AVALON BLOCKCHAIN INC. (formerly World Mahjong Limited)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT

SEPTEMBER 30, 2018 AND 2017

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED 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 condensed consolidated interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

(Expressed in Canadian dollars - unaudited)

	September 30, 2018	December 31, 2017
	$	$
ASSETS		
Current assets		
Cash	443,343	-
Cash held in trust	-	1,300,017
Receivables	18	-
	443,361	**1,300,017**
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	16,374	33,586
Convertible debentures (Note 6)	-	1,130,435
	16,374	1,164,021
Deferred income taxes (Note 6)	-	36,000
	16,374	1,200,021
Shareholders' Equity		
Share capital (Note 7)	2,442,656	18
Contributed surplus (Note 4)	112,956	-
Equity component of convertible debentures (Note 6)	-	125,565
Deficit	(2,128,625)	(25,587)
	426,987	99,996
	443,361	**1,300,017**

Nature and continuance of operations (Note 1)

Approved and authorized for issue on behalf of the Board on November 23, 2018:

"*Anthony Alvaro*"	"*Robert Cross*"
Director	Director

(Expressed in Canadian dollars – unaudited)

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Expenses				
Project investigation fees (Note 4)	$ -	$ -	$ 381,180	$ -
Professional fees	23,390	-	138,794	-
Consulting Fees	14,778	-	58,151	-
Filing fees	3,873	-	33,890	-
Office and miscellaneous	953	-	12,510	-
Management fees (Note 8)	-	-	8,400	-
	(42,994)	-	(632,925)	-
Other				
Accretion on convertible debt (Note 6)	-	-	(42,740)	-
Listing fee (Note 4)	-	-	(1,463,373)	-
Loss before taxes	$ (42,994)	$ -	$ (2,139,038)	$ -
Deferred income tax recovery (Note 6)	-	-	36,000	-
Loss and Comprehensive Loss for the Period	**$ (42,994)**	**$ -**	**$ (2,103,038)**	**$ -**
Basic and Diluted Loss Per Common Share	$ (0.00)	$ -	$ (0.03)	$ -
Weighted Average Number of Common Shares Outstanding	67,328,936	1	66,704,188	1

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

AVALON BLOCKCHAIN INC. (formerly World Mahjong Limited)
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Expressed in Canadian dollars – unaudited)

	Common shares						
	Number of shares	**Amount**	**Subscriptions payable**	**Contributed Surplus**	**Equity Component of Convertible Debenture**	**Deficit**	**Total**
		$	**$**	**$**	**$**	**$**	**$**
As at December 31, 2016	1	1	-	-	-	**(1,715)**	**(1,714)**
Loss and comprehensive loss for the period	-	-	-	-	-	-	-
Balance, September 30, 2017	**1**	**1**	**-**	**-**	**-**	**(1,715)**	**(1,714)**
Convertible debentures	-	-	-	-	125,565	-	125,565
Share issuance	18,450,978	18	-	-	-	-	18
Repurchase of share	(1)	(1)	-	-	-	-	(1)
Loss and comprehensive loss for the period	-	-	-	-	-	(23,872)	(23,872)
Balance, December 31, 2017	**18,450,978**	**18**	**-**	**-**	**125,565**	**(25,587)**	**99,996**
Share cancellation pre-RTO shares	(18,450,978)	-	-	-	-	-	-
Share issuance in relation to RTO	22,877,958	-	-	-	-	-	-
Conversion of convertible debentures	26,000,000	1,298,740	-	-	(125,565)	-	1,173,175
Share issuance in relation to RTO	18,450,978	1,143,898	-	-	-	-	1,143,898
Share issuance in private placement	37,154,502	-	17,895,188	-	-	-	17,895,188
Shares issued for asset purchase	120,000,000	-	-	-	-	-	-
Share cancellation as asset purchase reversed	(120,000,000)	-	-	-	-	-	-
Valuation of warrants in relation to RTO	-	-	-	112,956	-	-	112,956
Shares cancelled in rescission transaction	(37,154,502)	-	(17,895,188)	-	-	-	(17,895,188)
Loss and comprehensive loss for the period	-	-	-	-	-	(2,103,038)	(2,103,038)
Balance, September 30, 2018	**67,328,936**	**2,442,656**	**-**	**112,956**	**-**	**(2,128,625)**	**426,987**

AVALON BLOCKCHAIN INC. (formerly World Mahjong Limited)
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Expressed in Canadian dollars – unaudited)

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
	$	$
Cash provided by (used in):		
Operating activities		
Net income (loss) for the period	(2,103,038)	-
Non-cash items:		
Listing fee	1,463,373	-
Accretion on convertible debt	42,740	-
Deferred income tax recovery	(36,000)	-
Changes in non-cash working capital balance:		
Increase in accounts receivable non-trade	(18)	-
Increase in accounts payable and accrued liabilities	(200,862)	-
Net cash provided by (used in) operating activities	(833,805)	-
Investing activity		
Cash paid in relation to the RTO	(23,886)	-
Cash acquired in RTO	1,017	-
Net cash provided by (used in) investing activities	(22,869)	-
Financing activity		
Subscriptions received	17,895,188	-
Repayment of subscriptions received	(17,895,188)	-
Net cash provided by (used in) financing activities	-	-
Change in cash during the period	(856,674)	-
Cash held in trust, beginning of period	1,300,017	-
Cash, end of period	**443,343**	-
Supplemental cash flow disclosures		
Income taxes paid	-	-
Interest paid	-	-

Supplemental disclosure with respect to cash flows (Note 10)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Avalon Blockchain Inc. (formerly World Mahjong Limited) (the "Company") was incorporated in the Province of British Columbia on May 11, 1981. The head office of the Company is located at Suite 835, 1100 Melville Street, Vancouver, BC, V6E 4E6, and the records office is located at 2200 – 885 West Georgia Street, Vancouver, British Columbia, Canada, V6C 3E8. The Company's common shares are listed and currently halted from trading on the Canadian Securities Exchange ("CSE") under the symbol "AVLN" (formerly "WSM"), has no current business or business assets and is currently in the process of exploring various business opportunities.

These condensed interim consolidated financial statements are 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 for the foreseeable future and that management does not intend to liquidate the Company or to cease trading or has no realistic alternative but to do so. As at September 30, 2018, the Company has accumulated losses since its inception of $2,128,625 (December 31, 2017 - $25,587), which has been funded primarily by the issuance of shares and loans from its creditors and related parties. These factors indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern. The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing or maintaining continued support from its shareholders and creditors and generating profitable operations in the future. These financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and liabilities that might be necessary should the Company be unable to continue in existence.

Although the Company has been successful in the past in obtaining financing, there can be no assurances that the Company will continue to obtain the additional financial resources necessary and/or achieve profitability or positive cash flows from its future operations. If the Company is unable to obtain adequate additional financing, the Company would be required to curtail its planned operations, expansion and customer deployments.

Reverse Takeover

On March 29, 2018, the Company changed its name from World Mahjong Limited to Avalon Blockchain Inc. following the completion of the reverse takeover transaction ("RTO") and amalgamation ("Amalgamation") of 1158716 B.C. Ltd. ("Amalco" formerly Avalon Projects Canada Inc.) with the Company's newly incorporated wholly-owned subsidiary, 1146305 B.C. Ltd. ("Subco"). Pursuant to the amalgamation agreement and closing of the RTO, Subco and Amalco amalgamated and the resulting entity became a wholly-owned subsidiary of the Company. The principal activity of Amalco is to seek the acquisition of qualifying assets or a business pursuant to the policies of the CSE.

The RTO transaction has Amalco deemed as the accounting acquirer for accounting purposes, and therefore its assets and liabilities and operations are included in the consolidated financial statements at their historical carrying value. Amalco's operations were considered to be a continuance of the business and operations of Amalco. The Company's results of operations are those of Amalco, with World Mahjong Limited operations being included from March 29, 2018 onwards, the closing date. Refer to RTO (Note 4) for more details.

2. BASIS OF PREPARATION

a) Statement of compliance

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

This condensed interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual audited financial statements of the Company for the year ended December 31, 2017.

The accounting policies applied in preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2017, except for the following:

The financial statements were authorized for issue by the Board of Directors on November 23, 2018.

<u>Financial instruments</u>

On January 1, 2018, the Company adopted IFRS 9 – Financial Instruments ("IFRS 9") which replaced IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected loss' impairment model. IFRS 9 also includes significant changes to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard retrospectively. IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities.

The following summarizes the significant changes in IFRS 9 compared to the current standard:

- IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest. The change did not impact the carrying amounts of any of the Company's financial assets on the transition date. Prior periods were not restated and no material changes resulted from adopting this new standard.

- The adoption of the new "expected credit loss" impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, had no impact on the carrying amounts of our financial assets on the transition date given the Company transacts exclusively with large international financial institutions and other organizations with strong credit ratings.

b) Basis of consolidation and presentation

The financial statements have been prepared on a historical cost basis in Canadian dollars, which is the Company's and its wholly owned subsidiaries' functional currency.

These financial statements incorporate the financial statements of the Company and its wholly controlled subsidiaries 1076447 Nevada Ltd and Amalco. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements include the accounts of the Company and its direct wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

c) Basis of measurement

The financial statements have been prepared on a historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the significant accounting policies set out in Note 3.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Loss per share

Basic loss per share is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. The Company applies the treasury stock method in calculating diluted loss per share. Diluted loss per share excludes all dilutive potential common shares if their effect is anti-dilutive.

b) Convertible debentures

Convertible debentures, where applicable, are separated into their liability and equity components and accounted for using the effective interest rate method. The fair value of the liability component at the time of issue was determined based on an estimated interest rate of the debentures without the conversion feature. The fair value of the equity component was determined as the difference between the face value and the fair value of the liability component. Issuance costs of the convertible debentures are applied as a reduction of proceeds and split pro-rata between the liability and equity components. The issuance costs applied to the liability component are recognized as accretion expense over the term of the debenture.

c) Income taxes

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

d) Share capital

Proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company, in addition to the proportionate amount of reserves originally created at the issuance of the stock options or warrants. Share capital issued for non-monetary consideration is valued at the closing market price at the date of issuance. The proceeds from the issuance of units are allocated between common shares and common share purchase warrants based on the residual value method. Under this method, the proceeds are allocated to common shares based on the fair value of a common share at the announcement date of the unit offering and any residual remaining is allocated to common share purchase warrants.

e) Significant accounting estimates and judgments

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:
Significant accounting estimates include:

i. The measurement of deferred income tax assets and liabilities.
ii. Discount rate used for determining the carrying value of the convertible debenture.

Significant accounting judgments include:

i. The evaluation of the Company's ability to continue as a going concern.

f) Financial instruments

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive.

The classification determines the method by which the financial assets are carried on the balance sheet subsequent to inception and how changes in value are recorded. Cash and Cash held in trust are classified as FVTPL. Receivables are measured at amortized cost with subsequent impairments recognized in profit or loss.

Impairment

An ‘expected credit loss’ impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset’s original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the balance sheet subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities are classified as other financial liabilities and carried on the balance sheet at amortized cost.

As at September 30, 2018, the Company does not have any derivative financial liabilities.

g) New accounting standards issued but not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB that are mandatory for future accounting periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below. The Company is evaluating any impact the standards noted below may have on the Company’s financial statements and this assessment has not been completed.

Standards effective for annual periods beginning on or after January 1, 2018:

IFRS 15 *Revenue from Contracts with Customers* - In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 16 *Leases* - In June 2016, the IASB issued IFRS 16 - Leases. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, lessees are no longer classifying leases as either operating leases or finance leases as it is required by IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019.

(Expressed in Canadian dollars – unaudited)

IFRIC 23 – Uncertainty Over Income Tax Treatments: clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. It is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. financial statements.

4. REVERSE TAKEOVER

On March 29, 2018, the Company completed the RTO and Amalgamation (the "Transaction") with Amalco pursuant to which Amalco amalgamated with Subco, and the resulting entity became a wholly-owned subsidiary of the Company. In consideration for the Amalgamation, the Company issued 18,450,978 common shares.

Because the former shareholders of Amalco obtained control of the resulting issuer, the Transaction is considered to be a purchase of the Company by Amalco and is accounted for as a reverse acquisition. Accordingly, Amalco is considered to be the acquirer for accounting purposes and therefore is considered to be the continuing company. Additionally, the Transaction was not considered to be a business acquisition as the primary item acquired was the public listing.

A breakdown of the listing fee in the statement of loss and comprehensive loss is as follows:

Fair value of Avalon Blockchain shares (22,877,958 common shares at $0.05 per share)	$1,143,898
Fair value of share purchase warrants	112,956
Transaction fees	23,886
	1,280,740
Less: Net liabilities of the Company	
Cash	1,017
Accounts payable and accrued liabilities	(183,650)
Listing fee	1,463,373
	$1,280,740

In connection with the completion of the reverse takeover, the Company recognized 3,912,843 share purchase warrants exercisable at $0.07 per share expiring September 19, 2019. The share purchase warrants were determined to have a value of $112,956 using the Black Scholes option pricing model assuming a life expectancy of 1.5 year, a risk-free rate of 2.04%, a forfeiture rate of 0%, and volatility of 150% (note 7).

On January 2, 2018, in relation to the completion of the Transaction, the Company entered into an asset purchase agreement (the "Purchase Agreement") with Avalon Life S.A. (the "Vendor"), a cryptocurrency mining and community knowledge network, for the purchase of certain cryptocurrency mining assets as well as certain digital currency assets (the "Transaction Assets") and the closing date for the Purchase Agreement, occurred on March 29, 2018 concurrently with the Transaction.

In consideration for the acquisition of the Transaction Assets, the Company issued 120,000,000 common shares (the "Consideration Shares") and paid a non-refundable fee of $381,180 (USD$300,000).

No value has been assigned to these common shares due the following:

- The parties acknowledge that they were not able to reach consensus surrounding the process for the holding, conversion, trading and arbitrage of digital currencies acquired under the Purchase Agreement; and
- The Company did not have control of the Transaction Assets.

The Vendor and the Company agreed to and rescinded the Purchase Agreement pursuant to a Settlement Agreement ("Settlement Agreement") dated May 23, 2018 and under the terms of the Settlement Agreement, the Vendor has agreed to the cancellation of the Consideration Shares. The 120,000,000 Consideration Shares were cancelled on June 22, 2018.

5. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the identification and evaluation of a business and continue as a going concern. The Company considers capital to be all accounts in equity. The Company is not subject to any external capital requirements therefore the Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Additional funds may be required to finance any business.

6. CONVERTIBLE DEBENTURES

On December 29, 2017, Avalon Canada closed a private placement of convertible debentures (the "Debentures"), maturing in one year, for gross proceeds of $1,300,000. The Debentures are convertible into common shares at the option of the holder at a conversion price of $0.05 per unit (the "Conversion Price") which consists of one common share and one share purchase warrant exercisable for a period of one year from the date of conversion. The Debentures are non-interest bearing.

For accounting purposes, the Debentures are separated into their liability and equity components using the residual method. The fair value of the liability component at the time of issue was $1,130,435. This is based on an estimated rate of 15% for debentures without the conversion feature. The fair value of the equity component was $169,565. This is the difference between the face value of the Debentures and the fair value of the liability component. After initial recognition the liability component is carried on an amortized cost basis and will be accreted to its face value over the maturity term. The Company also recorded a deferred income tax liability of $44,000 relating to the difference between the Company's accounting and tax basis.

On March 29, 2018, convertible debentures were converted to 26,000,000 common shares Avalon Canada and 26,000,000 common share purchase warrants of Avalon Canada. Subsequently, on closing of the RTO and Amalgamation, the common shares and common share purchase warrants were exchanged for the same number of common shares and common share purchase warrants (having the same terms) of the Company (note 7).

During the period ended September 30, 2018, the Company recorded an accretion expense of $42,740 resulting in the balance of convertible debentures before conversion being $1,173,145. The liability and equity component of the converted notes were reclassified to share capital by $1,173,145 and $125,565 (net of tax) respectively. As a result, a deferred income tax recovery was recognized.

7. SHARE CAPITAL

a) Authorized

The Company is authorized to issue an unlimited number of common shares without par value.

b) Escrow shares

As at September 30, 2018 and December 31, 2017: 12,000,000 common shares and nil common shares respectively are subject to a three year value escrow regime.

c) Issued and outstanding

As at September 30, 2018 and December 31, 2017: 67,328,936 common shares and 18,450,978 common shares, respectively.

During the period ended September 30, 2018, the Company issued 37,154,502 common shares at a price of $0.50 per share for gross proceeds of $18,577,251. In connection with the Settlement Agreement, the Company offered the subscribers the opportunity to rescind their subscription agreements and having received all requests to rescind, the Company returned the proceeds of the private placement to all subscribers as all rescinded their agreements. This was completed on July 19, 2018.

During the period ended September 30, 2018, the Company issued 26,000,000 common shares and share purchase warrants in relation to conversion of convertible debentures values at $1,173,175 (Note 6).

During the period ended September 30, 2018, the Company issued 18,450,978 common shares valued at $1,143,898 in relating to the RTO (Note 4).

d) Stock options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the CSE requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the Company’s issued and outstanding common shares. The maximum number of options which may be granted to any one optionee within any 12-month period shall be five percent (5%) of the Company’s issued and outstanding common shares. Such options will be exercisable for a period of up to 10 years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any one consultant within any 12-month period will not exceed two percent (2%) of the issued and outstanding common shares. Options may be exercised no later than 30 days following cessation of the optionee’s position with the Company.

As at September 30, 2018 and December 31, 2017 No stock options were outstanding.

(Expressed in Canadian dollars – unaudited)

d) Warrants

Details of activity in warrants for the year ended December 31, 2017 and the three months ended September 30, 2018 are as follows:

December 31, 2016	Issued	Exercised/ Expired	December 31, 2017	Exercise Price	Expiry Date
14,995	-	(14,995)	-	$6.00	December 7, 2017
-	6,188,425	(6,188,425)	-	$0.09	June 9, 2019
-	4,124,793	(211,950)	3,912,843	$0.07	September 19, 2019
14,995	10,313,218	(6,400,375)	3,912,843	$0.07	

December 31, 2017	Issued	Expired	September 30, 2018	Exercise Price	Expiry Date
3,912,843	-	-	3,912,843	$0.07	September 19, 2019
	26,000,000	-	26,000,000	$0.05	March 29, 2019
3,912,843	26,000,000	-	29,912,843	$0.05	

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of warrants issued in relation to the RTO within the nine months ended September 30, 2018:

	September 30, 2018
Risk-free interest rate	2.04%
Expected life of options	1.50 years
Expected annualized volatility	150.00%
Expected dividend rate	0

8. RELATED PARTY TRANSACTIONS AND BALANCES

Key management personnel consist of officers and directors of the Company. During the period ended September 30, 2018, the Company received and repaid a loan due to a company controlled by a director for $10,525 relating to operating activities. The Company also paid out management and consulting fees to a company controlled by a current officer and a company controlled by a former director totaling $23,625 (2017 - $Nil). There was no other remuneration paid to key management personnel during the period ending September 30, 2018.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Financial instruments

Fair value hierarchy

The following table summarizes the fair value hierarchy under which the Company's financial instruments are valued.

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

Cash and cash held in trust is carried at fair value using a level 1 fair value measurement. The carrying value of accounts payable approximate their fair value because of the short-term nature of these instruments.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

b) Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2018, the Company has cash of $ 443,343 to settle liabilities due within the next year of $ 16,374.

There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipates it will need additional capital in the future to fund the development or acquisition of a business. The Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and the success of any business it develops or acquires. In recent years, the securities markets have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

Credit risk
Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company does not hold any liquid financial assets to which credit risk may be attributable.

Market risk
Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company does not have a practice of trading derivatives.

Interest rate risk
The Company does not have any financial assets exposed to interest rate risk.

Foreign currency risk
The majority of the Company's business is conducted in Canada and United States in Canadian and United States dollars. As such, the Company is exposed to foreign currency risk in fluctuations

between the Canadian dollar and the US dollar. Fluctuations in the exchange rate between the Canadian dollar and the US dollar may have a material adverse effect on the Company's business and financial condition. Fluctuations do not have a significant impact on operating results.

Price risk
The Company is not exposed to any price risk while it is in the stage of identifying and evaluating businesses.

10. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

	September 30, 2018	September 30, 2017
Equity component to share capital	$ 125,565	$ -
Conversation of convertible debenture to share	$ 1,173,175	$ -

Refer to Note 4 for non-cash consideration of assets and liabilities acquired form the purchase of Avalon Canada.