

DMG Blockchain Solutions Inc.
(formerly Aim Explorations Ltd.)

Condensed Interim Consolidated Financial Statements

For the Nine Months Ended June 30, 2019

(Expressed in Canadian dollars)

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**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED JUNE 30, 2019**

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

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

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

DMG Blockchain Solutions Inc.
(formerly Aim Explorations Ltd.)
Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Notes	As at June 30, 2019	As at September 30, 2018
		\$	\$
Assets			
Current			
Cash		1,400,632	12,004,180
Amounts receivable	9	2,505,284	1,921,492
Digital currencies	8	1,351,768	697,793
Prepaid expenses and other current assets		2,647,866	521,855
Due from related parties	13	25,000	175,806
Security deposit for loan and garnishment		2,700,000	2,700,000
Total current assets		10,630,551	18,021,126
Advance payment made for equipment	7	2,128	1,514,437
Property and equipment	7	15,256,189	10,400,854
Intangible asset	6, 10	519,663	673,300
Total Assets		26,408,530	30,609,717
Liabilities and Shareholders' Equity			
Current Liabilities:			
Trade and other payables	11	3,536,109	2,175,503
Deferred revenue	15	30,130	688,543
Current portion of lease liability	20	293,495	-
Current portion of loans payable	12, 14	990,939	1,123,848
Total current liabilities		4,850,675	3,987,894
Loans payable	12	2,591,304	2,591,304
Long-term Lease liability	20	387,599	-
Total Liabilities		7,829,576	6,579,198
Shareholders' Equity:			
Share capital	13	38,710,029	38,710,029
Reserves	13	5,874,024	5,229,701
Accumulated other comprehensive income (loss)		10,576	14,762
Accumulated deficit		(24,357,450)	(19,251,329)
Equity attributable to shareholders of parent		20,237,179	24,703,162
Non-controlling interest	6, 13	(1,658,225)	(672,644)
Total equity		18,578,954	24,030,518
Total Liabilities and Shareholders' Equity		26,408,530	30,609,717

Approved on Behalf of the Board of Directors on August 29, 2019:

/s/ Dan Reitzik
Director

/s/ Sheldon Bennett
Director

The accompanying notes are integral to these condensed interim consolidated financial statements.

DMG Blockchain Solutions Inc.

(formerly Aim Explorations Ltd.)

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

	Notes	For the Three Months Ended		For the Nine Months Ended	
		June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
		\$	\$	\$	\$
Revenue	15	3,339,251	2,228,496	7,412,340	6,180,342
Expenses					
Operating and maintenance costs	16	2,112,291	1,991,061	5,318,405	3,530,149
General and administrative	16	1,173,237	852,904	3,230,722	5,835,942
Stock-based compensation	13	386,656	-	644,323	2,940,000
Research and development	18	2,683,358	499,706	3,783,450	803,468
Provision for doubtful accounts		(247,518)	-	(247,518)	-
Depreciation	7	434,083	172,597	1,111,833	374,602
Depreciation on Right of Use assets	20	72,264	-	152,027	-
Amortization of intangible assets	10	51,213	-	153,638	-
Total expenses		6,665,584	3,516,268	14,146,990	13,484,161
Loss before other items		(3,326,333)	(1,287,772)	(6,734,650)	(7,303,819)
Other income (expense)					
Miscellaneous revenue		83,401	-	89,677	3,079
Foreign exchange gain (loss)		13,766	550,266	217,575	503,129
Unrealized revaluation gain (loss) on loans		(85,956)	-	(130,848)	-
Unrealized revaluation loss on digital currency	8	960,550	33,000	608,508	50,418
Impairment of related party receivable	14	(150,806)	-	(150,806)	-
Gain on disposal of vehicle		8,842	-	8,842	-
Realized revaluation gain on digital currency		-	-	-	(96,773)
Listing transaction expense	5	-	-	-	(6,223,609)
Net loss		(2,496,535)	(704,506)	(6,091,702)	(13,067,575)
Other comprehensive income					
Foreign exchange gain on translation of foreign subsidiary		(56,170)	-	(4,186)	-
Comprehensive loss		(2,552,705)	(704,506)	(6,095,888)	(13,067,575)
Net Loss Attributable To:					
Shareholders		(2,329,090)	(704,506)	(5,106,121)	(13,067,575)
Non-controlling interest	6, 13	(167,445)	-	(985,581)	-
Basic and diluted loss per common share		(0.03)	(0.01)	(0.05)	(0.33)
Weighted average number of common shares outstanding		93,448,982	93,247,824	93,374,804	52,290,844

The accompanying notes are integral to these condensed interim consolidated financial statements

DMG Blockchain Solutions Inc.

(formerly Aim Explorations Ltd.)

Condensed Interim Statements of Consolidated Changes in Shareholders' Equity (Deficit)

(Expressed in Canadian dollars except the number of shares)

	Common shares	Share Capital \$	Share Subscriptions Receivable \$	Share Subscriptions Payable \$	AOCI \$	Option reserve \$	Warrant reserve \$	Accumulated deficit \$	Non- Controlling Interest \$	Total \$
Balance September 30, 2017	27,875,000	1,219,100	(10,000)	62,500	3,991	-	-	(551,072)	-	724,519
Private placements	18,776,995	6,415,698	10,000	62,500	-	-	-	-	-	6,363,198
DMG shares cancelled in share exchange with shareholders in RTO	(46,651,995)	(7,634,798)	-	-	-	-	-	-	-	(7,634,798)
Issued in share exchange with shareholders in RTO	46,651,995	7,634,798	-	-	-	-	-	-	-	7,634,798
Shares, warrants and stock options deemed to be issued in RTO	7,928,000	6,342,400	-	-	-	596,500	193,600	-	-	7,132,500
Shares Issued in private placements	35,938,500	28,750,800	-	-	-	-	-	-	-	28,750,800
Share issuance costs - common shares	2,529,473	-	-	-	-	-	-	-	-	-
Share issuance cost – broker warrants	-	(1,567,000)	-	-	-	-	1,567,000	-	-	-
Share issuance cost – other	-	(2,477,097)	-	-	-	-	-	-	-	(2,477,097)
Shares issued on warrant exercises	61,514	21,530	-	-	-	-	-	-	-	21,530
Shares issued on option exercises	140,000	14,000	-	-	-	-	-	-	-	14,000
Stock-based compensation	-	-	-	-	-	2,872,601	-	-	-	2,872,601
Net loss and comprehensive loss for the period	-	-	-	-	-	-	-	(12,339,124)	-	(12,339,124)
Balance June 30, 2018	93,249,482	38,719,431	-	-	3,991	3,469,101	1,760,600	(12,890,196)	-	31,062,927
Balance September 30, 2018	93,219,482	38,710,029	-	-	14,762	3,469,101	1,760,600	(19,251,329)	(672,644)	24,030,519
Conversion of DMG US Class B common shares	229,499	-	-	-	-	-	-	-	-	-
Stock-based compensation	-	-	-	-	-	644,323	-	-	-	644,323
Net loss and comprehensive loss for the period	-	-	-	-	(4,186)	-	-	(5,106,121)	(985,581)	(6,095,888)
Balance June 30, 2019	93,448,981	38,710,029	-	-	10,576	4,113,424	1,760,600	(24,357,450)	(1,658,225)	18,578,954

The accompanying notes are integral to these Condensed Interim Consolidated Financial Statements

