# HELLO PAL INTERNATIONAL INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MAY 31, 2019 AND 2018
(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 | May 31, 2019 $ | February 28, 2019 $ |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | | | |
| Cash | | 278,138 | 71,102 |
| GST recoverable | | 1,743 | 2,592 |
| Prepaid expenses | | 84,549 | 29,141 |
| | | 364,430 | 102,835 |
| Property and equipment | **4** | 41,410 | 18,363 |
| Software application | **5** | 2,156,698 | 2,051,520 |
| Total assets | | 2,562,538 | 2,172,718 |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | **13** | 482,634 | 456,132 |
| Due to related parties | **6** | 453,634 | 281,964 |
| Promissory note | **7** | 107,746 | 106,738 |
| Lease obligation – short-term | **8** | 13,077 | - |
| Loan payable | **9** | 30,000 | - |
| | | 1,087,091 | 844,834 |
| Lease obligation – long-term | **8** | 1,499 | - |
| Loan payable | **9** | 51,701 | 50,945 |
| Convertible notes – liability component | **10** | 759,678 | 754,488 |
| Contingent share consideration | **12** | 783,600 | 393,600 |
| | | 2,683,569 | 2,043,867 |
| **SHAREHOLDERS' (DEFICIENCY) EQUITY** | | | |
| Share capital | **11** | 9,407,317 | 9,407,317 |
| Contributed surplus | **11** | 2,574,712 | 1,987,931 |
| Convertible notes – equity component | **10** | 95,513 | 95,513 |
| Accumulated other comprehensive loss | | 10,608 | (1,135) |
| Deficit | | (12,209,181) | (11,360,775) |
| | | (121,031) | 128,851 |
| Total liabilities and shareholders’ (deficiency) equity | | 2,562,538 | 2,172,718 |

Nature of operations and going concern (Note 1)
Commitment (Note 16)

**Approved and authorized on behalf of the Board of Directors on July 30, 2019**

“**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 months ended May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

| | Note | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **COMMISSION REVENUE** | | 25,989 | - |
| **DIRECT COSTS** | | 43,000 | - |
| **GROSS LOSS** | | (17,011) | - |
| **ADMINISTRATIVE EXPENSES** | | | |
| Accounting and audit | **13** | 9,234 | 10,408 |
| Accretion | **10** | 5,190 | 1,170 |
| Bitcoin revaluation loss | **6** | 13,262 | - |
| Depreciation and amortization | **4, 5** | 615,132 | 311,837 |
| Foreign exchange loss | | 4 | 4,829 |
| Interest expense | **7, 9, 10** | 35,428 | 12,771 |
| Management and consulting fees | **13** | 27,330 | 25,174 |
| Marketing | | 22,009 | 6,082 |
| Legal | | 2,313 | 10,783 |
| Office and miscellaneous | | 57,917 | 53,900 |
| Transfer agent and filing fees | | 8,973 | 5,487 |
| Rent | | 7,626 | 16,412 |
| Salaries and benefits | | 23,661 | 58,332 |
| Shareholder communications | | 502 | 54 |
| Software application costs | | 2,305 | 108 |
| Total Expenses | | (830,886) | (517,347) |
| **NET LOSS FOR THE PERIOD** | | (847,897) | (517,347) |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Exchange differences on translation of foreign operations | | 11,743 | 4,680 |
| **TOTAL COMPREHENSIVE LOSS FOR THE PERIOD** | | (836,154) | (512,667) |
| **NET LOSS PER SHARE – BASIC AND DILUTED** | | (0.01) | (0.01) |
| **WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING** | | 72,985,091 | 72,430,309 |

