

BLOCK ONE CAPITAL INC.

Financial Statements

Years Ended August 31, 2019 and 2018

(Expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Block One Capital Inc.

Opinion

We have audited the financial statements of Block One Capital Inc. (the "Company"), which comprise the statements of financial position as at August 31, 2019 and 2018, and the statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company incurred a net loss of \$3,811,682 and used \$697,394 of cash for operating activities during the year ended August 31, 2019. As at August 31, 2019, the Company had an accumulated deficit of \$17,400,411. These events or conditions, along with other matters as set forth in Note 1 of the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partner on the audit resulting in this independent auditors' report is Henry Chow.



Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

December 27, 2019

BLOCK ONE CAPITAL INC.Statements of financial position
(Expressed in Canadian dollars)

	August 31, 2019 \$	August 31, 2018 \$
Assets		
Current assets		
Cash	1,037,369	2,171,471
Investments (Note 3)	910,820	1,977,769
Amounts receivable (Note 4)	26,089	116,217
Loans receivable (Note 4)	250,000	1,694,249
Prepaid expenses	57,761	25,248
Total assets	2,282,039	5,984,954
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	200,722	265,530
Notes payable (Note 5)	169,329	169,329
Due to related party (Note 6)	–	26,425
Total liabilities	370,051	461,284
Shareholders' equity		
Share capital	17,819,877	17,819,877
Share-based payment reserve	1,492,522	1,492,522
Share subscriptions receivable (Note 7)	–	(200,000)
Deficit	(17,400,411)	(13,588,729)
Shareholders' equity	1,911,988	5,523,670
Total liabilities and shareholders' equity	2,282,039	5,984,954

Nature of operations and continuance of business (Note 1)

Approved for issuance on behalf of the Board of Directors on December 27, 2019:

/s/ 'David Berg'

David Berg, Director

/s/ 'Julie Zhu'

Julie Zhu, Director

(The accompanying notes are an integral part of these financial statements)

BLOCK ONE CAPITAL INC.Statements of operations and comprehensive loss
(Expressed in Canadian dollars)

	Year ended August 31, 2019 \$	Year ended August 31, 2018 \$
Interest revenue	25,793	69,288
Expenses		
Consulting fees (Note 6)	530,595	812,051
General and administrative	51,179	10,434
Investor relations	38,651	910,413
Professional fees (Note 6)	78,936	208,815
Share-based payments (Notes 6 and 9)	–	844,890
Travel (Note 6)	185,574	245,974
Total expenses	884,935	3,032,577
Loss before other income (expense)	(859,142)	(2,963,289)
Other income (expense)		
Adjustments to fair value of investments (Note 3)	(348,432)	(2,457,494)
Impairment of investments (Note 3)	(813,960)	(3,509,009)
Interest expense	(15,000)	(16,914)
Loss on sale of investments (Note 3)	(1,141,858)	(799,693)
Write-down of accounts payable	27,104	–
Write-down of loans and interest receivable (Note 4)	(660,394)	(363,000)
Total other income (expense)	(2,952,540)	(7,146,110)
Net loss and comprehensive loss for the year	(3,811,682)	(10,109,399)
Loss per share, basic and diluted	(0.06)	(0.17)
Weighted average number of shares outstanding	66,548,333	58,361,429

(The accompanying notes are an integral part of these financial statements)

BLOCK ONE CAPITAL INC.Statements of changes in equity
(Expressed in Canadian dollars)

	Share capital		Share-based payment reserve \$	Share subscriptions received \$	Share subscriptions receivable \$	Deficit \$	Total shareholders' equity \$
	Number of shares	Amount \$					
Balance, August 31, 2017	37,588,333	4,248,642	692,867	290,000	—	(3,479,330)	1,752,179
Shares issued for cash	18,000,000	12,450,000	—	(290,000)	—	—	12,160,000
Shares issued as finder's fee	800,000	—	—	—	—	—	—
Shares issued pursuant to exercise of share purchase warrants	9,760,000	976,000	—	—	(200,000)	—	776,000
Shares issued pursuant to exercise of stock options	400,000	145,235	(45,235)	—	—	—	100,000
Fair value of stock options granted	—	—	844,890	—	—	—	844,890
Net loss for the year	—	—	—	—	—	(10,109,399)	(10,109,399)
Balance, August 31, 2018	66,548,333	17,819,877	1,492,522	—	(200,000)	(13,588,729)	5,523,670
Subscriptions received in lieu of service	—	—	—	—	200,000	—	200,000
Net loss for the year	—	—	—	—	—	(3,811,682)	(3,811,682)
Balance, August 31, 2019	66,548,333	17,819,877	1,492,522	—	—	(17,400,411)	1,911,988

(The accompanying notes are an integral part of these financial statements)

BLOCK ONE CAPITAL INC.

Statements of cash flows

(Expressed in Canadian dollars)

	Year ended August 31, 2019 \$	Year ended August 31, 2018 \$
Operating activities		
Net loss for the year	(3,811,682)	(10,109,399)
Items not involving cash:		
Adjustments to fair value of investments	348,432	2,457,494
Impairment of investments	813,960	3,509,009
Loss on sale of investments	1,141,858	799,693
Shares for services	200,000	–
Share-based payments	–	844,890
Sale of investments for services	70,000	–
Write-down of accounts payable	(27,104)	–
Write-down of loans and interest receivable	660,394	363,000
Changes in non-cash operating working capital:		
Amounts receivable	3,390	(78,120)
Prepaid expenses	(32,513)	(25,248)
Accounts payable and accrued liabilities	(37,704)	54,753
Due to related party	(26,425)	26,425
Net cash used in operating activities	(697,394)	(2,157,503)
Investing activities		
Acquisition of investments	(1,909,838)	(8,933,053)
Advances for loans receivable	(250,000)	(1,336,132)
Proceeds from repayments of loans receivable	854,593	15,000
Proceeds from sale of investments	868,537	1,764,063
Net cash used in investing activities	(436,708)	(8,490,122)
Financing activities		
Proceeds from issuance of common shares and share subscriptions	–	13,036,000
Proceeds from notes payable	–	19,329
Repayment of notes payable	–	(382,403)
Net cash provided by financing activities	–	12,672,926
Change in cash	(1,134,102)	2,025,301
Cash, beginning of year	2,171,471	146,170
Cash, end of year	1,037,369	2,171,471
Non-cash investing and financing activities:		
Acquisition of investments in exchange for loan receivable	266,000	–
Acquisition of investments through exchange of shares	–	3,204,000
Supplemental disclosures:		
Interest paid	–	1,695
Income taxes paid	–	–

(The accompanying notes are an integral part of these financial statements)

BLOCK ONE CAPITAL INC.

