Hit Technologies Inc. (Formerly Friday Capital Inc.)****Statements of Cashflow****Quarters ended September 30, 2018 & 2017**

(Unaudited)

(Expressed in Canadian dollars)

**Quarter ended September 30,**

	<b>2018</b>	<b>2017</b>
<b>Cash flows from/(used in) operating activities</b>		
Loss for the period	(282,827)	(469,549)
Item not involving cash - depreciation	17,252	50,819
Interest expense	16,162	
Share based compensation	81,692	42,314
<b>Changes in non-cash working capital items</b>		
Accounts receivable	(587)	11,487
Other receivable		21,533
Government assistance and other receivable		65,887
Inventory	37,648	21,768
Accounts payable and accrued liabilities	(69,568)	1,123
Deferred revenue	(36,219)	10,811
Prepaid expenses and deposits	63,854	27,537
	<u>(172,593)</u>	<u>(216,269)</u>
<b>Cash flows from/(used in) investing activities</b>		
Restricted cash	273	(95)
Acquisition of property and equipment	(2,822)	(12,615)
Acquisition of intangible assets	(405)	(11,575)
	<u>(2,955)</u>	<u>(24,285)</u>
<b>Cash flows from/(used in) financing activities</b>		
Lease liability		(1,787)
Share capital issuance	150,000	
	<u>150,000</u>	<u>(1,787)</u>
<b>Increase in cash</b>	<u>(25,547)</u>	<u>(242,341)</u>
<b>Cash - Beginning of period</b>	60,346	355,607
<b>Cash - End of period</b>	<u>34,798</u>	<u>113,266</u>

**Hit Technologies Inc.**  
(formerly Friday Capital Inc.)  
Notes to Interim Consolidated Financial Statements  
Quarter ended September 30, 2017 & 2016

**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 66 Wellington street West, Suite 5300, Toronto, Ontario, M5K1E6.

The Company began trading on the TSX Venture Exchange (the “TSXV”) under the symbol “HIT” on June 16, 2015, after the completion of a three-cornered amalgamation with Friday Capital Inc. (“Friday”), a capital pool company incorporated under the *Business Corporations Act (Ontario)*. In accordance with the policies of the TSXV, Friday completed its qualifying transaction (“Qualifying Transaction”) on June 10, 2015 with HIT Technologies Inc. (“HIT Tech”), a private company pursuant to the terms of a business combination agreement between Friday, HIT Tech and 1030937 B.C. Ltd. (“1030937”), a subsidiary of Friday incorporated under *the Business Corporation Act (British Columbia)*. After the completion of the Qualifying Transaction, Friday’s name was changed to “HIT Technologies Inc.”. HIT Tech and 1030937 amalgamated and became 1039219 B.C. Ltd., a wholly owned subsidiary of HIT. The Qualifying transaction was accounted for as a reverse takeover.

HIT Tech was incorporated under the *Business Corporations Act (British Columbia)* on July 8, 2008, under the name “Iceberg Commerce Inc.” (“Iceberg”). Iceberg’s name was changed to “Hit Technologies Inc. on April 15, 2014.

These unaudited interim consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. For the quarter ended September 30, 2017, the Company incurred a loss of \$282,827 (quarter ended September 30, 2016 - loss of \$469,549), negative cash flows from operating activities of \$172,593 (quarter ended September 30, 2016 - \$216,269), and an accumulated deficit of \$12,195,725 at September 30, 2017 (June 30, 2017 - accumulated deficit of \$11,912,898). These conditions indicate the existence of a material uncertainty that may cast substantial doubt regarding the Company’s ability to continue as a going concern.

The continued operations of the Company are dependent on its ability to generate future cash flows from operations and to obtain external financing. Since the Company’s Qualifying Transaction, the Company has launched several product lines, the Hitcase Pro, the Hitcase Snap and the Hitcase Shield. Even with these new product lines, the Company has not generated sufficient cash flow from operations. Revenues have declined on a year over year basis, but the Company continues to seek new distribution partners to increase revenues as well as increasing its direct sales through better conversion rates.