## HELLO PAL INTERNATIONAL INC.

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN (DEFICIENCY) EQUITY

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

| | Number of Shares # | Share Capital $ | Contributed Surplus $ | Convertible Notes – Equity Component $ | Accumulated Other Comprehensive Income $ | Deficit $ | Total $ |
|---|---|---|---|---|---|---|---|
| Balance, February 28, 2018 | 72,430,309 | 9,333,317 | 1,630,919 | - | (6,734) | (8,639,617) | 2,317,885 |
| Convertible notes (Note 10) | - | - | | 49,672 | - | - | 49,672 |
| Net and comprehensive loss for the period | - | - | - | - | 4,680 | (517,347) | (512,667) |
| Balance, May 31, 2018 | 72,430,309 | 9,333,317 | 1,630,919 | 49,672 | (2,054) | (9,156,964) | 1,854,890 |
| Convertible notes (Note 10) | - | - | | 51,299 | - | - | 51,299 |
| Issuance of common shares pursuant to conversion of convertible notes (Note 10) | 434,782 | 50,000 | - | (5,458) | - | - | 44,542 |
| Issuance of common shares pursuant to exercise of warrants (Note 11) | 120,000 | 24,000 | - | - | - | - | 24,000 |
| Share-based payments (Notes 11, 12) | - | - | 357,012 | - | - | - | 357,012 |
| Net and comprehensive loss for the period | - | - | - | - | 919 | (2,203,811) | (2,202,892) |
| Balance, February 28, 2019 | 72,985,091 | 9,407,317 | 1,987,931 | 95,513 | (1,135) | (11,360,775) | 128,851 |
| IFRS 16 transition adjustment on March 1, 2019 | - | - | - | - | - | (509) | (509) |
| Balance, February 28, 2019 (restated) | 72,985,091 | 9,407,317 | 1,987,931 | 95,513 | (1,135) | (11,361,284) | 128,342 |
| Share-based payments (Notes 11, 12) | - | - | 586,781 | - | - | - | 586,781 |
| Net and comprehensive loss for the period | - | - | - | - | 11,743 | (847,897) | (836,154) |
| Balance, May 31, 2019 | 72,985,091 | 9,407,317 | 2,574,712 | 95,513 | 10,608 | (12,209,181) | (121,031) |



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 three months ended May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Operating activities: | | |
| Net loss for the period | (847,897) | (517,347) |
| Items not involving cash: | | |
| Depreciation and amortization | 615,132 | 311,837 |
| Bitcoin revaluation loss | 13,262 | - |
| Accretion | 5,190 | 1,170 |
| Accrued interest | 34,846 | 8,977 |
| | (179,467) | (195,363) |
| Changes in non-cash working capital related to operations: | | |
| GST recoverable | 849 | (2,198) |
| Prepaid expenses | (55,408) | 2,743 |
| Accounts payable and accrued liabilities | (10,229) | 8,068 |
| Net cash used in operating activities | (244,255) | (186,750) |
| Investing activities: | | |
| Purchase of equipment | (14,890) | - |
| Acquisition and development costs of software application | (112,971) | (130,816) |
| Net cash used in investing activities | (127,861) | (130,816) |
| Financing activities: | | |
| Financing received from related parties | 158,408 | 191,430 |
| Proceeds from loan payable | 30,000 | - |
| Proceeds from convertible notes | - | 100,000 |
| Advances on convertible notes | - | 119,000 |
| Contingent share consideration | 390,000 | - |
| Net cash provided by financing activities | 578,408 | 410,430 |
| Increase in cash during the period | 206,292 | 92,864 |
| Effect of exchange rate changes on cash | 744 | 445 |
| Cash – beginning of the period | 71,102 | 83,835 |
| Cash – end of the period | 278,138 | 177,144 |
| Income taxes paid in cash | - | - |
| Interest paid in cash | - | - |

Non-Cash Transactions (Note 14)



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

## 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. The Company's primary asset is the Hello Pal software application (the "HPI Platform") (Note 5), which 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 Company is listed on the Canadian Securities Exchange ("CSE") under the symbol "HP" and quoted on the OTC Markets Platform under the 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 May 31, 2019, the Company had a working capital deficiency of $722,661 and an accumulated deficit of $12,209,181 and had not yet achieved profitable operations. These factors may cast significant 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, required product maintenance and development costs 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, 2019. 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, 2019.