DMG Blockchain Solutions Inc.
(formerly Aim Explorations Ltd.)
Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	For the nine months ended	
	June 30, 2019	June 30, 2018
	\$	\$
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net loss for the period	(6,091,702)	(12,970,802)
Items not affecting cash:		
Cumulative effects of recapitalization	-	6,167,423
Depreciation	1,263,860	374,602
Amortization of intangibles	153,638	-
Unrealized revaluation loss on digital currency Loans	-	62,280
Stock based compensation	644,323	2,940,000
Unrealized loss on revaluation of digital currencies	(608,508)	-
Foreign exchange gain/(loss)	(21,736)	47,138
Listing transaction expense	-	7,117,355
Bitcoin mining revenue	(669,826)	(642,319)
Lease interest	16,095	-
Gain on sale of assets	(8,842)	-
Loss on impairment of related party receivable	130,848	-
Recovery of bad debt expense	(247,518)	-
Non-cash working capital items:		
Prepaid expenses	(2,126,013)	-
Amounts receivable	(44,394)	(4,971,620)
Digital currencies	624,359	(1,092,656)
Deferred revenue	(658,413)	(3,180,735)
Trade and other payables	1,360,608	2,144,385
Net cash used in operating activities	(6,283,221)	(9,519,735)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Advance payment made for equipment	(2,128)	(2,675,913)
Purchase of property and equipment	(3,790,484)	-
Proceeds on disposal of equipment	34,692	-
Lease payments	(157,576)	-
Net cash used in by investing activities	(3,915,496)	(2,675,913)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Acquisition of Datient Net Assets	-	(2,107,135)
Due from related parties	19,958	-
Proceeds from issuance of common shares	-	35,103,999
Share issuance costs	-	(2,477,097)
Proceeds from disposal of digital currency	-	850,893
Proceeds from warrants exercise	-	21,530
Proceeds from option exercise	-	14,000
Share subscriptions receivable	-	10,000
Repayment of loan payable	(424,789)	-
Net cash provided by (used in) financing activities	(404,831)	31,416,190
Increase/(decrease) in cash and cash equivalents	(10,603,548)	19,220,542
Cash & cash equivalents, beginning of the year	12,004,180	492,640
Cash & cash equivalents, end of the year	1,400,632	19,713,182

The accompanying notes are integral to these Condensed Interim Consolidated Financial Statements.

DMG Blockchain Solutions Inc.

(formerly Aim Explorations Ltd.)

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended June 30, 2019 and 2018

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS

DMG Blockchain Solutions Inc. (the "Company") was incorporated under the provisions of the *B.C. Business Corporations Act* on April 18, 2011. The Company's head office and principal place of business is Suite 490 – 1090 Homer Street, Vancouver, British Columbia, Canada, V6B 2W9. On February 8, 2018, the Company completed a Reverse Take Over transaction with the company formerly known as Aim Explorations Inc on the TSX Venture Exchange (the "TSX-V") (see Note 4). On February 13, 2018, the Company commenced trading on the TSX-V under the name DMG Blockchain Solutions Inc. under the symbol DMGI. On February 1, 2019, the Company was issued a cease trade order for failure to file its annual financial statements, and thus did not meet its continuous disclosure obligations. On August 28, 2019, the cease trade was lifted and the Company resumed trading.

The Company is a full service blockchain and crypto currency company that manages, operates, and develops end-to-end digital solutions to monetize the blockchain ecosystem. The Company has operated its transaction verification services business, commonly known as Bitcoin mining, in Western Canada since October 2016. The Company is now involved in server hosting and other similar service arrangements for the transaction verification services business and software solutions. The Company is also involved in research and development of technology solutions related to the transaction verification services business.

2. BASIS OF PRESENTATION

a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting of the International Financial Reporting Standards" ("IFRS") as issued by the International Accounting Standards Board ("IASB") and follow the same accounting policies and methods of application as the Company's September 30, 2018 annual audited financial statements. Accordingly, they should be read in conjunction with the Company's most recent annual statements.

b) Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and subsidiaries. Subsidiaries are entities controlled by the Company. The financial transactions of subsidiaries are included in the condensed interim consolidated financial statements from the date control is obtained. The subsidiary financial statements are consolidated line by line, adding assets, liabilities, equity, revenue and expenses of similar types. Intercompany balances, transactions, income, and expense are eliminated and gains or losses on intercompany transactions are eliminated. Where the Company does not own 100% of the subsidiary or associate, non-controlling interest is classified as a component of equity. The accounting policies of subsidiaries are the same as those of the Company.

Principal subsidiaries	Percentage ownership	Country of incorporation
Aim Exploration Ltd. (i)	100%	Canada
DMG-US, Inc. (ii)	30%	United States
Datient, Inc.(iii)	30% indirect through DMG-US	United States

DMG Blockchain Solutions Inc.

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Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended June 30, 2019 and 2018

(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (Continued)

b) Basis of consolidation (continued)

(i) Aim Exploration Ltd. is wholly-owned and consolidated from the date of acquisition on February 9, 2018.

(ii) The Company has voting control of DMG-US, Inc. based upon ownership of Class A common shares (see Note 5) that provide voting rights of 60.99%. DMG-US, Inc. is consolidated from the date control was acquired on February 13, 2018.

(iii) Datient, Inc. is a wholly owned subsidiary of DMG-US, Inc., which is controlled by the Company and consolidated from the date of control on February 13, 2018.

3. SIGNIFICANT JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the period. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation and judgment uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to:

a) Estimates

Carrying value of mining equipment and data center

The Company evaluates each asset or cash generating unit every reporting period to determine whether there are any indications of impairment. If any such indication exists, which is often judgmental, a formal estimate of the recoverable amount is performed, and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating group of assets is measured at the higher of fair value less costs to sell and value in use. The evaluation of asset carrying values for indications of impairment includes consideration of both external and internal sources of information, including such factors as the relationship between mining rewards and the required computing power, digital currency prices, the periodic contribution margin of digital currency mining activities, changes in underlying costs, such as electricity, and technological changes.

When required, the determination of fair value and value in use requires management to make estimates and assumptions about expected revenue from service contracts, digital currency prices, required computing power, technological changes and operating costs, such as electricity. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances some or all of the carrying value of the assets may be further impaired or the impairment charge reduced with the impact recorded in the statement of comprehensive income.

DMG Blockchain Solutions Inc.

(formerly Aim Explorations Ltd.)

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended June 30, 2019 and 2018

(Expressed in Canadian dollars)

3. SIGNIFICANT JUDGMENTS AND ESTIMATES (Continued)

Valuation of digital assets

The Company currently holds bitcoins as its digital assets. Bitcoins are considered to be an identifiable non-monetary asset without physical substance and are treated as intangible assets not subjected to amortization, under the scope of IAS 38 Intangible Assets.

Digital Assets are measured at fair value using the quoted price on “xe.com”. Management 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 “xe.com” at the reporting period corresponding to the different Digital Assets mined by the Company. The Company is relying on the data available at “xe.com” to be an accurate representation of fair value.

Useful life of digital asset mining equipment

Management is amortizing mining equipment over its useful life on a declining-balance method basis. The mining equipment is used to generate digital assets (refer to discussion on revenue recognition in Note 3). The rate at which the Company generates digital currencies and, therefore, consumes the economic benefits of its mining equipment are influenced by a number of factors, including the following:

- (i) the complexity of the mining process which is driven by the algorithms contained within the digital assets open source software;
- (ii) the general availability of appropriate computer processing capacity on a global basis, technological obsolescence reflecting rapid development in the mining machines such that more recently developed hardware is more economically efficient to run in terms of digital assets mined as a function of operating costs, primarily power costs (i.e. the speed of mining machines evolution in the industry) is such that later mining machines models generally have faster processing capacity combined with lower operating costs and a lower cost of purchase.

