# HELLO PAL INTERNATIONAL INC.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 29, 2020 AND FEBRUARY 28, 2019
(Expressed in Canadian Dollars)

**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of **Hello Pal International Inc.**

**Opinion**
We have audited the consolidated financial statements of Hello Pal International Inc. (the "Company"), which comprise the consolidated statements of financial position as at February 29, 2020, and the consolidated statements of loss and comprehensive loss, changes in (deficiency) equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 29, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

**Basis for Opinion**
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated financial statements* section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Material Uncertainty Related to Going Concern**
We draw attention to Note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significate doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Other Information**
Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the consolidated financial statements**
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor’s Responsibilities for the Audit of the Consolidated financial statements**
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Linda Zhu.

The consolidated financial statements of the Company for the year ended February 28, 2019 were audited by another auditor who expressed an unmodified opinion on these consolidated financial statements on June 28, 2019.

MaoxYing LLP

Vancouver, Canada
September 14, 2020

Chartered Professional Accountants

**HELLO PAL INTERNATIONAL INC.**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**(Expressed in Canadian Dollars)**

| | Note | February 29, 2020 $ | February 28, 2019 $ |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | | | |
| Cash | | 83,219 | 71,102 |
| Receivables | | 44,153 | 2,592 |
| Prepaid expenses | | 17,358 | 29,141 |
| | | 144,730 | 102,835 |
| Property and equipment | **6** | 25,880 | 18,363 |
| Software application | **7** | 1,750,994 | 2,051,520 |
| Total assets | | 1,921,604 | 2,172,718 |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | **15** | 758,043 | 456,132 |
| Due to related parties | **8** | 1,025,442 | 281,964 |
| Promissory note | **9** | 110,748 | 106,738 |
| Lease obligation – short-term | **10** | 1,499 | - |
| Loan payable | **11** | 140,000 | - |
| | | 2,035,732 | 844,834 |
| Loan payable | **8** | - | 50,945 |
| Convertible notes – liability component | **12** | 772,166 | 754,488 |
| Contingent share consideration | **14** | - | 393,600 |
| | | 2,807,898 | 2,043,867 |
| **SHAREHOLDERS' (DEFICIENCY) EQUITY** | | | |
| Share capital | **13** | 9,407,317 | 9,407,317 |
| Shares to be issued | **14** | 2,078,700 | - |
| Contributed surplus | **13** | 2,580,192 | 1,987,931 |
| Convertible notes – equity component | **12** | 95,513 | 95,513 |
| Accumulated other comprehensive income (loss) | | 10,842 | (1,135) |
| Deficit | | (15,058,858) | (11,360,775) |
| | | (886,294) | 128,851 |
| Total liabilities and shareholders' (deficiency) equity | | 1,921,604 | 2,172,718 |

Nature of operations and going concern (Note 1)
Subsequent events (Note 21)

**Approved and authorized on behalf of the Board of Directors on September 14, 2020**

"**Robert McMorran**" Director        "**Kean Li Wong**" Director



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

## HELLO PAL INTERNATIONAL INC.
### CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the years ended February 29, 2020 and February 28, 2019
(Expressed in Canadian Dollars)

| | Note | 2020<br>$ | 2019<br>$ |
|---|---|---|---|
| **COMMISSION REVENUE** | | 1,028,005 | - |
| **DIRECT COSTS** | | 1,119,689 | - |
| **GROSS LOSS** | | (91,684) | - |
| **ADMINISTRATIVE EXPENSES** | | | |
| Accounting and audit | **15** | 115,878 | 81,830 |
| Accretion | **12** | 17,678 | 10,327 |
| Bitcoin revaluation loss (gain) | **8** | 13,306 | (8,883) |
| Depreciation and amortization | **6, 7** | 1,797,125 | 1,298,778 |
| Foreign exchange loss (gain) | | (10,077) | 6,383 |
| Impairment of intangible assets | **14** | 206,361 | - |
| Interest expense | **8, 9, 12** | 158,390 | 113,608 |
| Management and consulting fees | **15** | 139,253 | 99,474 |
| Marketing | | 56,939 | 204,206 |
| Legal | | 25,928 | 46,373 |
| Office and miscellaneous | | 255,461 | 223,633 |
| Transfer agent and filing fees | | 22,035 | 28,996 |
| Rent | | 22,643 | 54,322 |
| Salaries and benefits | | 319,000 | 409,042 |
| Share-based payments | **13,14** | 457,500 | 161,548 |
| Shareholder communications | | 1,480 | 1,669 |
| Software application costs | | 6,990 | 25,178 |
| Total Expenses | | (3,605,890) | (2,756,484) |
| **Loss before tax recovery** | | (3,697,574) | (2,756,484) |
| Deferred tax recovery | **20** | - | 35,326 |
| **NET LOSS FOR THE YEAR** | | (3,697,574) | (2,721,158) |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Exchange differences on translation of foreign operations | | 11,977 | 5,599 |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | | (3,685,597) | (2,715,559) |
| **NET LOSS PER SHARE – BASIC AND DILUTED** | | (0.05) | (0.04) |
| **WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING** | | 72,985,091 | 72,763,900 |