These condensed interim consolidated financial statements were approved by the board of directors for issue on July 30, 2019.

**b) Basis of consolidation**

These condensed interim consolidated financial statements include the accounts of the Company, its three wholly-owned subsidiaries, Hello Pal Asia Limited, incorporated on May 6, 2016 in Hong Kong SAR, China, Hangzhou Hello Pal River Technology Limited, incorporated on April 25, 2017 in China, and Chongqing Hello Pal Technology Limited, incorporated on January 10, 2019 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 it has effective control and therefore the right to obtain the majority of the benefits and is 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.

*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:

*Contingent share issuance*

The fair value of shares to be issued under the Vortex Agreement (Note 12) was based on an estimate of the future revenue to be generated from the live-streaming services and the likelihood of achieving defined milestones within the agreement.

*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.

*Convertible notes*

In accounting for the convertible notes detailed, the management estimated the market rate of interest for equivalent notes without conversion rights at 20% when bifurcating loan instruments into liability and equity components on initial recognition.

*Share-based payments*

Share-based payments are determined using the Black-Scholes option pricing model based on estimated fair values of all share-based awards at the date of grant and are expensed to the statement of loss and comprehensive loss over each award's vesting period. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility, expected life of the option, risk free interest rates, and forfeiture rates. Changes in these input assumptions can significantly affect the fair value estimate.

*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

These condensed interim consolidated financial statements have been prepared on a basis consistent with the significant accounting policies disclosed in Note 3 of the annual financial statements for the year ended February 29, 2019, except for the following policies adopted in the current financial period:

### a) Initial adoption of accounting policy

*Revenue recognition*

The Company receives commission revenues based on the amounts earned by the hosts of the Live Streaming Service. The commission revenues are recognized as they are earned.

### b) Adoption of new accounting standards

The Company has adopted the following new standards, along with any consequential amendments, effective March 1, 2019. These changes were made in accordance with the applicable transitional provisions.

The Company adopted all of the requirements of IFRS 16, *Leases* (“IFRS 16”) as of March 1, 2019. IFRS 16 replaces IAS 17, *Leases* (“IAS 17”). IFRS 16 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. The Company has adopted IFRS 16 using the modified retrospective application method, where the 2018 comparatives are not restated and a cumulative catch up adjustment is recorded on March 1, 2019 for any differences identified, including adjustments to opening retained earnings balance.

The Company analyzed its contracts to identify whether they contain a lease arrangement for the application of IFRS 16. The following is the Company’s new accounting policy for leases under IFRS 16:

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Leases of right-of-use assets are recognized at the lease commencement date at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, and otherwise at the Company’s incremental borrowing rate. At the commencement date, a right-of-use asset is measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

Each lease payment is allocated between repayment of the lease principal and interest. Interest on the lease liability in each period during the lease term is allocated to produce a constant periodic rate of interest on the remaining balance of the lease liability. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included in the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term, except where the lease contains a bargain purchase option a right-of-use asset is depreciated over the asset's useful life.

On the date of transition, the Company recorded a right-of-use asset of $18,271 related to the office rent in property and equipment, and the lease obligation of $18,780 was recorded as at March 1, 2019, discounted using the Company's incremental borrowing rate of 8%, and measured at an amount equal to the lease obligation as if IFRS 16 had been applied since the commencement date. The net difference between right-of-use assets and lease liabilities on the date of transition was recognized as a retained earnings adjustment of $509 on March 1, 2019.

IFRS 9, *Financial Instruments* ("Amendments") clarifies that a financial asset that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation may be eligible to be measured at either amortized cost or fair value through other comprehensive income. This classification is subject to the assessment of the business model in which the particular financial asset is held as well as consideration of whether certain eligibility conditions are met. The adoption of these amendments did not have a material impact on the Company's consolidated financial statements.

