

DMG Blockchain Solutions Inc.

Consolidated Financial Statements

For the Years Ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of
DMG Blockchain Solutions Inc.

Opinion

We have audited the consolidated financial statements of DMG Blockchain Solutions Inc. and its subsidiaries (the “Company”) which comprise the consolidated statements of financial position as at September 30, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended September 30, 2020 and 2019, and the related notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2020 and 2019, and its financial performance and its cash flows for the for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the accompanying consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

INDEPENDENT AUDITORS' REPORT

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITORS' REPORT

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audits resulting in this independent auditors' report is Joseph Bonvillain.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada

December 29, 2020

DMG Blockchain Solutions Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Notes	As at September 30, 2020	As at September 30, 2019
		\$	\$
Assets			
Current			
Cash		1,073,838	1,133,429
Amounts receivable	6	1,345,921	1,635,810
Digital currency	5	966,005	1,523,091
Prepaid expenses and other current assets		276,131	450,555
Lease receivable	10	110,769	-
Due from related parties	13	-	25,000
Security deposit for loan	11	-	2,700,000
Total current assets		3,772,664	7,467,885
Long-term deposit	16	1,323,800	2,202,605
Property and equipment	4	13,270,315	15,142,771
Lease receivable	10	162,614	-
Intangible assets	7	263,338	468,187
Assets held for sale	8	2,721,236	-
Total Assets		21,513,967	25,281,448
Liabilities			
Current			
Trade and other payables	9	4,145,849	4,388,838
Deferred revenue	14	25,790	102,553
Current portion of lease liability	10	136,317	291,878
Current portion of loans payable	11	1,772,414	520,027
Total current liabilities		6,080,370	5,303,296
Lease liability	10	172,529	334,628
Loan payable	11	340,411	2,591,304
Total Liabilities		6,593,310	8,229,228
Equity			
Share capital	12	43,287,828	41,467,246
Reserves	12	6,349,923	6,014,301
Accumulated other comprehensive income		300,819	3,451
Accumulated deficit		(32,703,841)	(25,942,912)
Equity attributable to shareholders of parent		17,234,729	21,542,086
Non-controlling interest	12	(2,314,072)	(4,489,866)
Total Equity		14,920,657	17,052,220
Total Liabilities and Equity		21,513,967	25,281,448
Commitments and contingencies – Note 21			
Subsequent events – Note 22			

Approved on Behalf of the Board of Directors on December 29, 2020:

/s/ Dan Reitzik
Director

/s/ Sheldon Bennett
Director

The accompanying notes are integral to these consolidated financial statements

DMG Blockchain Solutions Inc.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

		For the Years Ended September 30,	
	Notes	2020	2019
		\$	\$
Revenue	14	7,403,500	10,102,765
Expenses			
Operating and maintenance costs	16	6,137,837	7,471,586
Depreciation	4	2,033,314	1,510,847
General and administrative	16	1,908,108	3,991,757
Stock-based compensation	12	298,881	784,600
Research	18	449,972	4,510,480
Amortization of intangible assets	7	204,850	205,113
Recovery of doubtful accounts	6	(145,057)	(131,701)
		10,887,905	18,342,682
Loss before other items		(3,484,405)	(8,239,917)
Other income (expense)			
Interest and other income		310,695	158,307
Realized gain on sale of digital currency		257,276	326,378
Foreign exchange gain		179,186	90,876
Unrealized revaluation gain (loss) on loans		783	(40,856)
Unrealized revaluation gain (loss) on digital currency	5	-	(55,218)
Gain (loss) on disposition of vehicle		(25,067)	8,842
Loss on settlement of loans receivable	13	(25,000)	-
Other expenses		(41,280)	-
Net loss		(2,827,812)	(7,751,588)
Other comprehensive income			
Items that may be reclassified subsequently to income or loss			
Foreign exchange loss on translation of foreign subsidiary		(27,641)	(11,311)
Unrealized revaluation gain on digital currency	5	325,009	-
Comprehensive loss		(2,530,444)	(7,762,899)
Net loss attributable to			
Shareholders		(2,582,405)	(6,691,583)
Non-controlling interest	12	(245,407)	(1,060,005)
		(2,827,812)	(7,751,588)
Basic and diluted loss per common share		(0.03)	(0.07)
Weighted average number of common shares outstanding		98,062,663	93,567,434

The accompanying notes are integral to these consolidated financial statements

DMG Blockchain Solutions Inc.

