

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

Condensed Interim Consolidated Financial Statements

For the Three Months Ended December 31, 2018

(Expressed in Canadian dollars)

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**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2018**

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.
Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Notes	As at December 31, 2018	As at September 30, 2018
			\$
Assets			
Current			
Cash		5,733,550	12,004,180
Amounts receivable	8	2,012,896	1,921,492
Digital currencies	7	799,547	697,793
Prepaid expenses and other current assets		3,124,389	521,855
Due from related parties	13	218,206	175,806
Security deposit for loan		2,700,000	2,700,000
Total current assets		14,588,588	18,021,126
Advance payment made for equipment	6	744,173	1,514,437
Property and equipment	6	13,559,304	10,400,854
Intangible asset	5, 9	621,913	673,300
Total Assets		29,513,978	30,609,717
Liabilities and Shareholders' Equity			
Current Liabilities:			
Trade and other payables	10	3,063,970	2,175,503
Deferred revenue	14	84,072	688,543
Current portion of loans payable	11, 13	1,231,563	1,123,848
Total current liabilities		4,379,604	3,987,894
Loans payable	11	2,591,304	2,591,304
Total Liabilities		6,970,908	6,579,198
Shareholders' Equity:			
Share capital	12	38,710,029	38,710,029
Share subscription receivable	12	-	-
Share subscription payable	12	-	-
Reserves	12	5,298,102	5,229,701
Accumulated other comprehensive income (loss)		(43,565)	14,762
Accumulated deficit		(20,239,015)	(19,251,329)
Equity attributable to shareholders of parent		23,725,551	24,703,162
Non-controlling interest	5,12	(1,182,481)	(672,644)
Total equity		22,543,070	24,030,518
Total Liabilities and Shareholders' Equity		29,513,978	30,609,717

Approved on Behalf of the Board of Directors on August 19, 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.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

		For the three months ended	
	Notes	December 2018	December 2017
Revenue			
Revenue	14	2,036,571	607,177
		2,036,571	607,177
Expenses			
Operating and maintenance costs	16	(1,298,104)	(682,477)
General and administrative	16	(654,071)	(1,181,080)
Stock-based compensation	13	(68,401)	(1,200,000)
Research and development	18	(819,478)	-
Provision for doubtful accounts		-	-
Depreciation	6	(286,384)	(480)
Amortization of intangible assets	5	(51,213)	-
Total expenses		(3,177,650)	(3,064,037)
Loss before other items		(1,141,079)	(2,456,860)
Other income (expense)			
Impairment of intangible asset	9	-	-
Impairment of intangible assets acquired from Datient Inc.	5	-	-
Impairment of goodwill	5	-	-
Miscellaneous revenue		3,351	2,273
Foreign exchange gain (loss)		(123,965)	771
Unrealized revaluation gain (loss) on loans		(92,515)	50,806
Unrealized revaluation loss on digital currency	7	-	-
Realized revaluation gain on digital currency		(391,244)	50,418
Gain on forgiveness of accounts payable		-	-
Listing transaction expense	4	-	-
Net loss		(1,497,523)	(2,352,592)
Other comprehensive income			
Items that may be reclassified subsequently to income or loss			
Reversal of revaluation gain on digital currency			
Foreign exchange gain on translation of foreign subsidiary	7	(58,327)	104,565
Comprehensive loss		(1,555,850)	(2,248,027)
Net Loss Attributable To:			
Shareholders		(987,686)	-
Non-controlling interest	5	(458,889)	-
Basic and diluted loss per common share		(0.02)	(0.06)
Weighted average number of common shares outstanding		98,834,581	34,836,142

The accompanying notes are integral to these Condensed Interim consolidated financial statements

DMG Blockchain Solutions Inc.

(formerly Aim Explorations Ltd.)