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

# HELLO PAL INTERNATIONAL INC.
## CONSOLIDATED STATEMENTS OF CHANGES IN (DEFICIENCY) EQUITY
(Expressed in Canadian dollars, except for share figures)

| | Number of Shares # | Share Capital $ | Shares to be issued $ | 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 12) | - | - | - | | 100,971 | - | - | 100,971 |
| Issuance of common shares pursuant to conversion of convertible notes (Note 12) | 434,782 | 50,000 | - | - | (5,458) | - | - | 44,542 |
| Issuance of common shares pursuant to exercise of warrants (Note 13) | 120,000 | 24,000 | - | - | - | - | - | 24,000 |
| Share-based payments (Notes 13 and 14) | - | - | - | 357,012 | - | - | - | 357,012 |
| Net and comprehensive loss for the year | - | - | - | - | - | 5,599 | (2,721,158) | (2,715,559) |
| 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 (Note 14) | - | - | - | 592,261 | - | - | - | 592,261 |
| Contingent share consideration (Note 14) | - | - | 2,078,700 | - | - | - | | 2,078,700 |
| Net and comprehensive loss for the year | - | - | - | - | - | 11,977 | (3,697,574) | (3,685,597) |
| Balance, February 29, 2020 | 72,985,091 | 9,407,317 | 2,078,700 | 2,580,192 | 95,513 | 10,842 | (15,058,858) | (886,294) |



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

# HELLO PAL INTERNATIONAL INC.
## CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended February 29, 2020 and February 28, 2019
(Expressed in Canadian Dollars)

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Operating activities: | | |
| Net loss for the year | (3,697,574) | (2,721,158) |
| Items not involving cash: | | |
| Income tax recovery | - | (35,326) |
| Depreciation and amortization | 1,797,125 | 1,298,778 |
| Bitcoin revaluation loss | 13,306 | (8,883) |
| Accretion | 17,678 | 10,327 |
| Accrued interest | 148,930 | 110,704 |
| Impairment of intangible assets | 206,361 | - |
| Share-based payments | 457,500 | 161,548 |
| | (1,056,674) | (1,184,010) |
| Changes in non-cash working capital related to operations: | | |
| Receivables | (41,561) | (913) |
| Prepaid expenses | 11,783 | (18,777) |
| Accounts payable and accrued liabilities | 163,504 | 153,289 |
| Due to related parties | - | 25,298 |
| Net cash used in operating activities | (922,948) | (1,025,113) |
| Investing activities: | | |
| Purchase of equipment | (32,757) | (8,877) |
| Acquisition and development costs of software application | (218,186) | (271,466) |
| Net cash used in investing activities | (250,943) | (280,343) |
| Financing activities: | | |
| Financing received from related parties | 665,291 | 278,498 |
| Proceeds from loan payable | 140,000 | 50,000 |
| Proceeds from convertible notes | - | 550,000 |
| Proceeds from exercise of warrants | - | 24,000 |
| Contingent share consideration | 374,800 | 393,600 |
| Net cash provided by financing activities | 1,180,091 | 1,296,098 |
| Increase (decrease) in cash during the year | 6,200 | (9,358) |
| Effect of exchange rate changes on cash | 5,917 | (3,375) |
| Cash – beginning of the year | 71,102 | 83,835 |
| Cash – end of the year | 83,219 | 71,102 |
| Income taxes paid in cash | - | - |
| Interest paid in cash | - | - |

Non-Cash Transactions (Note 16)

## 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 7), which is a proprietary and open social exchange language and learning mobile application and also includes the Live Streaming Service. 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 200 - 550 Denman Street , Vancouver, BC, Canada.