Consolidated Statements of Changes in Equity

(Expressed in Canadian dollars except the number of shares)

	Number of Common Shares	Share Capital	AOCI	Share- based Reserves	Accumulated Deficit	Non- Controlling Interest	Total Equity
		\$	\$	\$	\$	\$	\$
Balance, September 30, 2018	93,219,482	38,710,029	14,762	5,229,701	(19,251,329)	(672,644)	24,030,519
Acquisition of NCI upon shares issued on conversion of DMG US Class B common shares	3,446,521	2,757,217	-	-	-	(2,757,217)	-
Stock-based compensation	-	-	-	784,600	-	-	784,600
Net loss and comprehensive loss	-	-	(11,311)	-	(6,691,583)	(1,060,005)	(7,762,899)
Balance, September 30, 2019	96,666,003	41,467,246	3,451	6,014,301	(25,942,912)	(4,489,866)	17,052,220
Shares issued for cash	1,481,500	63,259	-	36,741	-	-	100,000
Acquisition of NCI upon shares issued on conversion of DMG US Class B common shares	2,196,911	1,757,323	-	-	(4,178,524)	2,421,201	-
Stock-based compensation	-	-	-	298,881	-	-	298,881
Net loss and comprehensive loss	-	-	297,368	-	(2,582,405)	(245,407)	(2,530,444)
Balance, September 30, 2020	100,344,414	43,287,828	300,819	6,349,923	(32,703,841)	(2,314,072)	14,920,657

The accompanying notes are integral to these consolidated financial statements

DMG Blockchain Solutions Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	For the Years Ended September 30,	
	2020	2019
OPERATING ACTIVITIES	\$	\$
Net loss	(2,827,812)	(7,751,588)
Items not affecting cash:		
Depreciation	2,033,314	1,510,847
Amortization of intangible assets	204,850	205,113
Unrealized revaluation loss on digital currency	-	55,218
Stock-based compensation	298,881	784,600
Digital currency mining revenue	(2,723,537)	(1,975,542)
Recovery of doubtful accounts	(145,057)	(131,701)
Loss on settlement of loans receivable	25,000	-
(Gain) loss on disposition of vehicle	25,067	(8,842)
Gain on sublease	(25,068)	-
Accrued interest and unrealized foreign exchange loss on loans payable	20,104	23,184
Changes in non-cash working capital items:		
Amounts receivable	361,678	786,801
Digital currencies	3,280,623	1,095,026
Prepaid expense	1,126,496	(2,066,825)
Deferred revenue	(43,803)	(585,990)
Trade and other payables	(242,989)	2,213,335
Net cash provided by (used in) operating activities	1,367,747	(5,846,364)
INVESTING ACTIVITIES		
Purchase of property and equipment	(825,836)	(3,913,985)
Receipt of cash for security deposit for loan payable	2,700,000	-
Proceeds on sale of equipment	255,833	34,693
Net cash provided by (used in) investing activities	2,129,997	(3,879,292)
FINANCING ACTIVITIES		
Proceeds from issuance of units	100,000	-
Principal lease payments	(308,084)	(237,907)
Repayment of loan payable	(3,522,077)	(957,838)
Net cash used in financing activities	(3,730,161)	(1,195,745)
Decrease in cash and cash equivalents	(232,417)	(10,921,401)
Effect of exchange rate changes on cash	172,826	50,650
Cash and cash equivalents, beginning of the year	1,133,429	12,004,180
Cash and cash equivalents, end of the year	1,073,838	1,133,429
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	140,855	114,998
Taxes paid	-	-

DMG Blockchain Solutions Inc.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

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 795 Highway 395, Christina Lake, B.C. V0H 1E0. In February 2018, a Reverse Take Over transaction was completed and the Company changed its name from Aim Explorations Inc. to DMG Blockchain Solutions Inc. and its shares are listed on the TSX-V under the symbol DMGI.

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.

These consolidated financial statements have been prepared assuming the Company will continue as a going concern. As at September 30, 2020, the Company has a working capital deficit of \$2,307,706, a history of losses, negative cash flows from operations and an accumulated deficit of \$32,703,841. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon its ability to generate profits and positive cash flows from operations in order to cover its operating costs.

These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The Company's strategy to mitigate these risks and uncertainties is to execute a business plan aimed at operational efficiencies, revenue growth, managing operating expenses and working capital requirements. Failure to implement the Company's business plan could have a material adverse effect on the Company's financial condition and/or financial performance. Accordingly, there are material risks and uncertainties that cast significant doubt about the Company's ability to continue as a going concern.

These consolidated financial statements do not include any adjustments or disclosures that would be required if assets are not realized and liabilities and commitments are not settled in the normal course of operations. If the Company is unable to continue as a going concern, then the carrying value of certain assets and liabilities would require revaluation to a liquidation basis, which could differ materially from the values presented in the consolidated financial statements

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.

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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:

(i) *Estimates*

Valuation of digital assets

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

Digital Assets are measured at fair value using the quoted price on “xe.com”. Management considers this fair value to be a Level 2 input under IFRS 13 Fair Value Measurement fair value hierarchy as the price on this source represents an average of quoted prices on multiple digital currency exchanges. The Digital Assets are valued based on the closing price obtained from “xe.com” at the reporting period corresponding to the different Digital Assets mined by the Company. The Company is relying on the data available at “xe.com” to be an accurate representation of fair value.

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 depreciating 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:

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- (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, there is limited amount of market data available to management to use in its estimates. 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 depreciation 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 zero residual value at each reporting date.

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

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.

(ii) 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 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. 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.

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Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollars)

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”). Management has exercised significant judgment in determining the completion stage for this revenue stream and examined various factors surrounding the substance of the Company’s operations, and determined the stage of completion being the completion and addition of a block to a blockchain.

For hosting and other service contracts, the Company has determined that the substance of the service contracts is provision of services under IFRS 15 *Revenue from Contracts with Customers*. Revenue is recognized only when the amount of the contract and separate performance obligations are identified, the transaction can be measured reliably, the transaction price can be allocated to the performance obligations, and the performance obligation is satisfied. Accordingly, the Company has determined that revenue should be recognized as the provision of services under the contract is completed.

Determination of separate elements under the terms of the contract and completion of performance obligation may be subject to significant judgment exercised by management.

Income taxes

Uncertainties exist with respect to the interpretation of evolving tax regulations relating to digital assets, changes in tax laws, and the amount and timing of future taxable income. The Company has not recognized the value of any deferred tax assets in its statements of financial position.

The Company recognizes the tax benefit from an uncertain tax position only if it is probable that the tax position will be sustained based on its technical merits. The Company measures and record the tax benefits from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company’s estimated liabilities related to these matters are adjusted in the period in which the uncertain tax position is effectively settled, the statute limitations for examination expires or when additional information becomes available. The Company’s liability for unrecognized tax benefits requires the use of assumptions and significant judgment to estimate the exposures associated with our various filing positions. Although the Company believes that the judgments and estimates made are reasonable, actual results could differ and resulting adjustments could materially affect our effective income tax rate and income tax provision.

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially such differences will affect the tax provisions in the period in which such determination is made.

There is uncertainty regarding the taxation of cryptocurrency and the CRA may assess the Company differently from the position adopted.

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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. 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
	2020	2019	
DMG-US, Inc. (i)	81%	61%	United States
Datient, Inc.(ii)	81% indirect through DMG-US	61% indirect through DMG-US	United States
DMG Blockchain Services Inc. (iii)	100%	-	United States

(i) The Company has voting control of DMG-US, Inc. based upon ownership of Class A common shares that provide voting rights of 81.48%. DMG-US, Inc. is consolidated from the date control was acquired on February 13, 2018.

(ii) 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.

(iii) DMG Blockchain Services Inc. is a wholly owned subsidiary of the Company and consolidated from the date of incorporation on October 30, 2019.

