SEAWAY ENERGY SERVICES INC.

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2018 AND 2017

(Expressed in Canadian Dollars)

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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 the statement of financial position as at September 30, 2018 and the statement of comprehensive loss, statement of changes in equity and statement of cash flows for the year then ended, and 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, 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.

Auditor's 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 audit 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 the auditor's 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, the auditor considers 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 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, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to note 1 to the financial statements which describes the material uncertainties that may cast significant doubt about the ability of Seaway Energy Services Inc. to continue as a going concern. Our opinion is not qualified with respect to this matter.

Other Matter

The financial statements of Seaway Energy Services Inc. for the year ended September 30, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on January 29, 2018.

Baker Tilly WM LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

January 25, 2019
Vancouver, B.C.

SEAWAY ENERGY SERVICES INC.
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
AS AT,

	Notes	September 30, 2018	September 30, 2017
ASSETS			
Current assets			
Cash		$ 2,247,370	$ 63,618
GST receivables		25,475	27,321
Prepaid expenses		3,925	1,300
TOTAL ASSETS		$ 2,276,770	$ 92,239
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7	$ 124,203	$ 62,710
TOTAL LIABILITIES		124,203	62,710
SHAREHOLDERS' EQUITY			
Share capital	6	6,633,556	3,418,306
Share-based payment reserve	6	947,579	665,579
Deficit		(5,428,568)	(4,054,356)
TOTAL SHAREHOLDERS' EQUITY		2,152,567	29,529
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 2,276,770	$ 92,239

Nature of Operations - see Note 1

These financial statements were approved for issue by the Board of Directors on January 25, 2019 and are signed on its behalf by:

/s/ *David Sidoo*	/s/ *Leon Ho*
David Sidoo	Leon Ho
Director	Director

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

SEAWAY ENERGY SERVICES INC.
STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)
FOR THE YEAR ENDED SEPTEMBER 30,

	Notes	2018	2017
Expenses			
Accounting and administrative	7	$ 45,555	$ 19,700
Audit		33,261	-
Corporate development		83,328	-
Executive management compensation	7	346,250	89,000
Legal (recovery)	4, 7	(13,402)	1,986
Office		10,349	660
Professional fees		110,576	15,328
Public relations		100,000	-
Regulatory fees		23,685	6,479
Rent	7	10,756	-
Share-based compensation	7	282,000	140,533
Shareholder costs		450	2,062
Sponsorship		25,000	-
Transfer agent		7,232	9,088
Travel and related		346,602	7,907
Loss before other items		(1,411,642)	(292,743)
Other items			
Interest income		38,514	505
Foreign exchange		(1,084)	-
Loss before other items		37,430	505
Net and comprehensive loss for the year		$ (1,374,212)	$ (292,238)
Loss per share - basic and diluted		$ (0.06)	$ (0.03)
Weighted average number of common shares outstanding - basic and diluted		24,070,394	9,972,090

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

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

	Year Ended September 30, 2018								
	Share Capital								
	Number of shares		Amount		Share-based payment reserve		Deficit		Total equity
Balance at September 30, 2017	10,532,583	$	3,418,306	$	665,579	$	(4,054,356)	$	29,529
Common shares issued for:									
Private placements	15,000,000		3,000,000		-		-		3,000,000
Warrants exercised	2,310,000		231,000		-		-		231,000
Share issuance cost - cash	-		(15,750)		-		-		(15,750)
Share-based compensation	-		-		282,000		-		282,000
Loss for the year	-		-		-		(1,374,212)		(1,374,212)
Balance at September 30, 2018	27,842,583	$	6,633,556	$	947,579	$	(5,428,568)	$	2,152,567

	Year Ended September 30, 2017								
	Share Capital								
	Number of shares		Amount		Share-based payment 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:									
Warrants exercised	1,555,000		155,500		-		-		155,500
Share-based compensation	-		-		140,533		-		140,533
Net 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

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

SEAWAY ENERGY SERVICES INC.
STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
FOR THE YEAR ENDED SEPTEMBER 30

	2018	2017
Cash flows from operating activities		
Net loss for the year	$ (1,374,212)	$ (292,238)
Adjustment for:		
Share-based compensation	282,000	140,533
Change in non-cash operating working capital:		
GST receivable	1,846	(6,702)
Prepaid expenses	(2,625)	(1,300)
Accounts payable and accrued liabilities	61,493	51,180
Net cash used in operating activities	(1,031,498)	(108,527)
Cash flows from financing activities		
Private placement	3,000,000	155,500
Share issuance costs	(15,750)	-
Proceeds from warrants exercised	231,000	-
Net cash provided by financing activities	3,215,250	155,500
Change in cash during the year	2,183,752	46,973
Cash, beginning of year	63,618	16,645
Cash, end of year	$ 2,247,370	$ 63,618
Supplemental cash flow information		
Interest paid	$ -	$ -
Interest received	$ 38,514	$ -
Income taxes paid	$ -	$ -
Income taxes recovered	$ -	$ -

