Condensed Consolidated Interim Financial Statements

For the three and six months ended October 31, 2018
BLOCKStrain Technology Corp. (formerly Scorpion Resources Inc.)
(Unaudited)
Expressed in Canadian dollars

BLOCKStrain Technology Corp. (formerly Scorpion Resources Inc.)

CONTENTS: **PAGE**

Condensed Consolidated Interim Financial Statements

BLOCKStrain Technology Corp. (formerly Scorpion Resources Inc.)

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at **Expressed in Canadian dollars**	Note	**October 31, 2018**	April 30, 2018
		(unaudited)	
Assets			
Current Assets			
Cash and cash equivalents	6	**$ 3,964,668**	$ 25,109
Note receivable	7	**108,219**	103,178
Other receivables		**108,291**	3,736
Prepaids and deposits	8	**385,405**	30,063
		4,566,583	162,086
Non-Current Assets			
Property and equipment	9	**25,363**	-
		$ 4,591,946	$ 162,086
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	10	**$ 424,652**	$ 114,634
Loan payable	11	**4,165**	-
		428,817	114,634
Shareholders' Equity			
Share capital	12	**12,788,566**	575,250
Contributed surplus	12	**3,195,966**	-
Deficit		**(11,821,403)**	(527,798)
		4,163,129	47,452
		$ 4,591,946	$ 162,086

Commitment (Note 14)

(See Notes to the Condensed Consolidated Interim Financial Statements)

BLOCKStrain Technology Corp. (formerly Scorpion Resources Inc.)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS **Expressed in Canadian dollars – unaudited**	Note		**For the three months ended October 31, 2018**		**For the six months ended October 31, 2018**
Expenses					
Corporate development costs	13	**$**	**465,426**	**$**	**3,387,742**
Depreciation			**1,201**		**1,201**
General and administrative costs			**272,727**		**572,081**
Operating costs			**2,687**		**2,687**
Product development costs	13		**567,493**		**976,005**
Salaries, subcontractors, and benefits	13		**280,506**		**820,652**
Stock-based compensation	12		**699,404**		**3,195,966**
			(2,289,444)		**(8,956,334)**
Other income (expense)					
Foreign exchange			**(8,391)**		**(21,047)**
Interest and other income			**2,591**		**4,795**
Listing expense	5		**-**		**(2,321,019)**
			(5,800)		**(2,337,271)**
Comprehensive loss		**$**	**(2,295,244)**	**$**	**(11,293,605)**
Loss per share					
Basic/Diluted		**$**	**(0.03)**	**$**	**(0.15)**
Weighted average number of common shares outstanding			**80,204,382**		**76,337,401**

(See Notes to the Condensed Consolidated Interim Financial Statements)

BLOCKStrain Technology Corp. (formerly Scorpion Resources Inc.)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the period ended October 31, 2018

Expressed in Canadian dollars – unaudited	**Number of Common Shares**	**Share Capital**	**Contributed Surplus**	**Deficit**	**Total Equity**
Balance at April 30, 2018	**38,350,000**	**$ 575,250**	**$ -**	**$ (527,798)**	**$ 47,452**
Shares issued for acquisition of the Corporation	**6,854,382**	**2,056,315**	**-**	**-**	**2,056,315**
Shares issued on private placement	**35,000,000**	**10,500,000**	**-**	**-**	**10,500,000**
Share issue costs	**-**	**(342,999)**	**-**	**-**	**(342,999)**
Stock-based compensation	**-**	**-**	**3,195,966**	**-**	**3,195,966**
Net loss	**-**	**-**	**-**	**(11,293,605)**	**(11,293,605)**
Balance at October 31, 2018	**80,204,382**	**$ 12,788,566**	**$ 3,195,966**	**$ (11,821,403)**	**$ 4,163,129**

(See Notes to the Condensed Consolidated Interim Financial Statements)

