

**BLOCK ONE CAPITAL INC.**  
**Form 51-102F1**

**Management's Discussion & Analysis**  
For the year ended August 31, 2019

**1.1 Introduction**

***Corporate structure and background***

The following management's discussion and analysis ("MD&A"), prepared as of December 27, 2019, is a review of operations, current financial position and outlook for Block One Capital Inc. (the "Company"). Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com). This MD&A should be read in conjunction with the Company's audited financial statements for the year ended August 31, 2019. Those financial statements were prepared in accordance with IFRS. Amounts are reported in Canadian dollars, unless otherwise specified.

The Company was incorporated on February 10, 2010 pursuant to the *Canada Business Corporation Act* and on February 17, 2017, the Company was continued into British Columbia under the British Columbia Business Corporation Act. The Company completed its initial public offering on December 7, 2010. On November 9, 2017 the Company changed its name to "Block One Capital Inc.", and is listed on the TSX-V as a Tier 2 Investment Issuer 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.

***Forward-Looking Statements***

Certain statements contained in the following MD&A constitute forward-looking statements. When used in this document, the words "may", "would", "could", "will", "intend", "plan", "propose", "anticipate", "believe", used by any of the Company's management, are intended to identify forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward- looking statements. Readers are cautioned not to place undue reliance on these forward- looking statements. The Company does not intend and does not assume any obligation, to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments, except as required by law.

***IAS 36 – Impairment of Assets***

IAS 36 Impairment of Assets seeks to ensure that an entity's assets are not carried at more than their recoverable amount. The core principle is that an asset must not be carried in the financial statements at more than the highest amount to be recovered through its use or sale. If the carrying amount exceeds the recoverable amount, the asset is described as impaired. The entity must reduce the carrying amount of the asset to its recoverable amount and recognise an impairment loss. IAS 36 also applies to groups of assets that do not generate cash flows individually (known as cash-generating units).

As at August 31, 2019, management assessed that investments in the following companies: Affirmative Technology Group LLC (\$520,159), BlockTech Ventures Inc. (\$209,999), Cuipo OMAAT Ltd. (\$999,819), Finzat Block LLC (\$789,984), Shopin Coin (\$989,048), Karma Technologies (\$877,075), and Everyday Financial People (\$249,999) did not support their carrying value, based on the guidance provided by IAS 36, and the amounts invested were impaired to a carrying value of \$1. In subsequent periods when value is derived from the investments, management will recognize a recovery of these investments. During the year ended August 31, 2019 the Company recognized a recovery of its Cuipo OMAAT investment in the amount of \$313,114.

## ***Risks and Uncertainties***

### ***Liquidity Risk***

Due to market conditions beyond its control, including investor demand, resale restrictions, general market trends and regulatory restrictions, the Company may not be able to liquidate investments without a listed market for their securities, when it would otherwise desire to do so in order to operate in accordance with its investment policy and strategy. Such lack of liquidity could have a material adverse effect on the value of the Resulting Issuer's investments and, consequently, the value of the shares of the Resulting Issuer.

### **Diversification Risk**

The aggregate returns realized by the Company may be substantially and adversely affected by the unfavourable performance of even a single investment. Accordingly, there can be no assurance that the Resulting Issuer will be able to reduce its investment risk by diversifying its portfolio. The resulting lack of diversification may adversely impact the ability of the Resulting Issuer to achieve its desired investment returns.

### **Capital Risk**

If the Company is unable to raise additional investment capital either through investment returns or new financing through securities offerings, then it will be limited in its ability to fulfill its investment objectives. This may adversely affect its long-term viability. To raise additional capital, the Resulting Issuer may have to issue additional shares which may dilute the interests of existing shareholders

### **Volatility Risk**

In recent years, the securities markets in Canada have experienced a high level of price and volume volatility, and the market price of securities of many junior companies have experienced wide fluctuations in price. The market price of the Shares may be volatile and could be subject to wide fluctuations due to a number of factors. Broad market fluctuations, as well as economic conditions generally and in the technology industry specifically, may adversely affect the market price of the Shares.

### **Additional Risk Factors**

As described in the notes to the audited financial statements, although the Company's active investments are comprised mostly of publicly traded shares, there is no guarantee that the market would be able to absorb sale of the number of shares held by the Company without a drop in the share price, should the Company attempt to realize its investments within a very short timeframe. The reported fair value does not necessarily reflect the value that would be obtained should the Company sell its investments in an arm's-length transaction.

Readers should refer to the risk factors disclosed in the Company's Filing Statement dated July 6, 2011 filed on SEDAR.

## 1.2 Overall Performance

The Company was incorporated under the *Canada Business Corporations Act* on February 10, 2010. On December 7, 2010, the common shares of the Company began trading on the TSX-V under the ticker symbol "EXC.P". On July 15, 2011, the Company completed its Qualifying Transaction and is now listed on the TSX-V as a Tier 2 Investment Issuer. Pursuant to the Qualifying Transaction, the Company entered into agreements to acquire debt and equity securities of various companies. On November 9, 2017 the company changed its name to "Block One Capital Inc." and is listed on the TSX-V under the symbol "BLOK".

During the year ended August 31, 2019, the Company has continued to make strategic investments on behalf of the shareholders of the Company.

## 1.3 Selected Annual Information

The following provides a summary of selected financial information, derived from the Company's audited financial statements for the years ended August 31, 2019, 2018, and 2017:

	Years ended August 31		
	2019	2018	2017
	\$	\$	\$
Total revenues	25,793	69,288	56,599
Net income (loss) and comprehensive income (loss)	(3,811,682)	(10,109,399)	262,852
Net income (loss) per share	(0.06)	(0.17)	0.01
Total assets	2,282,039	5,984,954	2,495,359
Total liabilities	370,051	461,284	743,180

The financial information presented in the table above for the years ended August 31, 2019, 2018, and 2017 are from the Company's financial statements prepared in accordance with International Financial Reporting Standards. The reporting currency for all periods is Canadian dollars.

## 1.4 Summary of Quarterly Results

The following table summarizes information derived from the Company's financial statements for each of the Company's most recently completed eight quarters:

Quarter ended:	Total revenue	Total net income (loss)	Earnings (loss) per share (actual and fully-diluted)
August 31, 2017	\$17,746	\$550,379	\$0.02
November 30, 2017	\$16,858	\$341,389	\$0.01
February 28, 2018	\$16,858	\$(168,824)	\$0.00
May 31, 2018	\$18,859	\$(293,474)	\$(0.00)
August 31, 2018	\$16,713	\$(9,988,490)	\$(0.17)
November 30, 2018	\$25,554	\$(1,604,570)	\$(0.02)
February 28, 2019	\$22,162	\$(163,867)	\$(0.00)
May 31, 2019	\$8,763	\$(63,841)	\$(0.00)
August 31, 2019	\$(30,686)	\$(1,979,404)	\$(0.03)

## 1.5 Results of Operations

### *Discussion of Operating Results - three months ended August 31, 2019*

Operating expenses in the current period decreased to \$884,935 from \$3,032,577 during the comparative period. The decrease in expenses was due to:

- The Company incurred expenditures relating to advertising, marketing, and investor relations of \$38,651 (2018 - \$910,413) as the Company had entered into the Blockchain space in the prior year and incurred additional marketing to help build brand awareness. In the current year the company allowed its investee companies to continue to develop their business.
- The Company incurred \$530,595 (2018 - \$812,051) in consulting fees, and the decrease was a result of the Company allowing its current portfolio of investments to mature and expended less resources on sourcing new investments.
- The Company incurred professional fees of \$78,936 (2018 - \$208,815) as there were less legal fees incurred for agreements related to new investments pursued in the current year.
- The Company incurred share-based payment expense of \$Nil (2018 - \$844,890) as the Company did not grant any share-based compensation in the current year. In the prior year the Company granted 2,500,000 stock options to officers, directors, and consultants.

During the year ended August 31, 2019, the Company recorded a net loss of \$3,811,682 compared to net loss of \$10,109,399 during the year ended August 31, 2018. In addition to operating expenses, the Company recorded a loss due to the adjustment for the decline in the fair value of investments of \$348,432 (2018 - \$2,457,494) due to poor performing markets, as well as the impairment loss on investments of \$813,960 (2018 - \$3,509,009) for private companies for which investments fair market value could not be substantiated according to IFRS 9 and 36. The Company also recorded a realized loss of \$1,141,858 (2018 - \$799,693) for the sale of investments, and a write-down of \$660,394 (2018 - \$363,000) on loan receivables due to management's assessment that various outstanding loan receivables did not meet the criteria for collectability. Even though the loans receivable has been impaired due to collectability issues, the loans are still subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

#### **1.6 and 1.7 Liquidity and Capital Resources**

At August 31, 2019, the Company had a working capital of \$1,911,988 with a cash balance of \$1,037,369. At August 31, 2018, the Company had working capital \$5,523,670 with a cash balance of \$2,171,471. The decrease in working capital and cash in fiscal 2019 was due to the use of proceeds for operating activities and fair value adjustments through profit and loss for new and existing investments during the year. In addition, the Company collected \$868,059 of loans and accrued interest and wrote-off an additional \$660,394 of loans and interest receivable due to the uncertainty of collectability.

