# SEAWAY ENERGY SERVICES INC.

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2017 AND 2016

*(Expressed in Canadian Dollars)*

JACKSON & COMPANY
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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Seaway Energy Services Inc.

We have audited the accompanying financial statements of Seaway Energy Services Inc. which comprise of the statements of financial position as at September 30, 2017 and 2016 and the statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**
In our opinion, the financial statements present fairly, in all material respects, the financial position of Seaway Energy Services Inc. as at September 30, 2017 and 2016, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Emphasis of Matter**
Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Seaway Energy Services Inc. to continue as a going concern.

*Jackson & Company*
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, British Columbia
January 29, 2018

## SEAWAY ENERGY SERVICES INC.
### STATEMENTS OF FINANCIAL POSITION
*(Expressed in Canadian Dollars)*

| | Notes | September 30, 2017 $ | September 30, 2016 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | | 63,618 | 16,645 |
| GST receivable | | 27,321 | 20,619 |
| Prepaid expense | | 1,300 | - |
| **TOTAL ASSETS** | | 92,239 | 37,264 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 5 | 62,710 | 11,530 |
| **TOTAL LIABILITIES** | | 62,710 | 11,530 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 4 | 3,418,306 | 3,262,806 |
| Share-based payments reserve | 4 | 665,579 | 525,046 |
| Deficit | | (4,054,356) | (3,762,118) |
| **TOTAL SHAREHOLDERS' EQUITY** | | 29,529 | 25,734 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | 92,239 | 37,264 |

**Nature of Operations** - see Note 1

**Events after the Reporting Period** - see Note 8

These annual financial statements were approved for issue by the Board of Directors on January 29, 2018 and are signed on its behalf by:

| | |
|---|---|
| /s/ ***David Sidoo*** | /s/ ***Nick DeMare*** |
| David Sidoo | Nick DeMare |
| Director | Director |

*The accompanying notes are an integral part of these annual financial statements.*

## SEAWAY ENERGY SERVICES INC.
### STATEMENTS OF COMPREHENSIVE LOSS
*(Expressed in Canadian Dollars)*

| | Note | Year Ended September 30, 2017 $ | 2016 $ |
|---|---|---|---|
| **Expenses** | | | |
| Accounting and administrative | 5 | 19,700 | 21,878 |
| Audit | | - | 18,704 |
| Executive management compensation | 5 | 89,000 | 20,650 |
| Legal | | 1,986 | 11,300 |
| Office | | 660 | 1,457 |
| Professional fees | | 15,328 | 145,509 |
| Regulatory fees | | 6,479 | 17,049 |
| Rent | | - | 904 |
| Share-based compensation | 4(d) | 140,533 | - |
| Shareholder costs | | 2,062 | - |
| Transfer agent | | 9,088 | 9,834 |
| Travel and related | | 7,907 | - |
| | | 292,743 | 247,285 |
| **Loss before other items** | | (292,743) | (247,285) |
| **Other items** | | | |
| Interest income | | 505 | - |
| Forgiveness of debt | | - | 37,838 |
| | | 505 | 37,838 |
| **Comprehensive loss for the year** | | (292,238) | (209,447) |
| **Loss per share - basic and diluted** | | $(0.03) | $(0.04) |
| **Weighted average number of common shares outstanding - basic and diluted** | | 9,972,090 | 4,786,870 |

*The accompanying notes are an integral part of these annual financial statements.*

# SEAWAY ENERGY SERVICES INC.
## STATEMENTS OF CHANGES IN EQUITY
*(Expressed in Canadian Dollars)*

| | Year Ended September 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Share Capital | | | | |
| | Number of Shares | Amount $ | Share-Based Payments Reserve $ | Deficit $ | Total Equity $ |
| **Balance at September 30, 2016** | 8,977,583 | 3,262,806 | 525,046 | (3,762,118) | 25,734 |
| Common shares issued for cash: | | | | | |
| - exercise of warrants | 1,555,000 | 155,500 | - | - | 155,500 |
| Share-based compensation | - | - | 140,533 | - | 140,533 |
| Comprehensive loss for the year | - | - | - | (292,238) | (292,238) |
| **Balance at September 30, 2017** | 10,532,583 | 3,418,306 | 665,579 | (4,054,356) | 29,529 |