These 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 February 29, 2020, the Company had a working capital deficiency of $1,891,002 and an accumulated deficit of $15,058,858 and had not yet achieved profitable operations. In March 2020, there was a global pandemic outbreak of COVID-19. The actual and threatened spread of the virus globally has had a material adverse effect on the global economy and specifically, the regional economies in which the Company operates. The pandemic could result in delays in the course of business and continue to have a negative impact on the stock market, including trading prices of the Company's shares and its ability to raise new capital. 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 generate positive cash flows from operations, 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. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption inappropriate. These adjustments could be material.

## 2. BASIS OF PRESENTATION

These consolidated financial statements have been presented in accordance with International Financial Reporting Standards ("IFRS") and related IFRS Interpretations Committee ("IFRIC's") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements have been prepared on a going concern basis, under the historical cost convention.

These consolidated financial statements were approved by the board of directors for issue on September 14, 2020.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

### a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and 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 ("HZHP River"), incorporated on April 25, 2017 in China. In addition, the Company consolidates the accounts and operations of Hangzhou Hello Pal Technology Limited ("HZHYB") and Chongqing Hello Pal Technology Limited ("CQHP"), two private companies incorporated in China. Although the Company does not have direct ownership in HZHYB and CQHP, the Company has the right to obtain the majority of the benefits and is exposed to the risks of the activities of these two entities and therefore has the effective control over these two entities.

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. These entities 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.

The Company's subsidiary, HZHP River, has entered into certain contractual arrangements with CQHP and its shareholders. These contractual arrangements allow the Company to effectively govern and administer the business operations and affairs of CQHP, including entitlements to the economic benefits. As a result of these contractual arrangements, the Company is considered the primary beneficiary of CQHP and therefore consolidates 100% of CQHP's operations in its consolidated financial statements.

The contractual arrangements entered into with CQHP include a Management Entrustment Agreement, Exclusive Business Cooperation Agreement, Exclusive Purchase Agreement and Equity Pledge Agreement. Pursuant to these agreements, CQHP entrusts HZHP River to manage all operations and control all of CQHP's assets and has appointed HZHP River as its exclusive service provider for all forms of business support, technical services and consultancy services. In addition, during the term of the 20-year agreements, which are extendable at the sole discretion of HZHP River, HZHP River will own rights and interests over all intellectual property and assume the total revenue rights and all operational risks and losses of CQHP. In addition, HZHP River has an unretractable option to purchase all equity of CQHP for a nominal purchase price, and the shareholders of CQHP have pledged 100% of their equity interest in CQHP as collateral to indemnify against any debts or liabilities that may be accrued by CQHP.

**b) Foreign currencies**

The functional currency is the currency of the primary economic environment in which the entity operates. The functional and presentation currency of the Company is the Canadian dollar, while the functional currency of Hello Pal Asia Limited is the Hong Kong dollar ("HKD") and the functional currency of HZHP River, HZHYB and CQHP is the Chinese Renminbi ("RMB") as they are the currencies of the primary economic environments in which the companies operate.

Entities whose functional currencies differ from the presentation currency are translated into Canadian dollars as follows: assets and liabilities – at the closing rate as at the reporting date, and income and expenses – at the average rate of the period. All resulting changes are recognized in other comprehensive loss as cumulative translation differences.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. All gains and losses on translation of these foreign currency transactions are charged to profit or loss.
When the Company disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive loss related to the foreign operation are recognized in profit or loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive loss related to the subsidiary are reallocated between controlling and non-controlling interests.

**c) Financial instruments**

***Recognition and Classification***

The Company recognized a financial asset or financial liability on the statement of financial position when it becomes party to the contractual provisions of the financial instrument.

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics.

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

***Measurement***

**Financial assets and liabilities at FVTPL**
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit or loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (loss).

**Financial assets at FVTOCI**
Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

**Financial assets and liabilities at amortized cost**
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

**Impairment of financial assets at amortized cost**
The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

***Derecognition***

**Financial assets**
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in profit or loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

**Financial liabilities**

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets, is recognized in profit or loss.

**d) Equipment**

Equipment includes furniture, equipment and leasehold improvement, which is carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures directly attributable to bringing the asset to its operating location and condition necessary for it to be capable of operating in the intended manner.

Repairs and maintenance costs are charged to expense as incurred, except when these repairs significantly extend the life or result in an operating improvement. In these instances, the portion of these repairs relating to the betterment is capitalized as part of equipment.