Notes to the financial statements
Years ended August 31, 2019 and 2018
(Expressed in Canadian dollars)

1. Nature of Operations and Continuance of Business

Block One Capital Inc. (the "Company") was incorporated on February 10, 2010 pursuant to the Canada Business Corporations Act. The Company completed its initial public offering ("IPO") on December 7, 2010, and is listed on the TSX-V under the symbol "BLOK". The Company's stated business goal is to build a portfolio of investments, with a view to participating in income and capital growth from the ultimate sale or other disposal of those investments.

These financial statements have been prepared on the 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. During the year ended August 31, 2019, the Company incurred a net loss of \$3,811,682 and used cash of \$697,394 for operating activities. As at August 31, 2019, the Company has an accumulated deficit of \$17,400,411. 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 sources 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 that are suitable to the Company. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. Significant Accounting Policies

(a) Statement of Compliance and Basis of Presentation

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These financial statements have been prepared on a historical cost basis. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(b) Application of New IFRS

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39, "Financial Instruments: Recognition and Measurement".

IFRS 9 introduces a new expected credit loss ("ECL") model for all financial assets in scope of the impairment requirements. The new ECL will result in an allowance for credit losses being recorded on financial assets irrespective of whether there has been an actual loss event.

The Company adopted the amendments to IFRS 9, effective September 1, 2018 using the full retrospective method, with no significant impact on the Company's financial statements.

(c) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

BLOCK ONE CAPITAL INC.

Notes to the financial statements
Years ended August 31, 2019 and 2018
(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(d) Use of Estimates and Judgments

The preparation of these financial statements in conformity with IFRS requires the Company's management to make judgments, estimates, and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues, and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Significant areas requiring the use of estimates include the collectability of amounts receivable and loans receivable, valuation and recoverability of investments, fair value of share-based payments, and unrecognized deferred income tax assets. Actual results could differ from those estimates.

Judgments made by management include the factors used to assess whether the going concern assumption is appropriate. The assessment of the going concern assumption requires management to take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

(e) Financial Instruments

(i) Recognition and initial measurement

The Company's financial instruments consist of cash, amounts receivable, loans receivable, amounts due to related party, investments, accounts payable and accrued liabilities, and notes payable.

Trade receivables are initially recognized when they are originated. All other financial assets and liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI - equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

BLOCK ONE CAPITAL INC.

Notes to the financial statements
Years ended August 31, 2019 and 2018
(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(e) Financial Instruments (continued)

(ii) Classification and subsequent measurement (continued)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis. All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: Subsequent measurement and gains and losses

- Financial assets at FVTPL: These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in the statement of operations.
- Financial assets at amortized cost: These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in the statement of operations. Any gain or loss on derecognition is recognized in the statement of operations.
- Debt investments at FVOCI: These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in the statement of operations. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to the statement of operations.
- Equity investments at FVOCI: These assets are subsequently measured at fair value. Dividends are recognized as income in the statement of operations unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to the statement of operations.

The Company's cash, amounts receivable, and loans receivable are classified as amortized cost. Investments are classified as fair value through profit or loss.

Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in the statement of operations. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in the statement of operations. Any gain or loss on derecognition is also recognized in the statement of operations.

The Company's accounts payable and accrued liabilities, notes payable, and amounts due to related parties are classified as amortized cost.

BLOCK ONE CAPITAL INC.

Notes to the financial statements
Years ended August 31, 2019 and 2018
(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(e) Financial instruments (continued)

(iii) Derecognition

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. The Company enters into transactions whereby it transfers assets recognized in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in the statement of operations.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(v) Impairment

Financial assets and contract assets

The Company recognizes loss allowances for expected credit losses ("ECLs") on:

- financial assets measured at amortized cost;
- debt investments measured at FVOCI; and
- contract assets (as defined in IFRS 15).

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

BLOCK ONE CAPITAL INC.

Notes to the financial statements
Years ended August 31, 2019 and 2018
(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(e) Financial instruments (continued)

(v) Impairment (continued)

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 90 days past due.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECL's that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or s by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to the statement of operations and is recognized in OCI.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

BLOCK ONE CAPITAL INC.

Notes to the financial statements
Years ended August 31, 2019 and 2018
(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(f) Revenue Recognition

As an investment company, the Company may earn revenue in the form of interest or dividends which derive from its investments or from cash on hand. Investment income includes interest, dividends, and realized gains on the sale of investments. Revenue is recognized in accordance with IFRS 15, *Revenues*, only when: (i) the customer can be identified; (ii) the performance obligations in the contract can be identified; (iii) the transaction price has been determined; (iv) the transaction price can be allocated to the performance obligations in the contract; and (v) when the entity satisfied a performance obligation.

(g) Foreign Currency Translation

The functional and reporting currency is the Canadian dollar. Transactions denominated in foreign currencies (United States dollars) are translated using the exchange rate in effect on the transaction date or at an average rate. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange in effect at the statement of financial position date. Non-monetary items are translated using the historical rate on the date of the transaction. Revenue and expenses are translated at average rates for the period. Foreign exchange gains and losses are included in the statement of operations.

(h) Income Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in the statement of operations. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the statement of financial position method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(i) Earnings (Loss) Per Share

Basic earnings (loss) per share is computed using the weight average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted loss per share, whereby all "in the money" stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive. As at August 31, 2019 and 2018, the Company had 28,390,000 potentially dilutive shares outstanding.

