HELLO PAL INTERNATIONAL INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED AUGUST 31, 2018 AND 2017
(Unaudited – Expressed in Canadian Dollars)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, 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 condensed interim consolidated financial statements have been prepared by and are the responsibility of the Company’s management.

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

HELLO PAL INTERNATIONAL INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited – Expressed in Canadian Dollars)

	Note	August 31, 2018 $	February 28, 2018 $
ASSETS			
Current assets			
Cash		111,102	83,835
GST recoverable		3,922	1,680
Prepaid expenses		21,464	10,278
		136,488	95,793
Equipment	**4**	11,989	14,134
Software application	**5**	2,393,518	2,926,538
Total assets		2,541,995	3,036,465
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	**10**	249,217	250,523
Due to related parties	**6**	168,070	40,318
		417,287	290,841
Promissory note	**7**	104,755	102,739
Advances on convertible notes	**8**	-	325,000
Convertible notes – liability component	**8**	778,025	-
		1,300,067	718,580
SHAREHOLDERS' EQUITY			
Share capital	**9**	9,407,593	9,333,317
Contributed surplus	**9**	1,774,029	1,630,919
Convertible notes – equity component	**8**	102,379	-
Accumulated other comprehensive loss		(1,977)	(6,734)
Deficit		(10,040,096)	(8,639,617)
		1,241,928	2,317,885
Total liabilities and shareholders' equity		2,541,995	3,036,465

Nature of operations and going concern (Note 1)
Commitment (Note 13)

Approved and authorized on behalf of the Board of Directors on October 30, 2018

“**Robert McMorran**” Director   “**Kean Li Wong**” Director

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

HELLO PAL INTERNATIONAL INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the three and six months ended August 31, 2018 and 2017

(Unaudited – Expressed in Canadian Dollars)

	Note	For the three months ended August 31, 2018 $	For the three months ended August 31, 2017 $	For the six months ended August 31, 2018 $	For the six months ended August 31, 2017 $
ADMINISTRATIVE EXPENSES					
Accounting and audit	**10**	19,688	27,406	30,096	68,540
Accretion	**8**	4,510	-	5,680	-
Depreciation and amortization	**4, 5**	365,212	229,754	677,049	524,956
Interest expense	**7, 8**	28,205	756	40,976	756
Foreign exchange loss (gain)		100	2,001	4,929	(2,394)
Management and consulting fees	**10**	11,905	58,472	37,079	82,480
Marketing		90,456	18,825	96,538	77,120
Legal		24,015	297	34,798	1,694
Office and miscellaneous		52,293	58,526	106,193	98,087
Transfer agent and filing fees		7,463	6,388	12,950	9,496
Rent		11,327	16,301	27,739	30,176
Salaries and benefits		122,355	135,758	180,687	203,529
Share-based payments	**9, 10**	143,110	-	143,110	-
Shareholder communications		1,031	31,418	1,085	71,184
Software application costs		1,462	5,856	1,570	10,230
Total Expenses		(883,132)	(591,758)	(1,400,479)	(1,175,854)
NET LOSS FOR THE PERIOD		(883,132)	(591,758)	(1,400,479)	(1,175,854)
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations		77	(38,281)	4,757	(29,328)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(883,055)	(630,039)	(1,395,722)	(1,205,182)
NET LOSS PER SHARE – BASIC AND DILUTED		(0.01)	(0.01)	(0.02)	(0.02)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		72,662,322	67,180,093	72,546,315	64,849,214

HELLO PAL INTERNATIONAL INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited – Expressed in Canadian dollars, except for share figures)