Depreciation is based on the cost of the assets less estimated residual value and the expected useful life. Where an item of equipment is comprised of major components with different useful lives, the components are accounted for as separate items and depreciated separately. Depreciation commences when an asset is available for use and is recorded until an asset is disposed of or otherwise removed from services. Depreciation is recorded on a declining-balance basis at the annual rate of 30% for equipment, furniture and leasehold improvement. Estimates of remaining useful lives and residual values are reviewed annually. Changes in estimates are accounted for prospectively.

**e) Software application**

Software application comprises software acquired and internally developed software.

Software application assets acquired separately are measured on initial recognition at cost. Following initial recognition, software application assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful lives of software application assets are assessed as finite.

Software application development costs are recognized as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Development costs capitalized are those associated with the Hello Pal, Travel Pal, Language Pal and Live Streaming Service applications. Costs associated with major enhancements providing new capability to the applications are also capitalized provided they can be reliably measured. Development costs incurred during the research phase of an internal project are expensed in the period in which they are incurred.

Costs associated with maintaining these intangible assets such as minor updates and repairs are expensed as incurred.

Amortization of software application assets begins when development is complete and the assets are available for use. Amortization is recorded on a straight-line basis over its estimated finite useful life of four to five years. Software application costs are amortized over the period of expected future benefit. During the period of development, the capitalized development costs are tested for impairment annually. The useful life or amortization method for software application costs is reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on software application assets is recognized in the statement of profit or loss in the expense category that is consistent with the function of the software application assets. As at February 29, 2020, the estimated remaining useful life of the software application is two to three years.

Software application assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on disposal of the assets, determined as the difference between the net disposal proceeds and the carrying amount of the assets, is recognized in profit or loss.

**f) Impairment of non-financial assets**

The Company performs impairment tests on its non-financial assets when events or circumstances occur which indicate the assets may not be recoverable. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount, and an impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

The recoverable amount is the higher of the fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units, or “CGU”s). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market estimates of the time value of money and the risks specific to the asset. Fair value less cost to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

**g) Share capital**

Common shares and warrants are classified as equity instruments. Transaction costs directly attributable to the issuance of common shares and warrants are recognized as a deduction from equity.

Warrants included in units offered to subscribers as part of corporate financings are bifurcated at fair value in contributed surplus in shareholders' equity with an offsetting reduction in the value ascribed to the shares issued in the units.

Warrants issued to agents or brokers on a non-cash basis in connection with corporate financings are recorded at fair value using the Black-Scholes option pricing model and charged against share capital as issue costs with an offsetting increase to contributed surplus.

**h) Loss per share**

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury method. The treasury method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. Diluted loss per share is equal to the basic loss per share as the outstanding options and warrants are anti-dilutive.

**i) Revenue recognition**

The Company generates revenue from sales of virtual items in the live streaming platform. Users can access the platform and view the live streaming content and interact with the broadcasters for free. The Company designs, creates and offers various virtual items for sale to users at a pre-determined selling price. Each virtual item is considered as a distinctive performance obligation. Users can purchase and present virtual items to hosts. Users' top-up cash before consumption of virtual items are recorded as deferred revenue. Under the arrangements with the hosts or host agencies, the Company shares with them a portion of the revenues derived from the consumption of virtual items. Revenues derived from the sale of virtual items are recorded on a gross basis as the Company has determined that it acts as the principal to fulfill all obligations related to the live streaming services. The portion paid to hosts and/or host agencies is recognized as cost of sales. The Company does not have further obligations to the user after the virtual items are consumed.

As at February 29, 2020, the Company does not have a significant amount of deferred revenue.

### j) Share-based payments

The fair value at grant date of each separate award of stock options, based on the number of awards expected to vest, is recorded as a charge to operations and a credit to contributed surplus over the vesting period of the options. Any consideration received on the exercise of stock options together with the related portion of contributed surplus is credited to share capital. The fair value of stock options is estimated using the Black-Scholes option pricing model.

### k) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. All operating segments' results are reviewed by the Company's management in order to make decisions regarding the allocation of resources to the segment. Segment results include items directly attributable to a segment as those that can be allocated on a reasonable basis.

### l) Income tax

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous periods.

Deferred tax is estimated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Company does not provide for temporary differences relating to differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax estimated is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position reporting date applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

## 4. ACCOUNTING CHANGES AND RECENT PRONOUNCEMENTS

### a) New and amended standards adopted by the Company

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.