The Company undertook a reduction in its operating expenditures in the prior fiscal year which continued into the current fiscal year, reducing its loss from operations, on a year over year basis, by \$186,722 for the quarter ended September 30, 2017. In addition, the Company has slowed payments to its suppliers, in some cases negotiating extended payment terms with certain suppliers. Through these measures, the Company has been managing its working capital and expects that these strategies will be an integral part of managing its working capital going forward, until it generates sufficient revenues or accesses additional external financing.

**Hit Technologies Inc.**  
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The Company realized net proceeds from external financing during the year ended June 30, 2017 of \$1,225,330, completing the three tranches of private placements of secured convertible debentures for net proceeds of \$955,857 and two equity issues of common shares and Units for net proceeds of \$173,968. During the quarter, the Company completed an equity issuance of 3,150,000 Units for gross proceeds of \$157,000. Subsequent to the quarter end, the Company completed a fourth tranche of private placements of secured convertible debentures for gross proceeds of \$57,000.

Management is of the opinion that the combination of sales, lower operating costs, extended terms with suppliers and additional external financing, the Company will have the working capital to meet its liabilities and commitments as they become due. There is a risk that these measures will not be sufficient, and that additional financing will not be available on a timely basis or on terms acceptable to the Company.

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

## **2 Significant accounting policies**

These 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, 2017. 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, 2017, which are available at [www.sedar.com](http://www.sedar.com).

These unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on January 5, 2018.

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.

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**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 Tech (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.

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 collectability of accounts receivable, valuation of inventory, the useful lives and recoverability of long-lived assets, accounting for convertible notes, and deferred income tax asset valuation allowances. Actual results could differ from those estimates.

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

**3 Inventory**

	<b>September 30, 2017</b>	<b>June 30, 2017</b>
	<b>\$</b>	<b>\$</b>
Component inventory	25,210	28,512
Finished goods	311,571	345,917
	<hr/>	<hr/>
	336,781	374,429

Cost of inventory recognized as expense in cost of sales for the quarter ended September 30, 2017 totalled \$113,670 (quarter ended September 30, 2016 - \$146,804).

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**4 Property and equipment**

In the quarter ended September 30, 2015, 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 effective July 1, 2015. 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 year's depreciation expense are as follows:

	2018	2019	Later
Increase (decrease) in depreciation expense	3,601	(31,393)	(124,245)

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	Marketing assets \$	Computer equipment \$	Computer software \$	Furniture and fixtures \$	Equipment \$	Total \$
<b>Cost</b>						
Balance - June 30, 2017	100,027	90,667	24,134	12,949	127,836	355,613
Additions	-	1,465	-	-	1,357	2,822
	<u>100,027</u>	<u>92,132</u>	<u>24,134</u>	<u>12,949</u>	<u>129,193</u>	<u>358,435</u>
Balance – September 30, 2017						
<b>Accumulated depreciation</b>						
Balance – June 30, , 2016	98,715	70,308	23,913	8,840	70,059	271,835
Additions	663	5,724	115	372	8,661	15,535
	<u>99,378</u>	<u>76,032</u>	<u>24,028</u>	<u>9,212</u>	<u>78,720</u>	<u>287,370</u>
Balance – September 30, 2017						
<b>Carrying amounts</b>						
Balance - June 30, 2017	1,312	20,359	221	4,109	57,777	83,778
Balance – September 30, 2017	<u>649</u>	<u>16,100</u>	<u>106</u>	<u>3,737</u>	<u>50,473</u>	<u>71,066</u>

**5 Intangible assets**

	Patents \$	Trademarks \$	Total \$
<b>Cost</b>			
Balance - June 30, 2017	221,794	40,335	262,129
Additions	-	405	405
	<u>221,794</u>	<u>40,740</u>	<u>262,534</u>
Balance – September 30, 2017			
<b>Accumulated depreciation</b>			
Balance - June 30, 2017	12,905	9,245	22,150
Additions	705	1,013	1,718
	<u>13,610</u>	<u>10,258</u>	<u>23,868</u>
Balance – September 30, 2017			
<b>Carrying amounts</b>			
Balance - June 30, 2017	208,889	31,090	239,979
Balance – September 30, 2017	<u>208,184</u>	<u>30,482</u>	<u>238,672</u>

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(formerly Friday Capital Inc.)  
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**6 Accounts payable and accrued liabilities**

	September 30, 2017 \$	June 30, 2017 \$
Trade accounts payable	436,457	489,274
Accrued liabilities	261,172	277,924
	697,629	767,198

**7 Restricted cash and credit card facility**

The Company has restricted cash of \$12,143 (June 30, 2017 – \$12,415) which is cash pledged as security for credit card facilities of \$5,000 and US\$5,000.