	Number of Shares #	Share Capital $	Subscriptions Received $	Contributed Surplus $	Convertible Notes – Equity Component $	Accumulated Other Comprehensive Income $	Deficit $	Total $
Balance, February 28, 2017	64,379,978	8,130,385	495,025	1,630,919	-	(6,817)	(6,345,684)	3,903,828
Private placement of common shares	8,050,331	1,207,550	(495,025)	-	-	-	-	712,525
Less: cash issue costs (Note 9)	-	(4,618)	-	-	-	-	-	(4,618)
Net and comprehensive loss for the period	-	-	-	-	-	(29,328)	(1,175,854)	(1,205,182)
Balance, August 31, 2017	72,430,309	9,333,317	-	1,630,919	-	(36,145)	(7,521,538)	3,406,553
Net and comprehensive loss for the period	-	-	-	-	-	29,411	(1,118,079)	(1,088,668)
Balance, February 28, 2018	72,430,309	9,333,317	-	1,630,919	-	(6,734)	(8,639,617)	2,317,885
Convertible notes	-	-	-	-	108,223	-	-	108,223
Issuance of common shares pursuant to conversion of convertible notes	434,782	50,276	-	-	(5,844)	-	-	44,432
Issuance of common shares pursuant to exercise of warrants	120,000	24,000	-	-	-	-	-	24,000
Share-based payments	-	-	-	143,110	-	-	-	143,110
Net and comprehensive loss for the period	-	-	-	-	-	4,757	(1,400,479)	(1,395,722)
Balance, August 31, 2018	72,985,091	9,407,593	-	1,774,029	102,379	(1,977)	(10,040,096)	1,241,928

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

HELLO PAL INTERNATIONAL INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended August 31, 2018 and 2017

(Unaudited – Expressed in Canadian Dollars)

	2018 $	2017 $
Operating activities:		
Net loss for the period	(1,400,479)	(1,175,854)
Items not involving cash:		
Depreciation and amortization	677,049	524,956
Accretion	5,680	-
Accrued interest	40,639	-
Share-based payments	143,110	756
	(534,001)	(650,142)
Changes in non-cash working capital related to operations:		
GST recoverable	(2,242)	(75,485)
Prepaid expenses	(11,186)	15,970
Accounts payable and accrued liabilities	(2,842)	(43,194)
Net cash used in operating activities	(550,271)	(752,851)
Investing activities:		
Purchase of equipment	-	(16,031)
Development costs of software application	(178,370)	(285,531)
Net cash used in investing activities	(178,370)	(301,562)
Financing activities:		
Proceeds from private placement, net of share issue costs	-	707,907
Proceeds from exercise of warrants	24,000	-
Proceeds from promissory note	-	100,000
Due to related parties	127,752	21,918
Proceeds from convertible notes	600,000	-
Net cash provided by financing activities	751,752	829,825
Increase (decrease) in cash during the period	23,111	(224,588)
Effect of exchange rate changes on cash	4,156	16,581
Cash – beginning of the period	83,835	285,070
Cash – end of the period	111,102	77,063

Non-Cash Transactions (Note 11)

1. NATURE OF OPERATIONS AND GOING CONCERN

Hello Pal International Inc. ("the Company") was incorporated under the Company Act of British Columbia on October 2, 1986. On May 13, 2016, the Company completed an asset purchase agreement (the "Transaction") with a private Hong Kong based company, whereby the Company agreed to acquire all of the assets that comprise the Hello Pal software application (the "HPI Platform") (Note 5). The HPI Platform is a proprietary and open social exchange language and learning mobile application and network for use in a number of applications – including for language learning and socialization. Prior to May 13, 2016, the Company was listed for trading on the TSX Venture Exchange ("TSX-V"). On May 13, 2016, the Company received approval from the TSX-V to have its shares de-listed and received acceptance from the Canadian Securities Exchange ("CSE") to have its shares listed under the symbol "HP". On June 28, 2016, the Financial Industry Regulatory Authority of the United States cleared the Company's Form 211 application for a quotation on OTC Link, and as such, the common shares of the Company now trade under the US symbol "HLLPF". The Company's registered and corporate head office is located at 410-1040 West Georgia Street, Vancouver, BC, Canada.