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

1. Nature of Operations

Seaway Energy Services Inc. (the "Company") is a corporation continued under the laws of British Columbia. The Company is listed and traded on the TSX Venture Exchange ("TSXV") under the symbol "SEW". The Company's head office is located at #789 - 999 West Hasting Street, Vancouver, British Columbia V6C 2W2 Canada.

During the year ended September 30, 2018 the Company incurred a net and comprehensive loss of $1,374,212 (2017 - $292,238) and as at September 30, 2018, had working capital of $2,152,567 (2017 - $29,529) and an accumulated deficit of $5,428,568 (2017 - $4,054,356). The Company has been actively seeking new business opportunities. On January 22, 2018 the Company entered into an agreement to acquire a business. Also see Note 3. Although management considers that the Company has adequate resources to maintain its ongoing levels of operations for the next twelve months, the Company does not have an ongoing revenue stream. 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.

These financial statements have been prepared on a going concern basis, under which the Company is assumed to be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has no active ongoing operations and is prudently managing administrative costs and additional capital will be required to facilitate other business opportunities. The current market environment for idle public companies may cast significant doubt about the Company's ability to continue as going concern. The financial statements do not reflect adjustments that would be necessary if the going concern assumptions were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets, liabilities, the reported expenses, and the classifications used in the statement of financial position. Such adjustments could be material.

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. The financial statements are prepared on an accrual basis except for the statement of cash flows. The financial statements are presented in Canadian dollars unless otherwise stated.

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:

(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 11.

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

Cash includes cash on hand and funds held with a major financial institution.

Receivables

GST receivables are recognized initially at fair value and are subsequently measured at the carrying value. GST receivables are adjusted at the time when objective evidence is available to establish that the Company will not be able to collect all amounts due.

3. Significant Accounting Policies (continued)

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.

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 profit and 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, 2018, the Company has not classified any financial assets as loans and receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. As at September 30, 2018, the Company has not classified any financial assets as available-for-sale.

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 profit or loss. At September 30, 2018, the Company has not classified any financial liabilities as fair value through profit or loss.

Transaction costs associated with financial instruments at FVTPL are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the instrument.

Share Capital

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

Equity Financing

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate 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 measurement of 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 closing date. The balance, if any, is allocated to the attached share purchase warrants.

3. Significant Accounting Policies (continued)

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 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.

Taxation

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

3. Significant Accounting Policies (continued)

Earning (Loss) per Share

Basic earnings (loss) per share is calculated on the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings (loss) per share, except that the weighted average number of shares outstanding is increased to include additional shares from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period. Diluted loss per share presented is the same as basic loss per share, as the effect of outstanding options and warrants in the diluted loss per common share calculation would be anti-dilutive.

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 statement of financial position date. Exchange gains or losses, if any, arising from the translation of foreign currency denominated monetary assets and liabilities are included in operations.

New Standards and Interpretations Not Yet Adopted

Annual Improvements to IFRS Standards 2014–2016 Cycle

The following standards have been revised to incorporate amendments issued by the IASB in December 2016:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – The amendments remove some short-term exemptions for first-time adopters.
- IFRS 12 Disclosure of Interests in Other Entities – The amendments clarify that the disclosure requirements in the standard apply to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.
- IAS 28 Investments in Associates and Joint Ventures – The amendments clarify that the election available to some types of investment entities to measure investees at fair value through profit or loss at initial recognition is applied on an investment-by-investment basis. The amendments also clarify that an entity that is not an investment entity decides on an investment-by-investment basis whether to retain the fair value measurements applied by its associates and joint ventures that are investment entities.

The amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 provides guidance on how to determine the "date of the transaction" for purposes of identifying the exchange rate to use in transactions within the scope of IAS 21, The Effects of Changes in Foreign Exchange Rates, involving the payment or receipt of consideration in advance.

The main features of IFRIC 22 are as follows:

- An entity uses the exchange rate on the date that the advanced foreign currency consideration is paid or received to translate the related asset, expense or income upon initial recognition.
- When there are multiple advance payments or receipts, the entity determines this date for each such payment or receipt.

