

BLOX LABS INC.

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended December 31, 2017 and December 31, 2016

(Expressed in Canadian Dollars)

Notice of no auditor review of interim financial statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The Company's external auditor has not performed a review of the interim financial statements for the period ending December 31, 2017.

The Management of Blox Labs Inc. was responsible for the preparation of these interim financial statements. The interim financial statements were prepared in accordance with and using accounting policies in full compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and their interpretation as International Financial Reporting Interpretations Committee ("IFRIC").

BLOX LABS INC.
STATEMENTS OF FINANCIAL POSITION
(UNAUDITED - Prepared by Management)
(Expressed in Canadian Dollars)

	<u>December 31,</u> <u>2017 (Unaudited)</u>	<u>March 31, 2017</u> <u>(Audited)</u>
<u>ASSETS</u>		
Current		
Cash and cash equivalents	\$730,257	\$110,049
HST receivable	\$2,689	\$985
Total Assets	<u>\$732,946</u>	<u>\$111,034</u>
<u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities	<u>\$98,446</u>	<u>\$21,647</u>
<u>SHAREHOLDERS' EQUITY</u>		
Share capital (Note 4)	\$1,100,562	\$640,562
Warrants (Note 4)	\$533,967	\$293,967
Contributed surplus (Note 4)	\$436,494	\$436,494
Deficit	\$(1,436,523)	\$(1,281,636)
Total Shareholders' Equity	<u>\$634,500</u>	<u>\$89,387</u>
Total Liabilities and Shareholders' Equity	<u>\$732,946</u>	<u>\$111,034</u>

Nature of Operations and Going Concern (Note 1)

Approved and authorized by the Board of Directors on March 1, 2018.

On behalf of the Board:

/s/ "Harald Seemann"

Harald Seemann

Director

/s/ "Jens Brandt"

Jens Brandt

Director

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

BLOX LABS INC.
STATEMENT OF LOSS AND COMPREHENSIVE LOSS
(UNAUDITED - Prepared by Management)
For the three and nine months ended December 31, 2017 and December 31, 2016
(Expressed in Canadian Dollars)

	Three months ended December 31, 2017	Three months ended December 31, 2016	Nine months ended December 31, 2017	Nine months ended December 31, 2016
Revenue	\$50,000	-	\$50,000	\$116
Expenses				
Management Fees	\$63,000	\$60,000	\$63,000	\$72,159
Professional Fees	\$92,207	\$10,468	\$124,739	\$41,460
CSE Fees	\$2,150	\$1,500	\$5,150	\$4,500
Other Expenses	\$4,200	\$4,903	\$10,312	\$17,747
Marketing	\$2,750	-	\$2,750	\$12,399
Subtotal	\$164,307	\$76,871	\$205,951	\$148,265
Loss before other items	<u>\$(114,307)</u>	<u>\$(76,871)</u>	<u>\$(155,951)</u>	<u>\$(148,149)</u>
Other items				
Interest and other income	\$808	\$298	\$1,064	\$1,008
Tax refund	-	-	-	\$13,684
Net loss and comprehensive loss for the period	<u>\$(113,499)</u>	<u>\$(76,573)</u>	<u>\$(154,887)</u>	<u>\$(133,457)</u>
Basic and diluted loss per share	<u>\$(0.01)</u>	<u>\$(0.01)</u>	<u>\$(0.01)</u>	<u>\$(0.01)</u>
Weighted average number of common shares outstanding	<u>24,115,001</u>	<u>20,230,000</u>	<u>24,115,001</u>	<u>20,230,000</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

BLOX LABS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(UNAUDITED - Prepared by Management)
For the nine months ended December 31, 2017 and December 31, 2016
(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Warrants	Contrib. Surplus	Deficit	Total
Balance, March 31, 2015	18,730,000	\$ 488,115	\$146,539	\$436,494	\$(803,942)	\$ 267,206
Private placement	1,500,000	\$ 152,447	\$147,428	-	-	\$ 299,875
Loss for the year	-	-	-	-	\$(335,974)	\$ (335,974)
Balance, March 31, 2016	20,230,000	\$ 640,562	\$293,967	\$436,494	\$(1,139,916)	\$ 231,107
Loss for the period	-	-	-	-	\$(133,457)	\$ (133,457)
Balance, December 31, 2016	20,230,000	\$ 640,562	\$293,967	\$436,494	\$(1,273,373)	\$ 97,650
Loss for the year	-	-	-	-	\$(141,720)	\$ (141,720)
Balance, March 31, 2017	20,230,000	\$ 640,562	\$293,967	\$436,494	\$(1,281,636)	\$ 89,387
Share consolidation (Note 4)	10,115,001	\$ -	-	-	-	\$ -
Private placement (Note 4)	14,000,000	\$ 460,000	\$240,000	-	-	\$ 700,000
Loss for the period	-	-	-	-	\$(154,887)	\$ (154,887)
Balance, December 31, 2017	24,115,001	\$ 1,100,562	\$533,967	\$436,494	\$(1,436,523)	\$ 634,500