BLOCKStrain Technology Corp. (formerly Scorpion Resources Inc.)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW **Expressed in Canadian dollars – unaudited**	**For the three months ended October 31, 2018**	**For the six months ended October 31, 2018**
Operating activities		
Net loss for the period	**$ (2,295,244)**	**$ (11,293,555)**
Adjustments for:		
Depreciation	**1,201**	**1,201**
Interest on note receivable	**(2,520)**	**(5,041)**
Listing expense	**-**	**2,321,019**
Stock-based compensation	**699,404**	**3,195,916**
	(1,597,159)	**(5,780,460)**
Net changes in non-cash working capital items:		
Increase in accounts receivable	**(39,995)**	**(104,055)**
Increase in note receivable	**(50)**	**-**
Increase in prepaid expenses	**96,030**	**(322,592)**
Increase in accounts payable	**(25,154)**	**33,834**
Funds used in operations activities	**(1,566,328)**	**(6,173,773)**
Investing activities		
Purchase of property and equipment	**(26,564)**	**(26,564)**
Bank indebtedness assumed from the RTO	**-**	**(21,270)**
Funds used in investing activities	**(26,564)**	**(47,834)**
Financing activities		
Proceeds from issuance of common shares	**-**	**10,157,001**
Proceeds from loan payable	**-**	**4,165**
Funds provided by financing activities	**-**	**10,161,166**
Net increase (decrease) in cash	**(1,592,892)**	**3,939,559**
Cash, beginning of period	**5,557,560**	**25,109**
Cash, end of period	**$ 3,964,668**	**$ 3,964,668**

Cash and cash equivalents consist of the following:		
Cash held in banks	**$ 3,063,302**	$ 25,109
Guaranteed investment certificate	**901,366**	-
	$ 3,964,668	$ 25,109

(See Notes to the Condensed Consolidated Interim Financial Statements)

1. NATURE OF OPERATIONS

BLOCKStrain Technology Corp. (formerly "Scorpion Resources Inc.") (the "Corporation" or "BLOCKStrain") was incorporated under the British Columbia Business Corporations Act on October 19, 2011. The head office and the records and registered office is located at 1820 - 1055 West Hastings Street, Vancouver, B.C., V6E 2E9.

The Corporation acquired all of the issued and outstanding shares of BLOCKStrain Technology Group Inc. ("PrivCo") (the "Transaction") (Note 5), a private company incorporated on November 22, 2017, under the laws of British Columbia. The Corporation has an integrated blockchain platform that registers and tracks intellectual property for the cannabis industry.

2. BASIS OF PREPARATION

Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standards ("IAS") 34, Interim Financial Reporting.

The notes presented in these condensed consolidated interim financial statements include only significant events and transactions occurring since PrivCo's last fiscal year end and they do not include all of the information required in PrivCo's most recent annual financial statements. These condensed consolidated interim financial statements follow the same accounting policies and methods of application as PrivCo's annual financial statements, and should be read in conjunction with PrivCo's annual financial statements for the year ended April 30, 2018, which were prepared in accordance with IFRS as issued by IASB. There have been no changes in judgment or estimates from those disclosed in the consolidated financial statements for the year ended April 30, 2018.

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors as of December 12, 2018.

New standard IFRS 15 *Revenue from Contracts with Customers*

The Corporation has adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15") effective April 30, 2018 on a retrospective basis and applied the transitional provisions, so that any adjustments would be recorded in opening retained earnings at April 30, 2018.

IFRS 15 supersedes IAS 18 – Revenue, IAS 11 – Construction Contracts, and other revenue related interpretations. The standard outlines the principles that must be applied to measure and recognize revenue and the related cash flows. Revenue is recognized at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

2. BASIS OF PRESENTATION (CONT'D)

The principles in IFRS 15 will be applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligation in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligation in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The Corporation has concluded that the recognition and measurement of the sale of products in all contracts is consistent with the current revenue recognition practice and therefore does not expect any transitional adjustment.

New standard IFRS 9 Financial Instruments

The Corporation has adopted IFRS 9, Financial Instruments (IFRS 9) effective April 30, 2018 on a retrospective basis and applied the transitional provisions, so that any adjustments would be recorded in opening retained earnings at April 30, 2018. IFRS 9, addresses the classification, measurement and recognition of financial assets and financial liabilities. The adoption of IFRS 9 supersedes the guidance relating to the classification and measurement of financial instruments in IAS 39, Financial Instruments: Recognition and Measurement (IAS 39).

IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: (i) those measured at fair value through profit and loss, (ii) those measured at fair value through other comprehensive income and (iii) those measured at amortized cost. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. For financial liabilities, the IFRS 9 requirements are similar to those of IAS 39. The main distinction is that, in cases where the fair value option is chosen for financial liabilities, the part of a fair value change relating to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

IFRS 9 introduces a single expected credit loss model for calculating impairment for financial assets, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have a significant impact on the Corporation's condensed consolidated interim financial statements and did not result in a transitional adjustment.

The Corporation has no hedges on its condensed consolidated interim financial statements for the reporting period.

The Corporation has concluded that the adoption of IFRS 9 did not require any transitional adjustments to the classification or measurement of the Corporation's financial assets and financial liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Corporation in these condensed consolidated interim financial statements are the same as those applied by the Corporation in its annual financial statements for the year ended April 30, 2018. Because the disclosures provided in these condensed consolidated interim financial statements do not conform in all respects with IFRS for annual consolidated financial statements, these condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended April 30, 2018.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Corporation makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgements 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 year of the change. Information about critical judgements in applying accounting policies are discussed below:

Equity-settled Stock-Based Compensation Transactions

The Corporation measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for stock-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, share price, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for stock-based compensation transactions are disclosed in Note 10.

Significant judgement is also required when determining if consultants that provide services to the Corporation should be considered as employees or non-employees when they are granted stock-based compensation. In making this determination, the Corporation considers that individuals who render personal services to the entity are regarded as employees for legal or tax purposes, individuals that work for the entity under its direction in the same way as individuals who are regarded as employees for legal or tax purposes, and individuals whose services rendered are similar to those rendered by employees are considered as employees for stock-based compensation valuation purposes.

5. REVERSE TAKEOVER

The Transaction constituted a reverse takeover of the Corporation by the shareholders of PrivCo. At the time of the transaction the Corporation did not meet the definition of a business as defined under IFRS 3; therefore, the Transaction is accounted under IFRS 2, where the difference between the consideration given to acquire the Corporation and the net asset value of the Corporation is recorded as a listing expense. As PrivCo is deemed to be the accounting acquirer for accounting purposes, these financial statements present the historical financial information of PrivCo up to the date of the Transaction.

EXPRESSED IN CANADIAN DOLLARS

5. REVERSE TAKEOVER (CONT'D)

On May 17, 2018, the Transaction closed and the Corporation acquired, on a one for one basis, all issued and outstanding shares of PrivCo in exchange for 38,350,000 shares of the Corporation. The acquisition consideration deemed to have been transferred by PrivCo, the legal subsidiary, was in the form of the common shares of the Corporation at the date of the transaction.

Fair value of shares issued (6,854,382 @ $0.30)	$	2,056,315
Fair value of net liabilities		
Prepaid deposits		32,750
Bank indebtedness		(21,270)
Accounts payable		(276,184)
		(264,704)
Listing expense	$	2,321,019

6. CASH AND CASH EQUIVALENTS

		October 31, 2018		April 30, 2018
Cash held in banks	**$**	**3,063,302**	$	25,109
Guaranteed investment certificate		**901,366**		-
	$	**3,964,668**	$	25,109

7. NOTE RECEIVABLE

In conjunction with the BLOCKStrain Technology Group Inc. letter of intent ("LOI") executed on January 4, 2018, the Corporation advanced $100,000 to Spark Digital Technologies ("Spark") for one year, which bears interest at 10% per annum. At the option of the Corporation, the advance is convertible into equity securities of Spark or may be set off against the amount payable before the initial license fee as contemplated by the LOI. During the three and six months ended October 31, 2018, the Corporation recorded $2,520 and $5,041 in interest income, included in other income.

8. PREPAIDS AND DEPOSITS

		October 31, 2018		April 30, 2018
Prepaids	**$**	**325,395**	$	30,063
Deposits		**60,010**		-
	$	**385,405**	$	30,063

During the period ended October 31, 2018, the Corporation entered into a one year, US$300,000 (CAN$392,850) digital marketing agreement which was paid in advance.