Statements of Consolidated Changes in Shareholders' Equity (Deficit)

(Expressed in Canadian dollars except the number of shares)

	Class A common shares	Share Capital	Share Subscriptions Receivable	Share Subscriptions Payable	AOCI	Option reserve	Warrant reserve	Accumulated deficit	Non-Controlling Interest	Total
Balance as of September 30, 2016	9,100,000	9,100	(9,100)	-	-	-	-	(7,567)	-	(7,567)
Shares issued in private placements	7,375,000	460,000	(10,000)	62,500	-	-	-	-	-	512,500
Shares issued for equipment	11,400,000	750,000	-	-	-	-	-	-	-	750,000
Share subscription received	-	-	9,100	-	-	-	-	-	-	9,100
Net loss and comprehensive loss for the year	-	-	-	-	3,991	-	-	(543,505)	-	(539,514)
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)
Acquisition of Datient Inc.	-	-	-	-	-	-	-	-	6,138,461	6,138,461
Shares issued on warrant exercises	61,514	21,530	-	-	-	-	-	-	-	21,530
Shares issued on option exercises	140,000	14,000	-	-	-	-	-	-	-	14,000
Share buy back	(30,000)	(9,403)	-	-	-	-	-	-	-	9,403
Conversion of DMG US Class B common shares	113,657	-	-	-	-	-	-	-	-	-
Stock-based compensation	-	-	-	-	-	2,872,601	-	-	-	2,872,601
Net loss and comprehensive loss for the period	-	-	-	-	18,753	-	-	(18,700,256)	(6,811,105)	(25,492,608)
Balance September 30, 2018	93,333,139	38,710,029	-	-	22,744	3,469,101	1,760,600	(19,251,328)	(672,644)	24,038,501
Stock-based compensation	-	-	-	-	-	68,401	-	-	-	68,401
Net loss and comprehensive loss for the period	-	-	-	-	(66,309)	-	-	(987,686)	(509,837)	(1,563,832)
Balance December 31, 2018	93,333,139	38,710,029	-	-	43,565	3,537,502	1,760,600	(20,239,015)	1,182,481	22,543,070

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)

	December 31, 2018	September 30, 2018
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net loss for the period	(1,497,523)	(25,511,362)
Items not affecting cash:		
Depreciation	337,771	524,999
Amortization of intangibles	51,388	136,567
Unrealized revaluation loss on digital currency Loans	-	
Realized revaluation gain on digital currency	-	
Stock based compensation	68,401	2,872,601
Unrealized loss on revaluation of digital currencies	387,995	65,863
Foreign exchange gain/(loss)	-	
Listing transaction expense	-	7,117,355
Bitcoin mining revenue	-	(642,319)
Bad debt expense	-	1,348,347
Gain on forgiveness of accounts payable	-	(100,000)
Impairment of goodwill	-	7,404,372
Impairment of intangible asset	-	330,133
Deferred income tax recovery	-	(122,469)
Accrued interest and unrealized foreign exchange loss on loans payable	107,714	128,546
Non-cash working capital items:		
Amounts receivable	(2,693,940)	(3,171,665)
Digital currencies	(489,749)	(246,917)
Prepaid expense	0	(422,260)
Deferred revenue	(604,472)	688,543
Trade and other payables	888,469	1,648,311
Net cash used in operating activities	(3,443,945)	(7,951,355)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Advance payment made for equipment	770,263	(1,514,437)
Purchase of property and equipment	(3,496,222)	(10,516,279)
Transfer of cash to Security deposit for loan payable	-	(2,700,000)
Acquisition of Datient Inc. (Note 5)	(58,327)	(1,141,938)
Net cash (used in) provided by investing activities	(2,784,286)	(15,872,654)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Due from related parties	(42,400)	(38,252)
Proceeds from loan	-	2,700,000
Proceeds from issuance of common shares	-	35,103,999
Share issuance costs	-	(2,477,097)
Proceeds from warrants exercise	-	21,530
Proceeds from option exercise	-	14,000
Common shares repurchased	-	(9,403)
Share subscriptions receivable	-	10,000
Share subscriptions payable	-	
Net cash provided by financing activities	(42,400)	34,182,839
Increase/(decrease) in cash and cash equivalents	(6,270,631)	11,500,769
Effect of exchange rate changes on cash		10,771
Cash & cash equivalents, beginning of the year	12,004,180	492,640
Cash & cash equivalents, end of the year	5,733,549	12,004,180

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

DMG Blockchain Solutions Inc.

(formerly Digital Mint Inc.)