| | Year Ended September 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Share Capital | | | | |
| | Number of Shares | Amount $ | Share-Based Payments Reserve $ | Deficit $ | Total (Deficit) Equity $ |
| **Balance at September 30, 2015** | 1,367,583 | 2,885,306 | 525,046 | (3,552,671) | (142,319) |
| Common shares issued for cash: | | | | | |
| - private placement | 7,610,000 | 380,500 | - | - | 380,500 |
| Share issue costs | - | (3,000) | - | - | (3,000) |
| Comprehensive loss for the year | - | - | - | (209,447) | (209,447) |
| **Balance at September 30, 2016** | 8,977,583 | 3,262,806 | 525,046 | (3,762,118) | 25,734 |

*The accompanying notes are an integral part of these annual financial statements.*

## SEAWAY ENERGY SERVICES INC.
### STATEMENTS OF CASH FLOWS
*(Expressed in Canadian Dollars)*

| | Year Ended September 30, 2017 $ | 2016 $ |
|---|---|---|
| **Operating activities** | | |
| Comprehensive loss for the year | (292,238) | (209,447) |
| Adjustment for: | | |
| Share-based compensation | 140,533 | - |
| Forgiveness of debt | - | (37,838) |
| Changes in non-cash working capital items: | | |
| GST receivable | (6,702) | (8,880) |
| Prepaid expense | (1,300) | - |
| Accounts payable and accrued liabilities | 51,180 | (104,718) |
| **Net cash used in operating activities** | (108,527) | (360,883) |
| **Financing activities** | | |
| Issuance of common shares | 155,500 | 380,500 |
| Share issue costs | - | (3,000) |
| Promissory note | - | 15,000 |
| Repayment of promissory note | - | (15,000) |
| **Net cash provided by financing activities** | 155,500 | 377,500 |
| **Net change in cash during the year** | 46,973 | 16,617 |
| **Cash at beginning of year** | 16,645 | 28 |
| **Cash at end of year** | 63,618 | 16,645 |

*The accompanying notes are an integral part of these annual financial statements.*

## 1. Nature of Operations

Seaway Energy Services Inc. (the "Company") was incorporated under the Business Corporations Act (Alberta) on September 4, 1998 and continued into British Columbia on August 15, 2014. The Company is listed and traded on the TSX Venture Exchange ("TSXV") under the symbol "SEW". The Company's head office is located at #1305 - 1090 West Georgia Street, Vancouver, British Columbia V6E 3V7 Canada.

During fiscal 2017 the Company incurred a net loss of $292,238 and, as at September 30, 2017, had working capital of $29,529 and an accumulated deficit of $4,054,356. Subsequent to September 30, 2017 the Company completed a financing of $3,000,000, as described in Note 8. The Company currently does not have any active operations and management has been actively seeking new business opportunities. Although management considers that the Company has adequate resources to maintain its ongoing levels of operations and conduct due diligence identifying and evaluating potential business acquisitions for the next twelve months, the Company realizes that any business acquisition may require additional financing. While the Company has been successful in securing financings in the past there can be no assurance that it will be able to do so in the future.

On December 13, 2017 the Company completed a financing to raise $3,000,000. On January 22, 2018 the Company entered into a letter of intent to acquire a business. See also Note 8.

## 2. Basis of Preparation

***Statement of Compliance***

These financial statements have been prepared 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").

***Basis of Measurement***

The Company's financial statements have been prepared on the historical cost basis, which is based on the fair value of the consideration at the time of the transaction, except for certain financial instruments which are accounted for at fair value. These financial statements are presented in Canadian dollars unless otherwise stated.

***Comparative Figures***

Certain of the prior year's comparative figures have been reclassified to conform with the current year's presentation.

## 3. Significant Accounting Policies

***Critical Judgments and Sources of Estimation Uncertainty***

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Critical Judgments*

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

**3. Summary of Significant Accounting Policies** (continued)

(i) The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.