**8 Accounts receivable**

Accounts receivable are recorded net of \$35,540 (June 30, 2017 - \$35,540) 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, 2017 and 2016 is outlined below:

	2017 \$	2016 \$
Salaries and management fees	25,795	40,124
Stock based compensation	13,225	
	39,020	40,124

As at September 30, 2017, accounts payable and accrued liabilities included \$63,904 (June 30, 2017 - \$56,859) relating to key management personnel compensation.

In the prior fiscal year, a director subscribed to the secured convertible note offering (note 11) purchasing \$220,000 secured convertible notes.

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**10 Expenses**

	Quarter ended September 30, 2017 \$	Quarter ended September 30, 2016 \$
<b>Selling and marketing expenses</b>		
Personnel	32,340	68,229
Marketing and content	42,583	84,303
	<u>74,923</u>	<u>152,532</u>
<b>General and administrative</b>		
Personnel	70,654	122,643
Professional fees	52,455	79,156
Office	36,829	61,008
	<u>159,938</u>	<u>262,807</u>

**11 Convertible notes**

**Tranche 1**

On October 31, 2016, the Company issued secured convertible debentures (“Debentures”) having a face value of \$375,000 and a term to maturity of two years. The Debentures bear interest at 10% per annum with the first year’s interest prepaid on the issuance of the note. Monthly interest payments are required after the first anniversary, with the principal due at maturity. The Debenture is secured by the assets of the Company.

The conversion features of the Debenture allow the holder to convert the Debenture into common shares of the Company. The number of shares that can be issued upon conversion is calculated using the face value of the Debenture divided by the conversion price. Up to and including the first anniversary of the Debenture, the conversion price is \$0.05 per common share. Subsequent to the first anniversary, and up to and including the second anniversary, the conversion price is \$0.10.

The conversion feature is also subject to an anti-dilution provision such that if the Company completes an offering during the term of the Debenture and issues shares below the conversion price in effect at that time, the conversion price is set to the lower of the conversion price and the offering price.

Subsequent to December 31, 2016, the Debentures were amended to be consistent with a second tranche of secured convertible debentures issued on February 1, 2017. Under the Debenture amendment agreement, the maturity date is extended to February 1, 2019 and the conversion price is amended accordingly.

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The Debenture is a compound financial instrument for accounting purposes and consists of a liability and an equity component. The host contract is a liability accounted for at its amortized cost; the conversion feature is accounted for as an equity component and; the anti-dilution feature is accounted for as an embedded derivative liability with fair value through profit and loss.

The initial recognition of the host liability was determined using an estimated discount rate (15%) for a similar debt instrument without a conversion feature. The host liability was initially recognized at a carrying value of \$316,549 after deducting transaction costs of \$31,795. The effective interest rate calculated for purpose of determining the amortized cost is 19.5%.

The fair value of the embedded derivative liability was determined to be nil upon initial recognition and at December 31, 2016.

The fair value of the conversion feature was the residual value after deducting the fair value of the host liability from the fair value of the compound financial instrument, less transaction costs of \$2,433.

**Tranche 2**

On February 1, 2017, the Company issued a second tranche of secured convertible debentures ("Debentures") having a face value of \$300,000 and a term to maturity of two years. The Debentures bear interest at 10% per annum with the first year's interest prepaid on the issuance of the note. Monthly interest payments are required after the first anniversary, with the principal due at maturity. The Debenture is secured by the assets of the Company.