Notes to the Consolidated Financial Statements

For the Three Months Ended December 31, 2018

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS

DMG Blockchain Solutions Inc. (the "Company") was incorporated under the provisions of the *British Columbia 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 9, 2018, the Company completed a Reverse Take Over transaction with the company formerly known as Aim Explorations Inc on 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. and trades under the symbol DMGI. On February 1, 2019, the Company was issued a cease trade order for failure to meet its continuous disclosure obligations; management is working towards reversing this order as of the approval date of this document.

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 transaction verification services business.

2. BASIS OF PRESENTATION

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

b) Significant accounting 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:

Estimates

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

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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.

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 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.

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.

DMG Blockchain Solutions Inc.

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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.

Business combinations

In a business combination all identifiable assets acquired, and liabilities assumed are recorded at their fair values. In 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.

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 it was accounted for under IFRS 3 *Business Combinations*.

The Company also completed the acquisition of Aim Exploration 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 judgment 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 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

DMG Blockchain Solutions Inc.

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For the Three Months Ended December 31, 2018

(Expressed in Canadian dollars)

services can be measured reliably. Accordingly, the Company has determined that revenue should be recognized as services are provided on a monthly basis.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

These 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 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

(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.

(b) Cash and Cash Equivalents

The Company holds all its cash at a major Canadian financial institution and has no cash equivalents.

(c) Revenue Recognition

The Company had three main sources of revenue:

(i) Crypto currency mining

The Company recognizes revenue from the provision of transaction verification services within digital currency networks, commonly described as “crypto currency mining”. As consideration for these services, the Company receives digital currency from each specific network in which it participates (“coins”). Revenue is recognized by the Company when payment, in the form of digital currency, is received for mining services rendered. Revenue is measured based on the fair value of the coins received. The fair value is determined using the rate at the time of the transaction per “xe.com”, an online coin price aggregator.

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Costs of fulfilling and revenue associated with the Company's performance obligations are incurred simultaneously. The Company has not deferred any expenditures with regards to fulfilling its contracts.

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 judgment 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.

(ii) Sale of mining equipment

The Company recognizes revenue from the sale of mining equipment once the title to equipment is transferred to the customer and it is probable that the economic benefits associated with the sale contract will flow to the Company.

(iii) Set up and hosting fees

Set-up fees consist of the installation of the equipment in the Company's data centre. Set-up fees are deferred and recognized as earned over the term of the underlying hosting contract.

Hosting fees are recognized as the hosting services are provided to customers on a monthly basis.

(d) Property and Equipment

Items of data centre are recorded at cost less accumulated depreciation. Cost includes all expenditures incurred to bring assets to the location and condition necessary for them to be operated in the manner intended by management.

Subsequent costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

The Company depreciates the cost of property and equipment based on declining-balance method over their estimated useful lives from the date they are available for use at the following annual rates:

Data centre containers	10%	Declining Balance Method
Data centre mining equipment	55%	Declining Balance Method
Data centre other equipment	20%	Declining Balance Method
Furniture	20%	Declining Balance Method
Motor vehicles	30%	Declining Balance Method

The assets' residual values, useful lives and methods of amortization are reviewed at each fiscal year end and adjusted prospectively, if appropriate.

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and

DMG Blockchain Solutions Inc.

Notes to the Consolidated Financial Statements

For the Three Months Ended December 31, 2018

(Expressed in Canadian dollars)

the carrying amount of the asset) is included in the consolidated statements of loss and comprehensive loss when the asset is derecognized. No depreciation is recorded on items under construction until construction is complete, and items are available for use.

Refer to Note 2 for disclosure of estimates in respect of the determination of the appropriate method of depreciation, the underlying useful life and the estimation of residual values in respect of mining equipment.

(e) Digital currencies

At present, there is limited guidance in IFRS on the recognition and measure of Digital Assets.

Digital currencies consist of crypto currency denominated assets such as Bitcoin and are included in current assets. Digital currencies meet the definition of intangible assets in IAS 38 Intangible Assets as they are identifiable non-monetary assets without physical substance. They are initially recorded at cost and the revaluation method is used to measure the digital currencies subsequently. Under the revaluation method, increases in fair value are recorded in other comprehensive income, while decreases are recorded in profit or loss. There is no recycling of gains from other comprehensive income to profit or loss. However, to the extent that an increase in fair value reverses a previous decrease in fair value that has been recorded in profit or loss, that increase is recorded in profit or loss.