During the period ended October 31, 2018, the Corporation paid a $60,010 deposit towards a subscription agreement with Integral Genomics Inc. (formerly "BC Better Genetics Corporation"). An amendment was made on September 6, 2018 to the Memorandum of Understanding ("MoU") dated July 24, 2018, to increase the deposit from $30,010 to $60,010.

EXPRESSED IN CANADIAN DOLLARS

9. PROPERTY AND EQUIPMENT

		October 31, 2018		April 30, 2018
Property and equipment	**$**	**26,564**	$	-
Depreciation		**(1,201)**		-
	$	**25,363**	$	-

During the period ended October 31, 2018, the Corporation purchased equipment to perform genetic testing for cannabis.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		October 31, 2018		April 30, 2018
Accounts payable	**$**	**418,602**	$	106,364
Accrued liabilities		**6,050**		8,270
	$	**424,652**	$	114,634

11. LOAN PAYABLE

As at October 31, 2018, the Corporation has an outstanding loan of $4,165 from a director. The loan is unsecured, non-interest bearing and due on demand.

12. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares and preferred shares without par value.

Common shares issued

On May 17, 2018, the Transaction (Note 5) was completed and the Corporation acquired, on a one for one basis, all issued and outstanding shares of PrivCo in exchange for 38,350,000 common shares of the Corporation.

On May 17, 2018, concurrent with the Transaction, the Corporation issued 35,000,000 common shares for gross proceeds of $10,500,000. The Corporation incurred $342,999 in share issuance costs.

The contributed surplus reserve included in the Shareholders' Equity section of the Statement of Financial Position comprises all unexercised stock options.

	Number of Common Shares		**Share Capital**
Balance at April 30, 2018	38,350,000	$	575,250
Shares issued for acquisition of the Corporation	6,854,382		2,056,315
Shares issued on private placement	35,000,000		10,500,000
Share issue costs	-		(342,999)
Balance at October 31, 2018	**80,204,382**	**$**	**12,788,566**

EXPRESSED IN CANADIAN DOLLARS

12. SHARE CAPITAL (CONT'D)

Options

The Corporation has adopted a stock option plan where it may issue a maximum of 16,000,000 options. Under the terms of the stock option plan, options may be granted only to: (i) employees, officers, directors, and consultants of the Corporation; and (ii) employees, officers, directors, and consultants of an affiliate of the Corporation.

Such options will be exercisable for a period of up to 10 years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee will not exceed five percent of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed two percent of the issued and outstanding common shares.

As at October 31, 2018 the Corporation had the following options outstanding and exercisable:

Expiry Date		Exercise Price	Remaining Contractual Life (years)	Number of Options Outstanding	Number of Options Exercisable
May 18, 2023	$	0.30	4.55	12,600,000	9,737,500
September 28, 2023	$	0.30	4.91	700,000	233,334

The following is a summary of the Corporation's stock option activity:

	Number of options		Weighted Average Exercise Price
Outstanding at May 1, 2018	-	$	-
Granted	13,450,000		0.30
Cancelled	(150,000)		0.30
Outstanding at October 31, 2018	**13,300,000**	**$**	**0.30**
Exercisable at October 31, 2018	**9,970,834**	**$**	**0.30**

On May 18, 2018, the Corporation issued 12,750,000 stock options to employees and directors of the Corporation. 12,600,000 of these options vest on September 19, 2018, with another 150,000 vesting over a twelve month from the date of the grant. The exercise price of these options is $0.30, and they expire on May 18, 2023. On September 18, 2,750,000 options that were set to vest on September 19, 2018 were extended to vest on January 19, 2019.

On September 28, 2018, the Corporation issued 700,000 stock options to employees of the Corporation. 233,334 of these options vested upon grant, 233,333 will vest on September 28, 2019 and 233,333 will vest on September 28, 2020. The exercise price of these options is $0.30, and they expire on September 28, 2023.

During the period ended October 31, 2018, 150,000 options were cancelled.