(ii) The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's estimate of future profits or losses adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the jurisdictions in which the Company operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized to the extent of the amount expected to be utilized. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances. Details of these can be found in Note 6.

*Estimation Uncertainty*

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

(i) Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

***Cash and Cash Equivalents***

Cash includes cash on hand and demand deposits. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Company is not exposed to significant credit or interest rate risk although cash is held in excess of federally insured limits with a major financial institution. As at September 30, 2017 and 2016 the Company did not have any cash equivalents.

***Accounts Payable and Accrued Liabilities***

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are classified as other financial liabilities initially at fair value and subsequently measured at amortized cost using the effective interest method.

***Financial Instruments***

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale ("AFS"), loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through comprehensive income (loss). Cash is classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. As at September 30, 2017 the Company had not classified any financial assets as loans and receivables.

**3. Summary of Significant Accounting Policies** (continued)

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities.

Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized through comprehensive loss. At September 30, 2017 and 2016 the Company has not classified any financial liabilities as FVTPL.

***Share Capital***

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any related income tax effects.

***Share-Based Payment Transactions***

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share options granted is recognized as a share-based compensation expense with a corresponding increase in the equity settled share-based payments reserve in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

For employees the fair value is measured at grant date and each tranche is recognized separately on a straight line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

***Equity Financing***

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore business opportunities. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the terms of the transaction. The Company has adopted the residual value method with respect to the allocation of proceeds received on sale of units to the underlying common shares and share purchase warrants issued as private placement units. The fair value of the common shares issued in private placements is determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached share purchase warrants.

***Loss Per Share***

Basic loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share.

**3. Summary of Significant Accounting Policies** (continued)

***Current and Deferred Income Taxes***

Income tax expense comprises current and deferred income tax. Income tax is recognized in the statement of comprehensive income (loss), except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in equity. In this case the income tax is also recognized in other comprehensive income (loss) or directly in equity, respectively.

*Current Income Tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

*Deferred Income Tax*

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

***Currency***

The functional currency of the Company is Canadian dollars and these financial statements are presented in Canadian dollars. Transactions of the Company that are denominated in foreign currencies are recorded in Canadian dollars at exchange rates in effect at the related transaction date. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at the balance sheet date. Exchange gains or losses, if any, arising from the translation of foreign currency denominated monetary assets and liabilities are included in operations.

***Accounting Standards and Interpretations Issued but Not Yet Effective***

As at the date of these financial statements, the following standards have not been applied in these financial statements:

(i) The completed version of IFRS 9, *Financial Instruments*, was issued in July 2014. The completed standard provides for revised guidance on the classification and measurement of financial assets. It also introduces a new expected credit loss model for calculating impairment for financial assets. The new hedging guidance that was issued in November 2013 is incorporated into this new final standard. This final version of IFRS 9 will be effective for periods beginning on or after January 1, 2018, with early adoption permitted.

*(Expressed in Canadian Dollars)*

**3. Summary of Significant Accounting Policies** (continued)

(ii) IFRS 15 outlines the principles for recognizing revenue from contracts with customers. The new standard establishes a new five-step model for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard is effective for annual periods beginning on or after January 1, 2018, and is applicable to all entities and will supersede all current revenue recognition requirements under IFRS.

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

Management is currently assessing the impact of these new standards on the Company's accounting policies and financial statement presentation.

**4. Share Capital**

(a) *Authorized Share Capital*

The Company's authorized share capital consists of an unlimited number of common shares without par value and unlimited preferred shares without par value. All issued common shares are fully paid.

(b) *Equity Financing*

There was no equity financing conducted by the Company during fiscal 2017.

During fiscal 2016 the Company completed a non-brokered private placement financing of 7,610,000 units at a price of $0.05 per unit for gross proceeds of $380,500. Each unit consisted of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at a price of $0.10 for a period of two years expiring April 15, 2018. The Company paid a finder's fee of $3,000 cash and issued 60,000 finder's warrants with the same terms as the private placement warrants. Directors and officer of the Company purchased 1,610,000 units of this private placement.