Crypto currency held by the Company is valued at their fair value using the closing price listed on “xe.com”, a source that aggregates data from multiple exchanges and applies a methodology to determine the best quoted USD price on the date the digital assets were generated. The Company converts the price from USD to CAD based on the closing exchange rate on the date of asset generation. Subsequent to initial recognition, digital currencies are remeasured at each reporting period to the Canadian dollar price.

(f) Impairment of non-financial assets

The Company reviews the carrying amounts of its non-financial assets, including equipment, when events or changes in circumstances indicate the assets may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Assets carried at fair value, such as digital currencies, are excluded from impairment analysis.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows to be derived from continuing use of the asset or cash generating unit are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is the amount obtainable from the sale of an asset or cash generating unit in an arm’s length transaction between knowledgeable, willing parties, less the cost of disposal. When a binding sale agreement is not available, fair value less costs of disposal is estimated using a discounted cash flow approach with inputs and assumptions consistent with those of a market participant. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in net income. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized.

DMG Blockchain Solutions Inc.

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(Expressed in Canadian dollars)

(g) Stock-based compensation

Stock-based compensation to employees is measured at the fair value of the instruments issued and amortized over the vesting periods. Stock-based compensation to non-employees is measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to reserves.

The fair value of options is determined using the Black–Scholes pricing model which incorporates all market vesting conditions on grant date. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. When vested options are forfeited or are not exercised at the expiry date, the amount previously recognized in share-based compensation is transferred to deficit.

(h) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial instruments recognized in the statement of financial position include cash and cash equivalents, accounts receivable, due from related parties, accounts payable and loans payable.

Financial assets

The Company classifies its financial assets into one of the following categories:

(i) Financial assets at fair value through profit or loss (“FVTPL”)

Financial assets are classified as fair value through profit or loss when the financial asset is held for trading or it is designated as fair value through profit or loss. A financial asset is classified as held for trading if: (i) it has been acquired principally for the purpose of selling in the near future; (ii) it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as fair value through profit or loss are stated at fair value with any gain or loss recognized in the consolidated statement of operations. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset. Cash and cash equivalents are classified as fair value through profit or loss.

(ii) Held-to-maturity investments

Held-to-maturity investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any assets classified as held-to-maturity investments.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition,

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they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to the consolidated statement of operations. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale investments are carried at cost.

(iv) Loans and receivables

Accounts receivable and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost less impairment losses. The Company has classified due from related parties and accounts receivables as loans and receivables.

The impairment loss of receivables is based on a review of all outstanding amounts at period end. Bad debts are written off during the period in which they are identified.

Impairment of financial assets

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income or loss are reclassified to the consolidated statement of operations in the period. Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted. For marketable securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of operations.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statement of operations to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of available-for-sale equity securities, impairment losses previously recognized through the consolidated statement of operations are not reversed through the consolidated statement of operations. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

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Financial liabilities

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and loans payable are classified as other-financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through profit or loss in the statement of loss and comprehensive loss. The Company has not classified any financial liabilities as FVTPL.

The Company holds various financial instruments. Unless otherwise indicated, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled, or they expire.

(i) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognized at their fair value, except deferred tax assets or liabilities, which are recognized and measured in accordance with IAS 12 – Income Taxes. Subsequent changes in fair values are adjusted against the cost of acquisition if they qualify as measurement year adjustments. The measurement year is the year between the date of the acquisition and the date where all significant information necessary to determine the fair values is available and cannot exceed 12 months. All other subsequent changes are recognized in the consolidated statements of loss and comprehensive loss.

The purchase price allocation process resulting from a business combination requires management to estimate the fair value of identifiable assets acquired including intangible assets and liabilities assumed including any contingently payable purchase price obligation due over time. The Company uses valuation techniques, which are generally based on forecasted future net cash flows discounted to present value. These valuations are closely linked to the assumptions used by management on the future performance of the related assets and the discount rates applied. The determination of fair value involves making estimates relating to acquired intangibles assets, property and equipment and contingent consideration. In certain situations, goodwill or a bargain purchase gain may result from a business combination. Goodwill is measured as the excess of the consideration transferred over the net amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognized immediately in the consolidated statements of comprehensive loss as a bargain purchase gain. Acquisition related costs are recognized in the consolidated statements of loss and comprehensive loss as incurred.

