

CYPHERPUNK HOLDINGS INC.

(Formerly Khan Resources Inc.)

**INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS**

FOR THE THREE MONTHS ENDED

DECEMBER 31, 2018 AND 2017

(Expressed in Canadian Dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying interim condensed consolidated financial statements of Cypherpunk Holdings Inc. (Formerly: Khan Resources Inc.) were prepared by management in accordance with International Financial Reporting Standards. The most significant of these standards have been set out in the Note 2 of these consolidated financial statements. Any applicable changes in accounting policies have also been disclosed in these financial statements. Management acknowledges responsibility for the preparation and presentation of the financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

The Board of Directors is responsible for ensuring management fulfills its financial reporting responsibilities and for reviewing and approving the financial statements together with other financial information. The Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the internal controls over the financial reporting process and the year end financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate control over its financial reporting. Management conducted an evaluation of the effectiveness of internal control over financial reporting based on "Internal Control Over Financial Reporting Guidance for Smaller Public Companies" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2018.

CONCLUSION RELATING TO DISCLOSURE CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of management, including the Chief Executive and Chief Financial Officers, of the effectiveness of the Company's disclosure controls and procedures as defined in the National Instrument 52-109. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2018.

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 financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying consolidated 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 consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of financial statements by an entity's auditor.

CYPHERPUNK HOLDINGS INC. (Formerly Khan Resources Inc.)
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)

	December 31, 2018	September 30, 2018
Assets		
Cash (Note 4)	\$ 4,005,872	\$ 4,072,322
Sales tax and other receivables and prepaid expenses (Note 6)	34,765	28,407
Investments (Note 7)	2,263,694	4,239,364
Other assets (Note 8)	81,070	81,275
	<u>\$ 6,385,401</u>	<u>\$ 8,421,368</u>
Liabilities		
Accounts payable and accrued liabilities (Note 9)	\$ 159,713	\$ 126,939
Shareholders' Equity		
Capital stock (Note 10)	8,187,214	8,187,214
Contributed surplus	11,608,118	11,608,118
Deficit	(13,571,711)	(11,500,903)
Accumulated other comprehensive income (Note 7)	2,067	-
	<u>6,225,688</u>	<u>8,294,429</u>
	<u>\$ 6,385,401</u>	<u>\$ 8,421,368</u>

Nature of Operations and Going Concern (Note 1)
Contingent liabilities and commitments (Note 14)

SIGNED ON BEHALF OF THE BOARD

(Signed) "Marc Henderson"
Director

(Signed) "Michael Sadhra"
Director

CYPHERPUNK HOLDINGS INC. (Formerly Khan Resources Inc.)
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(EXPRESSED IN CANADIAN DOLLARS)

Three Months Ended December 31,	2018	2017
Income		
Interest income	\$ 1,599	\$ 10,736
Unrealized loss on FVTPL investments (Note 7)	<u>(1,996,580)</u>	<u>-</u>
	<u>(1,994,981)</u>	<u>10,736</u>
Expenses		
General corporate expenses	\$ 105,885	\$ 42,329
Salaries, wages and director fees	16,512	28,285
Legal expenses	12,074	5,000
Foreign exchange gain	<u>(58,644)</u>	<u>(6,372)</u>
	<u>75,827</u>	<u>69,242</u>
Net loss for the period	\$ (2,070,808)	\$ (58,506)
Other comprehensive income (loss)		
Items that will not be reclassified to net income (loss)		
Movement in fair value of equity instrument (Note 7)	-	421,029
Income tax on revaluation of equity instrument	-	(55,786)
Cumulative translation adjustment	<u>2,067</u>	<u>-</u>
Other comprehensive income (loss)	\$ 2,067	\$ 365,243
Total comprehensive income (loss)	\$ (2,068,741)	\$ 306,737
Net loss per share - basic & diluted	\$ (0.02)	\$ 0.00
Weighted average number of shares outstanding	<u>90,166,482</u>	<u>89,918,130</u>