The Interpretation is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

3. Significant Accounting Policies (continued)

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2 Share-based Payment)

The amendments provide guidance on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 9 Financial Instruments

IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement and IFRIC 9 Reassessment of Embedded Derivatives. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- *Classification and measurement of financial assets:*

Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: “amortized cost”, “fair value through other comprehensive income”, or “fair value through profit or loss” (default). Equity instruments are classified and measured as “fair value through profit or loss” unless upon initial recognition elected to be classified as “fair value through other comprehensive income”.

- *Classification and measurement of financial liabilities:*

When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity’s own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.

- *Impairment of financial assets:*

An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at “amortized cost” or “fair value through other comprehensive income”, lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.

- *Hedge accounting:*

Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

The final version of this new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

3. Significant Accounting Policies (continued)

IFRS 16 Leases

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost and is then depreciated similarly to property and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The new standard is effective for annual periods beginning on or after January 1, 2019.

4. Proposed Business Acquisition and Financing

On January 22, 2018 the Company entered into a letter of intent, superseded by the share exchange agreement dated April 13, 2018 (the “Acquisition Agreement”), with X2 Blockchain Games Corp. (“X2”), Nolan Bushnell and the shareholders of X2, pursuant to which the Company would acquire all of the outstanding shares of X2 in exchange for 81,915,074 common shares of the Company on a 1:1 basis (the “Acquisition”).

The Acquisition Agreement set out certain terms and conditions pursuant to which the Acquisition would be completed. The Acquisition Agreement also contemplated other material conditions precedent to the closing of the Acquisition (the “Acquisition 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 was required to complete a private placement to raise up to $16,000,000 concurrent with the closing of the Acquisition.

The Company had agreed to pay a finder’s fee comprising $500,000 cash and issuance of 4,095,753 common shares of the Company.

X2 is a British Columbia corporation which owns 100% of X Blockchain Games Corp. (“X Blockchain”), a California, USA based corporation. X Blockchain is an independent games publisher focusing on digital games integrating blockchain technology to create enhanced game experiences. X2 Blockchain has acquired the exclusive legal and beneficial ownership of a back catalogue of games and all data and materials, including all intellectual property rights.

As at September 30, 2018 the Company incurred $59,995 for legal and other costs associated with the proposed Acquisition.

During the year ended September 30, 2018, the Company and X2 formally terminated the Acquisition Agreement. As a result, X2 repaid the Company $252,339 as payment of principal and accrued interest on a loan agreement whereby the Company agreed to provide X2 with a bridge loan (the “Bridge Loan”) (Note 5) of up to $500,000 (the “Bridge Loan”) and an additional $47,661 for legal expenditures incurred by the Company on account of the Acquisition.

(Expressed in Canadian Dollars)

5. Bridge Loan

On March 7, 2018 the Company and X2 entered into a loan agreement whereby the Company agreed to provide X2 with a bridge loan (the "Bridge Loan") of up to $500,000. The Company made an initial advance of $250,000. Advances under the Bridge Loan bear interest at bank prime rate, payable monthly, and mature on March 7, 2019. The Bridge Loan is secured by a general security agreement over the assets of X2. The interest rate for the year ended September 30, 2018 was 3.45%. During the year ended September 30, 2018, the Bridge Loan was fully repaid (Note 3).

6. 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*

During the year ended September 30, 2018 the Company:

i) completed a non-brokered private placement financing of 15,000,000 units at a price of $0.20 per unit for gross proceeds of $3,000,000. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase an additional common share at a price of $0.40 for a period of two years after closing. Directors of the Company purchased 1,725,000 units of this private placement. The Company paid $15,750 filing costs associated with the private placement.

ii) issued 2,310,000 common shares upon exercise of warrants for gross proceeds of $231,000.

(c) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at September 30, 2018 and 2017 and the changes for the year ended on those dates, is as follows:

	Year Ended September 30, 2018		Year Ended September 30, 2017	
	Number of Warrants Outstanding	Weighted Average Exercise Price	Number of Warrants Outstanding	Weighted Average Exercise Price
Balance, beginning of year	2,310,000	$0.10	3,865,000	$0.10
Issued	15,000,000	0.40	-	-
Exercised	(2,310,000)	0.10	(1,555,000)	0.10
Balance, end of year	15,000,000	$0.40	2,310,000	$0.10

(Expressed in Canadian Dollars)

6. Share Capital (continued)

(c) *Warrants* (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, 2018:

Number	Exercise Price	Expiry Date
7,813,000	$0.40	December 5, 2019
7,187,000	$0.40	December 12, 2019
15,000,000		

(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 ten years.