**b) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended February 29, 2020, and have not been applied in preparing these consolidated financial statements. None of these pronouncements are expected to have material impact on the Company's consolidated financial statements.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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.

**a) 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 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 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.

**b) 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 14) 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, 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.

(Expressed in Canadian Dollars)

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.

## 6. 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 | 15,476 | - | - | 15,476 |
| Foreign exchange | (405) | - | - | (405) |
| **Balance, February 29, 2020** | **36,454** | **18,271** | **6,088** | **60,813** |
| **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 | (7,909) | (16,866) | (1,012) | (25,787) |
| Foreign exchange | (38) | - | - | (38) |
| **Balance, February 29, 2020** | **(14,340)** | **(16,866)** | **(3,727)** | **(34,933)** |
| Net Book Value at February 28, 2019 | 14,990 | - | 3,373 | 18,363 |
| **Net Book Value at February 29, 2020** | **22,114** | **1,405** | **2,361** | **25,880** |

(Expressed in Canadian Dollars)

## 7. SOFTWARE APPLICATION

As at February 29, 2020 and February 28, 2019, software application comprises Travel Pal, Language Pal, Hello Pal apps and Live Streaming Service applications as follows:

| | 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 | 1,670,043 | - | 1,670,043 |
| Impairment | - | (380,979) | (380,979) |
| Foreign exchange | 12,110 | 7,679 | 19,789 |
| **Balance, February 29, 2020** | **6,828,154** | **-** | **6,828,154** |
| **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 | 1,692,219 | 79,244 | 1,771,463 |
| Impairment | | (174,618) | (174,618) |
| Foreign exchange | 9,751 | 2,783 | 12,534 |
| **Balance, February 29, 2020** | **5,077,160** | **-** | **5,077,160** |
| **Carrying amount** | | | |
| As at February 28, 2019 | 1,770,811 | 280,709 | 2,051,520 |
| **As at February 29, 2020** | **1,750,994** | **-** | **1,750,994** |

During the year ended February 29, 2020, the Company incurred costs of $6,990 (2019 - $25,178) that were charged to the statement of loss and comprehensive loss as they did not meet the criteria for capitalization.

During the year ended February 29, 2020, management decided that the Travel Pal and Language Pal apps HPI Platform were no longer of use to the Company and accordingly, wrote-down the capitalized costs to $nil, recognizing an impairment charge of $206,361 for the year ended February 29, 2020.

## 8. 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. During the year ended February 29, 2020, the Company received an additional $44,291 from the Interim CEO of the Company. The balance outstanding as at February 29, 2020 was $36,613 (2019 – ($7,678)).

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 lender became a director of the Company on September 1, 2019, so the loan has been reclassified from loan payable to due to related parties as at February 29, 2020. The principal balance outstanding plus accrued interest of $3,953 outstanding as at February 29, 2020 is $53,953 (2019 – $50,945).

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 February 29, 2020 is $1,000 (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 year ended February 29, 2020, the Company received additional advances of $548,696 from the same shareholder, which are non-interest bearing, unsecured and due on demand. The balance outstanding of $777,091 plus accrued interest of $10,302 as at February 29, 2020 is $787,393 (2019 – $228,572). In addition, the Company issued a promissory note during the year ended February 28, 2018 for proceeds received of $100,000 from the same shareholder (see Note 9).

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 February 29, 2020 is $50,000 (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 February 29, 2020 is $23,205 (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.

(Expressed in Canadian Dollars)

During the year ended February 29, 2020, the Company received additional non-interest bearing loans of $72,304 from two directors of the Company. The loans are due on demand, unsecured and have no maturity date. The balance outstanding as at February 29, 2020 is $73,278 (2019 – $nil).

## 9. 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 was unsecured, bore an interest rate of 4% per annum calculated on the principal balance and on overdue interest, and was payable on the maturity date. The promissory note was overdue as at February 29, 2020, but the lender has made no demands for immediate re-payment of the outstanding balance.

During the year ended February 29, 2020, the Company recorded interest expense of $4,010 (2019 – $3,999).

The principal and interest outstanding at February 29, 2020 is $110,748 (2019 – $106,738).