CYPHERPUNK HOLDINGS INC. (Formerly Khan Resources Inc.)
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(EXPRESSED IN CANADIAN DOLLARS)

	Common Shares	Capital Stock	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, October 1, 2017	90,166,482	\$ 8,187,214	\$11,216,357	\$ (12,293,366)	\$ -	\$ 7,110,205
Net loss for the period	-	-	-	(58,506)	-	(58,506)
Balance, December 31, 2017	90,166,482	8,187,214	11,216,357	(12,351,872)	-	7,051,699
Stock-based compensation (Note 10)	-	-	391,761	-	-	391,761
Net income for the period	-	-	-	850,969	-	850,969
Balance September 30, 2018	90,166,482	8,187,214	11,608,118	(11,500,903)	-	8,294,429
Other comprehensive income (Note 7)	-	-	-	-	2,067	2,067
Net loss for the period	-	-	-	(2,070,808)	-	(2,070,808)
Balance, December 31, 2018	90,166,482	\$ 8,187,214	\$11,608,118	\$ (13,571,711)	\$ 2,067	\$ 6,225,688

CYPHERPUNK HOLDINGS INC. (Formerly Khan Resources Inc.)
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(EXPRESSED IN CANADIAN DOLLARS)

Three Months Ended December 31,	2018	2017
Cash and cash equivalents (used in) provided by:		
Operating activities		
Net loss for the period	\$ (2,070,808)	\$ (58,506)
Adjustments for:		
Unrealized loss on FVTPL investments (Note 7)	1,996,580	-
Foreign exchange on cash account	(18,843)	-
Net change in non-cash working capital items:		
Accounts receivable and prepaid expenses	(6,358)	(11,109)
Reallocation of prepaid insurance	205	-
Accounts payable and accrued liabilities	32,774	13,397
	<u>(66,450)</u>	<u>(56,218)</u>
Change in cash and cash equivalents	(66,450)	(56,218)
Cash and cash equivalents, beginning of the period	4,072,322	1,630,152
Cash and cash equivalents, end of the period	\$ 4,005,872	\$ 1,573,934

CYPHERPUNK HOLDINGS INC. (Formerly Khan Resources Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Three Months Ended December 31, 2018 and 2017

1. NATURE OF OPERATIONS AND GOING CONCERN

Cypherpunk Holdings Inc. (the "Company" or "Cypherpunk") (Formerly Khan Resources Inc.) is a publicly listed company incorporated in Canada under the legislation of the Province of Ontario. The registered office of the Company is located at The Exchange Tower, 130 King Street West, Suite 3680, Toronto, Ontario, Canada M5X 1B1.

On August 14, 2018, the shareholders approved the change of the Company's name from Khan Resources Inc. to Cypherpunk Holdings Inc. On February 4, 2019, the Company's common shares commenced trading on the Canadian Securities Exchange under the trading symbol "HODL" and the common shares of Khan Resources Inc. were delisted.

The Company along with its subsidiary company was formerly involved in acquiring, exploring and developing mineral properties in Mongolia.

On May 18, 2016, the Company announced that it had received USD\$70 million (\$90,593,987 Canadian at September 30, 2016) from the Government of Mongolia in settlement of all outstanding matters pursuant to the international arbitration award received by the Company. The subsidiaries of the Company collectively received an award of USD\$55,167,000 (\$70,000,000 less costs of \$14,833,000 awarded to the parent company). The allocation of the award is attributable to each entity's interest in the underlying historic assets of the two former Mongolian subsidiaries. The arbitration award received by the subsidiaries is considered to be proceeds in respect of the impairment in value of the receivables from and shares of the Mongolian subsidiaries, as applicable.