EXPRESSED IN CANADIAN DOLLARS

12. SHARE CAPITAL (CONT'D)

During the three and six months ended October 31, 2018, the Corporation recorded $706,930 and $3,203,492 in stock-based compensation, respectively, based on the fair values of stock options granted which were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

For the six months ended October 31,		**2018**
Risk free interest rate		2.24%-2.30%
Expected volatility		120.05%-123.65%
Expected life		5 years
Expected dividend yield		0%
Exercise price	$	0.30

13. RELATED PARTY TRANSACTIONS

Summary of key management personnel compensation:

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation as a whole. The Corporation has determined that key management personnel consist of members of the Corporation's Board of Directors and corporate officers. The remuneration of directors and key management personnel during the three and six months ended October 31, 2018 is set out below:

For the three and six months ended October 31,		**Three Months 2018**		**Six Months 2018**
Corporate developments costs	**$**	**36,000**	**$**	**314,354**
Director fees		**5,419**		**5,419**
General and administrative costs		**58,595**		**73,391**
Product development costs		**567,493**		**976,005**
Salaries, subcontractors, and benefits		**88,000**		**213,923**
Stock-based compensation		**288,823**		**1,097,433**
	$	**1,044,330**	**$**	**2,680,525**

Corporate Development Costs

On June 1, 2018, the Corporation entered into a master services agreement with a company controlled by a director to provide marketing, web development, planning, patent work, administrative services, and facilitation and negotiation services. For the three and six months ended October 31, 2018, the Corporation incurred fees of $36,000 and $314,354, respectively. As at October 31, 2018, the Corporation was indebted to this company in the amount of $9,117 (April 30, 2018 - $14,644) which was included in accounts payable and accrued liabilities.

Director Fees

For the three and six months ended October 31, 2018, $5,419 was paid to a director of the Corporation.

13. RELATED PARTY TRANSACTIONS (CONT'D)

General and Administrative Costs

For the three and six months ended October 31, 2018, related parties represented $58,595 and $73,391 of general and administrative costs, respectively.

Product Development Costs

On January 19, 2018, the Corporation entered into a master services agreement and a statement of work to develop the initial phases of the product development strategy necessary to launch the BLOCKStrain platform. The Corporation shares a named officer with the service provider. For the three months and six months ended October 31, 2018, the Corporation incurred fees of $567,493 and $976,005, respectively. As at October 31, 2018, the Corporation was indebted by $Nil (April 30, 2018 - $Nil).

Salaries, Subcontractors, and Benefits

For the three and six months ended October 31, 2018, a total of $88,000 and $213,923, was paid to the Chief Executive Officer, Chief Financial Officer, Chief Technology officer, and a company related to the Chief Financial Officer for their services, respectively. As at October 31, 2018, $Nil (April 30, 2018 - $1,366) of expense reimbursements was due to these employees.

Stock-Based Compensation

For the three and six months ended October 31, 2018, the Chief Executive Officer, Chief Financial Officer, Chief Technology Officer, three directors, and two former directors, incurred stock-based compensation expense of $288,823 and $1,097,433, respectively.

Other

As at October 31, 2018, $20,424 (April 30, 2018 - $nil) of expense reimbursements was due to a former director of the Corporation and was included in accounts payable and accrued liabilities.

As at October 31, 2018, a note receivable (Note 6) of $108,219 (April 30, 2018 - $103,178) was due from a company controlled by directors of the Corporation.

EXPRESSED IN CANADIAN DOLLARS

14. COMMITMENT

Operating lease

The Corporation has an obligation under an operating lease for its corporate office space as follows. This lease expires in 2023.

Year		Operating Leases
2018	$	11,128
2019		67,177
2020		68,846
2021		70,515
2022		72,184
2023		55,077
Total	**$**	**344,927**

15. SUBSEQUENT EVENT

Subsequent to October 31, 2018, a second amendment was made on November 6, 2018 to the MoU dated July 24, 2018 with Integral Genomics Inc. (formerly "BC Better Genetics Corporation"). The Corporation paid an additional $40,000 deposit towards the subscription agreement to increase the deposit from $60,010 to $100,010.