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

BLOX LABS INC.
STATEMENT OF CASH FLOWS
(UNAUDITED - Prepared by Management)
For the nine months ended December 31, 2017 and December 31, 2016
(Expressed in Canadian Dollars)

	Nine months ended December 31, 2017	Nine months ended December 31, 2016
Operating Activity		
Loss for the period	\$(154,887)	\$(133,457)
Changes in non-working capital items:		
HST receivable	\$2,689	\$1,835
Accounts payable and accrued liabilities	\$98,446	\$29,294
Cash used in operating activities	\$(53,752)	\$(102,328)
Financing Activity		
Common shares issued for cash	\$700,000	-
Increase/Decrease in cash during the period	\$620,208	\$(102,328)
Cash, beginning of the period	<u>\$110,049</u>	<u>\$283,135</u>
Cash, end of the period	<u>\$730,257</u>	<u>\$180,807</u>
 Supplemental Disclosure of Cash Flow Information:		
Cash received during the period for interest	<u>\$1,064</u>	<u>\$1,008</u>
Cash received during the period as tax refund	-	<u>\$13,684</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

BLOX LABS INC.

Notes to the Financial Statements (Unaudited - Prepared by Management)

For the three and nine months ended December 31, 2017 and December 31, 2016

(Expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

Blox Labs (“BLOX” or the “Company”) was incorporated on April 4, 2014 under the Business Corporations Act of British Columbia as Big Rock Labs Inc. and changed its name to Blox Labs Inc. on November 16, 2017 in connection with a 2:1 share consolidation. The Company owns 100% of Big Rock Technologies Inc. which was incorporated on February 13, 2014 under the Business Corporations Act of British Columbia as well. The head office of the Company is at 213 Sterling Road, Suite 206; Toronto, Ontario M6R 2B2.

Blox Labs became a reporting issuer in British Columbia and Alberta on May 29, 2014, pursuant to the closing of a statutory plan of arrangement with Gorilla Minerals Corp. and Blox Labs' wholly-owned subsidiary Big Rock Technologies Inc. In addition to being a reporting issuer in British Columbia and Alberta, Blox Labs Inc. became a reporting issuer in Ontario upon listing on the Canadian Securities Exchange (“CSE”) on June 2, 2014.

Going Concern

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. In the nine months until December 31, 2017, the Company generated \$50,000 in revenue (2016 - \$116) from operations, and had working capital of \$634,500 (2016 - \$97,650), had a net loss of \$154,887 (2016 - \$133,457) and an accumulated deficit of \$1,436,523 (2016 - \$1,273,373). The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company’s liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company.

At the Company’s annual general and special meeting (the “Meeting”) on June 23, 2017 in Toronto, 77.05% of all issued and outstanding shares and 99.99% of the shares voted at the Meeting voted in favour of all resolutions as recommended by management, including the share consolidation authorization. The auditor Collins Barrow Toronto LLP was appointed again for the ensuing year. Full disclosure of the details are provided in the Company’s Information Circular.

On November 8, 2017, Big Rock Labs provided a corporate update regarding a proposed 2:1 share consolidation and name change to Blox Labs Inc., a trading symbol change from BLA to BLOX, director changes, an equity unit financing of up to \$700,000 CAD and information about the ongoing business development of the Company.

On November 24, 2017, Blox Labs completed its 2:1 share consolidation and name change from Big Rock Labs Inc. to Blox Labs Inc. The Company successfully closed its non-brokered private placement financing announced on November 8, 2017. Blox Labs raised gross proceeds of \$700,000 CAD through the issuance of 14 million post-consolidated equity units at a price of five cents per unit.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Each unit consists of one post-consolidated common share and one half of one post-consolidated common share purchase warrant. Each whole warrant is convertible into one common share at a price of ten cents per share and is exercisable for a period of 24 months.

Proceeds of the Offering will be used for ongoing software development including the assessment and development of blockchain applications, identifying business acquisitions and partnerships in the technology sector as well as for general working capital, marketing and corporate purposes. The securities issued by the Company in connection with the Offering are subject to a four months plus one day resale restriction following the date of distribution under applicable Canadian provincial securities laws.