On November 10, 2016 the shareholders of the Company approved a special resolution to implement the voluntary liquidation and dissolution of Khan. Consequently, the interim condensed consolidated financial statements at September 30, 2016 were prepared on the basis that the Company was no longer a going concern. The liquidation plan approved by the shareholders provided that the board of directors was authorized to stop the liquidation of the Company if it determines in its discretion that doing so is no longer in the best interests of the Company or its shareholders. On May 5, 2017 at the Company's annual meeting, the shareholders of the Company elected a new board of directors. On May 8, 2017 the board of directors announced that it had determined that it would not proceed with the Company liquidation. The board of directors determined that it is in the best interest of the Company and its shareholders to consider other possible strategic alternatives for the Company with a view to maximizing its value for the benefits of its shareholders.

In the year ended September 30, 2018, as a first step of its new business plan whereby it will invest in crypto currencies and blockchain companies, the Company made a strategic investment of \$2,500,000 in Hydro66 Holdings Corp. (formerly Arctic Blockchain Ltd.) a British Columbia corporation that operates a data centre business offering enterprise co-location services. In addition, in the year ended September 30, 2018, the Company invested USD\$300,000 (CAD\$409,260) into a Simple Agreement for Future Equity with Chia Network Inc. entitling the Company to participate at a discount in any future equity financing of that private company. Additional details are described in Note 7.

At December 31, 2018, the Company has a working capital of \$3,880,924 (September 30, 2018 - \$3,973,790), has cash net outflow from operations of \$66,450 (2017 - \$56,218), not yet achieved profitable operations, has accumulated losses of \$13,571,711 (September 30, 2018 - \$12,293,366), and is embarking on a new business model, making investments in cryptocurrencies and block chain technology with uncertain results. In addition, investments in cryptocurrencies and block chain technology are exposed to risk and uncertainty as they are part of an emerging industry, all of which creates material uncertainty and casts significant doubt upon the Company's ability to continue as a going concern.

On February 27, 2019, the Board of Directors approved the interim condensed consolidated financial statements for the periods ended December 31, 2018 and 2017.

CYPHERPUNK HOLDINGS INC. (Formerly Khan Resources Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Three Months Ended December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The interim condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* and do not include all of the information required for full annual financial statements by International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") and their interpretations issued by the IFRS Interpretations Committee.

These interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2018 which includes the information necessary or useful to understanding the Company's business and financial statement presentation. In particular, the Company's significant accounting policies are presented as Note 2 in the audited consolidated financial statements for the year ended September 30, 2018, and have been consistently applied in the preparation of these interim condensed consolidated financial statements.

Basis of Presentation

The interim condensed consolidated financial statements as at December 31, 2018 and 2017 have been prepared and presented on a going concern basis.

Principles of Consolidation

The consolidated financial statements include all entities over which the Company has control. For accounting purposes, control is established by an investor when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are no longer consolidated on the date control ceases.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary located in Netherlands, Khan Resources B.V. ("KRBV").

Intercompany balances and any unrealized gains and losses or income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

Basis of Preparation

These interim condensed consolidated financial statements are presented in Canadian dollars which is also the functional currency of the parent company Cypherpunk Holdings Inc. The functional currency of the wholly owned subsidiary KRBV located in the Netherlands is the Euro.

The interim condensed consolidated financial statements are prepared on the historical cost basis except for certain financial instruments which are measured at their fair value, as explained in the accounting policies set out in this note.

The accounting policies set out below have been applied consistently to the years presented in the interim condensed consolidated financial statements.

Foreign Currency Translation

Foreign currency transactions are initially recorded into the functional currency at the transaction date exchange rate. At year end, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the balance sheet date's exchange rate and non-monetary assets and liabilities at the historical rate. These foreign currency adjustments are recognized in net loss of the interim condensed consolidated statement of income (loss).