**c) Accounting standards issued not yet effective**

In October 2018, the IASB issued amendments to IFRS 3, *Business Combinations*. The amendments narrowed and clarified the definition of a business. The amendments will help companies determine whether an acquisition is a business or a group of assets. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. Distinguishing between a business and a group of assets is important because an acquirer recognizes goodwill only when acquiring a business. This amendment will be effective for annual periods beginning on or after January 1, 2020. Early adoption is permitted.

(Unaudited – Expressed in Canadian Dollars)

## 4. PROPERTY AND EQUIPMENT

| Cost | Furniture and equipment ($) | Building ($) | Leasehold Improvement ($) | Total ($) |
|---|---|---|---|---|
| Balance, February 28, 2018 | 12,433 | - | 6,088 | 18,521 |
| Additions | 8,877 | - | - | 8,877 |
| Foreign exchange | 73 | - | - | 73 |
| Balance, February 28, 2019 | 21,383 | - | 6,088 | 27,471 |
| IFRS 16 transition adjustment | - | 18,271 | - | 18,271 |
| Additions | 10,686 | - | - | 10,686 |
| Foreign exchange | (46) | - | - | (46) |
| **Balance, May 31, 2019** | **32,023** | **18,271** | **6,088** | **56,382** |
| **Accumulated depreciation** | | | | |
| Balance, February 28, 2018 | (3,117) | - | (1,270) | (4,387) |
| Additions | (3,265) | - | (1,445) | (4,710) |
| Foreign exchange | (11) | - | - | (11) |
| Balance, February 28, 2019 | (6,393) | - | (2,715) | (9,108) |
| Additions | (1,386) | (4,216) | (253) | (5,855) |
| Foreign exchange | (9) | - | - | (9) |
| **Balance, May 31, 2019** | **(7,788)** | **(4,216)** | **(2,968)** | **(14,972)** |
| Net Book Value at February 28, 2019 | 14,990 | - | 3,373 | 18,363 |
| **Net Book Value at May 31, 2019** | **24,235** | **14,055** | **3,120** | **41,410** |

## 5. SOFTWARE APPLICATION

On May 13, 2016, the Company completed the Transaction with a private Hong Kong based company (“PrivCo”), whereby the Company acquired all of the assets that comprise 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 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

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2,000,000 common shares issued as finder's fees, were 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** |

As at May 31, 2019 and February 28, 2019, intangible assets comprise the following:

| | Software ($) | Internally Generated Software ($) | Total ($) |
|---|---|---|---|
| **Cost** | | | |
| **Balance, February 28, 2018** | **4,781,527** | **315,575** | **5,097,102** |
| Additions – development costs | 359,576 | 50,722 | 410,298 |
| Foreign exchange | 4,898 | 7,003 | 11,901 |
| **Balance, February 28, 2019** | **5,146,001** | **373,300** | **5,519,301** |
| Additions – development costs | 703,401 | - | 703,401 |
| Foreign exchange | 13,599 | 8,957 | 22,556 |
| **Balance, May 31, 2019** | **5,863,001** | **382,257** | **6,245,258** |
| **Amortization** | | | |
| **Balance, February 28, 2018** | **2,141,724** | **28,840** | **2,170,564** |
| Amortization | 1,230,584 | 63,484 | 1,294,068 |
| Foreign exchange | 2,882 | 267 | 3,149 |
| **Balance, February 28, 2019** | **3,375,190** | **92,591** | **3,467,781** |
| Amortization | 590,597 | 18,680 | 609,277 |
| Foreign exchange | 9,391 | 2,111 | 11,502 |
| **Balance, May 31, 2019** | **3,975,178** | **113,382** | **4,088,560** |
| **Carrying amount** | | | |
| As at February 28, 2019 | 1,770,811 | 280,709 | 2,051,520 |
| **As at May 31, 2019** | **1,887,823** | **268,875** | **2,156,698** |

During the three months ended May 31, 2019, the Company incurred costs of $2,305 (2018 - $108) 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 Interim CEO of the Company, which was non-interest bearing, due on demand, unsecured and had no maturity date. The Company made repayments of $45,000 during the year ended February 28, 2018 and repaid the remaining outstanding balance during the year ended February 28, 2019. The balance outstanding as at May 31, 2019 was ($8,818) (February 28, 2019 – ($7,678)).