Based on the Company’s and the industry’s short life cycle to date, management is limited by the market data available. Furthermore, the data available also includes data derived from the use of economic modelling to forecast future digital assets and the assumptions included in such forecasts, including the price of Bitcoin and network difficulty, are derived from management’s assumptions which are inherently judgmental. Based on current data available management has determined that the declining-balance method of amortization over two years best reflects the current expected useful life of mining equipment. Management reviews this estimate at each reporting date and will revise such estimates as and when data becomes available. The mining equipment has no residual value at the end of its useful life. Management reviews the appropriateness of its assumption of nil residual value at each reporting date.

As set out in Note 3, management also assess whether there are any indicators of impairment of mining equipment at the end of each reporting period and if any such indication exists, the Company will estimate the recoverable amount of its mining equipment.

DMG Blockchain Solutions Inc.

(formerly Aim Explorations Ltd.)

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended June 30, 2019 and 2018

(Expressed in Canadian dollars)

3. SIGNIFICANT JUDGMENTS AND ESTIMATES (Continued)

Business combinations

In a business combination all identifiable assets acquired, and liabilities assumed are recorded at their fair values. Determining the allocation of the purchase price in a business combination requires management to make certain judgments and estimates about future events, including but not limited to future revenue, future digital currency prices and future operating costs.

Fair value measurement of stock options and broker warrants

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for stock options and broker warrants requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the stock options and broker warrants, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for stock options and broker warrants are disclosed in Note 12.

b) Accounting judgments

Business acquisitions

Management determines whether assets acquired, and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs.

The Company completed the acquisition of Datient Inc. in fiscal 2018 (Note 5) which was assessed to be a business combination and was accounted for under IFRS 3 *Business Combinations*.

The Company also completed the acquisition of Aim Explorations Ltd. in fiscal 2018 (Note 4). At the time of the acquisition, it was concluded that Aim was not a business as defined in IFRS 3 and the transaction was an asset purchase. Accordingly, it was determined that this transaction was outside of the scope of IFRS 3.

Revenues from Bitcoin mining and related service contracts

The Company recognizes revenue from the provision of transaction verification services within digital currency networks, commonly described as “cryptocurrency mining”. As consideration for these services, the Company receives digital currency from each specific network in which it participates (“coins”). Revenue is measured based on the fair value of the coins received.

There is currently no specific definitive guidance in IFRS or alternative accounting frameworks for the accounting for the production and mining of digital currencies and management has exercised significant judgments in determining appropriate accounting treatment for the recognition of revenue for mining of digital currencies. In the event authoritative guidance is enacted by the IASB, the Company may be required to change its policies which could result in a change in the Company’s financial position and earnings.

The Company has determined that the substance of its Bitcoin mining related service contracts is a service provision under IFRS 15 – Revenue from Contracts with Customers. Revenue is recognized only when the amount of the transaction can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, and the stage of completion associated with the services can be measured reliably. Accordingly, the Company has determined that revenue should be recognized as services are provided on a monthly basis.

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4. CHANGES IN ACCOUNTING POLICIES

The accounting policies followed by the Company are set out in Note 4 to the audited consolidated financial statements for the year ended September 30, 2018 and have been consistently followed in the preparation of these consolidated condensed interim financial statements.

Except as disclosed below, the Company has used the same accounting policies and methods of computation as in the audited financial statements for the year ended September 30, 2018.

New standards and interpretations adopted

IFRS 9 Financial Instruments ("IFRS 9")

The Company has adopted IFRS 9, Financial Instruments (IFRS 9) effective January 1, 2018 on a retrospective basis and applied the transitional provisions, so that any adjustments would be recorded in opening retained earnings at January 1, 2018. IFRS 9, addresses the classification, measurement and recognition of financial assets and financial liabilities. The adoption of IFRS 9 supersedes the guidance relating to the classification and measurement of financial instruments in IAS 39, Financial Instruments: Recognition and Measurement (IAS 39).

IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: (i) those measured at fair value through profit and loss, (ii) those measured at fair value through other comprehensive income and (iii) those measured at amortized cost. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. For financial liabilities, the IFRS 9 requirements are similar to those of IAS 39. The main distinction is that, in cases where the fair value option is chosen for financial liabilities, the part of a fair value change relating to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

IFRS 9 introduces a single expected credit loss model for calculating impairment for financial assets, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have a significant impact on the Company's financial statements and did not result in a transitional adjustment.

The adoption of IFRS 9 did not require any transitional adjustments to the classification or measurement of the Company's financial assets and financial liabilities.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step model framework for the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has applied the full retrospective approach upon transition on October 1, 2018. and adoption had no significant impact on the consolidated financial statements.

DMG Blockchain Solutions Inc.

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(Expressed in Canadian dollars)

4. CHANGES IN ACCOUNTING POLICIES (Continued)

Under IFRS 15, revenue related to the transfer of promised goods or services should be recognized when the control of the goods or services passes to the customers. The Company has evaluated the impact of applying IFRS 15 by analyzing its server hosting agreements and concluded that there is no material change in the timing of revenue recognized under the new standard and based on the facts and circumstances, there will be no material impact to the timing of the Company's recognition of revenues.

IFRS 15 also requires entities to apportion revenue earned from contracts to distinct performance obligations on a relative standalone selling price basis.

IFRS 16 Leases ("IFRS 16")

Effective January 1, 2019, the Company adopted IFRS 16 which supersedes IAS 17 Leases ("IAS 17"). The Company has applied the new standard using the modified retrospective approach with no restatement of comparative periods. There were no adjustments to retained earnings as a result of adoption.

The Company has elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its previous assessment made under IAS 17 and IFRIC 4 Determining whether an arrangement contains a lease. The definition of a lease under IFRS 16 was applied only to contracts entered into or modified on or after January 1, 2019.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company applied the following practical expedients when adopting IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on previous assessments on whether leases are onerous;
- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight to determine the lease term where contracts contain options to extend or terminate the lease.

Under IFRS 16, the Company is required to assess the classification of a sublease with reference to the right-of-use asset, not the underlying asset. The Company assess that

On transition to IFRS 16, the Company recognized lease assets and liabilities. The impact on transition is summarized below.

	January 1, 2019
Operating lease commitment at December 31, 2018	\$ 880,641
Discounted using the incremental borrowing rate at January 1, 2019	(77,298)
Lease asset and lease liability recognized at January 1, 2019	\$ 803,343

DMG Blockchain Solutions Inc.

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Notes to the Condensed Interim Consolidated Financial Statements

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(Expressed in Canadian dollars)

4. CHANGES IN ACCOUNTING POLICIES (Continued)

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied was 4.2%.

5. REVERSE TAKE OVER TRANSACTION

On February 8, 2018, the Company previously known as Aim Explorations Ltd. (“Aim”) closed its qualifying transaction in a reverse take over transaction and Aim Explorations Ltd. was legally renamed to DMG Blockchain Solutions Inc. All of the issued and outstanding shares, warrants and options of Aim were exchanged for shares of the acquirer, DMG Blockchain Solutions Inc. (“DMG”).

For accounting purposes, the Reverse Take Over (“RTO”) transaction is considered to be an acquisition outside the scope of IFRS 3 *Business Combinations* since Aim, prior to the RTO did not constitute a business. The RTO is accounted for in accordance with IFRS 2 *Share-based Payments* whereby DMG is deemed to have issued shares and share purchase warrants to acquire the net assets of Aim together with its TSX-V listing status, and the fair value of the consideration issued by DMG is used to measure the RTO. The accounting for the RTO results in the following:

- (i) The consolidated financial statements of the combined entities are issued under the legal parent, Aim, but are considered a continuation of the financial statements of the legal subsidiary, DMG.
- (ii) Since DMG is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carrying values.