The conversion features of the Debenture allow the holder to convert the Debenture into common shares of the Company. The number of shares that can be issued upon conversion is calculated using the face value of the Debenture divided by the conversion price. Up to and including the first anniversary of the Debenture, the conversion price is \$0.05 per common share. Subsequent to the first anniversary, and up to and including the second anniversary, the conversion price is \$0.10.

The conversion feature is also subject to an anti-dilution provision such that if the Company completes an offering during the term of the Debenture and issues shares below the conversion price in effect at that time, the conversion price is set to the lower of the conversion price and the offering price.

The Debenture is a compound financial instrument for accounting purposes and consists of a liability and an equity component. The host contract is a liability accounted for at its amortized cost; the conversion feature is accounted for as an equity component and; the anti-dilution feature is accounted for as an embedded derivative liability with fair value through profit and loss.

The initial recognition of the host liability was determined using an estimated discount rate (15%) for a similar debt instrument without a conversion feature. The host liability was initially recognized at a carrying value of \$258,847 after deducting transaction costs of \$19,828. The effective interest rate calculated for purpose of determining the amortized cost is 18.2%.

The fair value of the embedded derivative liability was determined to be nil upon initial recognition and at September 30, 2017.

The fair value of the conversion feature was the residual value after deducting the fair value of the host liability from the fair value of the compound financial instrument, less transaction costs of \$1,517.

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**Tranche 3**

On April 24, 2017, the Company issued a third tranche of secured convertible debentures (“Debentures”) having a face value of \$330,000 and a term to maturity of two years. The Debentures bear interest at 10% per annum with the first year’s interest prepaid on the issuance of the note. Monthly interest payments are required after the first anniversary, with the principal due at maturity. The Debenture is secured by the assets of the Company.

The conversion features of the Debenture allow the holder to convert the Debenture into common shares of the Company. The number of shares that can be issued upon conversion is calculated using the face value of the Debenture divided by the conversion price. Up to and including the first anniversary of the Debenture, the conversion price is \$0.05 per common share. Subsequent to the first anniversary, and up to and including the second anniversary, the conversion price is \$0.10.

The conversion feature is also subject to an anti-dilution provision such that if the Company completes an offering during the term of the Debenture and issues shares below the conversion price in effect at that time, the conversion price is set to the lower of the conversion price and the offering price.

The Debenture is a compound financial instrument for accounting purposes and consists of a liability and an equity component. The host contract is a liability accounted for at its amortized cost; the conversion feature is accounted for as an equity component and; the anti-dilution feature is accounted for as an embedded derivative liability with fair value through profit and loss.

The initial recognition of the host liability was determined using an estimated discount rate (15%) for a similar debt instrument without a conversion feature. The host liability was initially recognized at a carrying value of \$289,330 after deducting transaction costs of \$17,213. The effective interest rate calculated for purpose of determining the amortized cost is 17.3%.

The fair value of the embedded derivative liability was determined to be nil upon initial recognition and at June 30, 2017.

The fair value of the conversion feature was the residual value after deducting the fair value of the host liability from the fair value of the compound financial instrument, less transaction costs of \$1,317.

**12 Share capital**

Authorized  
Unlimited number of voting common shares without par value

**Share issuances for quarter ended September 30, 2017**

On September 21, 2017, the Company completed a non-brokered private placement of 3,150,000 units (the “Units”) at a price of \$0.05 per Unit for net proceeds of \$150,000. Each Unit is comprised of one common share of the Company and one half of one share purchase warrant, with a whole

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warrant entitling the holder to purchase an additional common share at a price of \$0.05 per share subject to acceleration until September 20, 2019.

The Company allocated the net proceeds from issuance of Units to its component Common Share and one-half Warrant based on the relative fair value of each of the components. The fair value of the net proceeds allocated to share capital and contributed surplus was \$113,493 and \$36,507 respectively.

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

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

At September 30, 2017, all of the Warrants were outstanding.

**Share issuances for year ended June 30, 2017**

On October 31, 2016, the Company completed a private placement of common shares issuing 1,800,000 shares at \$0.05 per share for net proceeds of \$90,000.

On December 31, 2016, the Company settled a portion of the amounts owed to a director pursuant to a settlement agreement. The Company issued 439,359 common shares at \$0.05 per share to settle outstanding amounts of \$21,968.