During the year ended February 28, 2019, the Company received a non-interest bearing loan of $1,000 from a director of the Company. The loan is due on demand, unsecured and has no maturity date. The balance outstanding as at May 31, 2019 is $1,000 (February 28, 2019 – $1,000).

During the year ended February 28, 2019, the Company received advances totalling $228,572 from a shareholder of the Company. The proceeds were received in three difference tranches of CAD$6,000, HKD 740,000 and RMB 500,000. On June 1, 2019, the Company entered into a loan agreement with respect to these advances. The loan matures on June 1, 2020 and has an interest rate of 6% per annum. During the three months ended May 31, 2019, the Company received additional advances of $158,408 from the same shareholder. The balance outstanding as at May 31, 2019 is $388,320 (February 28, 2019 – $228,572).

During the year ended February 28, 2019, the Company received $50,000 of proceeds from a shareholder of the Company in advance of a share issuance. The balance outstanding as at May 31, 2019 is $50,000 (February 28, 2019 – $50,000).

During the year ended February 28, 2019, the Company also received 2 bitcoins from a shareholder which were awarded to the users as a marketing expense. The fair value of the bitcoin liability as at May 31, 2019 is $23,132 (February 28, 2019 – $10,070), with change in fair value from initial recognition recognized in statements of loss and comprehensive loss. The outstanding balance shall be repaid in the form of bitcoins or cash equivalent to the value of bitcoin on the day of repayment. The balance is due on demand and is non-interest bearing.

## 7. PROMISSORY NOTE

On June 23, 2017, the Company entered into a promissory note agreement with a company owned by 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 months ended May 31, 2019, the Company recorded interest expense of $1,008 (2018 – $1,008).

(Unaudited – Expressed in Canadian Dollars)

The principal and interest outstanding at May 31, 2019 is $107,746 (February 28, 2019 – $106,738).

## 8. LEASE OBLIGATION

The Company entered into an office lease in April 2018. With the adoption of IFRS 16, *Leases* (see Note 3), the Company recognized a lease obligation with regard to the lease. The terms and the outstanding balances as at May 31, 2019 and February 28, 2019 are as follows:

| | **May 31, 2019 $** | **February 28, 2019 $** |
|---|---|---|
| Right-of-use asset from office lease repayable in monthly instalments of $1,510 and an interest rate of 8% per annum and an end date of April 2020. | 14,576 | - |
| Less: Current portion | (13,077) | - |
| Non-current portion | 1,499 | - |

The following is a schedule of the Company's future minimum lease payments related to the office lease obligation:

| | **May 31, 2019 $** |
|---|---|
| 2020 | 15,102 |
| 2021 | 1,510 |
| Total minimum lease payments | 16,612 |
| Less: imputed interest | (2,036) |
| Total present value of minimum lease payments | 14,576 |
| Less: Current portion | (13,077) |
| Non-current portion | 1,499 |

## 9. LOANS PAYABLE

On November 5, 2018, the Company entered into a loan agreement for $50,000, which matures on November 1, 2020 and has an interest rate of 6% per annum. The principal balance outstanding plus accrued interest of $1,701 outstanding as at May 31, 2019 is $51,701 (February 28, 2019 – $50,945).

During the three months ended May 31, 2019, the Company received $30,000 of a non-interest bearing loan. The loan is due on demand, unsecured and has no maturity date. The balance outstanding as at May 31, 2019 is $30,000 (February 28, 2019 – $nil).

