

Datametrex AI Limited

Interim Condensed Consolidated Financial Statements Three and Nine Months Ended September 30, 2019 and 2018 (Canadian dollars, unaudited)

Interim 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, 2019	December 31, 2018
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	812,853	654,628
Trade and other receivables	913,397	672,536
Loan Receivables (note 12)	263,525	-
Prepaid expenses and other assets	196,709	130,290
Total current assets	2,186,484	1,457,454
Right-of-use asset (note 7)	55,757	-
Property and equipment, net (note 4)	119,952	159,233
Investment in equity investee (note 10)	420,231	1,039,574
Intangible assets, net (note 5)	3,175,054	3,687,307
Goodwill	2,972,348	2,972,348
Total assets	8,929,826	9,315,916
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities (notes 6 and 15)	5,008,190	3,842,912
Loan Payables (notes 13)	112,000	-
Deferred revenue	285,562	-
Deferred management fees (note 13)	-	207,780
Lease liability (note 7)	57,845	-
Current portion of long-term debt (note 9)	369,937	375,595
Current portion of contingent consideration (note 14)	-	100,000
Total current liabilities	5,833,534	4,526,287
Long-term debt (note 9)	31,712	64,630
Contingent consideration (note 14)	-	61,786
Deferred income taxes	158,210	293,957
Total liabilities	6,023,456	4,946,660
Shareholders' equity		
Share capital (note 11)	27,536,142	26,491,411
Contributed surplus (note 11)	2,889,421	2,765,646
Accumulated other comprehensive loss	(14,720)	4,116
Deficit	(27,504,474)	(24,891,917)
Total shareholders' equity	2,906,369	4,369,256
Total liabilities and shareholders' equity	8,929,825	9,315,916
Going concern (note 2)		
Subsequent events (note 17)		