These condensed interim consolidated financial statements have been prepared on the going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. If the going concern assumption were not appropriate for these consolidated financial statements, then adjustments may be necessary in the carrying value of assets and liabilities, the reported expenses and the consolidated statements of financial position classifications used. Such adjustments could be material.

As at August 31, 2018, the Company had working capital deficiency of $280,799 and an accumulated deficit of $10,040,096 and had not yet achieved profitable operations. These factors may cast substantial doubt on the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to obtain the necessary financing to meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. Although the Company has been successful in the past in obtaining financing, there is no guarantee that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

2. BASIS OF PRESENTATION

a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in conformity with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, using the same accounting policies as detailed in the Company's audited annual financial statements for the year ended February 28, 2018. They do not include all the information required for complete annual financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") and therefore should be read together with the audited annual financial statements for the year ended February 28, 2018.

These condensed interim consolidated financial statements were approved by the board of directors for issue on October 30, 2018.

b) Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company, its two wholly-owned subsidiaries, Hello Pal Asia Limited, incorporated on May 6, 2016 in Hong Kong SAR, China, and Hangzhou Hello Pal River Technology Limited, incorporated on April 25, 2017 in China. In addition, the Company consolidates Hangzhou Hello Pal Technology Limited, a private company incorporated in China. Although Hangzhou Hello Pal Technology Limited is not a subsidiary of the Company, the Company consolidates 100% of its operations as they have effective control and therefore the right to obtain the majority of the benefits and are exposed to the risks of the activities of Hangzhou Hello Pal Technology Limited.

Control is achieved when the Company is exposed to, or has rights to, variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is obtained and continue to be consolidated until the date that such control ceases. Intercompany balances, transactions and unrealized intercompany gains and losses are eliminated upon consolidation.

c) Estimates, assumptions and measurement uncertainty

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive loss in the period of the change, if the change affects that period only; in the period of the change and future periods, if the change affects both.

(i) Critical Judgments

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustments to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

Going concern

These condensed interim consolidated financial statements have been prepared on a 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 foreseeable future.

The assessment of the Company's ability to source future operations and continue as a going concern involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

If the going concern assumption were not appropriate for these condensed interim consolidated financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses and the statement of financial position classifications used.

Asset acquisition

The assessment of whether an acquisition meets the definition of a business or an asset is an area of key judgment. In the acquisition of the HPI Platform, judgement was required to determine if the acquisition represented a business combination or an asset acquisition. More specifically, management concluded that HPI Platform did not represent a business as the assets acquired were not an integrated set of activities with inputs, processes and outputs. Since it was concluded that the Transaction represented the acquisition of an asset, there was no goodwill recognized and the transactions costs were capitalized to the assets purchased rather than expensed.

Capitalization of software development costs

The application of the Company's accounting policy for capitalization of software development costs requires judgment in determining which development expenditures are recognized as intangible assets and applying the policy consistently. In making this determination, the Company considers the degree to which the development expenditure can be associated with developing new software applications.

Impairment of long-lived assets

Each asset or CGU is evaluated every reporting period to determine whether there are any indicators of impairment. If any such indicators exist, which is often judgment-based, a formal estimate of recoverable amount is performed and an impairment charge is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or CGU of assets is measured at the higher of fair value less costs of disposal or value in use. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired or the impairment charge reversed with the impact recorded in profit or loss.

(ii) Key Sources of Estimation Uncertainty

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

Depreciation and amortization

Software application assets are amortized based on estimated useful life less their estimated residual value. Significant assumptions are involved in the determination of useful life and residual values and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions. Actual useful life and residual values may vary depending on a number of factors including internal technical evaluation, physical condition of the assets and experience with similar assets. Changes to these estimates may affect the carrying value of assets, net income (loss) and comprehensive income (loss) in future periods.