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(j) Goodwill

Goodwill represents the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired on the date of acquisition less any impairment losses. Goodwill is allocated to the Cash Generating Units (“CGU”) to which it relates. Goodwill is measured at historical cost and is evaluated for impairment annually and more often if events or circumstances indicate there may be impairment.

Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is recorded in income in the year in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

(k) *Intangible assets*

Intangible assets consist of database and tradename from Datient (Note 5) and are recorded at cost less accumulated amortization and accumulated impairment losses. Intangible assets have a finite life and are amortized using the straight-line method over their estimated useful lives. The useful lives of the intangible assets are reviewed at least annually. Amortization is recognized on a straight-line basis over the expected life of the database of five years or life of the tradename of twenty years, as applicable.

The estimated useful life and amortization method are reviewed at the end of each reporting year, with the effect of any changes in estimate being accounted for on a prospective basis.

(l) *Loss per share*

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

(m) *Research and development costs*

Research costs, including expenses related to existing and new crypto currency related tools and services, are expensed in the period in which they are incurred. Development costs are expensed in the period in which they are incurred unless certain criteria, including technical feasibility, commercial feasibility, and intent and ability to develop and use the crypto currency related tools and services are met for deferral and amortization.

(n) *Foreign currency translation*

The functional of DMG parent, Aim Exploration Ltd. and DMG-US, Inc. is the Canadian dollar. The functional currency of Datient Inc. is the US dollar, which is determined to be the currency of the primary economic environment in which the subsidiary operates. The reporting currency is the Canadian dollar.

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Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Subsidiaries that have functional currencies other than the Canadian dollar translate their statement of operations items at the average rate during the year. Assets and liabilities are translated at exchange rates prevailing at the end of each reporting period. Exchange rate variations resulting from the retranslation at the closing rate of the net investment in these subsidiaries, together with differences between their statement of operations items translated at actual and average rates, are recognized in accumulated other comprehensive income (loss). On disposition or partial disposition of a foreign operation, the cumulative amount of related exchange difference is recognized in the statement of operations.

(o) New standards and interpretations not yet adopted

The Company has not early adopted any amendment, standard, or interpretation that has been issued by the IASB which is not yet effective on a mandatory basis. The following accounting standards were issued, but not yet effective as of September 30, 2018:

IFRS 9 - Financial Instruments - In July 2014, the IASB issued the final version of IFRS 9 – Financial Instruments (“IFRS 9”) to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking ‘expected-loss’ impairment model, as well as a substantially reformed approach to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company will apply IFRS 9 at the date it becomes effective. Except for hedge accounting, retrospective application is required, but the provision of comparative information is not required. For hedge accounting, the requirements are generally applied prospectively.

The classification of financial assets and liabilities is expected to remain consistent under IFRS 9, with the possible exception of equity securities. Under IFRS 9, the Company will have the option to designate equity securities as financial assets at fair value through other comprehensive income or loss. If the Company does not make this election, changes in the fair value of equity securities will continue to be recognized in profit or loss in accordance with the Company’s current policy.

The introduction of the new ‘expected credit loss’ impairment model is not expected to have an impact on the Company, given the Company sells its concentrate to large international organizations with a negligible historical level of customer default, and the corresponding receivables from these sales are short term in nature.

The Company expects the above potential changes to be the only impacts, as the Company currently has no hedging arrangements.

On January 13, 2016, the IASB published a new standard, IFRS 16, Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Under the new standard, a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses). The standard is effective for annual periods beginning after December 15, 2019 (i.e., calendar periods beginning on January 1, 2020), and periods thereafter. Early adoption is permitted.

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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. Either a modified retrospective application or full retrospective application is required for IFRS 15. The Company has not committed to either application, but it is expected that the Company will apply the full retrospective approach upon transition on October 1, 2018.

(p) New standards and interpretations adopted

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. Either a modified retrospective application or full retrospective application is required for IFRS 15. The Company has not committed to either application, but it is expected that the Company will apply the full retrospective approach upon transition on January 1, 2018.