On February 2, 2017, the Company also closed a non-brokered private placement (the "Units") of 1,240,000 Units at \$0.05 per Unit for gross proceeds of \$62,000. Each Unit consists of one common share and one-half of one share purchase warrant, with a whole warrant entitling the holder to purchase one common share at a price of \$0.07 per share until February 1, 2019. All securities comprising the units were subject to a four-month statutory hold period which ended June 2, 2017.

The Company allocated the net proceeds from issuance of Units to its component Common Share and one-half Warrant based on the relative fair value of each of the components. The fair value of the net proceeds allocated to share capital and contributed surplus was \$48,045 and \$13,955 respectively.

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

Risk-free rate	0.77%
Expected volatility	139%
Expected life in years	2
Expected dividend yield	nil

At September 30, 2017, all of the Warrants were outstanding with a fair value of \$13,955.

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**Share issuances for the year ended June 30, 2016**

**Private placement**

In May 2016, the Company completed two tranches of a non-brokered private placement (the "Offering") of units (the "Units"), issuing 23,600,000 Units at a subscription price of \$0.05 per Unit for aggregate gross proceeds to the Company of \$1,180,000. Each Unit is comprised of one common share in the capital of the Company (each, a "Common Share") and one-half of one common share purchase warrant (each, a "Warrant"). Each Warrant entitles the holder to acquire one Common Share at an exercise price of \$0.07 and expires on November 13, 2017, provided that in the event that the Common Shares trade at or above \$0.15 per Common Share for 10 consecutive trading days on the TSX Venture Exchange or exceed a volume weighted average price of \$0.15 during a consecutive 30-day period, the Company will have the right to accelerate the expiry of the Warrants by providing 30 days' prior written notice to the Warrant holders of such expiry.

The Common Shares and Warrants comprising the Units, as well as any Common Shares issued upon exercise of Warrants, are subject to a four-month hold period which expired on September 14, 2016 for such securities issued as part of the first tranche of the Offering and September 27, 2016 for securities issued as part of the second tranche of the Offering.

The Company allocated the net proceeds from issuance of Units to its component Common Share and one-half warrant based on the relative fair value of each of the components. The fair value of the net proceeds allocated to share capital and contributed surplus was \$706,861 and \$235,620 respectively.

The Company paid an aggregate commission of \$86,400 and issued 1,728,000 finder's warrants ("Finder's Warrants") to certain finders for services provided to the Company in connection with some of the subscriptions under the Offering. Each Finder's Warrant entitles the holder to acquire one Unit at an exercise price of \$0.05 and expires on November 13, 2017. The Finder's Warrants and the Common Shares and Warrants comprising any Units issued upon exercise of Finder's Warrants were subject to a four-month hold period which expired on September 14, 2016 for such securities issued as part of the first tranche of the Offering and September 27, 2016 for such securities as part of the second tranche of the Offering. In addition, the Company issued 1,000,000 common shares pursuant to a financial advisory agreement for services related to the private placement. The fair value of the services received was \$50,000. The issuance of the shares and the recognition of the finance advisory fee were recorded in the share capital of the Company. Total expenses related to the offering, including cash commissions, were \$182,000.

**Private placement - warrants**

In May 2016 as part of the non-brokered private placement (see "Private placement"), the Company issued 11,800,000 warrants and each warrant entitles the holder to acquire one Common Share at an exercise price of \$0.07 and expires on November 13, 2017, provided that, in the event that the Common Shares trade at or above \$0.15 per Common Share for 10 consecutive trading days on the TSX Venture Exchange, or exceed a volume weighted average price of \$0.15 during a consecutive 30-day period, the Company will have the right to accelerate the expiry of the Warrants by providing 30 days' prior written notice to the Warrant holders of such expiry.

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

Risk-free rate	0.55%
Expected volatility	153%
Expected life in years	1.5

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Expected dividend yield                      nil

At September 30, 2017, all of the Warrants were outstanding.