BLOCK ONE CAPITAL INC.

Notes to the financial statements
Years ended August 31, 2019 and 2018
(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(j) Comprehensive Income (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 the statement of operations. As at August 31, 2019 and 2018, the Company had no items that represent comprehensive income (loss).

(k) Share-based Payments

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled, share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The fair value of the options is measured at the grant date using the Black-Scholes option pricing model. The fair value is recognized as an expense over the vesting period, which is the period over which all of the specified vesting conditions are satisfied with a corresponding increase in equity. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. Non-market vesting conditions are considered in making assumptions about the number of awards that are expected to vest. When the options are exercised, any proceeds received are credited to share capital along with the amount reflected in share-based payment reserve.

(l) Reclassifications

Certain financial statement captions have been reclassified to conform to current year financial reporting standards. The impact of the reclassifications did not have a material impact on the Company's financial statements.

(m) Accounting Standards Issued But Not Yet Effective

Certain pronouncements have been issued by the IASB, or the IFRS Interpretations Committee that are mandatory for accounting years beginning on or after September 1, 2018.

New standard IFRS 16, "Leases"

The Company has not early adopted this revised standard and it will not have a material impact on the Company's financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

BLOCK ONE CAPITAL INC.

Notes to the financial statements
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3. Investments

	Balance, August 31, 2018 \$	Acquisitions \$	Adjustments to fair value \$	Impairments and Dispositions \$	Balance, August 31, 2019 \$
Equities					
AbraPlata Resource Corp.	92,080	–	(11,510)	–	80,570
Affirmative Technology Group LLC	1	–	–	–	1
BlockTech Ventures Inc.	1	–	–	–	1
BlueBird Battery Metals Inc.	264,000	191,348	(69,645)	(296,103)	89,600
Catalina Gold Corp.	3,006	–	(564)	–	2,442
Columbus Energy Ltd.	48,000	–	(16,000)	–	32,000
Corsurex Resource Corp.	54,177	–	(35,377)	–	18,800
Cuipo OMAAT Ltd.	1	–	–	(1)	–
Everyday People Financial Inc.	–	250,000	(249,999)	–	1
Finzat Block LLC	1	–	–	–	1
Flurotech Ltd.	64,970	–	(26,560)	(32,430)	5,980
HashChain Technology Inc.	684,250	–	305,450	(939,600)	50,100
Hybrid Minerals Inc.	141,450	–	(123,000)	–	18,450
Integrated Cannabis Company Inc.	118,833	43,125	(60,779)	(38,971)	62,208
Karma Technologies Ltd.	–	877,076	(877,075)	–	1
NRG Metals Inc.	83,265	–	(28,050)	(55,215)	–
Pacton Gold Inc.	17,160	–	(2,030)	(15,130)	–
Premier Health Group Inc.	–	85,244	(35,644)	–	49,600
Prospera Energy Inc.	–	46,573	(11,573)	–	35,000
Risetech Capital Corp	–	1,000	–	–	1,000
Rockshield Capital Corp.	–	27,223	(3,223)	–	24,000
Rosita Mining Corp.	144,760	–	(36,190)	–	108,570
Shopin	1	–	–	–	1
Shoshoni Gold Ltd.	23,300	–	74,564	(2,664)	95,200
True North Gems Inc.	–	12,265	(8,839)	–	3,426
VBI Vaccines Inc.	17,045	–	50,034	(67,079)	–
Vinergy Resources Ltd.	3,360	22,964	19,191	(24,065)	21,450
Xander Resources Inc.	47,565	–	7,928	–	55,493
Yorkton Ventures Inc.	115,450	–	(57,725)	–	57,725
Zonetail Inc.	–	16,000	(12,500)	–	3,500
Total equities	1,922,676	1,572,818	(1,209,116)	(1,471,258)	815,120
Warrants					
Australis Capital Inc.	–	603,020	(195,760)	(311,560)	95,700
Integrated Cannabis Company Inc.	48,376	–	–	(48,376)	–
Shoshoni Gold Ltd.	6,717	–	–	(6,717)	–
Total warrants	55,093	603,020	(195,760)	(366,653)	95,700
Total investments	1,977,769	2,175,838	(1,404,876)	(1,837,911)	910,820

BLOCK ONE CAPITAL INC.

Notes to the financial statements
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3. Investments (continued)

	Balance, August 31, 2017 \$	Acquisitions \$	Adjustments to fair value \$	Impairments and Dispositions \$	Balance, August 31, 2018 \$
Equities					
AbraPlata Resource Corp.	525,000	–	(409,653)	(23,267)	92,080
Affirmative Technology Group LLC	–	520,160	(520,159)	–	1
BlockTech Ventures Inc.	–	210,000	(209,999)	–	1
BlueBird Battery Metals Inc.	–	338,712	(74,712)	–	264,000
Breathtec Biomedical Inc.	–	30,000	–	(30,000)	–
Catalina Gold Corp.	30,060	–	(27,054)	–	3,006
Columbus Energy Ltd.	66,000	–	(18,000)	–	48,000
Corsurex Resource Corp.	4,177	50,000	–	–	54,177
Cuipo OMAAT Ltd.	–	999,820	(999,819)	–	1
Finzat Block LLC	–	789,985	(789,984)	–	1
Flurotech Ltd.	–	69,435	21,239	(25,704)	64,970
HashChain Technology Inc.	–	3,204,000	(1,457,750)	(1,062,000)	684,250
Hybrid Minerals Inc.	129,150	–	12,300	–	141,450
Integrated Cannabis Company Inc.	147,583	–	(28,750)	–	118,833
Leagold Mining Corp.	9,240	–	(3,990)	(5,250)	–
LeenLife Pharma International Inc.	157,500	–	(120,544)	(36,956)	–
NRG Metals Inc.	52,500	100,000	(19,442)	(49,793)	83,265
Pacton Gold Inc.	–	181,757	2,030	(166,627)	17,160
Reliq Health Technologies Ltd.	51,600	24,659	(26,407)	(49,852)	–
Rosita Mining Corp.	94,110	136,858	(23,172)	(63,036)	144,760
Shopin	–	989,049	(989,048)	–	1
Shoshoni Gold Ltd.	17,000	9,970	(2,105)	(1,565)	23,300
TG 12 Ventures Inc.	–	4,253,737	–	(4,253,737)	–
VBI Vaccines Inc.	22,912	–	(5,867)	–	17,045
Vinergy Resources Ltd.	21,840	–	(18,480)	–	3,360
Xander Resources Inc.	–	63,911	(16,346)	–	47,565
Yorkton Ventures Inc.	4,905	165,000	(54,455)	–	115,450
Total equities	1,333,577	12,137,053	(5,780,167)	(5,767,787)	1,922,676
Warrants					
Breathtec Biomedical Inc.	8,386	–	(8,386)	–	–
Hybrid Minerals Inc.	63,187	–	(63,187)	–	–
Integrated Cannabis Company Inc.	107,103	–	(58,727)	–	48,376
NRG Metals Inc.	22,383	–	22,709	(45,092)	–
Rosita Mining Corp.	24,044	–	(24,044)	–	–
Shoshoni Gold Ltd.	16,294	–	(9,577)	–	6,717
Tangelo Games Corp.	1	–	(1)	–	–
Total warrants	241,398	–	(141,213)	(45,092)	55,093
Total investments	1,574,975	12,137,053	(5,921,380)	(5,812,879)	1,977,769