Because the Company cannot identify specifically some or all of the goods or services received in the RTO in return for the exchange of shares and warrants, the value in excess of the net identifiable assets of Aim acquired on closing was expensed in the consolidated statement of comprehensive loss as a listing transaction expense.

The listing transaction expense in the amount of \$7,303,183 is comprised of the fair value of common shares, options and warrants of the Company retained by the former shareholders of Aim and legal fees incurred, less the amount of acquired net assets of Aim.

The fair value of the common shares issued was \$6,342,400, reflecting the price of shares issued in the concurrent private placement at \$0.80 per share. The average fair value of Aim stock options of \$0.75 per option was determined using the Black-Scholes option pricing model with the following weighted average assumptions: a 4.23 year expected life; share price at the grant date of \$0.80; 120% volatility; risk free interest rate of 2.14%; and a dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life of the options. The average fair value of Aim warrants of \$0.75 was determined using the Black-Scholes option pricing model with the following weighted average assumptions: a 1.23 year expected life; share price at the grant date of \$0.80; 161% volatility; risk free interest rate of 1.60%; and a dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life of the warrants. In addition, the Company incurred \$289,489 in legal fees in connection with the transaction.

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5. REVERSE TAKE OVER TRANSACTION (Continued)

The fair value of the consideration for the Transaction is as follows:

	Number	Amount
Shares and warrants issued:		
Outstanding common shares of Aim deemed to be issued	7,928,000	\$ 6,342,400
Outstanding options of Aim deemed to be issued	792,000	596,500
Outstanding warrants of Aim deemed to be issued	258,000	193,600
Total consideration		\$ 7,132,500
Net working capital acquired:		
Cash		\$ 103,662
Amounts receivable		28,643
Prepaid expense		32,964
Accounts payable		(46,463)
Net assets acquired		\$ 118,806
Total consideration		\$ 7,132,500
Transaction costs		289,489
Net working capital acquired		(118,806)
Total listing transaction expense		\$ 7,303,183

6. ACQUISITION OF DATIENT, INC.

- a) On February 13, 2018, the Company acquired control of Datient, Inc. (“Datient”), a blockchain technology development company (the “Transaction”). Datient was controlled by a previous director of the Company. As a result of the Transaction, DMG acquired Datient’s tradename and database related to Blockseer in-process technology that constitutes identifiable intangibles, and access to Datient’s workforce, including the existing strategic management functions and associated processes of Datient. In accordance with IFRS 3, this Transaction constitutes the acquisition of a business and is accounted for using the acquisition method of accounting whereby the assets acquired, and the liabilities assumed were recorded at their estimated fair value at the acquisition date.

The Transaction was structured using DMG-US, Inc. (“DMG-US”) which is a corporation that acquired 100% of the issued shares of Datient. DMG-US has two classes of authorized common shares which differ only in voting rights; the Class A common shares were issued to the Company and the Class B common shares were issued to the former shareholders of Datient. The Company has 60.99% of the voting rights based on ownership of 3,288,463 Class A common shares of DMG-US, and therefore controls DMG-US. Datient is controlled by the Company through its shareholdings of the Class A common shares of DMG-US. The former shareholders of Datient have 39.01% of the voting rights based on ownership of 7,673,076 Class B common shares of DMG-US. While the Company’s voting rights provide control, the non-controlling interest is accounted for based on the number of shares outstanding reflecting residual interest, which upon acquisition DMG owns 30% and the former shareholders of Datient own 70%.

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6. ACQUISITION OF DATIENT, INC. (Continued)

The Company paid \$2,273,672 in consideration to acquire control of Datient, excluding transaction costs which were expensed. Included in the acquisition consideration is: (i) \$1,308,476 in cash (US\$1,038,493) and (ii) \$965,196 (US\$766,029) for a promissory note which is payable to a previous director of the Company who was also a director of Datient (see Note 11). The non-controlling interest of \$6,128,461 reflects the fair value of the conversion rights on the 7,673,076 DMG-US, Inc. Class B common shares. The DMG-US, Inc. Class B common shares issued as part of this acquisition are convertible 1:1 into shares of the Company subject to certain conversion criteria including the following: the Company has the right (but not the obligation) to convert for a three month period following the date 24 months from the acquisition closing date if the per share trading price of DMG is greater than \$0.40; and holders of Class B common shares can elect to convert subject merely to a time restriction whereby the number of shares convertible vests rateably on a calendar basis over a 24 month period from the acquisition closing date.

Consideration paid and issued:

Cash (US\$1,038,473)	\$ 1,308,476
Promissory note (US\$766,029)	965,196
Total acquisition consideration	\$ 2,273,672

The fair value of the identifiable assets and liabilities of Datient as at the date of acquisition:

Cash	\$ 166,537
Tradename	21,000
Identifiable intangibles (Note 9)	1,019,000
Accounts payable	(76,307)
Deferred income tax liability	(122,469)
Identifiable net assets	\$ 1,007,761

The cash flows on acquisition was \$1,308,476 paid and \$166,537 acquired, for a net use of cash of \$1,141,939.

The calculation of goodwill as at the date of acquisition:

Acquisition consideration	\$ 2,273,672
Non-controlling interest	6,138,461
Less: Identifiable net assets	(1,007,761)
Goodwill	\$ 7,404,372

The resulting goodwill represents the sales and growth potential of Datient and business synergies.

- b) As at September 30, 2018, the Company could not substantiate the value of the goodwill recognized on acquisition of Datient and the amount of the goodwill was written off as impaired. The anticipated revenues from future products and synergies related to Datient had not materialized by September 30, 2018 and the goodwill was written off as impaired.

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7. PROPERTY AND EQUIPMENT

COST	Land	Construction in Progress	Data Centre	Computer and mining equipment	Furniture and other equipment	Motor Vehicle	Right of use	Total
	\$	\$	\$	\$	\$	\$	\$	\$
As at September 30, 2017	-	-	-	804,177	3,595	5,000	-	812,772
Additions	413,000	6,657,118	2,716,299	688,997	11,899	30,631	-	10,517,944
As at September 30, 2018	413,000	6,657,118	2,716,299	1,493,174	15,494	35,631	-	11,330,716
Additions	-	5,836	11,136,155	928,046	7,203	-	830,343	12,882,583
Disposals	-	-	-	(115,198)	-	(35,631)	-	(150,829)
Reclass	-	(6,657,118)	-	-	-	-	-	(6,657,118)
As at June 30, 2019	413,000	5,836	13,852,454	2,306,022	22,697	-	830,343	17,405,352
ACCUMULATED DEPRECIATION								
As at September 30, 2017	-	-	-	402,089	360	750	-	403,199
Depreciation	-	-	45,526	475,410	1,455	4,272	-	526,663
As at September 30, 2018	-	-	45,526	877,499	1,815	5,022	-	929,862
Depreciation	-	-	914,388	179,729	4,246	4,758	150,960	1,254,081
Disposals	-	-	-	-	-	(9,780)	-	(9,780)
As at June 30, 2019	-	-	959,914	1,057,228	6,061	-	150,960	2,174,163
NET BOOK VALUE								
As at September 30, 2018	413,000	6,657,118	2,670,773	615,675	13,679	30,609	-	10,400,854
As at June 30, 2019	413,000	5,836	12,892,538	1,248,794	16,636	-	679,383	15,256,189

Construction in progress relates to the Company's construction of a Bitcoin mining centre in Western Canada. These were reclassified to the data centre during the three months ended December 31, 2018 and amortisation was applied accordingly.