## 10. 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.

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. $94,000 of the convertible notes was issued to a company owned by a related party and $65,000 was issued to the interim CEO of the Company.

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 $361,449 with the resulting residual value being allocated to the equity component in the amount of $63,551, net of deferred tax of $17,159.

The liability component for the June 6, 2018 convertible note was initially valued at $425,235 with the resulting residual value being allocated to the equity component in the amount of $74,765, net of deferred tax of $20,186.

(Unaudited – Expressed in Canadian Dollars)

| | Liability Component $ | Equity Component (net of tax) $ |
|---|---|---|
| Balance, February 28, 2018 | - | - |
| Amount at date of issue | 786,684 | 100,971 |
| Accretion expense | 10,327 | - |
| Conversion to units | (42,523) | (5,458) |
| Balance, February 28, 2019 | 754,488 | 95,513 |
| Accretion expense | 5,190 | - |
| Balance, May 31, 2019 | 759,678 | 95,513 |

During the three months ended May 31, 2019, the Company recorded accretion expense of $5,190 (2018 – $1,170) and accrued interest of $33,082 (2018 – $7,969). The accrued interest is recorded in the accounts payable and accrued liabilities.

## 11. SHARE CAPITAL

**a) Authorized** – Unlimited common shares without par value.

**b) Share issuances:**

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.

(Unaudited – Expressed in Canadian Dollars)

| | Number of Options # | Weighted average exercise price $ | Weighted Average Life (Years) |
|---|---|---|---|
| Outstanding and exercisable, February 28, 2018 | 6,400,000 | 0.15 | 3.21 |
| Granted | 840,000 | 0.22 | - |
| Outstanding and exercisable, February 28, 2019 and May 31, 2019 | 7,240,000 | 0.16 | 2.19 |

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, vest immediately 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 – 2.16%; expected life – 5 years; expected volatility – 134%; expected forfeitures – 0%; and expected dividends – $nil. Expected price volatility was determined based on the historical share prices of similar companies.

The weighted average fair value of stock options granted during the year ended February 28, 2019 was $0.19 per option.

As at May 31, 2019, 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, 2018 | 8,419,520 | 0.20 | 1.36 |
| Issued | 434,782 | 0.115 | - |
| Exercised | (120,000) | 0.20 | - |
| Expired | (369,189) | 0.25 | - |
| Outstanding, February 28, 2019 and May 31, 2019 | 8,365,113 | 0.20 | 0.36 |

As at May 31, 2019, the Company had the following warrants outstanding:

(Unaudited – Expressed in Canadian Dollars)

| 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 | | |

## 12. VORTEX AGREEMENT

On January 29, 2019, the Company entered into a cooperation agreement (the "Cooperation Agreement") with Vortex Live Inc. ("Vortex") and the principals of Vortex (the "Vortex Team") whereby Vortex would develop and implement live-streaming video functionality into the HPI Platform ("Live Streaming Service").

Under the terms of the Cooperation Agreement, Vortex has provided a seasoned management team to join the Company to develop and operate the Live Streaming Service. Vortex will also fund the development of Live Streaming Service by paying the Company a total of $1,200,000, of which $800,000 (RMB 4,000,000) has already been paid and $400,000 (RMB 2,000,000) remains payable. If required, Vortex may provide further funding in the form of an interest-free loan of $800,000.

In return, the Company will issue up to 54,000,000 shares to the Vortex Team based on the following milestones:

1. 20,000,000 shares upon the launch of the Live Streaming Service by March 31, 2019, and the Company achieving monthly revenue of RMB 1,000,000 (approximately CAD$200,000) by May 31, 2019.

2. 9,000,000 shares upon the Company achieving monthly revenue of RMB 5,000,000 (approximately CAD$1,000,000) and accumulated revenue of RMB 23,000,000 (approximately CAD$5,000,000) by December 31, 2019.