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, 2019 \$	Three months ended September 30, 2018 \$	Nine months ended September 30, 2019 \$	Nine months ended September 30, 2018 \$
Revenue				
Service and Licensing revenue	426,813	228,522	1,028,132	874,398
System Integration and Hardware revenue	1,255,503	309,860	1,501,076	847,168
Other revenue	1,669	51,266	29,860	151,378
	<u>1,683,985</u>	<u>589,648</u>	<u>2,559,068</u>	<u>1,872,944</u>
Direct Cost	<u>1,461,233</u>	<u>293,762</u>	<u>1,597,527</u>	<u>797,128</u>
Gross Profit	<u>222,752</u>	<u>295,886</u>	<u>961,541</u>	<u>1,075,816</u>
Expenses				
Salaries, benefits and consulting fees	347,203	669,914	1,607,249	1,802,166
Office and General	99,941	172,775	408,276	531,597
(Gain) loss on extinguishment of accounts payable	-	-	(5,455)	-
Other operating expenses	544,445	375,154	1,465,405	1,304,282
Gain on remeasurement of contingent consideration	(161,786)	(52,933)	(161,786)	(181,199)
Loss on revaluation of digital assets	-	28,363	-	39,586
Share based compensation – stock options (note 11)	-	49,937	-	1,266,457
Depreciation and amortization	204,268	949,612	611,954	2,641,803
	<u>1,034,071</u>	<u>2,192,822</u>	<u>3,925,643</u>	<u>7,404,692</u>
Loss before undernoted items	<u>(811,319)</u>	<u>(1,896,936)</u>	<u>(2,964,102)</u>	<u>(6,328,876)</u>
Management fees – Graph Blockchain Inc. (note 13)	(60,000)	-	(270,000)	(1,769,912)
Share of loss from equity investee – Graph Blockchain Inc. (note 10)	63,559	528,205	634,120	1,434,887
Gain on dilution of investment in equity investee - Graph Blockchain Inc. (note 10)	(10,447)	(3,417)	(14,777)	(538,481)
Gain on litigation settlement (note 15)	-	-	(545,000)	-
Impairment of Ronin Mining Rigs	-	522,932	-	522,932
Impairment of Ronin Gosun Intangible	-	12,355,112	-	12,355,112
Interest and accretion	(2,332)	29,198	43,478	103,815
Foreign exchange loss	(61,047)	556	(63,619)	18,213
Loss before income taxes	<u>(741,052)</u>	<u>(15,329,522)</u>	<u>(2,748,304)</u>	<u>(18,455,442)</u>
Income tax benefit				
Deferred	(45,249)	(93,446)	(135,747)	(289,759)
Net loss	<u>(695,803)</u>	<u>(15,236,076)</u>	<u>(2,612,557)</u>	<u>(18,165,683)</u>
Weighted average number of common shares (note 12)	<u>226,081,561</u>	<u>200,373,925</u>	<u>223,442,651</u>	<u>198,624,384</u>
Basic and diluted loss per share (note 12)	<u>(0.003)</u>	<u>(0.076)</u>	<u>(0.012)</u>	<u>(0.091)</u>
Other comprehensive income (loss), net				
Foreign exchange translation adjustment	487	52	(18,836)	(2,202)
Comprehensive loss	<u>(695,316)</u>	<u>(15,236,024)</u>	<u>(2,631,393)</u>	<u>(18,167,885)</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 \$	Contributed surplus \$	Deficit \$		
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	22,000,000	9,130,000	-	-	-	9,130,000
Shares issued as consideration for Ronin Transaction costs	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)	(2,254)	5,242,274
Balance – January 1, 2019	201,673,925	26,491,411	2,765,646	(24,891,917)	4,116	4,369,256
Net loss for the period	-	-	-	(2,612,557)	-	(2,612,557)
Shares issued under private placement	22,044,000	950,185	-	-	-	950,185
Shares issued to settle accounts payable	363,636	14,546	-	-	-	14,546
Shares issued for litigation settlement	2,000,000	80,000	-	-	-	80,000
Foreign exchange translation	-	-	-	-	(18,836)	(18,836)
Warrants issued during the period	-	-	123,775	-	-	123,775
Balance – September 30, 2019	226,081,561	27,536,142	2,889,421	(27,504,474)	(14,720)	2,906,369

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, 2019 \$	Nine months ended September 30, 2018 \$
Cash flows from (used in) operating activities		
Net loss	(2,612,557)	(18,165,683)
Adjustments to reconcile net loss to operating cash flow		
Depreciation of property and equipment	57,882	237,325
Amortization of intangible assets	512,253	2,404,478
Amortization of debt discount	8,523	12,032
Amortization of right-of-use asset (note 7)	41,818	-
Accretion on lease liability (note 7)	6,057	-
Accretion on contingent consideration	-	55,318
Gain on remeasurement of contingent consideration	(161,786)	(181,199)
Gain on dilution of investment in equity investee	(14,777)	(538,481)
Management fees – Graph	-	(1,769,912)
Share of loss from equity investee (note 10)	634,120	1,434,887
(Gain) Loss on extinguishment of accounts payable	14,546	-
(Gain) Loss on litigation settlement	-	-
Share based compensation – stock options	-	1,266,457
Shares issued for litigation settlement	80,000	-
Deferred income taxes	(135,747)	(289,759)
Impairment of property and equipment	-	522,932
Impairment of intangible asset	-	12,355,112
Net change in operating assets and liabilities (note 8)	<u>958,661</u>	<u>360,617</u>
	(611,007)	(2,295,876)
Cash flows used in investing activities		
Purchase of property and equipment (note 4)	(18,601)	(865,077)
Purchase of intangible assets	-	(2,073,219)
Issuance of loan receivables	<u>(263,525)</u>	<u>-</u>
	(282,126)	(2,938,296)
Cash flows from (used in) financing activities		
Proceeds from loan payables	112,000	-
Repayment of debt obligations (note 9)	(47,099)	(104,537)
Principal payments of lease liability (note 7)	(45,787)	-
Proceeds from exercise of share options	-	10,000
Proceeds from exercise of share warrants	-	584,285
Proceeds from issuance of share warrants (note 11)	123,775	61,329
Net proceeds from issuance of private placement (note 11)	<u>950,185</u>	<u>2,791,252</u>
	1,093,074	3,342,329
Effect of exchange rate changes on cash and cash equivalents	(41,717)	(2,346)
Increase (decrease) in cash and cash equivalents	158,224	(1,894,189)
Cash and cash equivalents, beginning of period	<u>654,628</u>	<u>2,906,290</u>
Cash and cash equivalents, end of period	<u>812,852</u>	<u>1,012,101</u>
Supplementary information		
Share consideration issued for the Ronin Acquisition	-	9,130,000
Share consideration issued to settle accounts payable	14,546	-
Interest paid, net	7,291	27,167