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 at September 30, 2018, 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. Based on the facts and circumstances at September 30, 2018, the Company has determined that the impact of this change is insignificant, and there will be no material impact to the Company's recognition of revenues.

IFRS 15 contains presentation and disclosure requirements which are currently more detailed than current standards, with many requirements being new. Under IFRS 15, the Company will present disclosure relating to the timing of completion of the Company's performance obligations.

The Company has adopted IFRS 15 standard effective October 1, 2018 and adoption had no significant impact on the consolidated financial statements.

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4. REVERSE TAKE OVER TRANSACTION

On February 9, 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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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

5. 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 previously controlled by a 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, and 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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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 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 have not materialized by September 30, 2018 and the goodwill was written off as impaired. As a result, there was no impact as at December 31, 2018.

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6. PROPERTY AND EQUIPMENT

COST	Land	Construction in Progress	Data Centre	Computer and mining equipment	Furniture and other equipment	Motor Vehicle	Total
	\$	\$	\$	\$	\$	\$	\$
As at September 30, 2016	-	-	-	-	-	-	-
Additions	-	-	-	804,177	3,595	5,000	812,772
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		(6,657,117)	10,023,575	33,104	-	-	
As at December 31, 2018	413,000	-	12,739,874	1,485,673	15,494	35,631	14,689,672
ACCUMULATED DEPRECIATION							
As at September 30, 2016	-	-	-	-	-	-	-
Depreciation	-	-	-	402,088	360	750	403,199
As at September 30, 2017	-	-	-	402,088	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	-	-	45,526	877,499	1,815	5,022	929,862
As at December 31, 2018			161,637	41,091	673	2,239	
NBV	413,000	-	12,537,843	567,084	13,007	28,371	13,559,304

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 quarter ended December 31, 2018 and amortisation was applied accordingly.

As at December 31, 2018, advances on equipment of \$ 744,173 (2017 – Nil) is comprised of amounts advanced by the Company on equipment that was not yet delivered to the Company at December 31, 2018.

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7. DIGITAL CURRENCY

At December 31, 2018 and September 30, 2017, 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:

	December 31, 2018	September 30, 2018
Opening balance	\$ 697,793	\$ 59,103
Digital currency received		642,319
Digital currency purchased	489,749	805,061
Digital currency sold		(558,144)
Digital currency revaluation	(387,995)	(65,863)
Loans paid in digital currency		(184,683)
Ending balance in Bitcoins at fair value	799,547	697,793

8. RECEIVABLES

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

	December 31, 2018	September 30, 2018
Trade receivables	\$ 2,817,735	2,726,334
Sales taxes receivables	\$ -	-
Allowance for doubtful accounts	\$ (804,839)	(804,839)
	\$ 2,012,896	1,921,495

9. INTANGIBLE ASSETS

- During the year ended September 30, 2018, the Company acquired a database, in-process technology, and a tradename through acquisition of Datient (see Note 5). The database contains records of cryptocurrency transactions Datient has 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.
- On May 19, 2017, the Company purchased a crypto currency wallet and distribution software from a 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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The continuity of intangible assets is as follows:

	Wallet Software	Datient Tradename	Technology and Database	Total
COST	\$	\$	\$	\$
As at September 30, 2016	-	-	-	-
Additions	100,000	-	-	100,000
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	-	21,000	788,867	809,867
Additions	-	-	-	-
Impairment	-	-	-	-
As at December 31, 2018	-	21,000	788,867	809,867
ACCUMULATED AMORTIZATION				
As at September 30, 2016	-	-	-	-
Amortization	-	-	-	-
As at September 30, 2017	-	-	-	-
Amortization	-	700	135,867	136,567
As at September 30, 2018	-	700	135,867	136,567
Amortization	-	263	50,950	51,213
As at December 31, 2018	-	963	186,817	187,780
NET BOOK VALUE				
As at September 30, 2017	100,000	-	-	100,000
As at September 30, 2018	-	20,300	653,000	673,300
As at December 31, 2018	-	20,038	602,050	622,088

10. TRADE AND OTHER PAYABLES

Trade and other payables are comprised of the following:

	December 31, 2018	September 30, 2018
Trade payables and accrued liabilities	\$ 2,912,699	1,981,803
Trade payable and accrued liabilities - related parties (Note 13)	\$ 151,271	144,575
Sales tax payable	-	49,125
Due to related parties (Note 13)	\$ -	-
Refundable deposit	\$ -	-
	\$ 3,063,970	2,175,503

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11. 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 a 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 current portion of loans payable.