3. 13,500,000 shares upon the Company achieving monthly revenue of RMB 10,000,000 (approximately CAD$2,000,000), accumulated revenue of RMB 70,000,000 (approximately CAD$14,000,000) over preceding 12 months, net positive cash flow and net profit of RMB 1,000,000 (approximately CAD$200,000) by December 31, 2020.

4. 11,500,000 shares upon the Company achieving monthly revenue of RMB 20,000,000 (approximately CAD$4,000,000), accumulated revenue of RMB 180,000,000 (approximately CAD$28,000,000) over preceding 12 months and net profit of RMB 10,000,000 (approximately CAD$2,000,000) by December 31, 2021.

The shares contingently issuable upon achievement of the above milestones have been accounted for in three components. A portion of the shares has been recorded as a liability against the RMB 4,000,000 ($783,600) already received from Vortex; a further portion will be recorded as a liability upon receipt of the RMB 2,000,000 ($400,000) due from Vortex upon the launch of the Live Streaming service; and the remainder have been treated as share-based compensation for the services provided by Vortex. The two portions recorded as liabilities will be extinguished when the associated milestones are achieved. The share price of $0.15 on the transaction date and likelihood of 60%, 30%, 10%, 0% that the above milestones will be met respectively at the agreed timetable were used by management to determine the fair value of the contingently issuable shares which in total is $2,407,500. Such amount, excluding the approximately $1,200,000 fund received and to be received, will be recorded as share-based compensation through the period of the service. During the three months ended May 31, 2019, $586,781 share-based compensation was recorded in contributed surplus in shareholders' equity and capitalized as addition to the software application (Note 5).

(Unaudited – Expressed in Canadian Dollars)

## 13. RELATED PARTY TRANSACTIONS

The Company incurred charges to directors and officers, or to companies associated with these individuals during the three months ended May 31, 2019 and 2018 as follows:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Accounting fees | 9,235 | 5,151 |
| Management fees | 26,930 | 25,174 |
| | 36,165 | 30,325 |

Accounts payable and accrued liabilities at May 31, 2019 includes $151,832 (February 28, 2019 – $128,204) due to the Interim 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, Interim CEO, CFO and the Directors. During the three months ended May 31, 2019, compensation paid to key management consisted of management fees of $26,930 (2018 – $25,174) paid to the Interim CEO, and accounting fees of $9,235 (2018 – $5,151) 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.

Other amounts due to related parties are disclosed in Notes 6, 7 and 10.

## 14. 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 three months ended May 31, 2019, the following transactions were excluded from the consolidated statement of cash flows:

(Unaudited – Expressed in Canadian Dollars)

- $586,781 of application development costs included in contributed surplus May 31, 2019 (Note 12); and
- $30,515 of application development costs included in accounts payable and accrued liabilities at May 31, 2019.

During the three months ended May 31, 2018, the following transactions were excluded from the consolidated statement of cash flows:

- $42,680 of application development costs included in accounts payable and accrued liabilities at May 31, 2018.

## 15. 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:

| | May 31, 2019 $ | February 28, 2019 $ |
|---|---|---|
| Canada | 1,528,083 | 1,445,918 |
| Asia | 1,034,455 | 726,800 |
| Total assets | 2,562,538 | 2,172,718 |

Geographic segmentation of the Company's net loss during the three months ended May 31, 2019 and 2018 is as follows:

| | 2019 $ | 2018 $ |
|---|---|---|
| Canada | 560,874 | 303,086 |
| Asia | 287,023 | 214,261 |
| Net loss | 847,897 | 517,347 |

## 16. COMMITMENT

On April 6, 2018, the Company entered into a lease agreement for the use of office premises in Hong Kong. The amount of the total lease payments committed is $18,122 for the year ended February 29, 2020 and $1,510 for the year ended February 28, 2021.