**Private placement – finders’ warrants**

In conjunction with the non-brokered private placement the Company issued 1,728,000 Finders Warrants to certain finders for services provided to the Company in connection with certain subscriptions for the private placement. Each Finder’s Warrant entitles the holder to acquire one Unit at an exercise price of \$0.05 and expires on November 13, 2017. At September 30, 2017, all of the Finders’ warrants were outstanding.

**13 Stock options**

The Company’s stock option plan allows the directors to grant stock options of up to 10% of the issued and outstanding common shares at the time. At September 30, 2017, the stock option pool is at 7,399,895.

A summary of the Company’s stock options activity for the nine months ended September 30, 2017 and 2016 is presented below.

	2017		2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
<b>Beginning balance June 30</b>	<b>5,917,000</b>	<b>0.21</b>	<b>3,598,389</b>	<b>0.40</b>
Granted	2,200,000	0.05	1,300,000	0.05
Exercised	-	-	-	-
Expired	-	-	(13,889)	0.17
Forfeited	(882,106)	0.25	(80,000)	0.50
<b>Balance at September 30</b>	<b>7,234,894</b>	<b>0.16</b>	<b>4,804,500</b>	<b>0.22</b>

The following table summarizes information about stock options outstanding as at September 30, 2017.

Exercise price	Number of options	Weighted average remaining contractual life in years
0.25	1,117,894	6.98
0.60	902,000	3.17
0.17	525,000	4.13
0.05	4,690,000	3.54
	<u>7,234,894</u>	

At September 30, 2017, 1,564,993 (at June 30, 2017 – 1,440,258) options were exercisable.

During the quarter ended September 30, 2017, the Company granted 2,200,000 options to employees and directors. The options had an exercise price of \$0.05 and a two-year term. The Options vested immediately.

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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, 2017, the Company used the following assumptions:

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

The estimated aggregate fair values of the options granted during the quarter ended September 30, 2017 was \$50,600. The Company recognized stock-based compensation expense of \$81,692 (2016 - \$129,688) for the quarter ended September 30, 2017.

## 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 for the quarter ended September 30, 2017 were generated from the following geographic regions:

	2017 \$	2016 \$
Canada	68,863	70,600
United States	161,344	132,897
Other	-	9,540
	<u>230,207</u>	<u>213,037</u>

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

	<b>September 30, 2017</b>	<b>June 30, 2017</b>
	\$	\$
Canada	20,592	26,235
USA	-	-
The People's Republic of China	50,473	57,544
	<hr/>	<hr/>
	71,066	83,779
	<hr/>	<hr/>

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

	<b>September 30, 2017</b>	<b>June 30, 2017</b>
	\$	\$
Canada	15,696	15,429
United States	220,031	221,609
United Kingdom	2,939	2,944
	<hr/>	<hr/>
	238,666	239,982
	<hr/>	<hr/>

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

## 14 Financial instruments

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

	<b>September 30, 2017</b>	<b>June 30, 2017</b>
	\$	\$
Cash and cash equivalents	34,798	60,346
Restricted cash	12,143	12,415
Trade receivables	11,581	10,994
Government assistance and other receivables	37,000	37,000
Other financial liabilities	697,629	767,198
Convertible note	906,015	889,853

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

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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, 2017, 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, 2017, the loss for the period would be approximately \$14,000 greater. If the Canadian dollar were to strengthen against the US dollar by 10% relative to the rate at September 30, 2017, the loss for the period would be approximately \$12,000 less.

c) Interest rate risk

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

d) Liquidity and funding risk

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

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

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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, 2017.

**16 Subsequent events**

On November 7, 2017, the Company completed a \$57,000 secured convertible debentures (the "Debentures") offering on a private placement basis. The Debentures will bear interest at the rate of 10% per annum with a two-year term and are convertible into common shares of the Company at \$0.05 per share in the first 12 months and at \$0.10 per share in the second 12 months. In connection with the Debentures, the Company will be amending its previously issued convertible debentures in the aggregate amount of \$785,000 so that the respective maturity dates (and the corresponding conversion period) of the Existing Debentures will be extended to the date that is 2 years from the closing date of the Debentures. All securities issued in connection with the above transactions will be subject to a four-month statutory hold period.