BLOCK ONE CAPITAL INC.

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3. Investments (continued)

The Company's investments are comprised of the following debt and equity instruments:

(a) Catalina Gold Corp. (formerly Valparaiso Technologies Inc.) ("Catalina")

On February 19, 2014, the Company acquired a convertible debenture of Catalina for \$25,050, where the debenture is convertible into common shares of Catalina at \$0.033 per common share. As consideration for investing in the convertible debenture of Catalina, the Company received an additional 751,500 common shares of Catalina. On March 18, 2014, the Company exercised its right to convert the debenture into 751,500 common shares of Catalina. During the year ended August 31, 2015, Catalina consolidated its common shares on a one-for-four basis, where the Company's 1,503,000 common shares of Catalina were adjusted to 375,750 common shares. During the year ended August 31, 2018, Catalina consolidated its common shares on a one-for-ten basis, where the Company's 375,750 common shares were adjusted to 37,575 common shares.

(b) VBI Vaccines Inc. (formerly SciVac Therapeutics Inc.) ("VBI")

In February 2015, the Company acquired 250,000 common shares of Levon Resources Inc. ("Levon") for proceeds of \$71,193. In May 2015, the Company sold 34,000 common shares of Levon for proceeds of \$14,308. On July 9, 2015, pursuant to a plan of arrangement between Levon and VBI, each common share of Levon was exchanged for one common share of VBI and one-half of a common share of Levon ("New Levon"). As a result of the plan of arrangement, the Company exchanged 216,000 common shares of Levon for 216,000 common shares of VBI and 108,000 common shares of New Levon. On July 14, 2015, the Company sold 108,000 common shares of New Levon for proceeds of \$19,235. On July 15, 2015, the Company acquired 40,000 common shares of VBI for \$18,548. In April 2016, VBI completed a 40-for-1 share consolidation which decreased the Company's holdings to 6,400 common shares. During the year ended August 31, 2019, the Company sold 6,400 common shares of VBI for proceeds of \$17,436 resulting in a loss on sale of \$49,643.

(c) Rosita Mining Corp. ("Rosita")

On June 27, 2016, the Company acquired 487,000 common shares of Rosita for \$31,850. On July 19, 2016, the Company acquired 2,000,000 units of Rosita for \$100,000. Each unit consisted of one common share and one share purchase warrant. Each whole share purchase warrant is exercisable into one common share at a price of \$0.055 per share for two years. In June 2017, the Company acquired 650,000 common shares of Rosita for \$19,605. During the year ended August 31, 2018, the Company acquired 1,340,000 common shares of Rosita for \$114,858, exercised 400,000 warrants for \$22,000, and sold 1,258,000 common shares for proceeds of \$66,110 resulting in a gain on sale of \$3,074. The remaining 1,600,000 warrants expired unexercised on July 19, 2018 resulting in an adjustment to fair value of \$19,235.

(d) Columbus Energy Ltd. ("Columbus")

On November 2, 2015, the Company acquired 200,000 units of Columbus for \$12,000. Each unit consisted of one common share and one share purchase warrant. Each share purchase warrant is exercisable into one common share at a price of \$0.08 per share for one year. On January 4, 2017, the Company exercised the share purchase warrants of Columbus into 200,000 common shares of Columbus for \$16,000.

BLOCK ONE CAPITAL INC.

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3. Investments (continued)

(e) Shoshoni Gold ("Shoshoni")

During the year ended August 31, 2016, the Company acquired 3,400,000 units of Shoshoni for \$17,000, which was subsequently consolidated on a one-for-ten basis to 340,000 units. Each unit consisted of one common share and one share purchase warrant. Each whole share purchase warrant is exercisable into one common share at a price of \$0.05 per share for three years.

During the year ended August 31, 2018, the Company acquired 200,000 common shares of Shoshoni for \$9,970 and sold 74,000 common shares for proceeds of \$3,730 resulting in a gain on sale of \$2,165. During the year ended August 31, 2019, the Company sold 126,000 common shares for proceeds of \$5,225 resulting in a gain on sale of \$2,561.

During the year ended August 31, 2019, the 340,000 Shoshoni warrants expired unexercised, resulting in a loss of \$6,717.