CYPHERPUNK HOLDINGS INC. (Formerly Khan Resources Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Three Months Ended December 31, 2018 and 2017

3. ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in compliance with IFRS requires the Company's management to make certain estimates and assumptions that they consider reasonable and realistic. Despite regular reviews of these estimates and assumptions, based in particular on past achievements or anticipations, facts and circumstances may lead to changes in these estimates and assumptions which could impact the reported amount of the Company's assets, liabilities, equity or earnings. These estimates and assumptions notably relate to the following items:

Measurement of investments in FVTPL financial assets - The unrealized gain / loss is the difference between the original cost of the asset and its fair value at the measurement date. Estimates and judgments are used to determine the fair value of level two and level three investments.

Stock-based compensation and warrants - The Company generally utilizes the Black-Scholes option pricing model to determine the fair values of the stock-based payments and warrants. The Company uses significant judgement in the evaluation of the input variables in the Black-Scholes calculation which includes: risk free interest rate, expected stock price volatility, expected life, expected dividend yield.

Deferred income taxes - In assessing the probability of realizing deferred income taxes, the Company makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, the Company gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers relevant tax planning opportunities that are within the Company's control, are feasible and within management's ability to implement. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred taxes. The Company reassesses unrecognized income tax at each reporting period.

Going Concern - The Company applies judgment in assessing whether material uncertainties exist that would cause doubt as to whether the Company could continue as a going concern.

4. CASH

The balance consists of funds in cash and banks immediately available for their use in the Company's operations.

5. SHORT-TERM INVESTMENTS

The short-term investments consisted of a guaranteed investment certificate ("GIC") with a maturity date of less than three months and held for investment. Any GIC pledged as security is presented as restricted cash in the other assets account. At the end of the fiscal year 2018 all the GIC's and the interest earned were converted to cash and remain in cash at December 31, 2018.

6. SALES TAX AND OTHER RECEIVABLES AND PREPAID EXPENSES

The balances are comprised as follows:

	December 31, 2018	September 30, 2018
Prepaid expenses and advances	8,857	11,737
Harmonized sales tax	25,908	16,670
	\$ 34,765	\$ 28,407

CYPHERPUNK HOLDINGS INC. (Formerly Khan Resources Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Three Months Ended December 31, 2018 and 2017

7. INVESTMENTS

The Company's investments in equity instruments are classified as FVTPL and are carried at fair value. The detail is as follows:

	Quantity	December 31, 2018	September 30, 2018
Hydro66 Holdings Corp. - Shares (a)	5,000,000	\$ 1,850,000	\$ 3,450,000
Hydro66 Holdings Corp. - Warrants (a)	5,000,000	4,434	401,014
Chia Network Inc. - SAFE (b)	-	409,260	388,350
		\$ 2,263,694	\$ 4,239,364

(a) In February 2018, the Company made an investment in Arctic Blockchain Ltd. ("Arctic"), a privately held British Columbia corporation that operates a data centre business in Northern Sweden, offering enterprise collocation services as well as mining cryptocurrency for its own account and its customers. Under the terms of the investment, the Company purchased C\$2.5 million of convertible non-interest bearing debentures (the "Debentures") of Arctic. The principal amount of the Debentures could be converted into units of Arctic at the conversion price of \$0.50 per unit; each unit was comprised of one common share of Arctic and one share purchase warrant, with each warrant entitling the holder thereof to acquire one common share of Arctic at a price of \$0.75 per share for a period of two years.

Effective June 13, 2018, upon the completion of a takeover transaction of Arctic by Hydro66 and after becoming a listed technology issuer on the Canadian Securities Exchange as Hydro66 Holdings Corp., the Debentures owned by Khan were converted into 5 million shares valued at \$3,750,000 and 5 million warrants valued at \$633,932 of Hydro66 Holdings Corp. which is listed under the trading symbol "SIX". The Company recognized a gain on conversion of \$1,883,932 in the fiscal year 2018.

The fair value of the warrants is determined using the Black-Scholes option pricing model and is updated at the end of each period. At December 31, 2018, the warrants were assigned a fair value of \$401,014 (September 30, 2018 - \$401,014), using the following assumptions: volatility of 27.42%, a risk free interest rate of 1.01% and a share price of \$0.37 (September 30, 2018 - \$0.69).