As at June 30, 2019, advances on equipment of \$2,128 (2018 – \$1,514,437) is comprised of amounts advanced by the Company on equipment that was not yet delivered to the Company.

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8. DIGITAL CURRENCY

At June 30, 2019 and September 30, 2018, the Company held Bitcoins as its digital currency. Bitcoins are recorded at their fair value on the date they are received as revenues and are revalued at their current market value at each reporting date. Fair value is determined by taking the closing price listed on “xe.com” at the reporting dates.

The continuity of digital currencies is as follows:

	June 30, 2019	September 30, 2018	June 30, 2019	September 30, 2018
	Units	Units	\$	\$
Opening balance	82.01	11.53	697,793	59,103
Digital currency received/mined	51.56	55.92	1,024,883	642,319
Digital currency purchased	-	72.57	-	805,061
Digital currency sold	(40.39)	(40.00)	(979,416)	(558,144)
Digital currency revaluation	-	-	608,508	(65,863)
Loans paid in digital currency	-	(18.01)	-	(184,683)
Ending balance in Bitcoins at fair value	93.18	82.01	1,351,768	697,793

9. RECEIVABLES

The Company’s amounts receivable consists of the following amounts:

	June 30, 2019	September 30, 2018
	\$	\$
Trade receivables	2,249,577	2,726,331
Sales taxes receivables	820,561	-
Allowance for doubtful accounts	(564,854)	(804,839)
Total	2,505,284	1,921,492

10. INTANGIBLE ASSETS

- a) During the year ended September 30, 2018, the Company acquired a database, in-process technology, and a tradename through the acquisition of Datient (see Note 5). The database contains records of cryptocurrency transactions Datient had been building since inception and the in-process technology to expand its use. It provides Blockchain analytics and allows a customer to follow the flow of bitcoin through the blockchain rewards and backwards in time and view publicly available labels and clusters or create their own. Other features include seeing in-depth metrics about individual addresses or address clusters.
- b) On May 19, 2017, the Company purchased a crypto currency wallet and distribution software from a then Director of the Company for \$100,000. At September 30, 2018 the carrying value was entirely impaired as the Company does not plan to use the software.

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10. INTANGIBLE ASSETS (Continued)

The continuity of intangible assets is as follows:

	Wallet Software	Datient Tradename	Technology and Database	Total
COST	\$	\$	\$	\$
As at September 30, 2017	100,000	-	-	100,000
Additions	-	21,000	1,019,000	1,040,000
Impairment	(100,000)	-	(230,133)	(330,133)
As at September 30, 2018 and June 30, 2019	-	21,000	788,867	809,867
ACCUMULATED AMORTIZATION				
As at September 30, 2017	-	-	-	-
Amortization	-	700	135,867	136,567
As at September 30, 2018	-	700	135,867	136,567
Amortization	-	788	152,850	153,638
As at June 30, 2019	-	1,488	288,717	290,205
NET BOOK VALUE				
As at September 30, 2018	-	20,300	653,000	673,300
As at June 30, 2019	-	19,513	500,150	519,663

11. TRADE AND OTHER PAYABLES

Trade and other payables are comprised of the following:

	June 30, 2019 \$	September 30, 2018 \$
Trade payables and accrued liabilities	3,009,585	1,981,803
Trade payable and accrued liabilities - related parties (Note 13)	262,773	144,575
Sales tax payable	263,753	49,125
Total	3,536,110	2,175,503

12. LOANS PAYABLE

On August 30, 2018, the Company secured a loan of \$2,700,000 with a Canadian financial institution at 0.25% plus prime lending rate. The Company also gave \$2,700,000 as restricted cash as a collateral. At September 30, 2018, \$2,591,304 of the principal and accrued interest amount of \$2,700,000 was included in long-term liabilities and \$108,696 in the current portion of loans payable.

As at February 28, 2019, the Company owed \$964,862 (2018 – \$1,015,152) in principal and accrued interest on a promissory note issued to a previous director of the Company in February 2018 in the amount of US\$766,029 (see Note 5 and 13 (b)). The promissory note bears interest at 6% per annum.

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12. LOANS PAYABLE (Continued)

The original repayment date was set for February 12, 2019. In February 2019, the repayment date was amended, and the principal and accrued interest is payable in equal installments over a period of nine months commencing February 2019. As at June 30, 2019, the balance outstanding on the loan was \$590,363.

During the nine months ended June 30, 2019, the Company was issued a promissory note of \$291,880 by Polyphase Capital LLC. The promissory note bears no interest. The repayment will depend on Goods and Services Tax (GST) refunds from the Revenue Canada.

13. SHARE CAPITAL AND RESERVES

A. Share Capital

Authorized: unlimited Common shares without par value, and unlimited class B preferred shares without par value.

Share capital activity for the nine months ended June 30, 2019

- On January 22, 2019, the Company issued 115,842 common shares upon conversion of 115,842 of DMG-US, Inc. Class B common shares.
- On December 4, 2018, the Company issued 113,657 common shares upon conversion of 229,499 shares of DMG-US, Inc. Class B common shares

Share capital activity for the period ended September 30, 2018

- By August 31, 2018, the Company had bought back 30,000 common shares for \$9,403.
- On February 8, 2018, the Company issued 35,076,000 subscription receipts at \$0.80 per subscription receipt for gross proceeds of \$28,060,800. The Company also paid corporate finance fees of \$91,500 and issued 156,250 corporate finance subscription receipts at \$0.80 per subscription receipt. In accordance with their terms, immediately after satisfaction of the escrow release conditions, each subscription receipt was automatically converted into common shares of the Company. The Agents received 2,382,957 Agent's subscription receipts which converted into Agent's warrants which are exercisable at \$0.80 per common share for a period of two years from the closing of the transaction. The agent's warrants were valued at \$0.55 per warrant using the Black-Scholes option pricing model with an average risk-free interest rate of 1.66%, expected life of 2 years, volatility of 142% and dividend yield of 0%. In addition, the Company paid a finder's fee in the aggregate amount of \$1,906,366 and issued 2,373,223 common shares of the Company to a group of finders.
- On February 8, 2018, the Company also closed a brokered private placement of 862,500 common shares at a price of \$0.80 per share for aggregate proceeds of \$690,000. The Company paid \$45,458 in Agent's fees and \$13,500 in legal fees and disbursements. The Company also issued 56,823 Agent's warrants exercisable at \$0.80 per common share for a period of two years from issuance. The agent's warrants were valued at \$0.55 per warrant using the Black-Scholes option pricing model with an average risk-free interest rate of 1.66%, expected life of 2 years, volatility of 142% and dividend yield of 0%.