On December 12, 2017, BLOX issued a news release titled "Liberty Leaf Holdings And Blox Labs To Develop Blockchain-Based Smart Contracts Ledger For The Legalized Cannabis Industry".

These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These financial statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. Consequently, adjustments would then be necessary to the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used. Such adjustments if required, could be material.

2. Basis of Preparation

Statement of Compliance

These unaudited condensed interim financial statements for the three and nine months ended December 31, 2017 and December 31, 2016 have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").

These interim financial statements do not include all the disclosures required by International Financial Reporting Standards ("IFRS") for annual consolidated financial statements and accordingly should be read in conjunction with the Company's audited consolidated financial statements for the year ended March 31, 2017 prepared in accordance with IFRS as issued by the IASB.

The accounting policies applied in the preparation of the unaudited condensed interim financial statements for the period ended December 31, 2017 and the period ended December 31, 2016 are set out below.

Basis of Presentation

The interim consolidated financial statements, presented in Canadian dollars, have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out in Note 3.

The accounting policies set out below have been applied consistently by all of the wholly owned subsidiaries to the periods presented in the interim consolidated financial statements.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Basis of Consolidation

The consolidated financial statements include the accounts of Blox Labs Inc., and its wholly-owned subsidiary, Big Rock Technologies Inc.

The subsidiary is controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

The functional currency of the parent and Big Rock Technologies Inc. is the Canadian dollar, which is the presentation currency of the consolidated financial statements.

Intercompany balances and transactions, and unrealized gains arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

Significant Accounting Estimates and Judgements

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from those estimates. Significant estimates are as follows:

- inputs used in accounting for share-based payment transactions and in valuation of options and warrants included in shareholders' equity, including volatility;
- valuation of deferred taxes; and
- assessing whether material uncertainties exist which would cause doubt about the Company's ability to continue as a going concern

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these financial statements set out below have been applied consistently in all material respects.

Cash and cash equivalents

The Company's cash consists of amounts held in its corporate bank accounts with Scotiabank.

Loss per share

Basic losses per share are computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted losses per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. No potentially dilutive securities were issued during the period. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

Share-based payment transactions

The Company may grant stock options to acquire common shares of the Company to directors, officers, employees and consultants. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Intangible assets

The Company's intangible assets consist of Trademarks, Domain Names, Software Applications (collectively, "the Intellectual Property" or "IP") and certain contracts. This IP was initially capitalized at cost which included the purchase price (net of any discounts and rebates) and other directly attributable costs of preparing the assets for its intended use. Direct expenditures, including employee costs, which enhance or extend the performance of computer software and beyond its specifications and which can be reliably measured, were added to the original costs of the software and domain names. Since its audited financial statements as of March 31, 2015 the Company decided that costs associated with developing and maintaining the Software Applications are recognized as an expense when incurred.

Intangible assets are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired. For the purpose of impairment testing, the recoverable amount is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the Cash Generating Unit (CGU) to which the asset belongs. If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The difference between the carrying amount and recoverable amount is recognized as an impairment loss in profit or loss, unless the asset is carried at the revalued amount, in which case, such impairment loss is treated as a revaluation decrease. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortization or depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognized in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase. However, to the extent that an impairment loss on the same revalued asset was previously recognized as an expense, a reversal of that impairment is also credited to profit or loss.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. In situations where the Company issues units, the value of the units is bifurcated based on their relative fair value of the share and warrant value. The fair value of the warrant is determined by using the Black-Scholes pricing model. The value assigned to the warrant is included as a separate reserve of the Company's equity.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Revenue

Revenue is recognized when the service is delivered to the customer and collection is reasonably assured.

Investment Tax Credits

Investment tax credits (“ITCs”) arising from research and development are recognized when their realization is reasonably assured. ITCs earned with respect to current expenditures for qualified research and development activities are included in the statement of loss and comprehensive loss as a tax refund or a reduction of research and development costs. ITCs associated with capital expenditures are reflected as reductions in the carrying amounts of the assets. During the period ended December 31, 2017, \$0 (2016 - \$13,684) was included as a tax refund or a reduction to research and development costs.