## 10. LEASE OBLIGATION

The Company entered into an office lease in April 2018. With the adoption of IFRS 16, *Leases* (see Note 4), the Company recognized a lease obligation with regard to the lease. The terms and the outstanding balances as at February 29, 2020 and February 28, 2019 are as follows:

| | **February 29, 2020 $** | **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. | 1,499 | - |

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

| | **February 29, 2020 $** |
|---|---|
| 2021 | 1,510 |
| Total minimum lease payments | 1,510 |
| Less: imputed interest | (11) |
| Total present value of minimum lease payments | 1,499 |

## 11. LOAN PAYABLE

During the year ended February 29, 2020, the Company received $140,000 of a non-interest bearing loan. The loan is due on demand, unsecured and has no maturity date. The balance outstanding as at February 29, 2020 is $140,000 (2019 – $nil). This amount was settled for shares at a price of $0.06 per share subsequent to the year ended February 29, 2020 (Note 21).

## 12. 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 (Note 12).

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.

(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 | 17,678 | - |
| Balance, February 29, 2020 | 772,166 | 95,513 |

During the year ended February 29, 2020, the Company recorded accretion expense of $17,678 (2019 – $10,327) and accrued interest of $131,610 (2019 – $105,760). The accrued interest is recorded in the accounts payable and accrued liabilities. Subsequent to the year ended February 29, 2020, the Company settled convertible notes with principal amounts totalling $677,000 and the related accrued interest for the common shares of the Company at a price of $0.06 per share (Note 22).

## 13. 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 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.

(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 February 29, 2020 | 7,240,000 | 0.16 | 1.44 |

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 February 29, 2020, 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 | 8,365,113 | 0.20 | 0.36 |
| Expired | (7,930,331) | 0.20 | - |
| Outstanding, February 29, 2020 | 434,782 | 0.12 | 3.38 |

(Expressed in Canadian Dollars)

As at February 29, 2020, the Company had the following warrants outstanding:

| Number of warrants | Exercise price | Expiry date |
|---|---|---|
| 434,782 | $0.115 | July 17, 2023 |
| 434,782 | | |

## 14. 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 $200,000) by May 31, 2019 – This milestone has been achieved as at February 29, 2020, and the Company estimates 13,858,000 shares to be issued pursuant to this milestone.

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 $5,000,000) by December 31, 2019 – This milestone has been achieved subsequent to the year ended February 29, 2020, and the Company estimates 7,002,000 shares to be issued pursuant to this milestone.

3. 13,500,000 shares upon the Company achieving monthly revenue of RMB 10,000,000 (approximately $2,000,000), accumulated revenue of RMB 70,000,000 (approximately $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 $4,000,000), accumulated revenue of RMB 180,000,000 (approximately $28,000,000) over preceding 12 months and net profit of RMB 10,000,000 (approximately $2,000,000) by December 31, 2021.

The above is collectively referred to as the “Vortex Transaction”.

(Expressed in Canadian Dollars)

The cash received of RMB 4,000,000 ($768,400) pursuant to the Vortex Transaction was initially treated as contingent shares consideration liability and is extinguished when the associated milestones are achieved. The remainder of the shares contingently issuable upon achievement of the above milestones have been treated as share-based compensation for the services provided by Vortex. The Company has assessed the likelihood of receiving the remaining $400,000 (RMB 2,000,000) to be $nil as at February 29, 2020. During the year ended February 29, 2020, the Company has reassessed the likelihood of meeting milestones #2, #3 and #4 to be 75%, 10% and 0% respectively. The change in estimation of milestone shares to be issued is considered as change in accounting estimate, and the resulting change in the fair value of the Vortex Transaction is adjusted to the related carrying amounts of the assets, liabilities or equity in the period of change. During the year ended February 29, 2020, the Company has recognized $1,445,061 as additions to the software application (Note 7) and $457,500 as share-based compensation in profit and loss, with the corresponding entry to extinguish contingent shares consideration of $768,400, and increasing share capital of $2,078,700 as shares to be issued and contributed surplus of $592,261.

## 15. RELATED PARTY TRANSACTIONS

Related party transactions have been measured at the exchange amount of consideration agreed between the related parties. Related party transactions not disclosed elsewhere in these consolidated financial statements are listed below.

The Company incurred charges to directors and officers, or to companies associated with these individuals during the years ended February 29, 2020 and February 28, 2019 as follows:

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Accounting and corporate secretarial fees | 32,567 | 30,777 |
| Management fees | 85,167 | 99,351 |
| Share-based payment | - | 48,080 |
| | 117,734 | 178,208 |

Accounts payable and accrued liabilities at February 29, 2020 includes $112,880 (2019 – $128,204) due to the Interim CEO of the Company, a director and CFO of the Company, and a company that until July 31, 2018 was controlled by a director and in which the former CFO was an associate until July 31, 2018 and an owner thereafter.