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13. SHARE CAPITAL AND RESERVES (Continued)

A. Share Capital (continued)

- On February 8, 2018, the Company issued 46,651,995 common shares in exchange for all the issued and outstanding shares of the private operating company formerly known as DMG Blockchain Solutions Inc. (see Note 4).
- On February 20, 2018, 140,000 stock options were exercised for gross proceeds of \$14,000. In addition, 11,214 broker warrants were exercised for gross proceeds of \$3,925.
- On October 31, 2017, prior to completion of the reverse-takeover transaction (see Note 4), the private operating company previously known as DMG Blockchain Solutions Inc. issued 9,124,286 common shares at \$0.35 per common share for aggregate proceeds of \$3,193,500. On October 31, 2017, the Company granted 624,023 brokers' warrants with an exercise price of \$0.35 per common share and an expiry date of October 31, 2019 in connection with this share issuance. The warrants were exchanged into warrants of the Company on a 1:1 basis on February 8, 2018 with all existing terms carried forward. The brokers' warrants were valued at \$0.24 per warrant using the Black-Scholes option pricing model with an average risk-free interest rate of 1.66 %, expected life of 2 years, volatility of 139% and dividend yield of 0%.
- On October 27, 2017, prior to completion of the reverse-takeover transaction (see Note 4), the private operating company previously known as DMG Blockchain Solutions Inc. issued 4,736,927 common shares at \$0.35 per common share for aggregate proceeds of \$1,657,924. On October 27, 2017, Blockchain Solutions Inc. granted 154,097 brokers' warrants with an exercise price of \$0.35 per common share and an expiry date of October 27, 2019 in connection with this share issuance. The warrants were exchanged into warrants of the Company on a 1:1 basis on February 8, 2018 with all existing terms carried forward. The brokers' warrants were valued at \$0.24 per warrant using the Black-Scholes option pricing model with an average risk-free interest rate of 1.66 %, expected life of 2 years, volatility of 139% and dividend yield of 0%.
- On October 20, 2017, prior to completion of the reverse-takeover transaction (see Note 4), the private operating company previously known as DMG Blockchain Solutions Inc. issued 4,290,782 common shares at \$0.35 per common share for aggregate proceeds of \$1,501,774. DMG Blockchain Solutions Inc. granted 47,600 brokers' warrants with an exercise price of \$0.35 per common share and an expiry date of October 20, 2019 in connection with this share issuance. The warrants were exchanged into warrants of the Company on a 1:1 basis on February 8, 2018 with all existing terms carried forward. The brokers' warrants were valued at \$0.24 per warrant using the Black-Scholes option pricing model with an average risk-free interest rate of 1.66 %, expected life of 2 years, volatility of 139% and dividend yield of 0%.

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13. SHARE CAPITAL AND RESERVES (Continued)

B. Stock Options

Stock option activity for the period ended June 30, 2019

- On December 19, 2018, the Company announced that it had issued 50,000 incentive stock options to employees of the Company. The options are exercisable at a price of \$0.40 per option expiring on Dec 19, 2021. These options had a fair value of \$0.08 per option using the Black Scholes model with the following inputs: i) exercise price: \$0.40; ii) share price: \$0.40; iii) term: 3 years; iv) volatility: 127%; v) discount rate: 2.14%. The options vest as follows: 1/36 of the granted options vest every month until December 19, 2021. A portion of the vested value of these options was included in stock-based compensation and reserves for the period ended June 30, 2019.
- On October 24, 2018, the Company announced that it had issued 50,000 incentive stock options to employees of the Company. The options are exercisable at a price of \$0.40 per option expiring on Dec 01, 2021. These options had a fair value of \$0.08 per option using the Black Scholes model with the following inputs: i) exercise price: \$0.40; ii) share price: \$0.40; iii) term: 3 years; iv) volatility: 127%; v) discount rate: 2.14%. The options vest as follows: 1/36 of the granted options vest every month until Dec 01, 2021. A portion of the vested value of these options was included in stock-based compensation and reserves for the period ended June 30, 2019.
- On October 1, 2018, the Company announced that it had issued 190,000 incentive stock options to employees of the Company. The options are exercisable at a price of \$0.40 per option expiring on Nov 01, 2021. These options had a fair value of \$0.08 per option using the Black Scholes model with the following inputs: i) exercise price: \$0.40; ii) share price: \$0.40; iii) term: 3 years; iv) volatility: 127%; v) discount rate: 2.14%. The options vest as follows: 1/36 of the granted options vest every month until November 1, 2021. As of June 30, 2019 140,000 stock options were cancelled. A portion of the vested value of these options was included in stock-based compensation and reserves for the period ended June 30, 2019.

Stock option activity for the period ended September 30, 2018

- On July 26, 2018, the Company announced that it had issued 1,000,000 incentive stock options to employees of the Company. The options are exercisable at a price of \$0.80 per option expiring on Jul 27, 2022. These options had a fair value of \$0.25 per option using the Black Scholes model with the following inputs: i) exercise price: \$0.80; ii) share price: \$0.80; iii) term: 3 years; iv) volatility: 118%; v) discount rate: 2.2%. The options vest as follows: 1/3 of the granted options vest on the grant date, 1/3 of the options vests on July 26, 2019 and the remaining 1/3 of the options vests on July 26, 2020. These stock options were cancelled on February 1, 2019. A portion of the vested value of these options was included in stock-based compensation and reserves for the period ended June 30, 2019.

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13. SHARE CAPITAL AND RESERVES (Continued)

- On July 24, 2018, the Company announced that it had issued 700,000 incentive stock options to consultants of the Company. The options are exercisable at a price of \$0.40 per option expiring on July 30, 2022. These options had a fair value of \$0.31 per option using the Black Scholes model with the following inputs: i) exercise price: \$0.40; ii) share price: \$0.40; iii) term: 3 years; iv) volatility: 118%; v) discount rate: 2.14 %. The options vest as follows: 250,000 options vest on grant date, 250,000 options vest on July 24, 2019 and the remaining 200,000 options vest on July 24, 2020. A portion of the vested value of these options was included in stock-based compensation and reserves for the period ended June 30, 2019.
- On July 24, 2018, the Company announced that it had issued 396,000 incentive stock options to employees of the Company. The options are exercisable at a price of \$0.80 per option expiring on August 24, 2021. These options had a fair value of \$0.26 per option using the Black Scholes model with the following inputs: i) exercise price: \$0.80; ii) share price: \$0.80; iii) term: 3 years; iv) volatility: 130%; v) discount rate: 2.14%. The options vest monthly over the three-year life of the options (1/36 of the grant vesting at the end of each month). As of June 30, 2019, 316,000 stock options were cancelled. A portion of the vested value of these options was included in stock-based compensation and reserves for the period ended June 30, 2019.
- On May 30, 2018, the Company announced that it had issued 125,000 incentive stock options to consultants and employees of the Company. The options are exercisable at a price of \$0.80 per option expiring on June 30, 2021. These options had a fair value of \$0.26 per option using the Black Scholes model with the following inputs: i) exercise price: \$0.80; ii) share price: \$0.80; iii) term: 3 years; iv) volatility: 121%; v) discount rate: 2.13%. The options vest monthly over the three-year life of the options (1/36 of the grant vesting at the end of each month. As of June 30, 2019, 50,000 stock options were cancelled. A portion of the vested value of these options was included in stock-based compensation and reserves for the period ended June 30, 2019.
- On February 8, 2018, the Company announced that had granted 3,500,000 incentive stock options to directors, officers and consultants of the Company. The options are exercisable at a price of \$0.80 per option expiring on February 8, 2021. These options had a fair value of \$0.60 per option using the Black Scholes model with the following inputs: i) exercise price: \$0.80; ii) share price: \$0.80; iii) term: 3 years; iv) volatility: 129%; v) discount rate: 2.14%. The options vest monthly over the three-year life of the options (1/36 of the grant vesting at the end of each month). As of June 30, 2019, 1,625,000 stock options were cancelled. On September 27, 2018, 1,835,000 stock options were repriced at \$0.40. A portion of the vested value of these options was included in stock-based compensation and reserves for the period ended June 30, 2019.
- On February 8, 2018, 792,000 stock options with an exercise price of \$0.10 per share and expiry date of Apr 30, 2022 were deemed to be issued to the former shareholders of Aim (see Note 4). As of June 30, 2019, 140,000 stock options were exercised and 356,000 were cancelled.

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13. SHARE CAPITAL AND RESERVES (Continued)

- On November 9, 2017, the private operating company (formerly known as DMG Blockchain Solutions Inc.) granted 4,600,000 stock options to employees, directors and consultants with an exercise price of \$0.35 per option and an expiry date of November 9, 2022. These options had a fair value of \$0.31 per option using the Black Scholes model with the following inputs: i) exercise price: \$0.35; ii) share price: \$0.35; iii) term: 5 years; iv) volatility: 136%; v) discount rate: 1.66%. The options vest quarterly at 25% vesting grant and 25% vesting at the end of each subsequent quarter. As of June 30, 2019, 1,197,500 stock options were cancelled. A portion of the vested value of these options was included in stock-based compensation and reserves for the period ended June 30, 2019.

	Options outstanding and exercisable	Weighted average exercise price \$	Weighted average life remaining
Balance, September 30, 2017			
Deemed to be issued on the reverse takeover transaction	792,000	0.1	-
Issued	10,321,000	0.57	-
Exercised/Cancelled	(1,085,000)	0.53	-
Balance, September 30, 2018	10,028,000	0.55	3.36
Issued	290,000	0.40	-
Exercised/Cancelled	(3,739,500)	0.55	-
Balance, June 30, 2019	6,578,000	0.40	2.78

The following table discloses the number of options outstanding as at June 30, 2019:

Number of options	Price per share	Expiry Date
	\$	
296,000	0.10	30-Apr-22
3,402,500	0.35	09-Nov-22
1,325,000	0.40	08-Mar-21
550,000	0.80	08-Mar-21
75,000	0.80	30-Jun-21
700,000	0.40	25-Jul-22
80,000	0.80	24-Aug-21
50,000	0.40	01-Nov-21
50,000	0.40	01-Dec-21
50,000	0.40	19-Dec-21
6,578,000		

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13. SHARE CAPITAL AND RESERVES (Continued)

C. Warrants

Warrant activity for the nine months ended June 30, 2019:

- There was no warrant activity during the period.

Warrant activity for the year ended September 30, 2018:

- On April 3, 2018, 50,300 warrants were exercised for gross proceeds of \$17,605.
- On March 3, 2018, 5,754 warrants were exercised for gross proceeds of \$2,014.
- On February 20, 2018, 5,460 warrants were exercised for gross proceeds of \$1,911.
- On February 8, 2018, the Company granted 2,439,781 brokers' warrants with an exercise price of \$0.80 per common share and an expiry date of February 8, 2020 in connection with this share issuance as part of the 35,938,500 common share private placements.
- On February 8, 2018, 258,000 agent's warrants with an exercise price of \$0.06 agent's warrant and expiring on May 1, 2019 were deemed to be issued to the former shareholders of Aim (see Note 4).
- On October 20, 2017, the Company granted 47,600 brokers' warrants with an exercise price of \$0.35 per common share and an expiry date of October 20, 2019 in connection with this share issuance as part of the 4,290,782 common share private placement which occurred in the private operating company previously known as DMG Blockchain Solutions Inc. The warrants were exchanged into warrants of the Company on a 1:1 basis on February 8, 2018 with all existing terms carried forward.
- On October 27, 2017, the Company granted 154,097 brokers' warrants with an exercise price of \$0.35 per common share and an expiry date of October 27, 2019 in connection with this share issuance as part of the 4,736,927 common share private placement which occurred in the private operating company previously known as DMG Blockchain Solutions Inc. The warrants were exchanged into warrants of the Company on a 1:1 basis on February 8, 2018 with all existing terms carried forward.

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13. SHARE CAPITAL AND RESERVES (Continued)

- On October 31, 2017, the Company granted 624,023 brokers' warrants with an exercise price of \$0.35 per common share and an expiry date of October 31, 2019 in connection with this share issuance as part of the 9,124,286 common share private placement which occurred in the private operating company previously known as DMG Blockchain Solutions Inc. The warrants were exchanged into warrants of the Company on a 1:1 basis on February 8, 2018 with all existing terms carried forward.

		Weighted average exercise price \$	Weighted average life remaining
Balance, September 30, 2017	-	-	-
Deemed to be issued on the reverse takeover transaction	258,000	0.06	0.58
Issued	3,265,501	0.69	1.29
Exercised	(61,514)	0.35	-
Balance, September 30, 2018	3,461,987	0.65	1.24
Expired	(258,000)	0.06	-
Balance, June 30, 2019	3,203,987	0.69	0.54

The following table discloses the number of warrants outstanding as at June 30, 2019:

Number of warrants	Exercise price per share	Expiry Date
	\$	
41,140	0.35	October 20, 2019
99,797	0.35	October 27, 2019
623,269	0.35	October 31, 2019
56,823	0.80	February 8, 2020
2,382,958	0.80	February 8, 2020
3,203,987		

D. NON-CONTROLLING INTEREST

Non-controlling interest represents equity in Datient, Inc. (see Note 5) that is not attributable to the Company. A reconciliation of the beginning and ending balance for non-controlling interest is as follows:

Non-Controlling Interest Summary	
Balance – October 1, 2018	\$ -
Contribution on date control assumed (Note 5)	\$ 6,138,461
Share of net loss during the year ended September 2018	\$ (6,811,105)
Balance – September 30, 2018	\$ (672,644)
Share of net loss	\$ (985,581)
Balance – June 30, 2019	\$ (1,658,225)

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13. SHARE CAPITAL AND RESERVES (Continued)

There is no other comprehensive income or loss during the nine months ended June 30, 2019 and 2018 that would be attributed to the non-controlling interest.

14. RELATED PARTY TRANSACTIONS AND BALANCES**(a) Key management compensation and other related party transactions**

Key management includes personnel having the authority and responsibility for planning, directing and controlling the Company and includes the directors and current executive officers. The value of transactions and outstanding balances relating to key management and entities over which key management have control or significant influence were as follows:

	For the nine months ended	
	June 30, 2019	June 30, 2018
	\$	\$
Salaries, wages and benefits	927,688	355,398
Consulting fees	59,000	122,000
Share-based compensation	101,927	319,396
Total	1,088,615	796,794

(b) Related party balances

- As at June 30, 2019, \$262,773 (September 30, 2018 - \$144,575) was owed to key management for unpaid salaries and wages and outstanding business expenses paid on behalf of the Company.
- At June 30, 2019, the Company owed \$590,363 (2018 - \$1,015,152) in principal and accrued interest on a promissory note issued to a previous director of the Company in February 2018 in the amount of US\$766,029 (see Note 5 and 11).
- During the year ended September 30, 2017, the Company loaned a principal of US\$50,000 (2016 - \$Nil) to a Company controlled by common directors and officers. As at September 30, 2017, interest receivable accrued on this loan amounted to US\$781. The promissory note was repaid in full during the year ended September 30, 2018.
- During the year ended September 30, 2017, the Company issued a promissory note payable with a principal of 9.119 bitcoins to a previous director. The loan receivable was unsecured, non-interest bearing, with no specific terms of repayment. During the nine months ended June 30, 2019, management determined that the loan was uncollectable, and the note payable was fully impaired.
- During the year ended September 30, 2017, the Company entered into an asset purchase agreement with three individuals, one of which was a previous director. 4,600,000 common shares with a deemed price of \$0.0658 per common share were paid to the Director in connection to the purchase. During the year ended September 30, 2017, the Company issued the same director a promissory note and loaned \$25,000 to the director. The loan receivable was unsecured, non-interest bearing, with no specific terms of repayment. As at June 30, 2019, the loan was outstanding.

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15. REVENUE

The Company's revenue is comprised of the following:

	For the Three Months Ended		For the Nine Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Digital currency mining	\$ 659,689	25,361	669,826	632,538
Mining equipment hosting and set up service	1,998,843	845,601	5,850,201	1,649,652
Sale of mining equipment	-	1,290,448	-	3,831,066
Forensics income	347,024	16,300	407,757	16,300
Consulting income	319,000	-	319,000	-
Other income	14,695	50,786	164,556	50,786
Total	\$ 3,339,251	2,228,496	7,412,340	6,180,342

Deferred revenue of \$30,130 at June 30, 2019 relates to the unamortized subscription fees.