Financial Assets and Liabilities

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial assets in the following three categories depending on the purpose for which the instruments were acquired: Financial assets at fair value through profit or loss (“FVTPL”), available for sale (“AFS”) financial assets or loans and receivable.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. Financial assets are impaired when one or more events that occurred after the initial recognition of the financial asset have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of the estimated future cash flows, discounted at the financial asset’s original effective interest rate.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at FVTPL or other financial liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value. The Company’s financial liabilities include accrued liabilities. Subsequent to initial recognition, accrued financial liabilities are measured at amortized cost using the effective interest method.

The Company has classified its cash as loans and receivables and accounts payable and accrued liabilities as other financial liabilities.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of the available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. The Company does not have any derivative financial assets or liabilities.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

The Company does not have any financial instruments measured at fair value on the consolidated statements of financial position.

Income taxes

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

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the assets can be recovered.

Comprehensive Loss

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in net profit such as unrealized gains or losses on available for sale investments and gains or losses on certain derivative instruments. To date, there have not been any charges to other comprehensive income (loss).

New Accounting Standards and Interpretations

At the date of authorization of these consolidated financial statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Company has not early adopted. However, the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company.

- IFRS 9 'Financial Instruments: Classification and Measurement' – as issued in July 2014, reflects the first phase of the IASB's work on the replacement of International Accounting Standard 39, Financial Instruments: Recognition and Measurement ("IAS 39") and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB is addressing impairment of financial assets. In November 2013, IFRS 9 was amended to include new requirements for hedge accounting. The effective date is for annual periods beginning or after January 1, 2018. Entities may still choose to apply IFRS 9 immediately, but are not required to do so.
- IFRS 15 'Revenue from Contracts with Customers' was issued by the IASB in May 2014. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The effective date is for annual periods beginning or after January 1, 2018. Entities may still choose to apply IFRS 15 immediately, but are not required to do so.

4. Equity Instruments

a. Share capital

Authorized: An unlimited number of common shares without par value.

Issued: 24,115,001 common shares

Share consolidation

On November 24, 2017, Blox Labs completed its 2:1 share consolidation and name change from Big Rock Labs Inc. to Blox Labs Inc. The Company also successfully closed its \$700,000 CAD non-brokered private placement financing announced on November 8, 2017.

The common share consolidation record date was November 22, 2017 and the common share

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

consolidation became effective that day. In connection with the share consolidation, in accordance with CSE Policy 9 Section 3.1, the Company changed its name to Blox Labs Inc. In order to align with this new name, the Company also completed a CSE trading symbol change to BLOX.

Financing

On November 24, 2017, BLOX successfully closed its non-brokered private placement financing (the “Offering”) announced on November 8, 2017. The Company raised gross proceeds of \$700,000 CAD through the issuance of 14 million post-consolidated units at a price of five cents per unit. Each unit consists of one post-consolidated common share and one half of one post-consolidated common share purchase warrant. Each whole warrant is convertible into one common share at a price of ten cents per share and is exercisable for a period of 24 months.

Proceeds of the Offering will be used for ongoing software development including the assessment and development of blockchain applications, identifying business acquisitions and partnerships in the technology sector as well as for general working capital, marketing and corporate purposes. The securities issued by the Company in connection with the Offering are subject to a four months plus one day resale restriction following the date of distribution under applicable Canadian provincial securities laws.

b. Stock option plan and stock-based compensation

Under the Company’s current Stock Option Plan (the “Plan”), the Company may grant stock options to the Company’s directors, officers, employees and consultants, or a corporation wholly owned by such directors, officers, employees and consultants. The aggregate number of shares reserved for issuance under the Plan is up to 10% of the number of outstanding common shares, which was 24,115,001 as at December 31, 2017. The exercise price of options granted are subject to a minimum price of \$0.10 per share and must meet or exceed the closing market price of the shares on the trading day immediately preceding the grant of the option. On May 12, 2014 the Company issued 1,800,000 (900,000 after 2:1 share consolidation) stock options to management and directors. 1,500,000 (750,000 after 2:1 share consolidation) stock options were cancelled or expired since then. As of December 31, 2017, there are 150,000 options to purchase the Company’s common stock outstanding. These stock options have an exercise price of \$0.60 (after 2:1 share consolidation) and expire on May 12, 2019.