The fair value variance of the investments is charged to the loss on FVTPL investments account in the consolidated statement of comprehensive income (loss).

(b) On July 9, 2018, the Company invested USD\$300,000 (CAD\$388,350) into a Simple Agreement for Future Equity ("SAFE") with Chia Network Inc. ("Chia"). The investment was valued at cost which approximates its fair value as at December 31, 2018. The Company is entitled to participate, at a discount rate of 90%, in any future equity financing of Chia, subject to certain events.

In the event that Chia had an equity financing the Company will automatically be awarded shares of preferred stock equal to the invested amount divided by the discounted price. In the event that Chia has a liquidity event, the Company will be paid out at least the value of its investment or receive a number of shares of common stock equal to the invested amount divided by the liquidity price. Thereafter, this instrument expire and terminate.

CYPHERPUNK HOLDINGS INC. (Formerly Khan Resources Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Three Months Ended December 31, 2018 and 2017

8. OTHER ASSETS

The balances are comprised as follows:

	December 31, 2018	September 30, 2018
Restricted cash (a)	\$ 52,250	\$ 52,250
Non-current prepaid insurance	28,820	29,025
	\$ 81,070	\$ 81,275

(a) Restricted cash consists of a guaranteed investment certificate pledged as security for a corporate credit card facility.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The balances are comprised as follows:

	December 31, 2018	September 30, 2018
Trade accounts payable	\$ 111,514	\$ 57,932
Accrued liabilities	33,758	63,527
Due to Laramide Resources Ltd. (Note 12)	14,442	5,480
	\$ 159,714	\$ 126,939

10. CAPITAL STOCK

a) AUTHORIZED

Unlimited common shares

b) ISSUED

COMMON SHARES	Number of Shares	Stated Value
Balance, October 1, 2017	90,166,482	\$ 8,187,214
Balance, December 31, 2017 and 2018	90,166,482	\$ 8,187,214

CYPHERPUNK HOLDINGS INC. (Formerly Khan Resources Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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11. STOCK-BASED COMPENSATION

On June 1, 2018, the Company granted a total of 5,000,000 options to certain directors and officers to buy common shares at an exercise price of \$0.10 each and expire on June 1, 2023. The stock options vest at issue date. The fair value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: share price \$0.085, dividend yield 0%, expected volatility based on average volatility of entities with similar activities 159.1%, a risk free interest rate of 1.6%, and an expected life of 5 years. As a result, the fair value of the options was estimated at \$391,671 and is recognized in the current statement of comprehensive income (loss).

The outstanding balance of stock options is as follows:

	December 31, 2018	September 30, 2018	Exercise price
Beginning Balance	5,000,000	-	\$0.10
Issued	-	5,000,000	\$0.10
Balance at December 31, and September 30, 2018	5,000,000	5,000,000	

On February 13, 2019, the Company issued to a consultant an additional 900,000 stock options exercisable at \$0.07 per share until June 1, 2023.

12. RELATED PARTY DISCLOSURES

During the period, Laramide Resources Ltd., a Company having a director and officer in common with Khan Resources Inc., charged \$22,500 (2018- \$22,500) for financial and administrative services including office space rent and other shared expenditures. In addition, Laramide Resources Ltd. paid \$28,142 of certain expenses on behalf of the Company which were subsequently reimbursed to Laramide Resources Ltd. At December 31, 2018, there is \$14,442 (September 30, 2018 - \$5,480) of net accounts payable to Laramide Resources Ltd.

In the fiscal year 2018 there was a \$6,210 charge for consulting services provided by a firm of which a director and former interim officer of the Company is a tax partner. At December 31, and September 30, 2018 there is no accounts payable to this related party.

During the period there is a \$18,000 charge for consulting services provided by an officer and director of the Company. At December 31, 2018 there is \$33,900 (September 30, 2018 - \$13,560) of accounts payable to this related party.

During the period there is a \$18,000 charge for consulting services provided by a director of the Company. At December 31, 2018 there is \$24,000 (September 30, 2018 - \$6,000) of accounts payable to this related party.

During the period there is a \$8,568 charge for legal services by a firm of which an officer of the Company is a partner (2017 - \$Nil). At December 31, 2018 there is \$9,682 of accounts payable to this related party (September 30, 2018 - \$13,311).

Transactions with related parties were conducted in the normal course of operations.

CYPHERPUNK HOLDINGS INC. (Formerly Khan Resources Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Three Months Ended December 31, 2018 and 2017

13. KEY MANAGEMENT COMPENSATION

Key management includes the Chief Executive Officer, Chief Financial Officer, Chief Investment Officer and directors of the Company.

The compensation payable to key management is shown below:

Period ended December 31	2018	2017
Salaries / Consulting fees	\$ 36,000	\$ -
Director fees	18,750	18,750
	\$ 54,750	\$ 18,750

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CYPHERPUNK HOLDINGS INC. (Formerly Khan Resources Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Three Months Ended December 31, 2018 and 2017

14. CONTINGENT LIABILITIES AND COMMITMENTS

a) Netherlands Preliminary Tax Assessment - On February 15, 2017 the Company received an income tax reassessment from the Netherlands tax authority reassessing the Company's subsidiary KRBV for an amount payable of 3.3 million euros (CAD\$5 million). This reassessment was pursuant to management challenging an earlier preliminary assessment for an amount payable by KRBV of 11.4 million euros. The preliminary tax assessment and the reassessment were both issued before KRBV had filed its 2016 tax return and as such are based on incomplete information. Based on tax professionals advice, management is of the opinion that the reassessed amount payable of 3.3 million euros (CAD\$5 million) continues to be an over assessment. The 2016 tax return has since been filed and management believes that this issue will be resolved when the Netherlands tax authority has the opportunity to review all the facts. As a result, no provision has been made for this reassessment in these consolidated financial statements.

b) Former Officer Claim - In October 2017, the former Chief Executive officer filed a \$775,000 claim for severance and damages against the Company. The Company believes the severance is not appropriate and the amount claimed is not probable to be paid. No provision has been made for the claim in these consolidated financial statements.

15. FINANCIAL RISK FACTORS

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 investment in crypto currency and blockchain companies. 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. The Company considers capital from two perspectives: its working capital position and its capital stock, warrant, and stock option components of its shareholders' equity.

At December 31, 2018, the Company has a working capital of \$3,880,924 (September 30, 2018 - \$3,973,790), and a total of Capital stock and contributed surplus of \$19,795,332 (September 30, 2018 - \$19,795,332).

To effectively manage the Company's capital requirements, the management has in place a planning, budgeting and forecasting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company ensures that there are sufficient working capital and planned future capital raises to meet its short-term business requirements, taking into account its anticipated cash flow from operations and its holding of cash and cash equivalents and short-term investments.

At December 31, 2018, the Company expects its capital resources and projected future cash flows from financing to support its normal operating requirements on an ongoing basis and other expansionary plans.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2018.

Risk Disclosures

Exposure to credit, interest rate and currency risks arises in the normal course of the Company's business.

CYPHERPUNK HOLDINGS INC. (Formerly Khan Resources Inc.)
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(EXPRESSED IN CANADIAN DOLLARS)
Three Months Ended December 31, 2018 and 2017

15. FINANCIAL RISK FACTORS (Continued)

Credit Risk

The Company has cash and short-term investments balance of \$4,005,872 (September 30, 2018 - \$4,072,322). The Company's current policy is to invest excess cash in investment grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. There is no significant credit risk with respect of receivables.

Interest Rate Risk

The Company has no exposure to interest rate risk since there are no outstanding debts or other payables subject to interest charges at the end of the reported periods.