(f) NRG Metals Inc. ("NRG")

On November 24, 2016, the Company acquired 500,000 units of NRG for \$50,100. Each unit consisted of one common share and one share purchase warrant. Each share purchase warrant is exercisable at a price of \$0.20 per share for two years. In January 2017, NRG completed a plan of arrangement (the "Plan of Arrangement") under the provision of the Business Corporations Act (British Columbia) pursuant to which certain assets of NRG were spun-out to Gold Port Resources Ltd. ("Gold Port"). Under the Plan of Arrangement, NRG's shareholders exchanged each existing common share of NRG for one "new" NRG common share and 0.25 common shares of Gold Port.

During the year ended August 31, 2018, the Company exercised 500,000 share purchase warrants for \$100,000 and sold 603,500 common shares for proceeds of \$218,361 resulting in a gain on sale of \$168,568. During the year ended August 31, 2019, the Company sold 396,500 common shares for proceeds of \$53,528 resulting in a loss on sale of \$1,688.

(g) Corsurex Resource Corp. ("Corsurex") (formerly Gold Port Resources Ltd. ("Gold Port"))

In January 2017, the Company acquired 125,000 common shares of Gold Port as part of the Plan of Arrangement of NRG.

During the year ended August 31, 2018, Corsurex consolidated its common shares on a one-for-sixteen basis, where the Company's 125,000 common shares of Corsurex were adjusted to 7,813 common shares and the Company acquired an additional 500,000 units of Corsurex for \$50,000. Each unit consisted of one common share and one share purchase warrant. Each share purchase warrant is exercisable into one common share at a price of \$0.20 per share until February 9, 2021. As at August 31, 2019, these warrants have not been valued as there is no market for Corsurex's common shares.

(h) Hybrid Minerals Inc. ("Hybrid") (formerly Savoy Ventures Inc.)

On February 6, 2017, the Company acquired 140,000 common shares of Hybrid for \$22,515. On April 4, 2017, the Company acquired 475,000 units of Hybrid for \$28,500. Each unit consisted of one common share and one share purchase warrant. Each share purchase warrant is exercisable at a price of \$0.08 per share for a period of one year. On March 20, 2018, the warrants expired unexercised resulting in an adjustment to fair value of \$63,187.

(i) Vinergy Resources Ltd. ("Vinergy")

In January 2017, the Company acquired 62,000 common shares of Vinergy for \$35,525. On January 26, 2017, the Company sold 20,000 common shares of Vinergy and recognized a gain on sale of \$1,795. During the year ended August 31, 2019 the Company sold 42,000 common shares of Vinergy for proceeds of \$7,248 and recognized a loss on the sale of \$16,818. In addition, the Company acquired an additional 130,000 common shares of Vinergy for \$22,964.

BLOCK ONE CAPITAL INC.

Notes to the financial statements
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3. Investments (continued)

(j) Yorkton Ventures Inc. ("Yorkton")

In November 2016, the Company acquired 44,500 common shares of Yorkton for \$4,185. On December 8, 2016, the Company acquired 10,000 common shares in Yorkton for \$1,200. During the year ended August 31, 2018, the Company acquired 1,100,000 common shares of Yorkton for \$165,000.

(k) Integrated Cannabis Company Inc. ("Integrated")

On June 13, 2017, the Company acquired 191,666 units of Integrated for \$57,500. Each unit consisted of one common share and three-quarters of a share purchase warrant, exercisable at a price of \$0.30 per share for one year which was extended for an additional year during the year ended August 31, 2018. During the year ended August 31, 2019, the Company sold 211,000 common shares of Integrated for proceeds of \$91,093 and realized a net gain of \$52,122. In addition, the Company exercised 143,749 warrants during the year for \$43,125.

(l) AbraPlata Resource Corp. (formerly Angel Bioventures Inc.) ("APRC")

On August 5, 2016, the Company acquired 500,000 units of Huayra Minerals Corporation ("Huayra") for \$25,000. Each unit consisted of one common share and one share purchase warrant. Each whole share purchase warrant is exercisable into one common share at a price of \$0.10 per share for two years.

On March 17, 2017, the Company acquired 100,000 common shares of APRC for \$25,000. On March 30, 2017, APRC completed a 1-for-5 share split which increased the Company's holdings to 500,000 common shares.

On April 24, 2017, APRC and its wholly-owned subsidiary, 1096494 BC Ltd., completed a merger with Huayra pursuant to which Huayra and 1096494 BC Ltd. amalgamated and the amalgamated company became a wholly-owned subsidiary of APRC.

Pursuant to the merger, APRC acquired all of the issued and outstanding Class A common shares of Huayra in exchange for a like number of common shares of APRC. All share purchase warrants of Huayra outstanding were subject to an acceleration of the expiry date to the closing of the merger.

As a result of the acceleration of the expiry date of the share purchase warrants of Huayra, the Company exercised the share purchase warrants of Huayra with a carrying value of \$15,119 into 500,000 common shares of Huayra for \$50,000. As part of the completion of the merger, the 1,000,000 common shares of Huayra were exchanged for 1,000,000 common shares of APRC.

During the year ended August 31, 2018, the Company sold 349,000 common shares of APRC for proceeds of \$49,549 resulting in a gain on sale of \$26,282.

(m) Affirmative Technology Group LLT ("Affirmative")

On June 12, 2018, the Company acquired 30% of the outstanding membership units of Affirmative for \$520,160. As at August 31, 2018, the Company recorded an impairment loss of \$520,159, resulting in a carrying value of \$1.

(n) BlockTech Ventures Inc. ("BlockTech")

On November 29, 2017, the Company acquired 600,000 common shares of BlockTech for \$210,000. As at August 31, 2018, the Company recorded an impairment loss of \$209,999 resulting in a carrying value of \$1.

(o) BlueBird Battery Metals Inc. ("BlueBird")

During the year ended August 31, 2018, the Company acquired 800,000 common shares of BlueBird for \$338,712. During the year ended August 31, 2019, the Company acquired 650,000 common shares of BlueBird for \$191,348. In addition, the Company sold 810,000 common shares of BlueBird for proceeds of \$202,901 and realized a net loss of \$93,202.

BLOCK ONE CAPITAL INC.