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

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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”) is a technology company focused primarily on collecting, analyzing and presenting structured and unstructured data using machine learning and artificial intelligence. 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 Inc. (“Graph”).

The Company is a publicly traded corporation, incorporated in the province of Ontario and its head office is located at 4711 Yonge Street, Suite 1000, Toronto, Ontario, M2N 6K8, 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”.

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, 2018 (the “2018 Consolidated Financial Statements”), with the exception of operating segments and new accounting policies that were adopted on January 1, 2019 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 2 to the Company’s 2018 Consolidated Financial Statements. These interim financial statements should be read in conjunction with the Company’s 2018 Consolidated Financial Statements.

The interim financial statements were approved and authorized for issuance by the Company’s Board of Directors on November 27th, 2019. 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.

Going concern

These interim condensed consolidated financial statements were prepared on a going concern basis under the historical cost basis of accounting. As at September 30, 2019, the Company has a deficit of \$27,504,474 (December 31, 2018 - \$24,891,917) and a working capital deficiency of \$3,647,050 (December 31, 2018 - working capital deficiency of \$3,068,833). For the three and nine months ended September 30, 2019, the Company recognized a net loss of \$695,802 and \$2,612,557 (three and nine months ended September 30, 2018 - \$15,236,076 and \$18,165,683). For the nine months ended September 30, 2019, the Company also had net cash outflows of \$611,007 from operating activities (2018 - \$2,295,876). As at September 30, 2019, the Company has insufficient cash to fund its planned operations for the next twelve months. The Company’s ability to continue as a going concern is dependent upon the ability of the Company to

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Notes to Interim Condensed Consolidated Financial Statements

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

generate sufficient revenues and positive cash flows from its operating activities and/or obtain sufficient additional financing to settle its obligations and fund its planned 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.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Should the Company be unable to generate sufficient cash flow from operations or financing activities, the carrying value of the Company's assets could be subject to material adjustments and other adjustments may be necessary to these financial statements should such events impair the Company's ability to continue as a going concern.

Basis of consolidation

The interim condensed consolidated 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 financial statements of the subsidiaries are included in these interim condensed consolidated financial statements from the date on which control commences until the date on which control ceases. The Company's wholly owned operating subsidiaries include Datametrex and Nexalogy, as well as Datametrex Korea Limited ("Datametrex Korea").

Intercompany balances and transactions are eliminated upon consolidation and preparation of the interim condensed consolidated financial statements.

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 arising from transaction with equity-accounted investees are eliminated against the investment to the extent of the Company's interest in the investee, but only to the extent that there is no evidence of impairment.

Operating segments

The Company determines its reportable segments based on, among other things, how our chief operating decision maker, the Chief Executive Officer, regularly reviews our operations and performance. The Company follows the same accounting policies for its segments as those described in these interim condensed consolidated financial statements.