Foreign Currency Risk

The Company is exposed to foreign currency risk on financial assets and liabilities that are denominated in a currency other than the Canadian dollar. The currencies giving rise to this risk are primarily the U.S. dollar and the Euro, the balance of net monetary assets in such currencies as of December 31, 2018 is \$1,259,269 (September 30, 2018 - \$1,205,362).

Liquidity Risk

The Company is exposed to liquidity risk primarily as a result of its trade accounts payable. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2018, the Company had a cash and short-term investments balance of \$4,005,872 (September 30, 2018 - \$4,072,322) to settle current liabilities of \$159,713 (September 30, 2018 - \$126,939). All of the Company's trade accounts payable have contractual maturities of less than 30 days and are subject to normal trade terms.

Sensitivity Analysis

As at December 31, 2018 and September 30, 2018, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

Based on management's knowledge and experience of the financial markets, the Company believes the following movement is "reasonably possible" over a twelve-month period.

- i) The Company is exposed to foreign currency risk on fluctuations of balances that are denominated in US currency related to cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. Sensitivity to a plus or minus 10% change in the foreign exchange rate would affect the net comprehensive loss by \$125,927.

CYPHERPUNK HOLDINGS INC. (Formerly Khan Resources Inc.)
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(EXPRESSED IN CANADIAN DOLLARS)
Three Months Ended December 31, 2018 and 2017

15. FINANCIAL RISK FACTORS (Continued)

Fair Value Hierarchy

The Company classifies its fair value measurements with a fair value hierarchy, which reflects the significance of the inputs used in making the measurements as defined in IFRS 13 – Financial Instruments; Fair Value Measurement (“IFRS 13”).

Level 1 – Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Investments classified as Level Two are comprised of the 5,000,000 Shares and the 5,000,000 Warrants of Hydro66 Holdings Corp.

The shares have a fair value of \$1,850,000 at December 31, 2018 (September 30, 2018 - \$3,450,000). The fair value of the shares is determined using the stock price of Hydro66 Holdings Corp. which is listed under the trading symbol “SIX”. On December 31, 2018, the share price was \$0.37 (September 30, 2018 - \$0.69). The company performed a sensitivity analysis on the fair value of the shares and noted that a 20% decrease in share price would result in a \$370,000 decrease in the fair value of the shares.

The Warrants have a fair value of \$4,434 at December 31, 2018 (September 30, 2018 - \$401,014). The fair value of the warrants is determined using the Black-Scholes option pricing model and is updated at the end of each period. At December 31, 2018 the following assumptions were used to assign the fair value: volatility of 27%, a risk free interest rate of 1.01% and a share price of \$0.37.

Level 3 – Unobservable inputs which are supported by little or no market activity. Investments classified as Level Three consist of the USD\$300,000 (CAD\$409,260) invested for a Simple Agreement for Future Equity (“SAFE”) with Chia Network. The fair value of the SAFE at December 31, and September 30, 2018 was determined using the consideration paid for the SAFE on July 9, 2018. The company performed a sensitivity analysis on the consideration paid and noted that a 20% decrease would result in a \$81,852 decrease in the fair value of the SAFE.

Accounts payable and accrued liabilities are considered as other financial liabilities, which are measured at amortized cost which also approximates fair value.

December 31, 2018:	Level One	Level Two	Level Three
Cash and cash equivalents	\$ 4,005,872	\$ -	\$ -
Restricted cash	-	52,250	-
Investments	-	1,854,434	409,260
	<u>\$ 4,005,872</u>	<u>\$ 1,906,684</u>	<u>\$ 409,260</u>
September 30, 2018:	Level One	Level Two	Level Three
Cash and cash equivalents	\$ 4,072,322	\$ -	\$ -
Restricted cash	-	52,250	-
Investments	-	3,851,014	388,350
	<u>\$ 4,072,322</u>	<u>\$ 3,903,264</u>	<u>\$ 388,350</u>

There have been no transfers between levels 1, 2 or 3 during the reported years.