During the year ended September 30, 2018 the Company granted share options to purchase 360,000 (2017 - 890,000) common shares and recorded compensation expense of $282,000 (2017 - $140,533).

	Year Ended September 30, 2018	Year Ended September 30, 2017
Risk-free interest rate	1.59%	0.66%
Estimated annual volatility	253%	111%
Expected life	4 years	5 years
Expected dividend yield	0%	0%
Expected forfeiture rate	0%	0%

The weighted average fair value of all share options granted and vested, using the Black-Scholes option pricing model, during the year ended September 30, 2018 was $0.78 (2017 - $0.16) per option.

Option-pricing models require the use of estimates and assumptions including the expected annual 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, 2018 and 2017 and the changes for the years then ended, is as follows:

	Year Ended September 30, 2018		Year Ended September 30, 2017	
	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price
Balance, beginning of year	890,000	$0.20	93,333	$0.405
Granted	360,000	0.79	890,000	0.20
Expired	-	-	(93,333)	0.405
Balance, end of year	1,250,000	$0.37	890,000	$0.20

(Expressed in Canadian Dollars)

6. Share Capital (continued)

(d) *Share Option Plan* (continued)

The following table summarizes information about the share options outstanding and exercisable at September 30, 2018:

Number	Exercise Price	Expiry Date
160,000	$0.35	October 18, 2021
890,000	0.20	October 20, 2021
100,000	1.14	December 21, 2021
100,000	1.14	December 27, 2021
1,250,000		

7. Related Party Transactions

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 the years ended September 30, 2018 and 2017 the following amounts were incurred with respect to current and former key management personnel:

	2018	2017
Executive management compensation	$ 346,250	$ 89,000
Share-based compensation	282,000	105,004
	$ 628,250	$ 194,004

As at September 30, 2018, $75,500 (2017 - $57,000) remained unpaid and has been included in accounts payable and accrued liabilities.

(ii) During the year ended September 30, 2018 the Company incurred a total of $38,805 (2017 - $14,200) with Chase Management Ltd. ("Chase"), a private corporation owned by the former CFO of the Company, for accounting and administrative services provided by Chase personnel, excluding the CFO. As at September 30, 2018, $320 (2017 - $1,800) remained unpaid and has been included in accounts payable and accrued liabilities

(iii) During the year ended September 30, 2018 the Company paid $10,756 (2017 - $Nil) for rent provided by a company related to a Director of the Company.

(iv) During the year ended September 30, 2018, the Company paid $8,000 (2017 - $5,500) for accounting and administration services provided by a company related to a Director of the Company.

(v) During the year ended September 30, 2018, the Company paid $Nil (2017 - $1,986) for legal services provided by a Director of the Company.

8. Financial Instruments and Risk Management

Categories of Financial Assets and Financial Liabilities

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. Cash is classified as FVTPL and is held at its market value based on Level 1 of the fair value hierarchy.

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 fulfil 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 as it is primarily held at a reputable financial institution.

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, 2018				
	Less than 3 Months	**3 - 12 Months**	**1 - 5 Years**	**Over 5 Years**	**Total**
Cash	$ 2,247,370	$ -	$ -	$ -	$ 2,247,370
Accounts payable and accrued liabilities	(124,203)	-	-	-	(124,203)

Interest Rate Risk

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

(Expressed in Canadian Dollars)

8. Financial Instruments and Risk Management (continued)

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 net equity. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

9. 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:

	2018	2017
Loss before taxes	$(1,374,212)	$ (292,238)
Combined federal and provincial income tax rate	26.75%	26%
Expected income tax recovery	(367,602)	(75,982)
Non-deductible expenditures	78,278	35,434
Impact of future income tax rates	(2,704)	-
Share issue costs	(4,213)	-
Other	(13,169)	-
Change in unrecognized deductible temporary differences	309,410	40,548
	$ -	$ -

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:

	2018	2017
Capital losses	$ 15,390	$ 14,820
Non-capital losses	664,076	356,824
Share issue costs and finance fees	2,876	942
Deferred income tax asset	$ 682,342	$ 372,586

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, 2018, the Company has non-capital losses of approximately $2,459,500 (2017 - $1,372,400), which are available to reduce taxable income in future years that expire between 2028 and 2038. In addition, the Company has $114,000 (2017 - $114,000) of capital losses available to reduce future capital gains.