Key management of the Company includes the President, Interim CEO, the current and former CFO and the Directors. During the year ended February 29, 2020, compensation paid to key management consisted of management fees of $85,167 (2019 – $99,351) paid to the Interim CEO and CFO, accounting fees of $32,567 (2019 – $30,777) paid to a company that until July 31, 2018 was controlled by a director and in which the former CFO was an associate until July 31, 2018 and an owner thereafter, and share-based payments of $nil (2019 – $48,080) to directors and officers.

Other amounts due to related parties are disclosed in Notes 8, 9 and 12.

## 16. 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 year ended February 29, 2020, the following transactions were excluded from the consolidated statement of cash flows:

- $1,445,061 of application development costs included in contributed surplus at February 29, 2020 (Note 14); and
- $33,663 of application development costs included in accounts payable and accrued liabilities at February 29, 2020.

During the year ended February 28, 2019, the following transactions were excluded from the consolidated statement of cash flows:

- $195,465 of application development costs included in contributed surplus at February 28, 2019; and
- Conversion of convertible notes to units of the Company, valued at $50,000.

## 17. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of shareholders' equity as well as cash.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash. The Company is dependent on the capital markets as its primary source of operating capital and the Company's capital resources are largely determined by its ability to carry out its development plans and operations throughout its current operating period.

The Company is not subject to any capital requirements imposed by a regulator, other than continued listing requirements of the CSE.

(Expressed in Canadian Dollars)

## 18. FINANCIAL INSTRUMENTS

### a) Categories of financial instruments

| | February 29, 2020 $ | February 28, 2019 $ |
|---|---|---|
| **Financial assets – amortized cost** | | |
| Cash | 83,219 | 71,102 |
| Receivables | 42,504 | - |
| | 125,723 | 71,102 |
| **Financial liabilities - FVTPL** | | |
| Bitcoin payable (included in due to related parties (note 8)) | 23,205 | 10,070 |
| **Financial liabilities – amortized cost** | | |
| Accounts payable and accrued liabilities | 758,043 | 456,132 |
| Due to related parties (excluding bitcoin payable, see above) | 1,002,237 | 271,894 |
| Promissory notes | 110,748 | 106,738 |
| Lease obligation | 1,499 | - |
| Loan payable | 140,000 | 50,945 |
| Convertible notes | 772,166 | 754,488 |
| | 2,784,693 | 1,650,267 |

### b) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value, by reference to the reliability of the inputs used to estimate the fair values.

- Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities. The Company’s cash is carried at fair value using Level 1 inputs.

- Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

- Level 3 – Applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

As at February 29, 2020, the Company believes that the carrying values of cash, receivables, accounts payable and accrued liabilities, due to related parties (excluding bitcoin payable) and loan payable approximate their fair values because of their nature and relatively short maturity dates or durations. The convertible notes are measured at fair value with reference to level 3 within the fair value hierarchy at initial recognition and subsequently measured at amortized costs using the effective interest method. The bitcoin payable is measured at fair value with reference to level 1 within the fair value hierarchy.

**c) Management of risks arising from financial instruments**

Discussions of risks associated with financial assets and liabilities are detailed below:

*Credit risk*

Credit risk arises from cash held with banks and financial institutions. The maximum exposure to credit risk is equal to the carrying value of the financial assets as disclosed in the consolidated statements of financial position. The Company's cash is held with reputable banks in Canada, Hong Kong and China. The credit risk related to cash is considered minimal.

*Interest rate risk*

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize such a loss is limited because the promissory note has a fixed interest rate.

*Liquidity risk*

The Company manages liquidity risk by maintaining sufficient cash to enable settlement of transactions as they come due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. Management monitors the Company's contractual obligations and other expenses to ensure adequate liquidity is maintained. As at February 29, 2020, the Company has a cash balance of $83,219 (2019 - $71,102) to settle its current liabilities of $2,035,732 (2019 - $844,834).

*Foreign exchange rate risk*

The functional currency of the Company is the Canadian dollar, while the functional currency of HP Asia is HKD and the functional currency of its three controlled PRC entities is RMB. The Company is exposed to foreign exchange risk when the Company undertakes transactions and holds assets and liabilities in currencies other than its functional currencies. During the years ended February 29, 2020 and February 28, 2019, the Company was not exposed to significant foreign exchange risk.