Notes to the financial statements
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3. Investments (continued)

(p) Cuipo OMAAT Ltd. (“Cuipo”)

During the year ended August 31, 2018, the Company acquired a 33% interest in the outstanding common shares of Cuipo for \$999,820. As at August 31, 2018, the Company recorded an impairment loss of \$999,819, resulting in a carrying value of \$1. During the year ended August 31, 2019, the Company received a repayment from Cuipo in the amount of \$313,114, resulting in a recovery of investment.

(q) Finzat Block LLC. (“Finzat”)

During the year ended August 31, 2018, the Company acquired 4,000,000 common shares of Finzat for \$789,985. On August 31, 2018, the Company recorded an impairment loss of \$789,984, resulting in a carrying value of \$1.

(r) Flurotech Ltd. (“Flurotech”)

During the year ended August 31, 2018, the Company acquired 140,000 common shares of Flurotech for \$69,435 and sold 51,000 common shares for proceeds of \$27,335 resulting in a gain on sale of \$1,631. During the year ended August 31, 2019, the Company sold 66,000 common shares of Flurotech for proceeds of \$36,391 and realized a gain on the sale of \$3,961.

(s) HashChain Technology Inc. (“HashChain”)

During the year ended August 31, 2018, the Company acquired 8,900,000 common shares of HashChain in exchange for 900 common shares of TG 12 Ventures Inc. at a fair value of \$3,204,000, and sold 2,950,000 common shares for proceeds of \$563,680 resulting in a loss on sale of \$498,320. During the year ended August 31, 2019, the Company sold 610,000 common shares of HashChain for proceeds of \$42,467 resulting in a loss of \$177,134. In addition, the Company transferred an additional 2,000,000 common shares of HashChain for services in lieu of cash of \$70,000, resulting in a realized loss of \$650,000.

(t) Pacton Gold Inc. (“Pacton”)

During the year ended August 31, 2018, the Company acquired 575,000 common shares of Pacton for \$181,757 and sold 542,000 common shares for proceeds of \$171,400 resulting in a gain on sale of \$4,773. During the year ended August 31, 2019, the Company sold 33,000 common shares of Pacton for proceeds of \$5,515 resulting in a net loss of \$9,615.

(u) Shopin Coin (“Shopin”)

During the year ended August 31, 2018, the Company acquired the right to future tokens of Shopin for \$989,049. As at August 31, 2018, the Company recorded an impairment loss of \$989,048 resulting in a carrying value of \$1.

(v) TG 12 Ventures Inc. (“TG 12”)

During the year ended August 31, 2018, the Company acquired 900 common shares of TG 12 for \$4,253,737. On April 25, 2018, the Company recovered \$12,210 and sold its 900 shares of TG 12 to HashChain in exchange for 8,900,000 common shares with fair value of \$3,204,000 resulting in a loss on sale of \$1,037,527.

(w) Xander Resources Inc. (“Xander”)

During the year ended August 31, 2018, the Company acquired 528,500 common shares of Xander for \$63,911.

(x) Australis Capital Corp – Warrants (“Australis”)

During the year ended August 31, 2019, the Company acquired 300,000 Australis warrants for \$603,020 and sold 155,000 warrants for proceeds of \$93,620 realizing a net loss of \$217,940.

BLOCK ONE CAPITAL INC.

Notes to the financial statements
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3. Investments (continued)

(y) Karma Technologies ("Karma")

During the year ended August 31, 2019, the Company acquired 12,600,000 common shares of Karma for \$877,076. On August 31, 2019, the Company recorded an impairment loss of \$877,075, resulting in a carrying value of \$1.

(z) Everyday Financial People Inc. ("EFP")

During the year ended August 31, 2019, the Company acquired 500,000 common shares of EFP for \$250,000. On August 31, 2019, the Company recorded an impairment loss of \$249,999, resulting in a carrying value of \$1.

(aa) Premier Health Group Inc. ("PHG")

During the year ended August 31, 2019, the Company acquired 160,000 common shares of PHG for \$85,244.

(bb) Prospera Energy Inc. ("Prospera")

During the year ended August 31, 2019, the Company acquired 700,000 common shares of Prospera for \$46,573.

(cc) Risetech Capital Corp. ("Risetech")

During the year ended August 31, 2019, the Company acquired 10,000 common shares of Risetech for \$1,000.

(dd) Rockshield Capital Corp. ("Rockshield")

During the year ended August 31, 2019, the Company acquired 300,000 common shares of Rockshield for \$27,223.

(ee) True North Gems Inc. ("True North")

On October 19, 2018, the Company acquired 2,000,000 common shares of True North for \$10,095. On October 30, 2018, True North completed a 10-for-1 share consolidation which decreased the Company's holdings to 200,000 common shares. From October 31, 2018 to February 7, 2019, the Company acquired an additional 203,000 common shares. On February 20, 2019, True North completed a 10-for-1 share consolidation which decreased the Company's holdings to 40,300 common shares.

(ff) Zonetail Inc. ("Zonetail")

On December 21, 2018, the Company received 100,000 common shares of Zonetail in lieu of the repayment of a loan receivable in the amount of \$16,000.

4. Loans Receivable

(a) As at August 31, 2019, the Company had \$nil (2018 - \$287,000) of loan receivable to an unrelated party for subscriptions to common shares. During the year ended August 31, 2019, the Company recorded an impairment loss of \$287,000 due to the uncertainty of collection of the loan receivable.

(b) As at August 31, 2019, the Company had \$nil (2018 - \$82,000) of loan receivable to an unrelated party for subscriptions to common shares. During the year ended August 31, 2019, the Company recorded an impairment loss of \$82,000 due to the uncertainty of collection of the loan receivable.

(c) As at August 31, 2019, the Company had \$nil (2018 - \$250,000) of loan receivable to an unrelated party for subscriptions to common shares. In February 2019, the Company received 500,000 common shares at \$0.50 per share as repayment of the loan receivable. Refer to Note 3(z).

BLOCK ONE CAPITAL INC.