16. GENERAL AND ADMINISTRATIVE EXPENSES

The Company's general and administrative expense is comprised of the following:

General and administrative	For the Nine Months Ended	
	June 30, 2019	June 30, 2018
Consulting	\$ 541,051	1,633,259
General and administrative office expenses	1,225,024	869,155
Marketing and public relations	72,776	2,296,499
Investor relations	22,500	-
Professional fees	566,975	449,909
Regulatory and filing	113,366	144,263
Wages	689,030	442,857
	\$ 3,230,722	5,835,942

The Company's operating and maintenance costs are comprised of the following:

	For the Nine Months Ended	
	June 30, 2019	June 30, 2018
Purchase of miners	\$ -	776,259
Utilities	4,060,131	313,396
Contractors and other	465,293	604,237
Wages	792,981	-
Total	\$ 5,318,405	3,530,149

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17. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to safeguard its ability to continue operating as a going concern so that it can provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in shareholders' equity and cash as capital. The Company manages the capital structure and adjusts it in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to identify and evaluate potential acquisitions and business opportunities for the Company. To secure the additional capital necessary to pursue these plans, the Company may raise additional funds through equity or debt financing. The Company is not subject to any capital requirements imposed by a regulator.

18. RESEARCH AND DEVELOPMENT

The research and development costs incurred in the period ending June 30, 2019 of \$3,783,450 (2018 - \$Nil) comprised of salaries for software developers involved in the research and development of existing and new crypto currency related tools and services for which no proved future benefit can be yet demonstrated.

19. FINANCIAL INSTRUMENTS**(a) Fair values of financial instruments measured at fair value on a recurring basis.**

	Quoted prices in active markets for identical instruments	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Total
June 30, 2019	\$	\$	\$	\$
Cash	1,400,632	-	-	1,400,632
Digital assets	-	1,351,768	-	1,351,768
September 30, 2018				
Cash	12,004,180	-	-	12,004,180
Digital assets	-	697,793	-	697,793

The Company has determined the estimated fair value of its financial instruments, if any, based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. The fair values of the Company's financial instruments, if any, are not materially different from their carrying values.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in levels 1 to 3 of the fair value hierarchy based on the degree to which inputs used in measuring fair value is observable:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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19. FINANCIAL INSTRUMENTS (Continued)

b) Management of Industry and Financial Risk

The Company's financial instruments are exposed to certain financial risks, which include the following:

Credit Risk

Credit risk is the risk of loss due to the counterparty's inability to meet its obligations. The Company has exposure to credit risk through its cash and cash equivalents, amounts receivable and due from related parties. The Company manages credit risk, in respect of cash and short-term investments, by maintaining the majority of cash at highly rated financial institutions.

The Company is exposed to a significant concentration of credit risk with respect to its trade accounts receivable balance because all of its miner sales, set up and hosting fees sales are with three counterparties (2018 - none). The Company records an allowance against its trade receivables when there is uncertainty over collection of this amount. All balances due are expected to be settled partially or in full when due (typically within 60 days of submission) and because of the nature of the counterparties.

The Company's maximum exposure to credit risk at the end of any period is equal to the carrying amount of these financial assets as recorded in the consolidated statement of financial position. At June 30, 2019, no amounts were held as collateral.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations when they become due. The Company ensures that there is sufficient capital in order to meet short-term operating requirements, after taking into account the Company's holdings of cash. The Company's cash is held in corporate bank accounts available on demand. Liquidity risk is assessed as being high.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and price risk. These are discussed further below.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risk relating to its loans payable and accounts payable. The interest rate on the loans payable is fixed, and the accounts payable are not subject to any interest. A 10% change in the interest rate would not a result in a material impact on the Company's operations.

Foreign Currency Risk

Currency risk relates to the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign exchange rates. In addition, the Company mines Bitcoin which have a market value stated in US dollars. Exchange rate fluctuations affect the costs that the Company incurs in its operations. The Company's presentation currency is the Canadian dollar and major purchases are transacted in US dollars. As the Company operates in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the entity's functional currency. The fluctuation in foreign currencies in relation to the Canadian dollar will consequently impact the profitability of the Company and may also affect the value of the Company's assets and liabilities and the amount of shareholders' equity.

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19. FINANCIAL INSTRUMENTS (Continued)*Price Risk*

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to any significant price risks with respect to its financial instruments.

Concentrated Customer Risk

The Company has three major customers that accounted for approximately 95% of revenue up until November 30, 2018. Subsequent to November 30, 2018, two of the customers cancelled their contracts, however their contracts were replaced with two new larger contracts and the customer base of installed hosting was more than doubled.

20. LEASE LIABILITY

The Company leases certain assets under lease agreements. The lease liability consists of leases for office space and vehicles. The lease has imputed interest rate of 10% per annum and expires in February 2024.

At June 30, 2019, the Company's lease liability related to office leases is as follows:

Lease liability		June 30, 2019
Current portion	\$	293,495
Long-term portion		387,599
Total lease liability	\$	681,094

At June 30, 2019, the Company is committed to minimum lease payments as follows:

Maturity analysis		June 30, 2019
Less than one year	\$	316,506
One to five years		407,646
More than five years		-
Total undiscounted lease liabilities	\$	724,152

The adoption of IFRS 16 had the following impact for the nine months ended June 30, 2019:

Amounts recognized in profit or loss		June 30, 2019
Interest on lease liabilities	\$	16,095
Income from sub-leasing right-of-use asset		-
Expenses related to short-term leases	\$	-

Amounts recognized in the statement of cash flows		June 30, 2019
Principal payments on lease liabilities	\$	157,576
Total cash outflows for leases	\$	157,576

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21. COMMITMENTS AND CONTINGENCIES

Legal proceedings

On February 28, 2019, former director of the Company initiated a lawsuit against the Company. The former director claims that he is owed finder's fees and expense reimbursements from the Company for services rendered and expenses incurred in prior years. Pursuant to claim, the Company paid \$247,058, included in salaries and wages, that is retained by the court. In the opinion of management, an outcome of the lawsuit and additional amounts payable or receivable by the Company cannot be reasonably estimated at this time.

In the normal conduct of operations, there are other pending claims by and against the Company. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on the advice and information provided by its legal counsel, the final determination of these other litigations will not materially affect the Company's financial position or results of operations.

Contract commitments

On September 30, 2018, the Company entered into an agreement with IBM Canada Ltd. to develop a global cannabis supply chain platform. The Company is committed to spend \$10,000,000 on development activities over a three-year period. If the Company terminates the agreement prior to its three-year anniversary, the Company will owe IBM Canada a payment equal to 5% of the outstanding committed spend which amounts to \$500,000. As at June 30, 2019, the Company has spent \$2,469,139 related to the agreement included in research and development.

22. SUBSEQUENT EVENT

On July 25, 2019, two of the Company's founding directors were named as defendants in a petition filed in the Supreme Court of British Columbia (the "Court"). A former director of the Company is seeking a declaration that the affairs of the Company have been conducted, or that the powers of the two founding directors as directors are being or have been exercised in a manner that is oppressive, or alternatively that is unfairly prejudicial, to the shareholders. The petition is seeking an order from the Court to remove the two directors as directors and officers of the Company and to be replaced with two former directors. In the opinion of management, an outcome of the petition and any amounts payable by the Company cannot be reasonably estimated at this time.