(Expressed in Canadian Dollars)

## 19. 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:

| | February 29, 2020 $ | February 28, 2019 $ |
|---|---|---|
| Canada | 1,499,631 | 1,445,918 |
| Asia | 421,973 | 726,800 |
| Total assets | 1,921,604 | 2,172,718 |

Geographic segmentation of the Company's revenue during the years ended February 29, 2020 and February 28, 2019 is as follows:

| | 2020 $ | 2019 $ |
|---|---|---|
| Canada | - | - |
| Asia | 1,028,005 | - |
| Revenue | 1,028,005 | - |

Geographic segmentation of the Company's net loss during the years ended February 29, 2020 and February 28, 2019 is as follows:

| | 2020 $ | 2019 $ |
|---|---|---|
| Canada | 2,192,933 | 1,508,311 |
| Asia | 1,504,641 | 1,212,847 |
| Net loss | 3,697,574 | 2,721,158 |

## 20. INCOME TAXES

A reconciliation of the Company's income tax provision computed at statutory tax rates to the reported income tax provision for the years ended February 29, 2020 and February 28, 2019 as follows:

(Expressed in Canadian Dollars)

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Net loss before tax | (3,697,574) | (2,756,484) |
| Statutory tax rate | 27.00% | 27.00% |
| Expected tax recovery | (998,345) | (744,251) |
| Non-deductible amounts | 33 | 112,386 |
| Difference in tax rates and foreign exchange | 89,129 | 98,647 |
| Change in estimates | 168,408 | (168,457) |
| Change in deferred tax assets not recognized | 740,775 | 666,349 |
| Deferred tax (recovery) expense | - | (35,326) |

Deferred tax assets (liabilities) at February 29, 2020 and February 28, 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Canada | | |
| Convertible loan | (27,779) | (32,538) |
| Non-capital loss | 27,779 | 32,538 |
| | - | - |

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Hong Kong | | |
| Software application | (88,117) | (114,517) |
| Non-capital loss | 88,117 | 114,517 |
| | - | - |

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| China | | |
| Gain on bitcoin revaluation | (2,176) | (2,229) |
| Non-capital loss | 2,176 | 2,229 |
| | - | - |

Unrecognized deductible temporary differences at February 29, 2020 and February 28, 2019 are as follows:

(Expressed in Canadian Dollars)

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Canada | | |
| Non-capital loss carried forward | 3,943,334 | 3,243,808 |
| Resource allowances | 2,811,069 | 2,811,069 |
| Software application and equipment | 3,024,557 | 2,140,435 |
| Share issuance cost and other | 15,371 | 29,819 |
| | 9,794,331 | 8,225,131 |
| Hong Kong | | |
| Non-capital loss carry forward | 2,833,361 | 2,047,110 |
| China | | |
| Non-capital loss carry forward | 1,366,322 | 623,569 |

As at February 29, 2020, the Company has not recognized a deferred tax asset in respect of non-capital loss carryforwards for Canadian tax purposes of approximately $3,943,334 (2019 - $3,243,808) which may be carried forward to apply against future income for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in various amounts from 2026 to 2040.

As at February 29, 2020, the Company has not recognized a deferred tax asset in respect of non-capital loss carryforwards for Hong Kong tax purposes of approximately $2,833,361 (2019 - $2,047,110) which may be carried forward to apply against future income for Hong Kong tax purposes, subject to the final determination by taxation authorities. These non-capital losses can be carried forward indefinitely.

As at February 29, 2020, the Company has not recognized a deferred tax asset in respect of non-capital loss carryforwards for China tax purposes of approximately $1,366,322 (2019 - $623,569) which may be carried forward to apply against future income for China tax purposes, subject to the final determination by taxation authorities. These non-capital losses can be carried forward for 4 - 5 years.

## 21. SUBSEQUENT EVENTS

On June 25, 2020, the Company announced the closing of the first tranche of a private placement and debt settlement by issuing a total of 35,000,000 common shares at a price of $0.06 per share for total proceeds of $2,100,000 consisting of 3,026,433 shares issued for cash of 181,586, and 31,973,566 shares issued for debt of 1,918,414.

On July 20, 2020, the Company closed the second and final tranche of a private placement and debt settlement by issuing a total of 6,666,666 common shares at a price of $0.06 per share for total proceeds of $400,000.