December 31, 2017

Options outstanding	Number of Options	Weighted Average Exercise Price
Balance, April 1, 2014	-	\$ -
Stock options issued	900,000	0.60
Stock options forfeited	(750,000)	0.60
Balance, end of the period	150,000	\$ 0.60
Exercisable, end of the period	150,000	\$ 0.60

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Options Outstanding
December 31, 2017

Exercise price	Number of Options	Weighted Average Life (Years)
\$0.60	150,000	1.2

The options granted have a fair value of \$436,494, which was estimated using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate	2.00%	Expected volatility (Based upon comparable public companies)	192%
Dividend yield	Nil	Expected life-options	60 months
Forfeiture rate	Nil	Exercise price	\$0.30

As of December 31, 2017, 150,000 options were exercisable. During the period ended December 31, 2017, \$436,494 (2016 – \$436,494) was included in contributed surplus.

c. Warrants

The following table summarizes warrants that have been issued, exercised or have expired during the period ended December 31, 2017:

	Number of Warrants	Weighted Average Strike Price
Opening, April 1, 2014	-	\$ -
Warrants issued upon 2015 unit financing	750,000	\$ 0.52
Warrants issued upon 2017 unit financing	7,000,000	\$ 0.10
Outstanding and exercisable – December 31, 2017	7,750,000	\$ 0.14

The fair value of the 2015 warrants of \$293,967 (2016 - \$293,967) was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	2.00%	Expected volatility (Based upon comparable public companies)	183%
Dividend yield	Nil	Expected life-warrants	60 months
Forfeiture rate	Nil	Exercise price	\$0.52

The warrants entitle the holders to purchase the stated number of common shares at the exercise price on or before the expiry date:

Exercise price	Number of outstanding exercisable warrants	Weighted average remaining contractual life (in years)	Expiry date
\$0.52	750,000	2.8	October 9, 2020

The fair value of the 2017 warrants of \$240,000 was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	2.00%	Expected volatility (Based upon comparable public companies)	183%
Dividend yield	Nil	Expected life-warrants	24 months
Forfeiture rate	Nil	Exercise price	\$0.10

The warrants entitle the holders to purchase the stated number of common shares at the exercise price on or before the expiry date:

Exercise price	Number of outstanding exercisable warrants	Weighted average remaining contractual life (in years)	Expiry date
\$0.10	7,000,000	1.7	November 27, 2019

5. Financial Instruments

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Fair value

The carrying value of cash amounts, and accrued liabilities approximated their fair value because of the relatively short-term nature of these instruments.

Credit risk

The Company's cash is largely held in large Canadian financial institutions. The Company maintains cash deposits with Schedule A financial institutions, which from time to time may exceed federally insured limits. The Company has not experienced any significant credit losses and believes it is not exposed to any significant credit risk.

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

functional currency. Due to its planned global revenue stream, the Company is exposed to foreign exchange risk.

Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not hold any financial liabilities with variable interest rates. The Company does maintain bank accounts which earn interest at variable rates but it does not believe it is currently subject to any significant interest rate risk.

Liquidity risk

The Company’s ability to continue as a going concern is dependent on management’s ability to raise additional funding through future equity issuances and through short-term borrowing. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. The Company intends to meet its current obligations in the following year with funds to be raised through private placements, shares for debt, loans and related party loans.

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

Fair value through profit and loss:	December 31, 2017
Cash	\$ 730,257

Financial liabilities included in the statement of financial position are as follows:

	December 31, 2017
Non-derivative financial liabilities:	
• Accrued liabilities	\$ 98,446

Fair value

The fair value of the cash and accrued liabilities approximates their carrying amounts, due to the short-term maturities of these instruments.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The following is an analysis of the Company’s financial assets measured at fair value as at December 31, 2017:

	Level 1	Level 2	Level 3
Cash and cash equivalents	\$730,257	\$ -	\$ -

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

6. Capital Risk Management

The Company defines its capital as shareholders' equity. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its technologies and to maintain a flexible capital structure for its projects for the benefit of its stakeholders. As the Company is in the development stage, its principal source of funds is from the issuance of common shares. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash. The Company expects its capital resources, which include a share offering, will be sufficient to carry its research and development plans and operations through its current operating period. The Company is not subject to externally imposed capital requirements.

7. Income Taxes

(a) Current Income Taxes

A reconciliation of income taxes at statutory rates is as follows:

	December 31, 2017
Net loss for the 3 months period	\$ (113,499)
Expected tax recovery at a combined federal and provincial rate of 26.50%	(30,077)
Tax benefit not recognized	(30,077)
Deferred income tax recovery	\$ –

(b) Deferred Taxes

Significant components of the Company's deferred income tax assets (not recognized) after applying enacted corporate income tax rates are as follows:

	December 31, 2017
Non-capital loss carry forwards	\$140,410
Other temporary differences	\$5,121
Net deferred income tax asset not recognized	\$145,531

At December 31, 2017, the Company has Canadian non-capital losses of \$684,732 which, if not utilized to reduce income in future periods, expire through 2037.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS