

Datametrex AI Limited

Interim Condensed Consolidated Financial Statements

Three and Nine Months Ended

September 30, 2018

(Canadian dollars, unaudited)

Condensed Consolidated Financial Statements

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Notice to Reader

The accompanying unaudited interim condensed 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 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.

Datametrex AI Limited

Interim Condensed Consolidated Statements of Financial Position (Canadian dollars, unaudited)

	September 30, 2018 \$	December 31, 2017 \$
Assets		
Current assets		
Cash and cash equivalents	1,012,101	2,906,290
Trade and other receivables (note 12)	608,345	696,742
Prepaid expenses and other assets	236,262	544,898
Total current assets	1,856,708	4,147,930
Property and equipment, net (note 5)	246,297	141,477
Investment in equity investee (note 9)	1,103,594	-
Intangible assets, net (note 6)	3,858,058	4,370,311
Goodwill	2,972,348	2,972,348
Total assets	10,037,005	11,632,066
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities (notes 6 and 12)	3,199,383	572,289
Deferred revenue	164,540	98,106
Current portion of long-term debt (note 8)	396,525	460,103
Current portion of contingent consideration	132,946	144,023
Total current liabilities	3,893,394	1,274,521
Long-term debt (note 8)	74,913	103,840
Contingent consideration	173,243	288,047
Deferred income taxes	653,181	942,940
Total liabilities	4,794,731	2,609,348
Shareholders' equity		
Share capital (note 10)	26,426,411	13,341,894
Reserves (note 10)	2,476,299	1,173,375
Accumulated other comprehensive loss	(2,202)	-
Deficit	(23,658,234)	(5,492,551)
Total shareholders' equity	5,242,274	9,022,718
Total liabilities and shareholders' equity	10,037,005	11,632,066
Going concern (note 2)		

Approved and authorized for issue by the Board of Directors on November 26, 2018.

Signed "Charles Schade" Director

Signed "Andrew Ryu" Director

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

Datametrex AI Limited

Interim Condensed Consolidated Statements of Comprehensive Loss (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 \$
Revenue				
Service revenue (notes 9 and 12)	353,632	-	2,797,831	100,517
Licensing revenue	184,750	-	693,647	-
Digital assets mined	30,974	-	79,439	-
Other revenue	20,292	-	71,939	-
	<u>589,648</u>	<u>-</u>	<u>3,642,856</u>	<u>100,517</u>
Expenses				
Salaries, benefits and consulting fees	669,914	301,074	1,802,166	736,792
Office and General	172,775	154,813	531,597	272,054
Share of loss from equity investee – Graph	528,205	-	1,434,887	-
Other operating expenses	668,916	378,047	2,101,410	600,727
Gain on remeasurement of contingent consideration	(52,933)	-	(181,199)	-
Gain on dilution of investment in equity investee	(3,417)	-	(538,481)	-
Loss on revaluation of digital assets	28,363	-	39,586	-
Share based compensation – stock options	49,937	317,550	1,266,457	317,550
Depreciation and amortization	949,612	1,689	2,641,803	3,245
	<u>3,011,372</u>	<u>1,153,173</u>	<u>9,098,226</u>	<u>1,930,368</u>
Loss before undernoted items	(2,421,724)	(1,153,173)	(5,455,370)	(1,829,851)
Interest and accretion	29,198	-	103,815	-
Foreign exchange loss	556	-	18,213	-
Impairment of Ronin Mining Rigs (note 5)	522,932	-	522,932	-
Impairment of Ronin Gosun Intangible (note 6)	12,355,112	-	12,355,112	-
Listing expense and RTO related fees	-	-	-	783,078
	<u>(15,329,522)</u>	<u>(1,153,173)</u>	<u>(18,455,442)</u>	<u>(2,612,929)</u>
Loss before income taxes	(15,329,522)	(1,153,173)	(18,455,442)	(2,612,929)
Income tax benefit				
Deferred	(93,446)	-	(289,759)	-
	<u>(93,446)</u>	<u>-</u>	<u>(289,759)</u>	<u>-</u>
Net loss	(15,236,076)	(1,153,173)	(18,165,683)	(2,612,929)
Weighted average number of common shares (note 11)				
	<u>200,373,925</u>	<u>75,918,088</u>	<u>198,624,384</u>	<u>58,793,836</u>
Basic and diluted loss per share (note 11)	(0.076)	(0.015)	(0.091)	(0.044)
Other comprehensive income (loss), net				
Foreign exchange translation adjustment	52	-	(2,202)	-
	<u>(15,236,024)</u>	<u>(1,153,173)</u>	<u>(18,167,885)</u>	<u>(2,612,929)</u>

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

Datametrex AI Limited

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity
(Canadian dollars, except number of common shares, unaudited)

	Common Shares				Accumulated other comprehensive loss \$	Total \$
	Number	Amount \$	Reserves \$	Deficit \$		
Balance – January 1, 2017	47,952,840	495,809	-	(173,212)	-	322,597
Net loss for the period	-	-	-	(2,612,929)	-	(2,612,929)
Shares issued under private placement	21,608,391	1,921,236	-	-	-	1,921,236
Shares issued to former Everfront shareholders	5,738,050	573,805	-	-	-	573,805
Shares issued from exercise of warrants	3,712,840	278,463	-	-	-	278,463
Options issued during the period	-	-	317,550	-	-	317,550
Options issued to former Everfront directors	-	-	7,950	-	-	7,950
Balance – September 30, 2017	79,012,121	3,269,313	325,500	(2,786,141)	-	808,672
Balance – January 1, 2018	164,496,139	13,341,894	1,173,375	(5,492,551)	-	9,022,718
Net loss for the period	-	-	-	(18,165,683)	-	(18,165,683)
Shares issued under private placement	8,571,427	2,791,252	-	-	-	2,791,252
Shares issued from exercise of options	100,000	16,800	(6,800)	-	-	10,000
Shares issued from exercise of warrants	3,895,231	602,347	(18,062)	-	-	584,285
Shares issued as part of the Ronin Acquisition (note 6)	22,000,000	9,130,000	-	-	-	9,130,000
Shares issued as consideration for Ronin Transaction costs (note 6)	1,311,128	544,118	-	-	-	544,118
Foreign exchange translation	-	-	-	-	(2,202)	(2,202)
Share based compensation	-	-	1,266,457	-	-	1,266,457
Warrants issued during the period	-	-	61,329	-	-	61,329
Balance – September 30, 2018	200,373,925	26,426,411	2,476,299	(23,658,234)	(2,202)	5,242,274

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

Datametrex AI Limited

Interim Condensed Consolidated Statements of Cash Flows (Canadian dollars, unaudited)

	Nine months ended September 30, 2018 \$	Nine months ended September 30, 2017 \$
Cash flows from (used in) operating activities		
Net loss	(18,165,683)	(2,612,929)
Adjustments to reconcile net loss to operating cash flow		
Depreciation of property and equipment	237,325	3,245
Amortization of intangible assets	2,404,478	-
Amortization of debt discount	12,032	-
Accretion on contingent consideration	55,318	-
Gain on remeasurement of contingent consideration	(181,199)	-
Gain on dilution of investment in equity investee	(538,481)	-
Management consulting fees – Graph (note 12)	(1,769,912)	-
Share of loss from equity investee – Graph (note 9)	1,434,887	-
Share based compensation – stock options	1,266,457	317,550
Deferred income taxes	(289,759)	-
Impairment of property and equipment (note 5)	522,932	-
Impairment of intangible asset (note 6)	12,355,112	-
Listing expense	-	406,859
Net change in operating assets and liabilities (note 7)	<u>360,617</u>	<u>(495,397)</u>
	(2,295,876)	(2,380,672)
Cash flows used in investing activities		
Purchase of property and equipment (note 5)	(865,077)	(23,285)
Purchase of intangible assets (note 6)	(2,073,219)	-
Net cash flow from reverse takeover	<u>-</u>	<u>178,120</u>
	(2,938,296)	154,835
Cash flows from (used in) financing activities		
Repayment of debt obligations (note 8)	(104,537)	-
Proceeds from exercise of share options	10,000	-
Proceeds from exercise of share warrants	584,285	-
Proceeds from issuance of share warrants (note 10)	61,329	-
Proceeds from issuance of share capital (note 10)	<u>2,791,252</u>	<u>2,199,699</u>
	3,342,329	2,199,699
Effect of exchange rate changes on cash and cash equivalents	(2,346)	-
Increase (decrease) in cash and cash equivalents	(1,894,189)	(26,138)
Cash and cash equivalents, beginning of year	2,906,290	404,340
Cash and cash equivalents, end of period	<u>1,012,101</u>	<u>378,202</u>
Supplementary information		
Share consideration issued for the Ronin Acquisition (notes 6 and 10)	9,130,000	-
Interest paid, net	27,167	-

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

Datametrex AI Limited

Notes to Interim Condensed Consolidated Financial Statements

(Canadian dollars, except share and unit information, unaudited)

1 Description of business and organization

Datametrex AI Limited (the “Company” or “Datametrex AI”), formerly Everfront Ventures Corp., (“Everfront”) is a technology company focused primarily on collecting, analyzing and presenting structured and unstructured data using machine learning and artificial intelligence, and engaging in industrial scale cryptocurrency mining. The Company also has exposure to blockchain technology currently in development for the collection, storage, transfer, analysis and presentation of big data through its associate company, Graph Blockchain Limited (“Graph”).

The Company is a publicly traded corporation, incorporated in the province of Ontario and its head office is located at 2161 Yonge St., Suite 210, Toronto, Ontario, M4S 3A6, Canada. The Company’s common shares are listed on the TSX Venture Exchange (“TSXV”) under the trading symbol “DM” and on the Frankfurt Stock Exchange under the trading symbol “D4G”. The Company was incorporated under the laws of the Province of Ontario on March 4, 2011, and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSXV. The principal business of the Company at that time was to identify and evaluate assets or businesses with the view to completing a qualifying transaction (a “QT”) under relevant policies of the TSXV. On June 7, 2017, the Company completed its QT pursuant to an agreement between Everfront and Datametrex Limited (“Datametrex”). On September 26, 2017, the Company’s name has been changed to Datametrex AI Limited.

2 Significant accounting policies and going concern

Basis of presentation and statement of compliance

These unaudited interim condensed consolidated financial statements (“interim financial statements”) were prepared using the same accounting policies and methods as those used in the Company’s consolidated financial statements for the year ended December 31, 2017 (the “2017 Consolidated Financial Statements”), with the exception of operating segments, digital assets and new accounting policies that were adopted on January 1, 2018 as disclosed in this note. These interim financial statements are in compliance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), have been omitted or condensed.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in note 1 to the Company’s 2017 Consolidated Financial Statements. These interim financial statements should be read in conjunction with the Company’s 2017 Consolidated Financial Statements.

The interim financial statements were approved and authorized for issuance by the Company’s Board of Directors on November 26, 2018. The interim financial statements are presented in Canadian dollars which is also the Company’s functional currency. The accounting policies have been applied consistently in these interim financial statements, unless otherwise indicated.

Datametrex AI Limited

Notes to Interim Condensed Consolidated Financial Statements

(Canadian dollars, except share and unit information, unaudited)

Going concern

These interim financial statements were prepared on a going concern basis under the historical cost basis of accounting. The Company has a deficit of \$23,658,234 which includes \$12,878,044 of impairment losses. The Company's ability to continue as a going concern is dependent upon the ability of the Company to generate revenue and positive cash flows from its operations. Accordingly, the Company may need further financing in the form of debt, equity or a combination thereof for the next twelve months. There can be no assurance that additional funding will be available to the Company, or, if available, that this funding will be on acceptable terms. If adequate funds are not available, the Company may be required to delay or reduce the scope of any or all of its projects. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Principles of consolidation

These interim financial statements include the accounts of all entities controlled by the Company, which are referred to as subsidiaries, and references to Company include references to such subsidiaries. The Company's wholly owned subsidiaries include Datametrex and Nexalogy, as defined in the 2017 Consolidated Financial Statements, as well as Datametrex Korea Limited ("Datametrex Korea"), which was incorporated during the three months ended June 30, 2018 with Korean Won as its functional currency, and Canntop AI Limited, which was incorporated during the three months ended September 30, 2018.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Operating segments

For the year ended December 31, 2017, management has determined that the Company operated in a single operating and reportable segment, providing big data, artificial intelligence and private blockchain services (the "Big Data, AI and Private Blockchain" reportable segment). Effective January 15, 2018, the acquisition date of Ronin as described in note 6 to these interim financial statements, the Company has an additional operating and reportable segment for its cryptocurrency mining operations (the "Cryptocurrency Mining" reportable segment).

Digital assets

Digital assets are measured at fair value using the quoted price on www.coinmarketcap.com. The Company considers this fair value to be a Level 2 input under IFRS 13 Fair Value Measurement fair value hierarchy as the price on this source represents an average of quoted prices on multiple digital currency exchanges. The digital assets are valued based on the closing price obtained from www.coinmarketcap.com ("Coin Market Cap") at the reporting period corresponding to the different digital assets mined by the Company. The Company is relying on the data available at Coin Market Cap to be an accurate representation of the closing price for the different digital assets. The Company is amortizing mining equipment used to mine digital assets over two years on a straight-line basis. As at September 30, 2018, the Company had digital assets in the amount of \$39,853 included in "Prepaid expenses and other assets" in the interim condensed consolidated statements of financial position.

Datametrex AI Limited

Notes to Interim Condensed Consolidated Financial Statements

(Canadian dollars, except share and unit information, unaudited)

Revenue from contracts with customers

Effective January 1, 2018, the Company adopted IFRS 15, Revenue from Contracts with Customers (“IFRS 15”). IFRS 15 supersedes the existing standards and interpretations including IAS 18, Revenue and IFRIC 13, Customer Loyalty Programmes. IFRS 15 introduces a single model for recognizing revenue from contracts with customers with the exception of certain contracts under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the expected consideration receivable in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs.

The Company adopted IFRS 15 using the cumulative effect method, i.e. by recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings at January 1, 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 18.

The adoption of IFRS 15 did not materially affect the Company’s cash flows from operating, investing, or financing activities, its financial position, or its results from operations. The Company’s opening balance of retained earnings at January 1, 2018 does not require an adjustment as a result of the adoption of IFRS 15.

a) Services provided to customers

The Company provides big data and artificial intelligence services to customers. Prior to January 1, 2018, the Company recognized revenue using the stage-of-completion method. If services under a single contract had multiple components, the Company allocated the consideration on a relative fair value basis between the different services.

Under IFRS 15, the total consideration for service contracts is allocated based on their stand-alone selling prices, and revenue is recognized over time as performance obligations are satisfied. The adoption of IFRS 15 did not materially affect revenue recognition for services provided to customers.

b) License fees

The Company recognizes revenue from license fees over the terms specified in each contract, generally one year. The adoption of IFRS 15 did not materially affect revenue recognition for license fees.

c) Customer billings and deposits

Billings or payments received from customers in advance of revenue recognition are recorded in deferred revenue in the interim condensed consolidated statements of financial position.

Datametrex AI Limited

Notes to Interim Condensed Consolidated Financial Statements

(Canadian dollars, except share and unit information, unaudited)

Financial instruments

Effective January 1, 2018, the Company adopted IFRS 9, Financial Instruments ("IFRS 9"). IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39").

The adoption of IFRS 9 did not materially affect the Company's cash flows from operating, investing, or financing activities, its financial position, or its results from operations.

a) Classification of financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets are classified and measured based on the three categories: amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL"). Financial liabilities are classified and measured in two categories: amortized cost or FVTPL. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated, but the hybrid financial instrument as a whole is assessed for classification. The adoption of the new classification requirements under IFRS 9 did not result in significant changes in measurement or the carrying amounts of financial assets and liabilities.

The following table summarizes the classification impacts upon the adoption of IFRS 9:

	Classification under IAS 39	Classification under IFRS 9
Cash and cash equivalents	Loans and receivables	FVTPL
Trade and other receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Contingent consideration	Fair value	FVTPL
Long-term debt	Other liabilities	Amortized cost

b) Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" ("ECL") model. The ECL model requires judgement, including consideration of how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model is applied, at each reporting date, to the Company's financial assets measured at amortized cost. Impairment losses are recorded in office and general expenses with the carrying amount of the financial asset reduced through the use of impairment allowance accounts.

The adoption of the new impairment requirements under IFRS 9 did not result in significant changes in measurement or the carrying amounts of the Company's financial assets.

Datametrex AI Limited

Notes to Interim Condensed Consolidated Financial Statements

(Canadian dollars, except share and unit information, unaudited)

3 Future accounting pronouncements

The IASB has issued the following applicable standard:

IFRS 16, Leases (“IFRS 16”): In January 2016, the IASB issued IFRS 16 which supersedes IAS 17, Leases. This Standard introduces a single lessee accounting model. The new standard will affect the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position, including for most leases which are currently accounted for as operating leases. The Standard is effective for annual periods beginning on or after January 1, 2019. The Company is assessing the impact of this standard on the consolidated financial statements.

4 Segment information

The Company has two operating and reportable segments as defined in note 2 to these interim financial statements.

The Big Data, AI and Private Blockchain segment includes operations relating to big data and artificial intelligence services provided by Nexalogy, Datametrex and Datametrex Korea, as well as the Company’s share of results from its investment in Graph for the collection, storage, transfer, analysis and presentation of big data using blockchain technology that is currently in development.

The Cryptocurrency Mining segment includes operations relating to the provision of transaction verification services within digital currency networks, for which the Company receives digital currency from each specific network in which it participates. The segment information presented comprises primarily the operating results of Ronin, a wholly owned subsidiary of the Company as defined in note 6 to these interim financial statements.

Segment information of the Company is summarized as follows:

	Big Data, AI, and Private Blockchain	Cryptocurrency Mining	Consolidated totals
	\$	\$	\$
For the nine months ended September 30, 2018			
Revenue	3,563,417	79,439	3,642,856
Segment loss	(2,839,409)	(15,326,274)	(18,165,683)
Depreciation and amortization	557,121	2,084,682	2,641,803
Interest and accretion	103,815	-	103,815
Share of loss from equity accounted investee	1,434,887	-	1,434,887
Share based compensation	1,266,457	-	1,266,457
Impairment of Ronin Mining Rigs	-	522,932	522,932
Impairment of Ronin Gosun Intangible	-	12,355,112	12,355,112
Segment assets	9,910,417	126,588	10,037,005
Equity accounted investee	1,103,594	-	1,103,594
Capital expenditure	98,207	766,870	865,077
Segment liabilities	1,089,206	3,705,525	4,794,731

For the nine months ended September 30, 2017, the Company only had one operating and reportable segment.

Datametrex AI Limited

Notes to Interim Condensed Consolidated Financial Statements

(Canadian dollars, except share and unit information, unaudited)

5 Property and equipment

During the nine months ended September 30, 2018, the Company had property and equipment additions of \$865,077 which include \$721,870 for graphics processing unit (GPU) based cryptocurrency mining machines (the “Mining Rigs”). The Mining Rigs had an estimated useful life of two years and were being depreciated on a straight-line basis.

As at September 30, 2018 and December 31, 2017, no property or equipment was under capital lease.

Impairment of the Mining Rigs

The Company identified several market factors affecting its Cryptocurrency Mining segment that include a downtrend in the prices of digital assets, a significant increase in mining difficulty, and a negative outlook on mining profitability due to the introduction of new digital asset mining equipment that is more powerful, efficient and cost effective than the machines the Company acquired in the first quarter of 2018. Due to these deteriorating market conditions the Company has performed an assessment of the recoverable amount of its Mining Rigs.

In accordance with IAS 36, Impairment of Assets (“IAS 36”), the Mining Rigs should be written down to their recoverable amount, which is the higher of their value in use and their fair value less costs to sell.

The Company has determined that the value in use for the Mining Rigs is insignificant. Given the Company’s largely fixed cost structure to operate the Mining Rigs, the Company is not expected to mine profitably unless significant investment is made to scale the operations. A material capital investment into the Company’s Cryptocurrency Mining segment is not currently expected.

The Company has determined the fair value less costs to sell for the Mining Rigs to be \$14,382. The following key assumptions were used in this determination:

- The Mining Rigs generate total work output of approximately 14,200 MH/s (megahash per second, a measure of mining power) for the Ethash algorithm, which is used by Ethereum (a type of digital asset that the Company has been mining).
- Comparable mining equipment generating work output of 190 MH/s for the Ethash algorithm has a market price of approximately \$1,000 per unit. Management has obtained this value by viewing recent prices for the Bitmain Antminer E3 unit on the online Bitmain store (<http://shop.bitmain.com>). Given that the prices do not have a regular mark to market mechanism for setting fair value, the unit price is considered to be a Level 3 valuation under the Fair Value hierarchy.
- Given no material differences in electrical efficiency between the Mining Rigs and the Bitmain Antminer E3 units, the fair value was determined on a primarily pro-rata basis based on total work output. Approximately \$31,000 of further adjustments were made to decrease the value of the Mining Rigs due to their used condition and the increased cost of rent and maintenance compared to the Antminer E3 units.
- Costs to sell of \$30,000 have been determined to be reasonable based on sales efforts that would be expected.

Given that the Mining Rigs had a carrying amount of \$537,314 on September 30, 2018 prior to any impairment charges, the Company recognized an impairment loss in the amount of \$522,932 during the three months ended September 30, 2018 to write the Mining Rigs down to their recoverable amount of \$14,382.

Datametrex AI Limited

Notes to Interim Condensed Consolidated Financial Statements

(Canadian dollars, except share and unit information, unaudited)

6 Goodwill and other intangible assets

On January 15, 2018, the Company has signed the share purchase agreement and completed the acquisition of privately held Ronin Blockchain Corp. (“Ronin”), a global industrial scale blockchain platform with a specific focus on mining multiple cryptocurrencies (the “Ronin Transaction”). As a result of the Ronin Transaction, Ronin became a wholly-owned subsidiary of the Company (the “Ronin Acquisition”).

Under the terms of the share purchase agreement, the Company acquired all of the issued and outstanding common shares of Ronin for an aggregate purchase price of \$13,630,000. The purchase price is paid in multiple installments, with the Company having issued to the vendors 22,000,000 common shares of the Company at \$0.415 per share and paid \$2,000,000 in cash at closing. The vendors will receive an additional \$2,500,000 worth of common shares on or before the first anniversary of the closing date of the Ronin Transaction, included in “Accounts payable and accrued liabilities” in the interim condensed consolidated statements of financial position, which will be issued upon the achievement of certain milestones at a price per share equal to the volume weighted average price of the Company’s shares on the TSX Venture Exchange for the twenty-day period prior to the issuance of the shares.

In connection with the Ronin Transaction, the Company paid a finder’s fee of 1,311,128 common shares to the individual responsible for introducing Ronin and the Company at \$0.415 per share for total consideration of \$544,118. All securities issued in connection with the Transaction are subject to a hold period of four months and one day from the date of issuance.

On January 12, 2018, in connection with the Ronin Acquisition, the Company completed non-brokered private placement as described in note 10 to these interim financial statements.

The Ronin Transaction is an acquisition of an intangible asset that does not constitute a business, as not all inputs, outputs and processes were in place at the time of acquisition. As such, it is being accounted for in accordance with IAS 38, Intangible Assets (“IAS 38”).

The intangible asset recognized related to certain rights Ronin had negotiated with Gosun Group (“Gosun”) via a memorandum of understanding which included rights to hosting capacity at Gosun’s facilities, utility pass-through pricing, and access to preferred pricing on cryptocurrency mining equipment (the “Gosun Intangible Asset”).

The Gosun Intangible Asset was being amortized over a period of approximately 5 years. A definitive agreement with Gosun was signed on February 14, 2018 which gave the Company the right to host up to 50,000 servers or 100 megawatts in 2018 and up to 75,000 servers or 150 megawatts in 2019, with an effective term until December 31, 2019. On May 21, 2018, the Company successfully renegotiated certain terms and conditions of the agreement which include more favourable hosting rates, an extension of the effective term to May 21, 2023 and the right to host up to 150,000 servers or 300 megawatts starting in 2020. The revised agreement with Gosun is set to automatically renew for successive periods of one year starting in 2023 at no additional cost to the Company.

The Company incurred acquisition costs in the amount of \$617,337 relating to the Ronin Acquisition which were included in the cost of the Gosun Intangible Asset in accordance with IAS 38.

Impairment of the Gosun Intangible Asset

The Company identified several market factors affecting its Cryptocurrency Mining segment, as described in note 5 to these interim financial statements. Due to these deteriorating market conditions the Company has performed an assessment of the recoverable amount of its Gosun Intangible Asset.

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In accordance with IAS 36, the Gosun Intangible Asset should be written down to its recoverable amount, which is the higher of its value in use and its fair value less costs to sell.

The Company has determined that both the value in use and fair value less costs to sell for the Gosun Intangible Asset are insignificant. The key assumptions and factors used in making the determination are as follows:

- Due to market conditions, the Company has been unable to raise sufficient funds to scale its operations at the Gosun facilities. As such, the Company cannot recover the carrying amount of the Gosun Intangible Asset through its normal course of operations.
- Management does not expect material reversals in the electricity rates in China, with effective rates between 9.9 to 13.2 Canadian cents per kWh (exclusive of additional rental fees) for its Gosun facilities. These rates are not competitive compared with market electricity rates of 3.5 to 9.2 cents available to miners in North America.
- With the decrease in digital asset prices and significant increase in mining difficulty, combined with the relatively high operating expenses at the Gosun facilities, margins have decreased to a point where it is no longer profitable to operate in the current market environment.
- Management believes that the market has seen a significant shift in the value drivers for digital asset mining. When digital asset prices were at their peak early in 2018, the primary constraint to mining profitability was available operating capacity. The Gosun Intangible Asset provided a significant footprint with access of up to 300 MW by 2020. With the significant deterioration in mining profitability, management believes that low operating costs are now the key value driver.
- Given the current market environment, management believes that at this time there is no market or demand for the Gosun Intangible Asset.

The fair value assessment is a Level 3 valuation under the Fair Value hierarchy, with the key assumptions and factors listed above. When considering the costs that would have to be incurred to try to sell the Gosun Intangible Asset in the current market environment, management has determined that fair value less costs to sell is effectively \$nil.

Given that the Gosun Intangible Asset had a carrying amount of \$12,355,112 on September 30, 2018 prior to any impairment charges, the Company recognized an impairment loss in the full amount to write the Gosun Intangible Asset down to its recoverable amount of \$nil.

7 Net change in operating assets and liabilities

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
	\$	\$
Cash flows provided by (used in)		
Trade and other receivables	(141,620)	(149,958)
Inventory	-	(3,633)
Prepaid expenses and other assets	308,636	(454,227)
Accounts payable and accrued liabilities	127,167	179,938
Deferred revenue	66,434	(67,517)
	<u>360,617</u>	<u>(495,397)</u>

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8 Debt

	September 30, 2018 \$	December 31, 2017 \$
Unsecured loan payable, accruing 11% per annum, repayable in monthly instalments of \$4,000 and due on demand. The Company assumed this debt on November 20, 2017 as part of the Nexalogy Acquisition.	207,799	225,819
Canada Economic Development loan issued March 2013, non-interest bearing unsecured loan with proceeds of \$199,750. In accordance with IFRS, the proceeds from this financial instrument with a non-market rate of interest was discounted using a rate of 13%, the prevailing market rate of interest for a similar instrument with a similar credit rating. The loan was amended in October of 2016 and based on the amended terms, the loan is repayable in equal monthly instalments in the amount of \$4,161 commencing on June 1, 2017 and maturing in May 2021. The Company assumed this debt on November 20, 2017 as part of the Nexalogy Acquisition.	113,250	138,667
Unsecured loan payable, accruing 11% per annum, repayable in monthly instalments of \$2,000 and due on demand. The Company assumed this debt on November 20, 2017 as part of the Nexalogy Acquisition.	74,951	86,190
Tax credit loan payable bearing interest at 13% per annum, collateralized by a first rank security interest on the R&D tax credits claimed by Nexalogy and is due upon receipt of the tax credits recoverable by Nexalogy. The Company assumed this debt on November 20, 2017 as part of the Nexalogy Acquisition.	57,380	57,380
Unsecured loan payable bearing interest at the prime rate (3.20% as at December 31, 2017) plus 3% per annum, repayable in monthly instalments of \$4,000. The Company assumed this debt on November 20, 2017 as part of the Nexalogy Acquisition.	13,058	47,553
Unsecured demand loan, non-interest bearing and has no specific terms of repayment. The Company assumed this debt on November 20, 2017 as part of the Nexalogy Acquisition.	5,000	5,000
Term loan bearing interest at the prime rate (3.20% as at December 31, 2017) plus 6.625% per annum repayable in monthly principal installments of \$1,667 maturing on February 28, 2018. The term loan is collateralized by a moveable hypothec in the amount of \$120,000 on certain of Nexalogy's assets, by a personal guarantee from an employee of Nexalogy, and by a full guarantee from Société de développement économique Ville-Marie. The Company assumed this debt on November 20, 2017 as part of the Nexalogy Acquisition.	-	3,334
	<u>471,438</u>	<u>563,943</u>
Less: Current portion of long-term debt	<u>(396,525)</u>	<u>(460,103)</u>
	<u>74,913</u>	<u>103,840</u>

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9 Equity accounted investee

On November 21, 2017, the Company signed an agreement with Bitnine Global Inc. (“Bitnine”) to create a joint venture company, Graph. Graph’s mandate is to bring the value of the graph database technology to the blockchain environment where the Company and Bitnine identified a need in the market to enhance performance and present verified and authenticated data in unique ways. Graph’s principal place of business is Canada but it also has operations in South Korea.

On January 10, 2018, Graph completed a non-brokered private placement (the “Graph Private Placement”) for aggregate gross proceeds of \$3,455,376. Under the Graph Private Placement, Graph issued 42,803,413 shares in accordance with the terms and conditions of the subscription agreement representing a subscription price of \$0.083 per share. In connection with the Graph Private Placement, finder’s fees were paid to arm’s length parties in an amount equal to 8% of the size of the Graph Private Placement. This included cash commissions of \$124,146, the grant of 1,665,818 brokers’ warrants and the issuance of 959,626 shares. Each whole broker’s warrant shall be exercisable for one common share of Graph at a price of \$0.083 per broker warrant for a period of 24 months from the closing date.

Also, on January 10, 2018, the Company received 12,109,762 common shares valued at \$0.083 per share in exchange for management services rendered. The company initially recorded an increase to its investment in equity accounted investee in the amount of \$1,000,000, management fee revenue of \$884,956 included in “Service revenue” in the interim condensed consolidated statements of comprehensive loss, and commodity tax payable in the amount of \$115,044 included in “Trade and other receivables” in the interim condensed consolidated statements of financial position.

On April 1, 2018, Graph issued 2,421,952 common shares in escrow to an officer of Graph, vesting over eight quarterly instalments with April 1, 2018 as the first vesting date. During the nine months ended September 30, 2018, 605,488 common shares of Graph have vested.

On May 24, 2018, the Company received an additional 12,109,762 common shares valued at \$0.083 per share in exchange for management services rendered. The company initially recorded an increase to its investment in equity accounted investee in the amount of \$1,000,000, management fee revenue of \$884,956 included in “Service revenue” in the interim condensed consolidated statements of comprehensive loss, and commodity tax payable in the amount of \$115,044 included in “Trade and other receivables” in the interim condensed consolidated statements of financial position.

During the nine months ended September 30, 2018, the Company recognized a gain on the dilution of its investment in Graph in the amount of \$538,481. The Company also charged Graph rental fees of \$22,500 for the use of shared office space in the Company’s Toronto office.

The Company’s share of loss from Graph is \$1,434,887 for the nine months ended September 30, 2018, which includes the Company’s share of loss carried forward from December 31, 2017 in the amount of \$13,640. As at September 30, 2018, the Company had a 29.90% ownership interest in Graph.

10 Share capital and reserves

a) Common shares

The Company is authorized to issue an unlimited number of common shares with no par value.

Issuances of common shares are recorded in “Share capital” in the interim condensed consolidated statements of financial position.

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The following summarizes transactions involving the common shares of the Company:

	Number	Amount \$
Shares issued and outstanding at January 1, 2018	164,496,139	13,341,894
Shares issued from private placements, net of fees	8,571,427	2,791,252
Shares issued for the Ronin Acquisition (note 6)	22,000,000	9,130,000
Shares issued for Ronin Transaction costs (note 6)	1,311,128	544,118
Shares issued from exercise of share options	100,000	16,800
Shares issued from exercise of warrants	3,895,231	602,347
Shares issued and outstanding at September 30, 2018	<u>200,373,925</u>	<u>26,426,411</u>

On January 12, 2018, in connection with Ronin Acquisition, the Company completed non-brokered private placement of 8,571,427 units to raise gross proceeds of \$3,000,000. Each unit was at a price of \$0.35 and consisted of one common share and one-half warrant of the Company. Each warrant is exercisable into one common share of the Company at a price of \$0.55 for a period of one and a half years from the date of issuance and includes a warrant acceleration clause at a share price of \$0.65 or greater under certain market conditions. Certain dealers and arms-length finders were paid 8% of the gross proceeds and received 227,988 broker warrants exercisable on the same terms and conditions governing those warrants issued under the private placement. Share issuance costs, including cash expenses, amounted to \$147,419, resulting in net proceeds of \$2,852,581, of which \$2,791,252 has been allocated to "Share capital" for the shares issued and \$61,329 has been allocated to "Reserves" for the warrants issued on the interim condensed consolidated statement of financial position.

b) Warrants

Issuances of warrants are recorded in "Reserves" in the interim condensed consolidated statements of financial position. The following summarizes transactions involving warrants issued by the Company:

	Number	Weighted average exercise price \$
Warrants outstanding at January 1, 2018	76,638,642	0.15
Warrants issued in connection with private placements	4,285,714	0.55
Brokers' warrants	227,988	0.55
Warrants exercised	(3,895,231)	0.15
Warrants outstanding at September 30, 2018	<u>77,257,113</u>	<u>0.17</u>

The Company used the residual method to value non-broker warrants issued in connection with private placements, with the difference between the combined unit price at the time of each placement and the market price of the shares at that time allocated to warrant reserves.

During the nine months ended September 30, 2018, 3,895,231 warrants were exercised at a weighted average exercise price of \$0.15 for total cash proceeds of \$584,285 (nine months ended September 30, 2017 – no warrants exercised).

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c) Share options

The company recorded share based compensation of \$49,937 during the three months ended September 30, 2018 (three months ended September 30, 2017 – \$317,550) and \$1,266,457 during the nine months ended September 30, 2018 (nine months ended September 30, 2017 – \$317,550).

Share options granted by the Company are recorded in “Reserves” in the interim condensed consolidated statements of financial position as they vest. The following summarizes transactions involving share options issued by the Company:

	Number	Weighted average exercise price \$
Options outstanding at January 1, 2018	10,109,054	0.14
Options issued during the period	5,565,081	0.21
Options exercised during the period	(100,000)	0.10
Options expired or forfeited during the period	<u>(2,277,665)</u>	<u>0.19</u>
Options outstanding at September 30, 2018	<u>13,296,470</u>	<u>0.16</u>

On January 22, 2018, the Company granted an aggregate of 3,200,000 incentive share options under the Company’s share option plan to certain officers of the Company. The options are exercisable at \$0.225 per share, are not subject to vesting conditions, and shall be exercisable for a term of two years, in accordance the Company’s share option plan. The value of these options was calculated using the Black-Scholes pricing model with the following assumptions: (i) expected option life of 2 years; (ii) risk free rate of 1.80%; (iii) dividend yield of nil; (iv) expected volatility of 180%; and (v) share price of \$0.295 at the time of grant for a valuation of \$0.244 per option.

On March 8, 2018, the Company granted an aggregate of 2,365,081 incentive share options under the Company’s share option plan to certain directors, advisory board members, and an employee of the Company. The options are exercisable at \$0.20 per share, of which 1,965,801 are not subject to vesting conditions and 400,000 shall vest one-quarter (1/4) on August 20, 2018, one-quarter (1/4) on February 20, 2019, one quarter (1/4) on August 20, 2019 and one quarter (1/4) on February 20, 2020, and shall be exercisable for a term of two years, in accordance the Company’s share option plan. The value of these options was calculated using the Black-Scholes pricing model with the following assumptions: (i) expected option life of 2 years; (ii) risk free rate of 1.78%; (iii) dividend yield of nil; (iv) expected volatility of 170%; and (v) share price of \$0.165 at the time of grant for a valuation of \$0.124 per option.