Income taxes

Significant estimate is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

3. ADOPTION OF NEW ACCOUNTING STANDARDS AND ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

a) Adoption of new accounting standards

The Company has adopted the following new standards, along with any consequential amendments, effective March 1, 2018. These changes were made in accordance with the applicable transitional provisions. The adoption of the new standards and consequential amendments did not have a material impact on the Company's consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and some revenue-related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

IFRS 9, *Financial Instruments* ("IFRS 9") as issued, reflects the first phase of the IASB's work on the replacement of IAS 39, *Financial Instruments: Recognition and Measurement* and applies the classification and measurement of financial assets and liabilities as defined in IAS 39.

b) Accounting standards issued not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company also has not early adopted any of these standards in the condensed interim consolidated financial statements.

IFRS 16, *Leases* ("IFRS 16") specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact that the new guidance is expected to have on its consolidated financial statements.

(Unaudited – Expressed in Canadian Dollars)

4. EQUIPMENT

Cost	**Furniture and equipment ($)**	**Leasehold Improvement ($)**	**Total ($)**
Balance, February 28, 2017	2,502	-	2,502
Additions	9,943	6,088	16,031
Foreign exchange	(12)	-	(12)
Balance, February 28, 2018	12,433	6,088	18,521
Foreign exchange	(35)	-	(35)
Balance, August 31, 2018	**12,398**	**6,088**	**18,486**
Accumulated depreciation			
Balance, February 28, 2017	(479)	-	(479)
Additions	(2,625)	(1,270)	(3,895)
Foreign exchange	(13)	-	(13)
Balance, February 28, 2018	(3,117)	(1,270)	(4,387)
Additions	(1,396)	(723)	(2,119)
Foreign exchange	9	-	9
Balance, August 31, 2018	**(4,504)**	**(1,993)**	**(6,497)**
Net Book Value at February 28, 2018	9,316	4,818	14,134
Net Book Value at August 31, 2018	**7,894**	**4,095**	**11,989**

(Unaudited – Expressed in Canadian Dollars)

5. SOFTWARE APPLICATION

On May 13, 2016, the Company completed an asset purchase agreement (the "Transaction") with a private Hong Kong based company ("PrivCo"), whereby the Company agreed to acquire all of the assets that comprise the Hello Pal software application (the "HPI Platform"), in consideration for 25,000,000 common shares of the Company. The Company also issued 2,000,000 common shares for finder's fees. The CEO of the seller agreed to be appointed as a director and president of the Company upon the completion of Transaction. The HPI Platform is a proprietary and open social exchange language and learning mobile application and network for use in a number of applications – including for language learning and socialization.

The shares issued were valued at $3,750,000 using a market value of $0.15 per share, which was determined based on the share issue price of the private placement financing closed on the date of the acquisition in conjunction with the Transaction. Transaction costs, comprised of professional fees of $25,167 and 2,000,000 common shares issued as finder's fees, are included in the consideration paid to acquire the HPI Platform. The entire acquisition cost was recorded as the cost of software at the date of the asset purchase.

The components of the acquisition costs of software application are as follows:

	$
25,000,000 common shares of the Company at $0.15 per share	3,750,000
2,000,000 common shares issued in finder's fees at $0.15 per share	300,000
Transaction costs	25,167
Total acquisition costs	**4,075,167**

(Unaudited – Expressed in Canadian Dollars)

As at August 31, 2018 and February 28, 2018, intangible assets comprise the following:

	Software ($)	Internally Generated Software ($)	Total ($)
Cost			
Balance, February 28, 2017	**4,651,523**	**73,486**	**4,725,009**
Additions – development costs	143,610	241,314	384,924
Foreign exchange	(13,606)	775	(12,831)
Balance, February 28, 2018	**4,781,527**	**315,575**	**5,097,102**
Additions – development costs	68,798	72,485	141,283
Foreign exchange	(7,488)	3,237	(4,251)
Balance, August 31, 2018	**4,842,837**	**391,297**	**5,234,134**
Amortization			
Balance, February 28, 2017	**920,812**	**2,454**	**923,266**
Amortization	1,221,588	28,396	1,249,984
Foreign exchange	(676)	(2,010)	(2,686)
Balance, February 28, 2018	**2,141,724**	**28,840**	**2,170,564**
Amortization	637,214	37,716	674,930
Foreign exchange	(4,397)	(481)	(4,878)
Balance, August 31, 2018	**2,774,541**	**66,075**	**2,840,616**
Carrying amount			
As at February 28, 2018	2,639,803	286,735	2,926,538
As at August 31, 2018	**2,068,296**	**325,222**	**2,393,518**

During the three and six months ended August 31, 2018, the Company incurred costs of $1,462 and $1,570 (2017 - $5,856 and $10,230) that were charged to the statement of loss and comprehensive loss as they did not meet the criteria for capitalization.

6. DUE TO RELATED PARTIES

During the year ended February 28, 2018, the Company received a total of $85,318 from a company controlled by the Chief Executive Officer of the Company, which was non-interest bearing, due on demand, unsecured and had no maturity date. During the six months ended August 31, 2018, the Company received an additional $18,430 from the company controlled by the Chief Executive Officer of the Company. The Company made repayments of $45,000 during the year ended February 28, 2018 and repaid the remaining outstanding balance during the six months ended August 31, 2018. The balance outstanding as at August 31, 2018 was $nil (February 28, 2018 – $40,318).

During the six months ended August 31, 2018, the Company received $168,070 of non-interest bearing loans from a shareholder to finance its operating activities. The loan is due on demand, unsecured and has no maturity date. The balance outstanding as at August 31, 2018 is $168,070 (February 28, 2018 – $nil).

7. PROMISSORY NOTE

On June 23, 2017, the Company entered into a promissory note agreement with a shareholder for proceeds of $100,000, maturing on June 23, 2019. The promissory note is unsecured, bears an interest rate of 4% per annum calculated on the principal balance, and is payable on the maturity date.

During the three and six months ended August 31, 2018, the Company recorded interest expense of $1,008 and $2,016 (2017 – $nil and $nil).

The principal and interest outstanding at August 31, 2018 is $104,755 (February 28, 2018 – $102,739).

8. CONVERTIBLE NOTES

On April 16, 2018, the Company closed a convertible note private placement in the principal amount of $425,000. Each note bears interest at a rate of 15% per annum and is due five years from the date of issue. The notes are convertible into units at a price of $0.115 per unit and each unit will consist of one common share of the Company and one share purchase warrant, with each warrant entitling the holder to purchase an additional share common share of the Company at a price of $0.115 per share for a period of five years from the date of issue. On July 17, 2018, $50,000 of these convertible notes were converted to 434,782 units of the Company. As at February 28, 2018, in advance of the closing of the convertible notes offering, the Company had received $325,000 of the proceeds.

On June 6, 2018, the Company closed another convertible note private placement in the principal amount of $500,000. Each note bears interest at a rate of 15% per annum and is due five years from the date of issue. The notes are convertible into units at a price of $0.14 per unit and each unit will consist of one common share of the Company and one share purchase warrant, with each warrant entitling the holder to purchase an additional share common share of the Company at a price of $0.14 per share for a period of five years from the date of issue.

(Unaudited – Expressed in Canadian Dollars)

For accounting purposes, these convertible notes were separated into their liability and equity components. The fair value of the liability component at the time of issue was calculated as the discounted cash flows for the convertible notes assuming a 20% effective interest rate which was the estimated rate for convertible notes without a conversion feature. The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the face value of the convertible notes and the fair value of the liability component.

The liability component for the April 16, 2018 convertible note was initially valued at $375,328 with the resulting residual value being allocated to the equity component in the amount of $49,672.

The liability component for the June 6, 2018 convertible note was initially valued at $441,449 with the resulting residual value being allocated to the equity component in the amount of $58,551.

	Liability Component $	**Equity Component $**
Balance, February 28, 2018	-	-
Amount at date of issue	816,777	108,223
Accretion expense	5,680	-
Conversion to units	(44,432)	(5,844)
Balance, August 31, 2018	778,025	102,379

During the three and six months ended August 31, 2018, the Company recorded accretion expense of $4,510 and $5,680 (2017 – $nil and $nil) and accrued interest of $30,654 and $38,623 (2017 – $nil and $nil).

9. SHARE CAPITAL

a) Authorized – Unlimited common shares without par value.

b) Share issuances:

On July 27, 2017, the Company closed a non-brokered private placement financing, issuing 8,050,331 units at a price of $0.15 per unit for gross proceeds of $1,207,550, $495,025 of which was received during the year ended February 28, 2017. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one additional common share at an exercise price of $0.20 per share for a period of two years from the date of issuance. In connection with the private placement, the Company incurred legal and filing fees of $4,618. The Company assigned $nil to the warrants.

(Unaudited – Expressed in Canadian Dollars)

On July 17, 2018, $50,000 of the convertible notes issued on April 16, 2018 were converted to 434,782 units of the Company. Each unit consists of one common share of the Company and one share purchase warrant, with each warrant entitling the holder to purchase an additional share common share of the Company at a price of $0.115 per share for a period of five years from the date of issue.

In August 2018, the Company issued 120,000 common shares pursuant to exercise of warrants for total gross proceeds of $24,000 at an exercise price of $0.20.

c) Stock options:

The Company has a stock option plan whereby the maximum number of shares reserved for issue under the plan shall not exceed 10% of the outstanding common shares of the Company, as at the date of the grant. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of the grant. Options may be granted for a maximum term of ten years from the date of the grant, are non-transferable and expire within 90 days of termination of employment or holding office as a director or officer of the Company and, in the case of death, expire within one year thereafter.

	Number of Options #	Weighted average exercise price $	Weighted Average Life (Years)
Outstanding, February 28, 2017 and 2018	6,400,000	0.15	3.21
Granted	840,000	0.22	-
Outstanding, August 31, 2018	7,240,000	0.16	2.94

On June 6, 2018, the Company granted 840,000 stock options to its directors, officers and consultants. The stock options have an exercise price of $0.22 per share and expire on June 6, 2023. The fair values of the options were estimated using the Black Scholes option-pricing model. Assumptions used in the pricing model were as follows: risk-free interest rate – 1.60%; expected life – 5 years; expected volatility – 106.23%; expected forfeitures – 0%; and expected dividends – $nil. Expected price volatility was calculated based on the historical share prices of similar companies.

The weighted average fair value of stock options granted during the six months ended August 31, 2018 was $0.17 per option.

During the three and six months ended August 31, 2018, the Company recorded share-based payments expense of $143,110 and $143,110 (2017 – $nil and $nil).

(Unaudited – Expressed in Canadian Dollars)

As at August 31, 2018, the Company had the following options outstanding:

Number of options	Exercise price	Expiry date
6,400,000	$0.15	May 13, 2021
840,000	$0.22	June 6, 2023
7,240,000		

d) Warrants

	Number of Warrants #	Weighted average exercise price $	Weighted Average Life (Years)
Outstanding, February 28, 2017	369,189	0.25	1.20
Issued	8,050,331	0.20	-
Outstanding, February 28, 2018	8,419,520	0.20	1.36
Issued	434,782	0.115	-
Exercised	(120,000)	0.20	
Expired	(369,189)	0.25	-
Outstanding, August 31, 2018	8,365,113	0.20	1.11

As at August 31, 2018, the Company had the following warrants outstanding:

Number of warrants	Exercise price	Expiry date
7,930,331	$0.20	July 27, 2019
434,782	$0.115	July 17, 2023
8,365,113		

e) Escrow shares

13,725,000 shares were placed in escrow upon completion of the Transaction on May 13, 2016. On May 13, 2016, 10% of escrowed shares were released and 15% of the escrowed shares are released each six-month period thereafter. As at August 31, 2018, 4,117,500 (February 28, 2018 – 6,176,250) issued and outstanding common shares were held in escrow.