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4. Loans Receivable (continued)

- (d) As at August 31, 2019, the Company was owed \$nil (2018 - \$146,050) from an unrelated party which was unsecured, bore interest at 24% per annum compounded monthly, and was due on demand. As at August 31, 2019, the Company recorded an impairment loss of \$146,050 and accrued interest of \$86,738 due to uncertainty of collection of the loan receivable.
- (e) As at August 31, 2019, the Company was owed \$nil (2018 - \$394,593) from an unrelated party which was unsecured, bore interest at 10% per annum, was due on demand. During the year ended August 31, 2019, the Company collected the balance owing.
- (f) As at August 31, 2019, the Company was owed \$nil (2018 - \$16,000) from an unrelated party which was unsecured, non-interest bearing, and was due on demand. In December 2018, the Company received common shares as repayment for the loan receivable. Refer to Note 3(ff).
- (g) As at August 31, 2019, the Company was owed \$nil (2017 - \$42,000) from a company with common management which was unsecured, non-interest bearing, and was due on demand. As at August 31, 2019, the Company recorded an impairment loss of \$42,000 due to the uncertainty of collection of the loan receivable.
- (h) As at August 31, 2019, the Company was owed \$nil (2018 - \$460,000) from an unrelated party which was unsecured, bore interest at 6% per annum, was due on demand. During the year ended August 31, 2019, the Company collected the balance owing.
- (i) As at August 31, 2019, the Company was owed \$nil (2018 - \$16,606) from an unrelated party which was unsecured, non-interest bearing, and due on demand. As at August 31, 2019, the Company recorded an impairment loss of \$16,606 due to the uncertainty of collection of the loan receivable.
- (j) In July 2019, the Company loaned \$250,000 to an unrelated publicly traded company. The loan is unsecured, bears interest at 10% per annum, and due on demand in either cash or common shares of the publicly traded company at the closing trading price on the date of conversion.

5. Notes Payable

- (a) As at August 31, 2019, the Company owed a note payable of \$75,000 (2018 - \$75,000) to a non-related party. The amount owing is unsecured, bears interest at 10% per annum, and is due on demand. As at August 31, 2019, accrued interest of \$20,733 (2018 - \$13,233) has been included in accounts payable and accrued liabilities.
- (b) As at August 31, 2019, the Company owed a note payable of \$75,000 (2018 - \$75,000) to a non-related party. The amount owing is unsecured, bears interest at 10% per annum, and is due on demand. As at August 31, 2019, accrued interest of \$19,192 (2018 - \$11,692) has been included in accounts payable and accrued liabilities.
- (c) As at August 31, 2019, the Company owed \$19,329 (2018 - \$19,329) to a non-related party. The amount owing is unsecured, non-interest bearing, and due on demand.

6. Related Party Transactions

- (a) During the year ended August 31, 2019, the Company incurred professional fees of \$30,000 (2018 - \$11,050) to a company controlled by the Chief Financial Officer ("CFO") of the Company.
- (b) During the year ended August 31, 2019, the Company incurred consulting fees of \$187,922 (2018 - \$137,863) and \$166,209 (2018 - \$169,091) of travel expenses to the former Chief Executive Officer of the Company.
- (c) During the year ended August 31, 2019, the Company incurred consulting fees of \$13,161 (2018 - \$66,329) to the former Chief Technology Officer of the Company.
- (d) During the year ended August 31, 2019, the Company incurred consulting fees of \$nil (2018 - \$80,000) to a company controlled by a director of the Company.

BLOCK ONE CAPITAL INC.

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6. Related Party Transactions (continued)

- (e) During the year ended August 31, 2019, the Company incurred share-based compensation of \$nil (2018 - \$13,295) to the spouse of the CFO of the Company.
- (f) As at August 31, 2019, the Company was owed \$nil (2018 - \$26,425) to a director of the Company. The amount owed is non-interest bearing, unsecured, and is due on demand. During the year ended August 31, 2019, the Company incurred share-based compensation of \$nil (2018 - \$217,013) to a director of the Company.

7. Share Capital

Authorized: Unlimited common shares without par value.

Share transactions during the year ended August 31, 2018:

- (a) On October 13, 2017, the Company issued 6,000,000 units at \$0.075 per unit for proceeds of \$450,000, of which \$290,000 was received as of August 31, 2017. Each unit consisted of one common share and one share purchase warrant, with each share purchase warrant exercisable to purchase one common share of the Company at \$0.20 for a period of five years.
- (b) On October 15, 2017, the Company issued 1,000,000 common shares for proceeds of \$100,000 pursuant to the exercise of share purchase warrants.
- (c) On November 21, 2017, the Company issued 1,500,000 common shares for proceeds of \$150,000 pursuant to the exercise of share purchase warrants, which included 500,000 common shares issued to a director of the Company and 1,000,000 common shares issued to a family member of a director of the Company.
- (d) On November 29, 2017, the Company issued 1,250,000 common shares for proceeds of \$125,000 pursuant to the exercise of share purchase warrants.
- (e) On December 4, 2017, the Company issued 4,000,000 common shares for proceeds of \$400,000 pursuant to the exercise of share purchase warrants, which included 500,000 common shares issued to a director of the Company and 3,000,000 common shares issued to a family member of a director of the Company.
- (f) On December 7, 2017, the Company issued 200,000 common shares for proceeds of \$50,000 pursuant to the exercise of stock options to the CFO of the Company.
- (g) On December 18, 2017, the Company issued 200,000 common shares for proceeds of \$50,000 pursuant to the exercise of stock options to a former director of the Company.
- (h) On December 20, 2017 the Company issued 10,000,000 units at \$1.00 per unit for proceeds of \$10,000,000. Each unit consisted of one common share and one-half of one share purchase warrant. Each full share purchase warrant is exercisable to purchase one common share of the Company at \$1.50 per share for a period of two years. Pursuant to the private placement, the Company also issued 800,000 finder's units with the same terms as the units above.
- (i) On January 30, 2018, the Company issued 10,000 common shares for proceeds of \$1,000 to a director of the Company, pursuant to the exercise of share purchase warrants.
- (j) On March 8, 2018, the Company issued 2,000,000 common shares for proceeds of \$200,000 pursuant to the exercise of share purchase warrants. As at August 31, 2018, the proceeds of \$200,000 have not been received and has been recorded as share subscriptions receivable. During the year ended August 31, 2019, the Company settled the share subscriptions receivable for consulting services.
- (k) On April 13, 2018, the Company issued 2,000,000 units at \$1.00 per unit for proceeds of \$2,000,000. Each unit consisted of one common share and one-half of one share purchase warrant. Each full share purchase warrant is exercisable to purchase one common share of the Company at \$1.50 per share for a period of two years.

