



FOGCHAIN CORP.
(Formerly Mukuba Resources Limited)

Condensed Interim Consolidated Financial Statements
Six Months Ended June 30, 2018
(Expressed In US Dollars)

(Unaudited – Prepared By Management)



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Notice of no Auditor Review

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NOTICE TO READER

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

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company.

The Company's independent auditors have not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

August 29, 2018

FOGCHAIN CORP.

(Formerly Mukuba Resources Ltd)

Condensed Interim Consolidated Statements of Financial Position

(Expressed in US Dollars - Unaudited)

	Notes	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS			
Cash and cash equivalents		\$ 3,048,177	\$ 353,462
Receivables	5	141,863	-
Prepays		10,000	-
		<u>3,200,040</u>	<u>353,462</u>
Intangible assets	6	<u>3,778,000</u>	-
		<u>\$ 6,978,040</u>	<u>\$ 353,462</u>
LIABILITIES			
Trades payable and accrued liabilities	7,9(b)	\$ 376,388	\$ 13,774
Dues to related parties	10	-	7,560
Convertible debenture	8	-	400,000
		<u>376,388</u>	<u>421,334</u>
SHAREHOLDERS' EQUITY			
Share capital	9	9,886,775	9,025
Reserve	9(d)	175,019	-
Subscription receipts	9(g)	-	(110)
Accumulated other comprehensive income		326	-
Deficit		<u>(3,460,468)</u>	<u>(76,787)</u>
		<u>6,601,652</u>	<u>(67,872)</u>
		<u>\$ 6,978,040</u>	<u>\$ 353,462</u>

Nature of Operations (Note 1)

Reverse Takeover of FogChain Inc. (Note 4)

Commitments (Note 11)

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

FOGCHAIN CORP.

(Formerly Mukuba Resources Ltd)

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in US Dollars - Unaudited)

	Note	Three months ended June 30,		Six months ended June 30,	
		2018	2017	2018	2017
Operating expenses					
Consulting fees		\$ 150,399	\$ -	\$ 164,399	\$ -
Marketing		19,116	-	18,116	-
Office and administration		43,897	-	49,350	-
Professional fees		5,984	-	159,998	-
Regulatory and transfer agent fees		10,980	-	20,300	-
Rent and utilities		9,000	9,000	18,000	18,000
Salaries and benefits	10	91,868	-	138,696	-
Share based payments		13,624	-	13,624	-
Software subscription		45,812	-	106,081	-
Travel		4,326	-	13,749	-
		<u>395,006</u>	<u>9,000</u>	<u>702,313</u>	<u>18,000</u>
NET LOSS BEFORE OTHER ITEMS		(395,006)	(9,000)	(702,313)	(18,000)
Other items					
Interest income		5,033	-	5,033	-
Listing expense	4	<u>(2,686,401)</u>	<u>-</u>	<u>(2,686,401)</u>	<u>-</u>
		<u>(2,681,368)</u>	<u>-</u>	<u>(2,681,368)</u>	<u>-</u>
NET LOSS FOR THE PERIOD		(3,076,374)	(9,000)	(3,383,681)	(18,000)
Other comprehensive loss that may be reclassified to profit and loss					
Unrealized foreign exchange gain		326	-	326	-
		<u>326</u>	<u>-</u>	<u>326</u>	<u>-</u>
COMPREHENSIVE LOSS FOR THE PERIOD		\$ (3,076,048)	\$ (9,000)	\$ (3,383,355)	\$ (18,000)
Loss per common share					
-basic and diluted		\$ (0.06)	\$ (0.00)	\$ (0.08)	\$ (0.00)
Weighted average number of common shares outstanding					
-basic and diluted		<u>51,482,391</u>	<u>54,000,000</u>	<u>44,232,505</u>	<u>54,000,000</u>

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

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(Formerly Mukuba Resources Ltd)

Condensed Interim Consolidated Statements of Shareholders' Equity (Deficiency)

(Expressed in US Dollars - Unaudited)

	Note	Share Capital		Number of Class A Convertible Restricted Common Shares		Reserve	Subscription receipts	Accumulated other comprehensive income	Deficit	Total Shareholders' equity (deficiency)
		Number of Common Shares	Amount	Number of Class A Convertible Restricted Common Shares	Amount					
Balance at December 31, 2016		54,000,000	\$ 9,000	-	\$ -	\$ -	(9,000)	\$ -	(2,520)	\$ (2,520)
Net loss for the period		-	-	-	-	-	-	-	(9,000)	(9,000)
Balance at June 30, 2017		54,000,000	9,000	-	-	-	(9,000)	-	(11,520)	(11,520)
Balance at December 31, 2017		54,000,000	9,025	-	-	-	(110)	-	(76,787)	(67,872)
Shares issued for cash	9	9,983,884	4,108,120	-	-	-	110	-	-	4,108,230
Shares reallocated as Class A convertible voting	9	(18,630,000)	(3,105)	18,630,000	3,105	-	-	-	-	-
Share issuance costs	9	-	(427,302)	-	-	-	-	-	-	(427,302)
Fair value of warrants	9	-	(175,019)	-	-	175,019	-	-	-	-
Recapitalization transaction:										
Equity of FogChain	4,9	3,318,051	837,238	-	-	-	-	-	-	837,238
Share consolidation	9	(1,319,288)	-	-	-	-	-	-	-	-
Shares issued for finder's fee	9	3,750,000	1,570,793	-	-	-	-	-	-	1,570,793
Shares issued on debt settlement	9	240,451	100,720	-	-	-	-	-	-	100,720
Shares issued on convertible notes	9	9,000,000	400,000	-	-	-	-	-	-	400,000
Shares issued on asset acquisition	6,9	10,000,000	3,463,200	-	-	-	-	-	-	3,463,200
Net loss for the period		-	-	-	-	-	-	-	(3,383,681)	(3,383,681)
Other comprehensive income		-	-	-	-	-	-	326	-	326
Balance at June 30, 2018		70,343,098	\$ 9,883,670	18,630,000	\$ 3,105	\$ 175,019	\$ -	\$ 326	\$ (3,460,467)	\$ 6,601,652

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

FOGCHAIN CORP.

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Condensed Interim Consolidation Statements of Cash Flows

(Expressed in US Dollars - Unaudited)

	Six months ended June 30,	
	2018	2017
Cash provided by (used in):		
Operating:		
Net loss for the period	\$ (3,383,681)	\$ (18,000)
Items not involving cash:		
Listing expense	2,518,643	-
Share based payments	13,624	-
	<u>(851,414)</u>	(18,000)
Changes in non-cash operating working capital items:		
Receivables	(140,536)	-
Prepaid expenses and deposits	(10,000)	-
Accounts payable and accrued liabilities	336,885	-
Due to related party	(7,560)	18,000
	<u>(672,625)</u>	-
Investing		
Acquisition of intangible assets	(314,800)	-
	<u>(314,800)</u>	-
Financing		
Net cash acquired on reverse takeover	886	-
Proceeds from issuance of shares, net	4,080,819	-
Conversion of convertible notes	(400,000)	-
Subscription receipts	110	-
	<u>3,681,815</u>	-
Effect of foreign exchange on cash flows	326	-
Change in cash during the period	2,694,716	-
Cash, beginning of period	353,462	-
Cash, end of period	\$ 3,048,178	\$ -

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FOGCHAIN CORP.

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Notes to Condensed Interim Consolidated Financial Statements

June 30, 2018

(Expressed in US Dollars - Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

FogChain Corp. (formerly Mukuba Resources Limited) ("FogChain" or the "Company") was incorporated on February 7, 1984 under the *Business Corporations Act (Ontario)*.

The Company's head office, principal address and records office is Suite 2050-1055 West Georgia Street, PO Box 11121, Royal Centre, Vancouver, BC V6E 3P3. The registered office is Suite 4400-181 Bay street, Toronto, Ontario M5J 2T3.

On May 24, 2018 the Company completed a reverse takeover transaction (the "RTO"), which was effected pursuant to a merger agreement between FogChain and FogChain Inc. ("Fog Inc."), a private company existing under the laws of Delaware with its head office in San Carlos, California. As part of the transaction, the Company changed its name to FogChain Corp. effective May 23, 2018, voluntarily delisted its common shares from the TSX Venture Exchange effective May 28, 2018, and commenced trading its shares on the Canadian Securities Exchange ("CSE") on May 29, 2018, under the symbol FOG.

Pursuant to the RTO, the Company issued an aggregate of 45,353,884 common shares and 18,630,000 Class A convertible restricted voting shares (the "restricted shares") of the Company in exchange for all of the issued and outstanding shares of Fog Inc. In conjunction to the RTO, the Company also issued an aggregate of 12,990,451 common shares for finder's fees, debt settlement and conversion of convertible notes. Upon closing of the transaction, the shareholders of Fog Inc. owned 96% of the common shares of the Company and, as a result, the transaction is considered a reverse acquisition of the Company by Fog Inc.

FogChain provides a secure and efficiently distributed "ground up" Blockchain platform for software development with the inherent security of Blockchain combined with the ubiquity and performance of the Fog decentralized computing resources. The decentralized software development suite allows any company of any size to accelerate their software deployment leveraging the Blockchain.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to fully develop its software development blockchain platform. During the six months ended June 30, 2018, the Company has not generated sales revenues. The Company has an accumulated deficit of \$3,460,468 (December 31, 2017 - \$76,787) including a loss for the six months ended June 30, 2018 of \$3,383,681 (June 30, 2017 - \$18,000). These uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability and classification of assets and liabilities which might be necessary should the Company be unable to continue in existence.

The condensed interim consolidated financial statements were authorized for issue on August 29, 2018 by the directors of the Company.

FOGCHAIN CORP.

(Formerly Mukuba Resources Ltd)

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2018

(Expressed in US Dollars - Unaudited)

2. BASIS OF PRESENTATION

Statement of compliance and conversion to International Financial Reporting Standards (“IFRS”)

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34, “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and International Financial Reporting Interpretations Committee (“IFRIC”). Therefore, these interim financial statements comply with International Accounting Standards (“IAS”) 34 “Interim Financial Reporting”.

Basis of presentation and consolidation

The condensed consolidated interim financial statements of the Company have been prepared on an accrual basis except for cash flow information, and are based on historical costs, modified where applicable. The condensed interim financial statements are presented in Canadian dollars unless otherwise noted.

These condensed interim financial statements 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 Company’s audited annual financial statements for the year ended December 31, 2017.

These condensed interim consolidated financial statements include the operations of Fog Inc. for the six month period ended June 30, 2018 and FogChain for the period from the date of the RTO on May 24, 2018 to June 30, 2018.

All significant inter-company balances and transactions have been eliminated on consolidation.

Significant accounting judgements, estimates and assumptions

The preparation of these condensed interim consolidated 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 the reported expenses during the period. Actual results could differ from these estimates.

The preparation of these condensed interim consolidated financial statements requires management to make judgments regarding the going concern of the Company as discussed in Note 1.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, 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:

Share based payments

The Company uses the Black-Scholes Option Pricing Model to determine the fair value of options and warrants in order to calculate share-based payments expense and the fair value of agent warrants. The Black-Scholes model involves six key inputs to determine fair value of an option: risk-free interest rate, exercise price, market price at date of issue, expected dividend yield, expected life, and expected volatility. Certain of the inputs are estimates that involve considerable judgment and are or could be affected by significant factors that are out of the

FOGCHAIN CORP.

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Notes to Condensed Interim Consolidated Financial Statements

June 30, 2018

(Expressed in US Dollars - Unaudited)

2. BASIS OF PRESENTATION (cont'd)

Company's control. The Company is also required to estimate the future forfeiture rate of options based on historical information in its calculation of share-based payments expense.

Recognition and Valuation of Deferred Tax Assets

The recognition of deferred tax assets is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future or whether taxable temporary differences will reverse such that deferred tax assets can be utilized. Recognition therefore involves a degree of estimation and judgement regarding the future financial performance or the timing of the reversed deferred tax liabilities where deferred tax assets have been recognized.

Research and development costs

Evaluating whether or not costs incurred by the Company in developing its technology meet the criteria for capitalizing as intangible assets. Management determined that some products are able to complete intangible assets and are able, with sufficient certainty, to demonstrate that assets will generate future economic benefits. Development costs of these products are capitalized at cost value. Research and development costs of other products are recognized as period expense.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of estimated discounts. The Company considers the terms of the sales contracts as well as industry practices, taking into consideration the type of customer, the nature of the transaction and the specific circumstances of each arrangement. The Company recognizes revenues when services are completed and billed.

The Company has not generated sales revenues.

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 loss. For the period ended June 30, 2018, other comprehensive income is related to the effects of currency translation adjustments.

3. SIGNIFICANT ACCOUNTING POLICIES

Foreign Currency Translation

The financial statements are presented in US dollars.

The functional currency for the Company is the Canadian dollar and the functional currency for Fog Inc. is the US dollar.

Transactions in currencies other than the entity's functional currency are translated at the exchange rates in effect on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of the exchange in effect as at the statement of financial position date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities. Foreign currency differences arising on translation are recognized in profit or loss.

FOGCHAIN CORP.

(Formerly Mukuba Resources Ltd)

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2018

(Expressed in US Dollars - Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

New accounting pronouncements

The following standards have been adopted by the Company:

IFRS 9 – Financial Instruments

On January 1, 2018, the Company adopted IFRS 9, Financial Instruments, which sets out the accounting standards for the classification and measurement of financial instruments. IFRS 9 became effective for annual periods beginning on or after January 1, 2018, and replaces IAS 39, Financial Instruments: Recognition and Measurement. The new standard provides a model for the classification and measurement of financial instruments, a single forward-looking “expected loss” impairment model, and a reformed approach for hedge accounting. As most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward into IFRS 9, the Company’s accounting policy with respect to financial liabilities is unchanged. The Company has determined that the adoption of this standard has resulted in no material impact to its consolidated financial statements.

Certain new accounting standards, amendments to standards and interpretations have been issued, effective for annual periods beginning on or after December 31, 2017. These standards have been assessed to not have a significant impact on the Company’s financial statements.

IFRS 15 “Revenue from Contracts with Customers”

On January 1, 2018, the Company recognized revenue in accordance to IFRS 15 – Revenue from Contracts with Customers. The new standard includes a five step recognition and measurement approach for revenue arising from contracts with customers, and includes new requirements for accounting for contract costs. Revenues arising from financial instruments within the scope of IFRS 9 – Financial Instruments, specifically interest revenue and loan fees, are excluded from the scope of IFRS 15. All other revenue streams are included within the scope of IFRS 15.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018, and supersedes IAS 11, Construction Contracts, and IAS 18, Revenue, as well as various International Financial Reporting Interpretative Committee (“IFRIC”) and Standards Interpretations Committee (“SIC”) interpretations regarding revenue.

The adoption of this standard did not have any significant impact on the Company’s interim financial statements. During the six months ended June 30, 2018, the Company has not generated sales revenues.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At the date of authorization of these consolidated financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective and have not been adopted early by the Company. Information on those expected to be relevant to the Company’s consolidated financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Company’s accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations, and amendments either not adopted or listed below, are not expected to have a material impact on the Company’s consolidated financial statements.

IFRS 16 “Leases”

In January 2016, the IASB released IFRS 16 “Leases” replacing IAS 17 “Leases” and related interpretations. The new standard eliminates the classification of leases as either operating or finance leases and requires the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value.

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Notes to Condensed Interim Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (cont'd)

IFRS 16 is effective for reporting periods beginning on or after January 1, 2019. The Company's management has not yet assessed the impact of IFRS 16 on these consolidated financial statements.

4. REVERSE TAKEOVER OF FOGCHAIN INC.

On May 24, 2018 ("RTO Date"), the Company completed an RTO transaction with Fog Inc. (Note 1), whereby the Company acquired 100% of the issued and outstanding common shares of Fog Inc. For accounting purposes, the acquisition was considered to be a reverse acquisition under IFRS 3 *Business Combinations* ("IFRS 3") as the shareholders of Fog Inc. obtained control of the Company. However, as the Company does not meet the definition of a business as defined by IFRS 3, it has been accounted for as a share-based payment transaction in accordance with IFRS 2. The accounting for this transaction resulted in the following:

- (i) The consolidated financial statements of the combined entity are issued under the legal parent, FogChain, but are considered a continuation of the financial statements of the legal subsidiary, Fog Inc.
- (ii) As Fog Inc. is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carrying values.
- (iii) Since the shares allocated to the former shareholders of FogChain on closing the RTO is considered within the scope of IFRS 2, and the Company cannot identify specifically some or all of the goods or service received in return for the allocation of the shares, the value in excess of the net identifiable assets or obligations of FogChain acquired on closing was expensed in the consolidated statement of loss and comprehensive loss as a listing expense.

The fair value of the 1,998,763 common shares for all of FogChain was determined to be \$837,238 or \$0.42 per common share.

- (iv) The fair value of all the consideration given and charged to listing expense was comprised of:

Fair value of the common shares at RTO Date	\$ 837,238
Identifiable assets acquired – At May 24, 2018	
Cash	\$ 886
Receivables	1,327
Trade payables	(112,826)
	(110,613)
Unidentified assets acquired	
Listing expense	947,850
Total net identifiable assets and transaction costs	\$ 837,238

- (v) The Company paid a finder's fee of 3,750,000 shares at the completion of the RTO. Accordingly, the Company recorded the fair value of \$1,570,793 as a listing expense. The Company incurred additional listing expenses of \$167,758.

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Notes to Condensed Interim Consolidated Financial Statements

June 30, 2018

(Expressed in US Dollars - Unaudited)

5. RECEIVABLES

	June 30, 2018	December 31, 2017
Refundable advances	\$ 136,367	\$ -
Goods and services input tax credits	5,496	-
	\$ 141,863	\$ -

6. INTANGIBLE ASSETS

On June 1, 2018, the Company entered into a computer software assignment and asset purchase agreement ("RadJav Purchase Agreement") to acquire the RadJav rapid application development platform ("RadJav") and other related assets from Higher Edge Software, LLC. The Company will issue payment under the following terms of the acquisition:

- (i) Issue 10,000,000 common shares of the Company at a fair value of \$3,463,200 (Note 9) (issued); and
- (ii) Aggregate cash payment of \$250,000 payable by installment of \$50,000 each month commencing on date of signing; (\$50,000 paid and \$200,000 recorded in trades payable and accrued liabilities).

The Company acquired the intangible asset to develop advancements in the platform to be compatible with various operating systems. As at June 30, 2018, the Company is in the process of completing its platform integration.

7. TRADE PAYABLES AND ACCRUED LIABILITIES

	June 30, 2018	December 31, 2017
Trade payables	\$ 96,832	\$ 13,774
RadJav acquisition payable (Note 6)	200,000	-
Accrued liabilities	79,556	-
	\$ 376,388	\$ 13,774

8. CONVERTIBLE DEBENTURE

On December 19, 2017, the Company received \$400,000 in convertible debenture subscriptions. The convertible debentures were non-interest bearing with a maturity term of 12 months and were automatically converted into common shares on completion of the RTO on May 24, 2018.

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June 30, 2018

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9. SHARE CAPITAL

a) Authorized share capital

Unlimited common shares without par value

Unlimited Class A convertible restricted voting common shares without par value ("restricted shares")

b) Issued

During the period ended June 30, 2018, the Company completed the following transactions:

- (i) Fog Inc. completed a private placement of 9,983,884 subscription receipts at a price of CAD\$0.54 per subscription receipt for total proceeds of \$4,108,121. The Company paid \$427,302 in share issuance costs for agent's commission, legal and transfer agent costs. The Company also issued 686,255 agent's warrants. Each agent's warrant is exercisable at a price of CAD\$0.54 per common share until May 24, 2020. Accordingly, the Company recorded a fair value of \$175,019 in reserve.
- (ii) On May 24, 2018, in accordance with the RTO (Note 1), FogChain completed a consolidation of its common shares on a basis of 1.66 to 1 and issued 45,353,884 common shares and 18,630,000 restricted shares to acquire all the issued and outstanding shares of Fog Inc.

Concurrent with the completion of the RTO, the Company issued 3,750,000 common shares to the finders of the Company's acquisition of Fog Inc. The fair value of these common shares of \$1,570,793 was recorded as a listing expenses during the period ended June 30, 2018 (Note 4).

- (iii) Issued an aggregate of 207,927 common shares for a debt settlement of outstanding payables of \$87,096.
- (iii) Issued an aggregate of 32,524 common shares as consideration to a waiver of a voting support agreement. Accordingly, the Company recorded the fair value as a share-based payment of \$13,624.
- (iv) Issued 9,000,000 common shares on conversion of convertible debentures of \$400,000 (Note 8).
- (v) Issued 10,000,000 common shares pursuant to the RadJav Purchase Agreement (Note 6) at a fair value of \$3,463,200.

During the year ended December 31, 2017, a shareholder contributed \$25 and there were no common shares issued.

c) Escrow shares

18,630,000 Restricted Shares and 3,240,000 common shares issued to the principals of the Company under the RTO are subject to escrow conditions required by applicable securities laws and the CSE requirements. Pursuant to the terms of the escrow agreements, 10% of the escrowed shares were released from escrow on May 24, 2018. The remaining 16,767,000 Restricted Shares and 2,916,000 common shares held within escrow will be released over a period of 36 months.

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June 30, 2018

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9. SHARE CAPITAL (cont'd)

d) Reserve

The reserve records the fair value recognized on stock options granted and on the share purchase warrants issued in connection to the private placement until such time that the stock options or share purchase warrants are exercised, at which time the corresponding amount will be transferred to share capital.

e) Stock options and warrants

The Company maintains a 10% rolling share option plan (the "Plan") that enables management to grant options to directors, officers, employees and other service providers. The Company follows the CSE policies where the number of common shares which may be issued pursuant to options granted under the Plan may not exceed 10% of the issued and outstanding shares of the Company from time to time at the date of granting of options and have a maximum of 10 years. Each option agreement with the grantee sets forth, among other things, the number of options granted, the exercise price and the vesting conditions of the options as determined by the Board of Directors.

No options were granted or outstanding during the period ended June 30, 2018.

Share purchase warrant transactions are summarized as follows:

	Warrants	
	Number	Weighted Average Exercise Price
Outstanding, December 31, 2017	-	CAD\$ -
Granted	686,255	CAD\$ 0.54
Outstanding, June 30, 2018	686,255	CAD\$ 0.54
Number currently exercisable	686,255	CAD\$ 0.54

As at June 30, 2018, the following share purchase warrants were outstanding:

	Expiry Date	Number of Shares	Weighted Average Exercise Price	Weighted Average Period
Warrants	May 24, 2020	686,255	CAD\$ 0.54	1.90 years

The Company applied the fair value method in accounting for its share purchase warrants using the Black-Scholes Option Pricing Model using the following estimates:

June 30, 2018	Warrants
Risk free rate	1.95%
Expected dividend yield	0%
Expected stock price volatility	119.31%
Weighted average expected life	2 year
Weighted average fair value	CAD\$0.33

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10. RELATED PARTY BALANCES AND TRANSACTIONS

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executive and non-executive directors and officers.

During the period ended June 30, 2018, the remuneration of the key management personnel were as follows:

	June 30, 2018
Chief Executive Officer	\$ 58,500
VP Product Marketing & Corporate Secretary	33,333
Total	\$ 91,833

Other related party transactions and balances

- (i) The Company leases office space on a month to month basis from Newton Energy, Inc., a company with a common director and shareholder, James Cerna, for a monthly rent of \$3,000 plus \$420 in telecommunication services.

During the six months ended June 30, 2018, the Company paid a total of \$20,520 (2017 - \$18,000) in rent and telecommunications charges.

- (ii) As at June 30, 2018, the Company owed James Cerna, director and officer of the Company, \$Nil (December 31, 2017 - \$7,560) in expense reimbursements.
- (iii) The former Chief Executive Officer ("CEO") and former Chief Financial Officer ("CFO") of FogChain is a senior employee of Marrelli Support Services ("MSSI"). During the period ended June 30, 2018, the Company issued 84,868 common shares to settle outstanding debt of \$45,829.
- (iv) The Company's former legal counsel, Peterson McVicar LLP, was issued 123,059 common shares to settle outstanding debt of \$91,452.

11. COMMITMENTS

On June 1, 2018, the Company entered into an agreement with a private company to provide administrative services to the Company for a period of three years in exchange for a monthly fee of CAD\$10,000 plus applicable taxes. At the end of the service term, the terms of the agreement are automatically renewed on an annual basis until either party provides notice of termination.

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12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

As at June 30, 2018, the fair value of cash held by the Company was based on level 1 inputs of the fair value hierarchy. The carrying value of receivables and trade payables and accrued liabilities approximate their fair value because of the short-term nature of these instruments or their ability of prompt liquidation.

The Company can be exposed, in varying degrees, to a variety of financial related risks. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts which is held with reputable US and Canadian banks. Therefore, credit risk is assessed as low.

The Company's secondary exposure to credit risk is on its receivables. This risk is minimal as receivables consist of refundable Canadian government sales taxes of \$5,496 and refundable advances of \$136,367.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by maintaining cash and cash equivalent balances to ensure that it is able to meet its short term and long term obligations as and when they fall due.

As at June 30, 2018, the Company had working capital of \$2,823,652 (December 31, 2017 –working capital deficiency of \$67,872).

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.

(a) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will change due to a change in the level of interest rates. The Company is exposed to interest rate risk as its bank account earns interest income at variable rates and is subject to the movement in interest rates. Management considers the interest rate to be minimal.

(b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables, and accounts payable and accrued liabilities that are denominated in Canadian Dollars. Management does not hedge its exposure to foreign exchange risk and does not believe the Company's net exposure to foreign currency risk is significant.

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12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

As at June 30, 2018, the Company had net financial assets of CAD\$2,813,652. A 10% change in the US dollar versus the Canadian dollar would give rise to a gain/loss of approximately \$213,669.

(c) Price risk

The Company is not exposed to price risk.

13. CAPITAL MANAGEMENT

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns and benefits to shareholders. The capital structure of the Company consists of equity comprised of issued share capital and any debt that it may issue.

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.