(Unaudited – Expressed in Canadian Dollars)

10. RELATED PARTY TRANSACTIONS

The Company incurred charges to directors and officers, or to companies associated with these individuals during the three and six months ended August 31, 2018 and 2017 as follows:

	Three months ended August 31		Six months ended August 31	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Accounting and corporate secretarial fees	13,891	11,555	19,042	21,162
Salaries capitalized as application development costs	-	4,651	-	23,329
Management fees	11,804	31,450	36,978	55,950
Share issue costs	-	3,450	-	3,450
Share-based payment	42,592	-	42,592	-
	68,287	51,106	98,612	103,891

Accounts payable and accrued liabilities at August 31, 2018 includes $75,121 (February 28, 2018 – $67,867) due to the President and CEO of the Company, and a company that until July 31, 2018 was controlled by a director and in which the CFO was an associate until July 31, 2018 and an owner thereafter. Related party transactions are conducted in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

Key management of the Company includes the President and CEO, CTO, CFO and the Directors. During the three and six months ended August 31, 2018, compensation paid to key management consisted of management fees of $11,804 and $36,978 (2017 – $31,450 and $55,950) paid to the President and CEO, application development costs of $nil and $nil (2017 – $4,651 and $23,329) paid to the CTO, accounting and corporate secretarial fees of $13,891 and $19,042 (2017 – $11,555 and $21,162) and share issue costs of $nil and $nil (2017 – $3,450 and $3,450) paid to a company that until July 31, 2018 was controlled by a director and in which the CFO was an associate until July 31, 2018 and an owner thereafter, and share-based payments of $42,592 and $42,592 (2017 – $nil and $nil) to directors and officers.

Other amounts due to related parties are disclosed in Note 6.

11. NON-CASH TRANSACTIONS

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the consolidated statements of cash flows. During the six months ended August 31, 2018, the following transactions were excluded from the consolidated statement of cash flows:

(Unaudited – Expressed in Canadian Dollars)

- $39,964 of application development costs included in accounts payable and accrued liabilities at August 31, 2018; and
- Conversion of convertible notes to units of the Company, valued at $50,276.

During the six months ended August 31, 2017, the following transactions were excluded from the condensed interim consolidated statement of cash flows:

- $26,231 of application development costs included in accounts payable and accrued liabilities at August 31, 2017.

12. SEGMENT INFORMATION

The Company's operations are limited to a single industry, being a provider of an international open social exchange language and learning mobile application and network. Geographic segment information of the Company's total assets is as follows:

	August 31, 2018 $	February 28, 2018 $
Canada	1,763,339	2,352,274
Asia	778,656	684,191
Total assets	2,541,995	3,036,465

Geographic segmentation of the Company's net loss during the three and six months ended August 31, 2018 and 2017 is as follows:

	Three months ended August 31		Six months ended August 31	
	2018 $	2017 $	2018 $	2017 $
Canada	543,258	298,624	846,344	645,625
Asia	339,874	293,134	554,135	530,229
Net loss	883,132	591,758	1,400,479	1,175,854

13. COMMITMENT

On June 1, 2017, the Company entered into a sublease agreement for the use of office premises in Vancouver, BC, Canada. The amount of the total lease payments committed is $31,642 for each of the fiscal years ended February 28, 2019 and February 29, 2020; $31,743 for the year ended February 28, 2021; $32,852 for the year ended February 28, 2022; and $30,114 for the year ended February 28, 2023.