In addition to the above, the Company also has holdings of investments in publicly traded shares and share purchase warrants, that are accounted for as fair value through profit and loss basis, which had a market value of \$910,820 (2018 - \$1,977,769).

During the year ended August 31, 2019, the Company received \$Nil (2018 - \$13,036,000) from the issuance of common shares.

Ongoing working capital requirements are limited to those necessary to maintain the Company's ongoing public reporting obligations and support the Company in its identification and completion of further potential investment and fund-raising opportunities. Should the Company not be able to attract additional debt or equity financing, management of the Company is able to raise funds as needed through sales from its investment portfolio.

The Company has not pledged any of its assets as security for loans or otherwise and is not subject to any debt covenants.

#### **Cash Used in Operating Activities**

During the year ended August 31, 2019, the Company used \$697,394 of cash for operating activities compared to \$2,157,503 during the year ended August 31, 2018. The decrease in cash used for operating activities was due to the fact that the Company focused on allowing its current investment portfolio to mature therefore incurring less travel, marketing and legal costs in the year.

### Cash Used In Investing Activities

During the year ended August 31, 2019, the Company used \$436,708 of cash for investing activities compared to \$8,490,122 during the year ended August 31, 2018. The decrease in the use of cash for investing activities is due to the Company allocating less capital to the acquisition of new investments \$1,909,838 relative to August 31, 2018 when it allocated \$8,933,053 to new investments and issued less loans to third party companies (\$250,000 in 2019 compared to \$1,336,132 in 2018). The Company received less cash proceeds from the sales of investments during 2019 (\$868,537 in 2019 compared to \$1,764,063) but the difference was offset by the fact that the Company received \$854,593 of repayments of outstanding loans receivable in 2019 (compared to \$15,000 received in 2018).

### Cash Provided by Financing Activities

During the year ended August 31, 2019, the Company received \$Nil of cash from financing activities as compared to \$12,672,926 during the year ended August 31, 2018. The decrease in cash from financing activities was due to receipt of \$12,160,000 from the issuance of private placements, \$776,000 from the exercise of share purchase warrants, and \$100,000 from the exercise of stock options in the prior year which was offset by the repayment of \$382,403 of outstanding notes payable in fiscal 2018.

## **1.8 Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

## **1.9 Transactions with Related Parties**

During the year ended August 31, 2019, the Company:

- (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.
- (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.

These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount agreed upon by the transacting parties.

## **1.10 Other Events**

None during the period.

## **1.11 Changes in Accounting Policies**

See Note 2 to the Company's audited financial statements for the year ended August 31, 2019 for a description of the Company's accounting policies and new accounting standards that have been issued but are not yet effective with respect to the Company's financial statements.

## **1.12 Financial Instruments and Other Instruments**

At August 31, 2019, the Company's financial instruments consist of cash, amounts receivable, loans

receivable, investments, accounts payable and accrued liabilities, amounts due to related parties, and notes payable. See the notes to the audited financial statements for the year ended August 31, 2019 for more information.

### **1.13 Additional Information Outstanding Share Data as at August 31, 2019 and the Report Date**

#### *Authorized*

The Company is authorized to issue an unlimited number of Common Shares.

#### Common Shares

As at August 31, 2019 and December 27, 2019, the Company had 66,548,333 common shares outstanding.

#### Stock Options

As at August 31, 2019 and December 27, 2019, the Company had 2,500,000 stock options outstanding.

#### Share Purchase Warrants

As at August 31, 2019 and December 27, 2019, the Company had 25,890,000 share purchase warrants outstanding.

### **1.14 Subsequent Events**

No subsequent events

### **1.15 Officers and Directors**

Christopher Cherry, CFO, Director

David Berg, CEO, Director

Julie Zhu, Director

Aman Thindal, Director