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8. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	Number of warrants	Weighted average exercise price \$
Outstanding, August 31, 2017	23,250,000	0.10
Issued	12,400,000	0.90
Exercised	(9,760,000)	0.10
Outstanding, August 31, 2018 and 2019	25,890,000	0.48

As at August 31, 2019, the following share purchase warrants were outstanding:

Number of warrants outstanding	Exercise price \$	Expiry date
5,400,000	1.50	December 20, 2019
1,000,000	2.50	April 13, 2020
12,240,000	0.10	December 20, 2020
4,750,000	0.10	July 4, 2021
2,500,000	0.10	October 13, 2022
25,890,000		

9. Stock Options

The Company has adopted an incentive stock option plan in accordance with policies of TSX-V (the "Stock Option Plan") whereby the Board of Directors of the Company may from time to time, in its discretion, grant to directors, officers, employees, and consultants of the Company non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance under the Stock Option Plan shall not exceed 10% of the issued and outstanding common shares exercisable for the period of up to ten years. In addition, the number of common shares reserved for issuance to any one person shall not exceed 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to any one consultant will not exceed 2% of the issued and outstanding common shares. The Board of Directors determines the price per common share and the number of common shares which may be allocated to each director, officer, employee, and consultant and all other terms and conditions of the option, subject to the rules of the TSX-V.

The following table summarizes the continuity of the Company's stock options:

	Number of options	Weighted average exercise price \$
Outstanding, August 31, 2017	400,000	0.25
Granted	2,500,000	0.34
Exercised	(400,000)	0.25
Outstanding, August 31, 2018 and 2019	2,500,000	0.34

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9. Stock Options (continued)

Range of exercise prices \$	Stock options issued and outstanding	Weighted average remaining contracted life (years)
0.25	2,000,000	1.2
0.70	500,000	2.2
	2,500,000	1.4

During the year ended August 31, 2019, the Company granted nil (2018 – 2,500,000) stock options to directors, officers, and consultants of the Company. The weighted average of the fair value per option was \$nil (2018 - \$0.34). The fair value of the options granted during the period was \$nil (2018 - \$844,890) based on the Black-Scholes option pricing model using the following weighted average assumptions, assuming no expected forfeitures and no dividend yields: risk-free interest rate of 1.42%; expected life of 2.2 years; and volatility of 116%.

10. Financial Instruments and Risks

(a) Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position as at August 31, 2019 as follows:

	Fair value measurements using			Balance, August 31, 2019 \$
	Quoted prices in active markets for identical instruments (Level 1) \$	Significant other observable inputs (Level 2) \$	Significant unobservable inputs (Level 3) \$	
Cash	1,037,369	–	–	1,037,369
Investments	910,814	–	6	910,820
	1,948,183	–	6	1,948,189

The fair values of other financial instruments, which include amounts receivable, loans receivable, accounts payable and accrued liabilities, notes payable, and amount due to a related party approximate their carrying values due to the relatively short-term maturity of these instruments.

(b) Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. Amounts receivable is comprised of GST receivable from the Government of Canada and interest receivable from loans receivable. Loans receivable is comprised of loans to third party companies. All investments are monitored closely by management and credit loss is limited to the carrying amount of these financial assets.

(c) Foreign Exchange and Interest Rate Risk

The Company is not exposed to any significant foreign exchange or interest rate risk.

(d) Market Risk

The Company's investments are primarily in the form of publicly traded shares and share purchase warrants of publicly traded companies, of which the market values may fluctuate.

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10. Financial Instruments and Risks (continued)

(e) Liquidity Risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available capital in order to meet its liquidity requirements. Management maintains sufficient cash and cash equivalents to satisfy short-term liabilities in highly liquid investments.

11. Capital Management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and equity comprised of issued share capital and share-based payment reserve.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remained unchanged from the year ended August 31, 2018.

12. Income Taxes

The tax effect (computed by applying the Canadian federal and provincial statutory rate) of the significant temporary differences, which comprise deferred income tax assets and liabilities, are as follows:

	2019	2018
	\$	\$
Canadian statutory income tax rate	27%	27%
Expected income tax payable at statutory rate	(1,029,154)	(2,729,538)
Tax effect of:		
Permanent differences and other	381,373	297,125
Change in enacted tax rates	—	24,061
Change in unrecognized deferred income tax assets	647,781	2,408,352
Income tax provision	—	—

The significant components of deferred income tax assets and liabilities are as follows:

	2019	2018
	\$	\$
Deferred income tax assets		
Non-capital losses carried forward	2,076,640	1,795,221
Capital losses carried forward	444,507	188,827
Share issuance costs	70	140
Fair value adjustments on investments	1,459,312	1,348,533
Other	355	382
Total gross deferred income tax assets	3,980,884	3,333,103
Unrecognized deferred income tax assets	(3,980,884)	(3,333,103)
Net deferred income tax asset	—	—

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Notes to the financial statements

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12. Income Taxes (continued)

As at August 31, 2019, the Company has capital losses carried forward of \$3,292,643 and non-capital losses carried forward of \$7,691,261, which are available to offset future years' taxable income. The non-capital losses expire as follows:

	\$
2031	551,000
2032	596,094
2033	1,678,634
2034	632,258
2035	245,381
2036	283,489
2037	137,762
2038	2,524,350
	1,042,293
	<hr/> 7,691,261 <hr/>