At December, 2018, the Company owed \$1,122,866 (2017 – Nil) in principal and accrued interest on a promissory note issued to a 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. 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.

12. SHARE CAPITAL AND RESERVES

A. Share Capital

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

Share capital activity for the period ended December 31 and September 30, 2018

- 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
- By August 31, 2018, the Company bought back 30,000 Class A 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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- 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%.

B. Stock Options

Stock option activity for the period ended December 31, 2018 and September 30, 2018

- 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 Dec 19, 2021. A portion of the vested value of these options was included in stock-based compensation and reserves for the period ended December 31, 2018.
- 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

DMG Blockchain Solutions Inc.

Notes to the Consolidated Financial Statements

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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 December 31, 2018.

- 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 Nov01, 2021. A portion of the vested value of these options was included in stock-based compensation and reserves for the period ended December 31, 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. A portion of the vested value of these options was included in stock-based compensation and reserves for the period ended September 30, 2018.
- 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 year ended September 30, 2018.
- 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). A portion of the vested value of these options was included in stock-based compensation and reserves for the year ended September 30, 2018.
- On May 30, 2018, the Company announced that it had issued 125,000 incentive stock options to 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). A portion of the vested value of these options was included in stock-based compensation and reserves for the year ended September 30, 2018.

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- On February 9, 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). A portion of the vested value of these options was included in stock-based compensation and reserves for the year ended September 30, 2018.
- 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).
- On November 9, 2017, the private operating company (formerly known as DMG Blockchain Solutions Inc.) granted 4,600,000 stock options 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. A portion of the vested value of these options was included in stock-based compensation and reserves for the year ended September 30, 2018.

	Options outstanding and exercisable	Weighted average exercise price \$	Weighted average life remaining
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
Deemed to be issued on the reverse takeover transaction	0		-
Issued	290,000	0.57	-
Exercised/Cancelled	-330,000	0.53	-
Balance, December 31, 2018	9,988,000	0.55	3.36

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The following table discloses the number of options outstanding as at December 31, 2018:

Number of options ('000s)	Price per share	Expiry Date
	\$	
652,000	0.10	May 1, 2022
3,845,000	0.35	November 9, 2022
3,010,000	0.80	March 8, 2021
125,000	0.80	June 30, 2021
700,000	0.40	July 25, 2022
366,000	0.80	August 24, 2021
1,000,000	0.80	July 27, 2022
190,000	0.40	November 01, 2021
50,000	0.40	December 01, 2021
50,000	0.80	December 19, 2021
9,988,000		

C. WarrantsWarrant activity for the period ended December 31, 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.
- 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

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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.

	Warrants outstanding and exercisable	Weighted average exercise price \$	Weighted average life remaining
Balance, September 30, 2017 and 2016	-	-	-
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
Issued	-	-	-
Exercised	-	-	-
Balance, December 31, 2018	3,461,987	0.65	0.99

The following table discloses the number of warrants outstanding as at December 31, 2018:

Number of warrants	Exercise price per share	Expiry Date
	\$	
258,000	0.06	April 30, 2019
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
3,461,987		

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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	\$ (509,837)
Balance – December 31, 2018	\$ (1,182,481)

As of September 30, 2018, non-controlling interest included the following amounts before intercompany eliminations:

	September 30, 2018
Current assets	\$ 306,726
Non-current assets	3,593
Total assets	\$ 310,319
Current liabilities	6,443
Non-current liabilities	1,585,763
Total Liabilities	\$ 1,592,206
Revenues	\$ 66,139
Net Loss	\$ (6,811,105)

There is no other comprehensive income or loss during the years ended September 30, 2018 and 2017 that would be attributed to the non-controlling interest.