During the nine months ended September 30, 2018, 100,000 options were exercised at a weighted average exercise price of \$0.10 for total cash proceeds of \$10,000 with a weighted average share price of \$0.42 (nine months ended September 30, 2017 – no options exercised). As at September 30, 2018, 10,897,985 share options are exercisable at a weighted average exercise price of \$0.17 per share option.

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11 Loss per share

For the three months ended September 30, 2018

Net loss	\$ (15,236,076)
Weighted average number of shares outstanding	<u>200,373,925</u>
Basic and diluted loss per share	<u>\$ (0.076)</u>

For the three months ended September 30, 2017

Net loss	\$ (1,153,173)
Weighted average number of shares outstanding	<u>75,918,088</u>
Basic and diluted loss per share	<u>\$ (0.015)</u>

For the nine months ended September 30, 2018

Net loss	\$ (18,165,683)
Weighted average number of shares outstanding	<u>198,624,384</u>
Basic and diluted loss per share	<u>\$ (0.091)</u>

For the nine months ended September 30, 2017

Net loss	\$ (2,612,929)
Weighted average number of shares outstanding	<u>58,793,836</u>
Basic and diluted loss per share	<u>\$ (0.044)</u>

Basic loss per share is calculated by dividing the total loss by the weighted average number of shares outstanding during the period. Outstanding warrants and options as at September 30, 2018 of 90,553,583 (December 31, 2017 – 86,727,681) have not been factored into the calculation as they are considered anti-dilutive.

The following table presents the maximum number of shares that would be outstanding if all dilutive and potentially dilutive instruments as described in note 10 were exercised or converted as at September 30, 2018:

	Number
Common shares outstanding	200,373,925
Share options and warrants outstanding	<u>90,553,583</u>
	<u>290,927,508</u>

12 Related party transactions

a) Occupancy costs

During the nine months ended September 30, 2018, the Company incurred occupancy costs of \$nil (nine months ended September 30, 2017 – \$10,500) for rent charged by a company controlled by a director and shareholder of the Company, which has been included in “Office and general” in the interim condensed consolidated statements of comprehensive loss. The Company also charged its associate company, Graph, rental fees of \$7,500 during the three months ended September 30, 2018 and \$22,500 during the nine months ended September 30, 2018 as disclosed in note 9 to these interim financial statements.

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b) Accounts payable and accrued liabilities

As at September 30, 2018, an amount of \$71,409 (December 31, 2017 - \$12,135) included in accounts payable and accrued liabilities is due to officers of the Company.

c) Trade and other receivables

As at September 30, 2018, an amount of \$nil (December 31, 2017 - \$2,500) included in trade and other receivables is due from Graph, an associate company of the Company.

d) Revenue from related parties

The Company charged its associate company, Graph, a management fee in the amount of \$nil during the three months ended September 30, 2018 and \$1,769,912 during the nine months ended September 30, 2018 as disclosed in note 9 to these interim financial statements.

Also, the Company entered into a two year proprietary service agreement with a company ("Customer") that, at the time, had certain common directors and officers with the Company to provide ERP services. The agreement includes a one-time customization fee of \$130,000 to be paid in three installments, one-time installation fee of \$10,000, and a monthly service fee of \$12,000. The Company issued the Customer an invoice for \$60,266 for these ERP services on November 1, 2016, and \$48,966 on December 1, 2016, inclusive of HST (the "Indebtedness"). On December 31, 2016, the Company entered into a debt settlement subscription agreement with the Customer whereby the Customer issued 1,205,325 common shares to the Company at a deemed issue price of \$0.05 per share in partial satisfaction of the Indebtedness. Due to the uncertainty regarding the collectability of the receivable and the ultimate realization on the investment, no value was attributed to these transactions as at December 31, 2017 or September 30, 2018. During the nine months ended September 30, 2018, the Company terminated the service agreement with the Customer.

Also, the Company entered into a two year proprietary service agreement with another company that, at the time, had certain common directors and officers with the Company and is also a shareholder of the Company, to provide ERP services and other maintenance services. The agreement includes a one-time customization fee of \$90,000 to be paid in three installments, a one-time installation fee of \$10,000 and a monthly service fee of \$10,000. The Company recognized revenue of \$nil during the three months ended September 30, 2017 and \$100,517 during the nine months ended September 30, 2017 for ERP and other services provided. The Company no longer provides ERP services to this company.

e) Accounting service fees

During the nine months ended September 30, 2018, the Company incurred fees of \$nil (three months ended September 30, 2017 - \$nil and nine months ended September 30, 2017 - \$30,000) for professional accounting services rendered by a company controlled by a director and shareholder of the Company, which has been included in "Other operating expenses" in the interim condensed consolidated statements of comprehensive loss.

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f) Compensation of key management personnel

Key management includes members of the Board and executive officers of the Company. Compensation awarded to key management is listed below:

	Three months ended September 30, 2018		Three months ended September 30, 2017	
	Amount \$	Options awarded	Amount \$	Options awarded
Cash based compensation	253,000	-	155,000	-
Stock options (based on Black-Scholes)	10,895	-	317,550	7,300,000
	263,895	-	472,550	7,300,000
	Nine months ended September 30, 2018		Nine months ended September 30, 2017	
	Amount \$	Options awarded	Amount \$	Options awarded
Cash based compensation	615,500	-	501,214	-
Stock options (based on Black-Scholes)	999,820	4,465,081	317,550	7,300,000
	1,615,320	4,465,081	818,764	7,300,000

13 Fair values of financial instruments

IFRS 7 - Financial Instruments: Disclosures requires disclosure of a three-level hierarchy (“FV hierarchy”) that reflects the significance of the inputs used in making fair value measurements and disclosures. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include those whose valuations are determined using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are those based on inputs that are unobservable and significant to the overall fair value measurement.

Cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities, and the current portion of long-term debt have relatively short periods to maturity and the carrying values contained in the interim condensed consolidated statements of financial position approximate their estimated fair value. The carrying values of the long-term debt obligations contained in the interim condensed consolidated statements of financial position also approximate their estimated fair values.

Financial instruments measured at fair value include the contingent consideration (the “Nexalogy Contingent Consideration”), included in Level 3 of the FV hierarchy, and digital assets, included in Level 2 of the FV hierarchy.

The terms of the Nexalogy Contingent Consideration are as follows: (a) baseline of \$200,000 in cash on the first anniversary of the date of closing (November 20, 2018); (b) \$200,000 in cash on the second anniversary of the date of closing (November 20, 2019); (c) \$200,000 in cash on the third anniversary of the date of closing (November 20, 2020), each such payment being conditional on Nexalogy achieving certain revenue targets with a minimum of \$100,000 to a maximum of \$240,000 per anniversary date payment. The fair value measurement of the Nexalogy Contingent Consideration has been categorized as a Level 3 fair value based on the discounted cash flows valuation method used and the following assumptions: (i) payments of \$200,000 at each of the three anniversary dates based on expected revenue

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projections; and (ii) a discount rate of 19.80%. The undiscounted range of aggregate payments for the Nexalogy Contingent Consideration over the three anniversary dates is between \$300,000 to \$720,000 depending on the achievement of certain revenue targets.

The fair value measurement is impacted by two significant inputs: the discount rate used and the expected payment amounts. A movement by a factor of 10% in the discount rate and expected payment amounts would result in an approximately 3% and 10% change in the fair value measurement of the contingent consideration contained in the interim condensed consolidated statements of financial position, respectively. During the nine months ended September 30, 2018, the Company revised its estimate of certain revenue targets and recognized a gain on remeasurement of the contingent consideration in the amount of \$181,199, along with accretion which has been recorded to reflect the passage of time as disclosed in the interim condensed consolidated statements of cash flows.

14 Comparative figures

Certain comparative figures have been reclassified to conform with current period presentation.

15 Subsequent events

Options

On October 9, 2018, the Company granted an aggregate of 6,150,000 incentive share options under the Company's share option plan to certain directors, officers and employees of the Company. The options are exercisable at \$0.07 per share, are not subject to vesting conditions, and shall be exercisable for a term of two years, in accordance the Company's share option plan. The value of these options was calculated using the Black-Scholes pricing model with the following assumptions: (i) expected option life of 2 years; (ii) risk free rate of 2.20%; (iii) dividend yield of nil; (iv) expected volatility of 130%; and (v) share price of \$0.055 at the time of grant for a valuation of \$0.033 per option.

In addition to the grant, the Company has made proposed amendments to the exercise price of certain previously granted options, subject to certain approvals, including:

- Reduction in exercise price from \$0.225 per share to \$0.10 per share for 3,200,000 options originally granted to certain directors and officers (expiring January 22, 2020); and
- Reduction in exercise price from \$0.20 per share to \$0.10 per share for 1,665,081 options originally granted to certain directors (expiring March 8, 2020).

Issuance of shares

Subsequent to September 30, 2018, the Company issued an aggregate of 1,300,000 common shares in satisfaction of an aggregate of \$91,000 of indebtedness at a deemed price of \$0.07 per common share.

Graph share split

On September 4, 2018, a special resolution of the shareholders of Graph was made to subdivide all of the issued and outstanding common shares on the basis of 1.210976238250372 post-subdivision shares for every one pre-subdivision share with an effective split date of October 1, 2018. Any resulting fractional shares shall be either rounded up or down to the nearest whole number.

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Graph's acquisition of Reg Technologies Inc.

Subsequent to September 30, 2018, Graph entered into a definitive amalgamation agreement (the "Amalgamation Agreement") to acquire Reg Technologies Inc. ("RegTech") through a reverse takeover. Pursuant to the terms of the Amalgamation Agreement, RegTech will consolidate its outstanding shares on a ten to one basis, and acquire all of the issued and outstanding shares of Graph pursuant to a three-cornered amalgamation whereby 2659468 Ontario Inc., a wholly-owned subsidiary of RegTech, and Graph will amalgamate (the "Amalgamation") to form a newly amalgamated company ("Amalco"), and upon the Amalgamation, former shareholders of Graph ("Graph Shareholders"), which include the Company as disclosed in note 9 to these interim financial statements, will receive one new common share of RegTech for each one common share of Graph held and Amalco will become a wholly-owned subsidiary of RegTech (the "Graph RTO Transaction").

Upon completion of the Amalgamation, RegTech has become the parent and the sole shareholder of Amalco and thus will indirectly carry on the business of Graph. As a result, RegTech changed its name to "Graph Blockchain Inc."

The Graph RTO Transaction is considered to be a reverse takeover by Graph, the accounting acquirer, of RegTech, the accounting acquiree. A reverse takeover transaction involving a non-public operating entity and a non-operating company is considered to be in substance a share based payment transaction and is not a business combination. Any difference in the value of the shares deemed to have been issued by the accounting acquirer and the fair value of the acquiree's net assets will be expensed by Graph in the period of acquisition as a payment for a stock exchange listing.

Graph's private placement

In connection with the acquisition of Reg Technologies Inc., Graph completed a non-brokered private placement on November 6, 2018 of 3,354,866 post-subdivision units to raise gross proceeds of \$1,006,460 that closed concurrently with the Graph RTO Transaction. Each unit was at a price of \$0.30 and consisted of one common share and one warrant of Graph. Each warrant shall be exercisable into one common share of Graph at a price of \$0.40 for a period of 18 months from the date of issuance. Certain dealers and arms-length finders were paid 8% of the gross proceeds. Share issuance costs of \$33,000 comprised of \$13,000 in respect of cash finders' fees, together with other cash expenses of \$20,000, resulting in net proceeds of \$973,460.

Graph issuance of shares

Subsequent to September 30, 2018, Graph issued 5,000,000 common shares (post-subdivision) at \$0.21 per share to certain employees, officers and directors of Graph and certain employees of the Company who support Graph's sales efforts. The shares were valued based on financing transactions in close proximity to the issuance of the shares.