For the year ended December 31, 2018, management determined that the Company operated in 2 operating and reportable segments. The operating and reportable segment of providing big data, artificial intelligence and private blockchain services (the "Big Data, AI and Private Blockchain" reportable segment), and the operating and reportable segment for its cryptocurrency mining operations (the "Cryptocurrency Mining" reportable segment). Given that as at December 31, 2018, management has written down the Mining Rigs and Gosun Intangible Assets to a value of \$nil, and the Company had nominal operating activities in Cryptocurrency Mining for the three and nine months ended September 30, 2019, management has determined that the Company is considered to be operating in a single operating and reportable segment in the three and nine months ended September 30, 2019.

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Notes to Interim Condensed Consolidated Financial Statements

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

Lease

Effective January 1, 2019, the Company adopted IFRS 16 – Leases, which supersedes previous accounting standards for leases, including IAS 17 – Leases and IFRIC 4 – Determining whether an arrangement contains a lease. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of a low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The company primarily leases buildings for office use. For all lease contracts entered into, or changed, on or after January 1, 2019, the Company recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any lease incentive received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method.

Where applicable, the Company will elect not to recognize right-of-use and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company will recognize the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Transition

The Company applied IFRS 16 with a date of initial application of January 1, 2019 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

The Company previously classified all its leases for building spaces as operating leases under IAS 17. Upon the adoption of IFRS 16, the following change in accounting policies are made:

The Company has recorded right-of-use asset and lease liability in the interim condensed consolidated statements of financial position for the existing lease at the lease commencement date, which is January 1, 2019 for the purpose of the IFRS 16 adoption. The lease liability is initially measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. It is subsequently measured at amortized cost using the effective interest method.

The right-of-use asset is initially measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The right-of-use asset is subsequently depreciated using the straight-line method over the remaining lease terms.

The Company has elected not to recognize right-of-use asset and lease liability for short-term lease in which the lease term ends within 12 months of the date of initial application. The lease payment associated with this lease is recognized as an expense on a straight-line basis over the lease term.

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As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, there is no impact to total shareholder's equity as at January 1, 2019. Please refer to note 6 of the interim condensed consolidated financial statements for impacts for the period ended September 30, 2019.

3 Segment information

For the nine months ended September 30, 2019, the Company has one operating and reportable segments as defined in note 2 to these interim condensed consolidated financial statements.

For the nine months ended September 30, 2018, the Company had two operating and reportable segments being the Big Data, AI and Private Blockchain segment, and cryptocurrency mining operations. 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

Geographical information is summarized as follows:

	Canada	Korea	Total
	\$	\$	\$
For the nine months ended September 30, 2019			
Revenue from external customers	751,135	1,807,934	2,559,068
Non-current assets	6,743,342	-	6,743,342
	Canada	Korea	Total
	\$	\$	\$
For the nine months ended September 30, 2018			
Revenue from external customers	1,013,085	859,859	1,872,944
Non-current assets	8,180,297	-	8,180,297

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Notes to Interim Condensed Consolidated Financial Statements (Canadian dollars, except share and unit information, unaudited)

4 Property and equipment

During the three and nine months ended September 30, 2019, the Company had property and equipment additions of \$1,634 and \$18,601 (three and nine months ended September 30, 2018 - \$26,628 and \$865,077).

5 Goodwill and other intangible assets

During the three and nine months ended September 30, 2019, the Company had intangible additions of \$nil (three and nine months ended September 30, 2018 - \$nil and \$2,073,219).

6 Accounts payable and accrued liabilities

	September 30, 2019	December 31, 2018
	\$	\$
Accounts Payable and accrued Liabilities	3,133,190	1,342,912
Other Payable - related to the acquisition of Ronin Blockchain Corp.	1,875,000	2,500,000
	<u>5,008,190</u>	<u>3,842,912</u>

7 Lease

The Company's lease is related to the lease of building space. Information about the lease in which the Company is a lessee is presented below:

Right-of-use assets

	\$
Balance at January 1, 2019	97,575
Additions	-
Depreciation charge for the period	(41,818)
Balance at September 30, 2019	<u>55,757</u>

Lease liability

	\$
Balance at January 1, 2019	97,575
Accretion on lease liability	6,057
Lease payments	(45,788)
Balance at September 30, 2019	<u>57,845</u>

When measuring lease liability, the Company discounted lease payments using its incremental borrowing rate of 10% at January 1, 2019.

Maturity analysis - contractual undiscounted cash flows:

	Less than 1 year	1 to 2 years	2 to 5 years	Total
	\$	\$	\$	\$
Lease liability	57,844	-	-	57,844

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During the three and nine months ended September 30, 2019, expense relating to short term lease is \$15,725 and \$47,175. The total cash outflow of lease liability and short term lease is \$30,988 and \$92,964.

8 Net change in operating assets and liabilities

	Nine months ended September 30, 2019 \$	Nine months ended September 30, 2018 \$
Cash flows provided by (used in)		
Trade and other receivables	(240,861)	(141,620)
Prepaid expenses and other assets	(66,419)	(308,636)
Accounts payable and accrued liabilities	1,165,278	127,167
Deferred management fees	(207,780)	-
Deferred revenue	285,562	66,434
Effect of Exchange rate changes	22,881	
	<u>958,661</u>	<u>360,617</u>

9 Debt

	September 30, 2019 \$	December 31, 2018 \$
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.	194,821	201,455
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.	77,599	104,215
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.	66,849	70,976
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.	-	1,199

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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
	401,649	440,225
Less: Current portion of long-term debt	(369,937)	(375,595)
	31,712	64,630

During the period ended September 30, 2019, the Company received letters from lenders demanding full payment of the loans with outstanding principal balance of \$194,821 and \$66,849. The Company is currently in the negotiation process regarding potential changes to the repayment terms.

10 Equity accounted investee

During the three and nine months ended September 30, 2019, the Company recognized a gain on the dilution of its investment in Graph in the amount of \$10,447 and \$14,777 (three and nine months ended September 30, 2018 - \$3,417 and \$538,481), which was the result of Graph issuing additional shares during the three and nine months ended September 30, 2019.

The Company's share of loss from Graph is \$66,113 and \$636,674 for the three and nine months ended September 30, 2019 (three and nine months ended September 30, 2018 - \$528,205 and \$1,434,887). As at September 30, 2019, the Company had a 26.39% ownership interest in Graph (December 31, 2018 – 26.56%).

11 Share capital and Contributed surplus

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 consolidated statements of financial position.

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

	Number	Amount
		\$
Shares issued and outstanding at January 1, 2019	201,673,925	26,491,411
Shares issued from private placements, net of fees	22,044,000	950,185
Shares issued for settlement with Ronin vendors	2,000,000	80,000
Shares issued to settle accounts payable	363,636	14,546
Shares issued and outstanding at September 30, 2019	226,081,561	27,536,142

On January 25, 2019, the Company completed non-brokered private placement of 22,044,000 units to raise gross proceeds of \$1,102,200. Each unit was priced at a price of \$0.05 and consisted of one common share and one warrant of the Company. Each warrant shall be exercisable into one common share of the Company at a price of \$0.08 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 \$0.12 or greater

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under certain market conditions. Certain dealers and arms-length finders were paid 8% of the gross proceeds and received 564,800 non-transferable warrants on the same terms and conditions governing those warrants issued under the private placement. Share issuance costs, including cash expenses, amounted to \$28,240, resulting in net proceeds of \$1,073,960, of which \$950,185 has been allocated to “Share capital” for the shares issued and \$123,775 has been allocated to “Contributed surplus” for the warrants issued on the interim condensed consolidated statement of financial position.

In February 2019, the Company entered into an agreement to settle \$20,000 of accounts payable in exchange for the issuance of 363,636 common shares of the Company. In connection with the settlement, the Company incurred extinguishment of comprehensive gain of \$5,455 recorded in “(Gain) loss on extinguishment of accounts payable” on the interim condensed consolidated statements of comprehensive loss.

On April 1, 2019, the Company issued 2,000,000 common shares in connection to the final settlement with one of the Ronin Vendors. Please refer to note 14 for details.

b) Warrants

Issuances of warrants are recorded in “Contributed surplus” in the 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, 2019	75,555,449	0.18
Warrants issued in connection with private placements	22,044,000	0.08
Brokers’ warrants	564,800	0.08
Warrants expired or forfeited during the period	<u>(75,555,449)</u>	<u>0.17</u>
Warrants outstanding at September 30, 2019	<u>22,608,800</u>	<u>0.08</u>

The Company used the residual method to value non-broker warrants issued in connection with private placements, with the amount of consideration received in excess, if any, of the fair value of the shares issued being recognized in contributed surplus. Difference between the combined unit price at the time of each placement and the market price of the shares at that time is allocated to contributed surplus.

For brokers’ warrants issued in connection with the private placement completed on January 25, 2019, the value was calculated using the Black-Scholes pricing model with the following assumptions: (i) expected warrant life of 1.5 years; (ii) risk free rate of 1.88%; (iii) dividend yield of nil; (iv) expected volatility of 150%; and (v) share price of \$0.045 at the time of issuance, and adjusted for the warrant acceleration clause for a valuation of \$0.024 per warrant.

During the nine months ended September 30, 2019, no warrants were exercised (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).

c) Share options

During the three and nine months ended September 30, 2019, the company incurred share based compensation of \$nil (three and nine months ended September 30, 2018 - \$49,937 and \$1,266,457).

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Share options granted by the Company are recorded in “Contributed surplus” 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, 2019	19,446,470	0.13
Options granted during the period	500,000	0.20
Options expired or forfeited during the period	<u>(10,684,348)</u>	<u>0.11</u>
Options outstanding at September 30, 2019	<u>9,262,122</u>	<u>0.15</u>

On February 20, 2019, the Company granted 500,000 incentive share options under the Company’s share option plan to a consultant of the Company. The options are exercisable at \$0.20 per share, are not subject to vesting conditions, and shall be exercisable for a term of one year, 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 1 year; (ii) risk free rate of 1.77%; (iii) dividend yield of nil; (iv) expected volatility of 130.7%; and (v) share price of \$0.035 at the time of grant for a valuation of \$0.004 per option.

During the nine months ended September 30, 2019, no options were exercised (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).

12 Loss per share

For the three months ended September 30, 2019

Net loss	\$ (695,803)
Weighted average number of shares outstanding	<u>226,081,561</u>
Basic and diluted loss per share	<u>\$ (0.003)</u>

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 nine months ended September 30, 2019

Net loss	\$ (2,612,557)
Weighted average number of shares outstanding	<u>223,442,651</u>
Basic and diluted loss per share	<u>\$ (0.012)</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>

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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, 2019 of 31,870,992 (December 31, 2018 – 95,001,919) 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, 2019:

	Number
Common shares outstanding	226,081,561
Share options and warrants outstanding	31,870,922
	<u>257,952,483</u>

13 Related party transactions and balances

a) Accounts payable and accrued liabilities

As at September 30, 2019, an amount of \$1,353 (December 31, 2018 - \$1,752) included in accounts payable and accrued liabilities is due to officers and directors of the Company.

b) Loan receivables and payables

As at September 30, 2019, the Company has loan receivable from Graph in an amount of \$55,384 due on demand at 0% interest. Datametrex Korea also has loan receivable from Korea segment of Graph in an amount of \$208,141 bearing interest at 5.0% per annum.

As at September 30, 2019, the Company has loan advancements due on demand from officers of the Company for a total amount of \$87,000.

c) Management fee from Related Party

The Company charged its associate company, Graph, a total management fee in the amount \$60,000 and \$270,00 during the three and nine months ended September 30, 2019 (three and nine months ended September 30, 2018 - \$nil and \$1,769,912).

d) Private placements

Certain officers and directors of the Company participated in the January 2019 private placement, as disclosed in note 10, and subscribed to an aggregate of 10,900,000 units for proceeds of \$545,000.

e) 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, 2019		Three months ended September 30, 2018	
	Amount \$	Options awarded	Amount \$	Options awarded
Cash based compensation	(41,250)	-	253,000	-
Stock options (based on Black-Scholes)	-	-	10,895	-
	<u>(41,250)</u>	<u>-</u>	<u>263,895</u>	<u>-</u>

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	Nine months ended September 30, 2019		Nine months ended September 30, 2018	
	Amount \$	Options awarded	Amount \$	Options awarded
Cash based compensation	317,250	-	615,500	-
Stock options (based on Black-Scholes)	-	-	999,820	4,465,081
	<u>317,250</u>	<u>-</u>	<u>1,615,320</u>	<u>4,465,081</u>

14 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, loan receivables, accounts payable and accrued liabilities, loan payables, and the current portion of long-term debt have relatively short periods to maturity and the carrying values contained in the consolidated statements of financial position approximate their estimated fair value. The carrying values of the long-term debt obligations contained in the consolidated statements of financial position also approximate their estimated fair values. The carrying value of lease liability approximates their fair value because the discount rate used to calculate the lease liability approximates the Company’s current borrowing rate.

Financial instruments measured at fair value include the contingent consideration (the “Hexalogy Contingent Consideration”), included in Level 3 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 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 consolidated statements of financial position, respectively. As at September 30, 2019, management performed a revaluation of contingent liability, considering Nexalogy did not achieve the second year revenue target as indicated in the share purchase agreement, and is not expected to achieve revenue target for the third year, the company has decided to reverse

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both current and noncurrent contingent consideration in current period, and revaluation gain relating to the reversal is also recorded.

15 Contingencies and Litigation Settlement

During the nine months ended September 30, 2019, a wrongful dismissal suit has been brought forth against the Company. The plaintiff claims that the employment contract was breached. The company disagrees. As the outcome of this proceeding cannot be predicted with certainty, no provision for any liability has been made.

On January 15, 2018, the Company signed a share purchase agreement and completed the acquisition of Ronin Blockchain Corp. (“Ronin”). Under the terms of the share purchase agreement, the various Ronin vendors are to receive \$2,500,000 worth of common shares, the value of which is included in “Accounts payable and accrued liabilities” and disclosed in the 2018 Consolidated Financial Statements as at December 31, 2018. In January 2019, the Company issued a statement of claim in the Ontario Superior Court of Justice against various vendors in connection to the Ronin Blockchain Corp. Transaction (“Ronin Vendors”). On March 12, 2019, the Company entered into a final settlement with one of the Ronin Vendors, and is to issue 2,000,000 common shares in satisfaction of an aggregate of \$100,000 of indebtedness at a deemed price of \$0.05 per common share, subject to TSX Venture exchange approval. The Company originally recorded an obligation for this indebtedness of \$625,000, and hence has recognized a “Gain on litigation settlement” of \$525,000 during the three months ended March 31, 2019. The Company issued the related common shares on April 1, 2019, at the time the TSX Venture exchange approval is obtained, and recognized an additional gain of \$20,000 during the three months ended June 30, 2019. As at September 30, 2019, \$1,875,000 remains in “Accounts payable and accrued liabilities”.

16 Comparative figures

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

17 Subsequent events

Subsequent to September 30, 2019, the company delivered a notice of indemnity to principal vendors of Nexalogy in connection with alleged breaches of certain representations and warranties of the Indemnifying Parties in favour of Datametrex in the share purchase agreement to acquire Nexalogy dated September 27, 2017.

Datametrex acquired all of the shares of Nexalogy on November 20, 2017. Management believes that certain representations and warranties of the Indemnifying Parties in the Share Purchase Agreement were inaccurate at closing and Datametrex is seeking to be indemnified for damages resulting from the alleged breaches of representations and warranties.