(c) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at September 30, 2017 and 2016 and the changes for the years ended on those dates, is as follows:

| | **2017** | | **2016** | |
|---|---|---|---|---|
| | **Number** | **Weighted Average Exercise Price $** | **Number** | **Weighted Average Exercise Price $** |
| Balance, beginning of year | 3,865,000 | 0.10 | 404,999 | 0.90 |
| Issued | - | - | 3,865,000 | 0.10 |
| Exercised | (1,555,000) | 0.10 | - | - |
| Expired | - | - | (404,999) | 0.90 |
| Balance, end of year | 2,310,000 | 0.10 | 3,865,000 | 0.10 |

*(Expressed in Canadian Dollars)*

**4. Share Capital** (continued)

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at September 30, 2017:

| Number | Exercise Price $ | Expiry Date |
|---|---|---|
| 2,310,000 | 0.10 | April 15, 2018 |

(d) *Share Option Plan*

The Company has established a rolling share option plan (the "Plan"), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. Pursuant to the Plan, the exercise price of options will be set by the Board at the time options are granted and cannot be less than the discounted market price, except as permitted by the TSXV. Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of five years.

During fiscal 2017 the Company granted share options to purchase 890,000 (2016 - nil) common shares and recorded compensation expense of $140,533 (2016 - $nil).

The fair value of share options granted and vested during fiscal 2017 is estimated using the Black-Scholes option pricing model using the following assumptions:

| | |
|---|---|
| Risk-free interest rate | 0.66% |
| Estimated volatility | 111% |
| Expected life | 5 years |
| Expected dividend yield | 0% |
| Estimated forfeiture rate | 0% |

The weighted average grant date fair value of all share options granted during fiscal 2017 was $0.16 per share option.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide a reliable measure of the fair value of the Company's share options.

A summary of the Company's share options at September 30, 2017 and 2016 and the changes for the years ended on those dates, is as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Number of Options Outstanding | Weighted Average Exercise Price $ | Number of Options Outstanding | Weighted Average Exercise Price $ |
| Balance, beginning of year | 93,333 | 0.405 | 93,333 | 0.405 |
| Granted | 890,000 | 0.20 | - | - |
| Expired | (93,333) | 0.405 | - | - |
| Balance, end of year | 890,000 | 0.20 | 93,333 | 0.405 |

As at September 30, 2017 options to purchase 890,000 common shares were outstanding and exercisable at an exercise price of 0.20 per share expiring October 20, 2021.

(e) See also Note 8.

*(Expressed in Canadian Dollars)*

## 5. Related Party Disclosures

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Company's Board of Directors and executive officers.

(i) During fiscal 2017 and 2016 the following amounts were incurred with respect to current and former key management personnel:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Executive management compensation | 89,000 | 20,650 |
| Share-based compensation | 105,004 | - |
| | 194,004 | 20,650 |

As at September 30, 2017, $56,000 (2016 - $nil) remained unpaid and has been included in accounts payable and accrued liabilities.

(ii) Mr. DeMare, the Company's current Chief Financial Officer ("CFO"), was appointed on October 17, 2016. Since his appointment $14,200 was incurred for accounting and administration services provided by a private company owned by Mr. DeMare. As at September 30, 2017, $1,800 remained unpaid and has been included in accounts payable and accrued liabilities.

(iii) During fiscal 2017 the Company paid $5,500 (2016 - $15,000) for accounting and administration services provided by a private company owned by Mr. Cheung, a former CFO of the Company.

(iv) During fiscal 2017 the Company paid $1,986 (2016 - $11,300) for legal services provided by Mr. Purdy, a former CEO of the Company.

(v) During fiscal 2016 the Company paid $6,878 for accounting and administration services provided by a private company owned by Mr. Holub, a former CFO of the Company.