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13. 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 quarter ended	
	December 31, 2018	December 31, 2017
Salaries, wages and benefits	\$ 533,502	\$ 0
Consulting services	134,853	544,875
Share-based compensation	68,401	1,200,000
Total	\$ 736,756	\$ 1,744,875

During the period ended December 31, 2018, the Company paid a spouse of a director \$24,181 in consulting fees and wages (December 2017 - \$40,500).

(b) Related party balances

- As at December 31, 2018, \$151,271 (2017 – Nil) was owed to key management for outstanding salaries, wages and benefits, and consulting services.
- As at December 31, 2018, \$144,575 (2017 – \$161,897) was owed to key management for outstanding salaries, wages and benefits, and consulting services.
- At December 31, 2018, the Company owed \$1,015,152 (2017 – Nil) in principal and accrued interest on a promissory note issued to a 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. As at December 31, 2018, the loan remained outstanding.
- During the year ended September 30, 2017, the Company issued a promissory note payable with a principal of 9.119 bitcoins to a director. The loan receivable was unsecured, non-interest bearing, with no specific terms of repayment. As at December 31, 2018, the loan remained outstanding.
- During the year ended September 30, 2017, the Company entered into an asset purchase agreement with three individuals, one of which was a director. 4,600,000 Class A 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 December 31, 2018, the loan was outstanding.

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14. REVENUES

The Company's revenue is comprised of the following:

	31-Dec-18	31-Dec-17
Digital currency mining	\$ -	607,177
Mining equipment hosting and set up service	1,886,036	
Sale of mining equipment	-	
Forensics income	55,085	
Other income	95,451	
	\$ 2,036,571	607,177

Deferred revenue of \$84,072 at December 31, 2018 relates to the unamortized subscription fees.

15. CONCENTRATION OF CUSTOMERS

For the period ended December 31, 2 of the Company's previous major customers stopped mining by end of November 2018, included in accounts receivable is \$1,513,242 from these customers (2017 - Nil), which accounted for 65% of the Company's accounts receivable balance at December 31, 2018 (2017 - Nil).

Included in accounts receivable, net of allowance for doubtful accounts, is \$1,190,144 (2017 - Nil), \$727,168 (2017 - Nil), and \$330,682 (2017 - Nil) due from these customers, comprising 16% (2017 - Nil), 18% (2017 - Nil), and 66% (2017 - Nil) of accounts receivable, respectively.

16. EXPENSES

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

	December 31, 2018	December 31, 2017
General and administrative		
Consulting	\$ 134,853	544,875
General and administrative office expenses	167,621	257,332
Marketing, investor and public relations	59,108	362,448
Professional fees	46,228	16,203
Regulatory and filing	42,686	223
Wages	203,574	0
	\$ 654,071	1,181,081

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

	December 31, 2018	December 31, 2017
Operating and maintenance costs		
Utilities	856,905	-
Contractors and other	227,737	544,875
Wages	213,462	-
	\$ 1,298,104	544,875

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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 December 31, 2018 (none in 2017) comprised of salaries of 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 demonstrated yet.

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
December 31, 2018					
Cash	(i)	\$ 8,433,550	-	\$ -	\$ 8,433,550
September 30, 2018	(i)				
Cash		\$ 14,704,180	-	\$ -	\$ 14,704,180

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:

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(Expressed in Canadian dollars)

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).

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 December 31 2018, 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 result in a material impact on the Company's operations.

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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.

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.

19.COMMITMENTS AND CONTINGENCIES

Legal proceedings

Subsequent to December 31, 2018, a 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. In the opinion of management, an outcome of the lawsuit and the amount payable (if any) by the Company cannot be reasonably estimated at this time

Subsequent to December 31, 2018, a former customer of the Company initiated a lawsuit against the Company. The customer claims they are owed bitcoins and mining equipment by the Company. In the opinion of management, the outcome of the legal claim and the amount payable by the Company (if any) 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 percent of the outstanding committed spend. As at December 31, 2018, this commitment was still present.

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20. SUBSEQUENT EVENTS

On February 1, 2019, the Company cancelled 1,000,000 stock options previously issued to a member of management on July 26, 2018.

On January 22, 2019, the Company issued 115,842 common shares upon conversion of 115,842 of DMG-US, Inc. Class B common shares (see Note 5).