## 6. Income Taxes

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate income tax rate to income before income taxes. The major components of these differences are explained as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Loss before taxes | (292,238) | (209,447) |
| Combined federal and provincial income tax rate | 26.0% | 26.0% |
| Expected income tax recovery | (75,982) | (54,456) |
| Permanent differences | 35,434 | 10,981 |
| Valuation allowance | 40,548 | 43,475 |
| Income tax expense | - | - |

*(Expressed in Canadian Dollars)*

**6. Income Taxes** (continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Company's deferred income tax assets and liabilities are as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Nature of temporary differences: | | |
| Capital losses | 14,828 | 36,140 |
| Non-capital losses | 356,820 | 323,330 |
| Share issue costs and finance fees | 942 | 1,572 |
| Valuation allowance | (372,590) | (361,042) |
| Deferred income tax asset | - | - |

Deferred income tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefit.

As at September 30, 2017 the Company has non-capital losses of approximately $1,372,400 (2016 - $1,244,000), which are available to reduce taxable income in future years that expire between 2028 and 2037. In addition, the Company has $114,000 (2016 - $114,000) of capital losses available to reduce future capital gains.

**7. Financial Instruments and Risk Management**

***Categories of Financial Assets and Financial Liabilities***

Financial instruments are classified into one of the following five categories: FVTPL; held-to-maturity investments; loans and receivables; AFS; and other financial liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

| Financial Instrument | Category | September 30, 2017<br>$ | September 30, 2016<br>$ |
|---|---|---|---|
| Cash | FVTPL | 63,618 | 16,645 |
| Accounts payable and accrued liabilities | Other financial liabilities | (62,710) | (11,530) |

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amounts for accounts payable and accrued liabilities approximate their fair value due to their short-term nature. The Company's fair value of cash under the fair value hierarchy are measured using Level 1 inputs.

*(Expressed in Canadian Dollars)*

## 7. Financial Instruments and Risk Management (continued)

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

*Credit Risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash. Management believes that the credit risk concentration with respect to financial instruments included in cash is remote.

*Liquidity Risk*

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period. The following table is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

| | Contractual Maturity Analysis at September 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Less than 3 Months $ | 3 - 12 Months $ | 1 - 5 Years $ | Over 5 Years $ | Total $ |
| Cash | 63,618 | - | - | - | 63,618 |
| Accounts payable and accrued liabilities | (62,710) | - | - | - | (62,710) |

*Interest Rate Risk*

The Company is exposed to interest rate risk to the extent that the cash bears floating rates of interest. The interest rate risk on cash and on the Company's obligations are not considered significant.

*Capital Management*

The Company's objective when managing capital is to safeguard its ability to continue as a going concern. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to identify and evaluate potential business acquisitions and to negotiate acquisitions or participation agreements. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as share capital and cash. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

## 8. Events after the Reporting Period

(a) On December 13, 2017 the Company completed a non-brokered private placement of 15,000,000 units, at a price of $0.20 per unit for gross proceeds of $3,000,000. Each unit comprised one common share and one warrant. Each warrant entitles the holder to purchase an additional common share for a term of two years at a price of $0.40 per share.

(b) Subsequent to September 30, 2017 the Company:

(i) issued 785,000 common shares for $78,500 on the exercise of warrants; and
(ii) granted share options to directors of the Company to purchase 360,000 common shares at exercise prices ranging from $0.35 to $1.14 per share expiring three years from the date of the grants.

**8. Events after the Reporting Period** (continued)

(c) On January 22, 2018 the Company entered into a letter of intent (the "LOI") with X2 Blockchain Games Corp. ("X2"), pursuant to which the Company will acquire all of the outstanding shares of X2 in exchange for 100,000,000 common shares of the Company on a 1:1 basis (the "Proposed Transaction").

The LOI sets out certain terms and conditions pursuant to which the Proposed Transaction will be completed. The Proposed Transaction is subject to the parties successfully entering into a definitive business combination agreement in respect of the Proposed Transaction on or before March 15, 2018 or such other date as the parties may mutually agree.

The LOI also contemplates other material conditions precedent to the closing of the Proposed Transaction (the "Closing"), including customary due diligence, receipt of all necessary regulatory, corporate and third party approvals, compliance with all applicable regulatory requirements, and all requisite board and shareholder approvals being obtained. The Company is also required to complete a private placement to raise $15,000,000 concurrent with the closing of the Proposed Transaction.