(b) Presentation and Functional Currency

The functional of DMG parent and DMG-US, Inc. is the Canadian dollar. The functional currency of Datient Inc. and DMG Blockchain Services 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 used in preparation of these consolidated financial statements is the Canadian dollar.

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

DMG Blockchain Solutions Inc.

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operation, the cumulative amount of related exchange difference is recognized in the statement of operations.

(c) Cash and Cash Equivalents

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

(d) Revenue Recognition

The Company has the following 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.

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

(ii) Hashrate sales

Hashrate sales represent contracts under which the Company sells hashing power from its servers to mine digital assets to customers. The customer pays a fee on a daily basis for the Company to maintain the hashing power. The fee is a fixed amount in CAD dollars per terahash and is automatically deducted on a daily basis from the customer proceeds from digital assets mined. Revenue from the initial sales of the hashing power is recorded on a daily basis as earned.

(iii) Sale of mining equipment

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

(iv) 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.

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(e) 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:

Leasehold improvements	4%
Computer hardware	100%
Data centre mining equipment	55%
Data centre other equipment	20%
Furniture	20%
Motor vehicles	30%
Power supply units	10%
Power channels	10%
Data centre containers	10%
Transformers switch gear	8%
Networking switches	4%
Power substation	4%

The assets' residual values, useful lives and methods of depreciation 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 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.

(f) Digital currencies

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

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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.

(g) 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.

(h) 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

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that eventually vest. When vested options are forfeited or are not exercised at the expiry date, the amount previously recognized in stock-based compensation is transferred to deficit.

(i) Financial instruments

Financial instruments are accounted for in accordance with IFRS 9, “Financial Instruments: Classification and Measurement”.

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income (“FVOCI”); or (iii) fair value through profit or loss (“FVTPL”). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed.

All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income. The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Cash is measured at FVTPL.

Impairment of financial assets

IFRS 9 uses the expected credit loss (“ECL”) model. The credit loss model groups receivables based on similar credit risk characteristics and days past due in order to estimate bad debts. The ECL model applies to the Company’s receivables.

An ‘expected credit loss’ impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset’s original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss 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.

Financial liabilities

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Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable and loans payable are classified under other financial liabilities and carried on the statement of financial position at amortized cost.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

(j) 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.

(k) 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.

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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.

(l) Intangible assets

Intangible assets consist of database, in process technology and tradename from Datient 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 which for the database and in process technology is five years and for the tradename is twenty years.

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.

(m) Income taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

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Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(n) Loss per share

Basic 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.

(o) Research and development costs

Research costs, including expenses related to existing and new digital 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.

(p) Right-of-use (“ROU”) asset

A lease is a contract that transfers substantially all the risks and rewards incidental to ownership of an identified asset. The Company initially recognizes a lease at its commencement date which is when an identified asset is made available for use. Right-of-use assets are measured at the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date and any initial direct or estimated restoration costs. A right-of-use asset is then depreciated on a straight-line basis over the shorter of the asset’s useful life or the lease term.

(q) Net investment in sublease

If a sublease is classified as a finance lease, the original lessee derecognises the right-of-use asset on the head lease at the sublease commencement date and continues to account for the original lease liability in accordance with the lessee accounting model. The original lessee, as the sublessor, recognises a net investment in the sublease and evaluates it for impairment at period-end.

(r) Lease liabilities

Lease liabilities include the present value of future fixed payments, less any lease incentives receivable, and the exercise price of a purchase option if it is reasonably certain to be exercised. Future fixed lease payments are discounted using the Company’s incremental borrowing rate if the rate implicit in the lease is not readily determinable. The term of each lease includes its non-cancellable period. The term can also include periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option. After the commencement date, the Company continually measures its lease liabilities to reflect changes in lease payments, discount rates or the leases’ remaining term with an offsetting adjustment to right-of-use assets.

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Each lease payment is comprised of both a financing and principal component. Financing costs are charged to the consolidated statements of loss and comprehensive loss over each lease's term. Lease payments are applied against lease liabilities using the effective interest method.

Short-term leases with an initial lease term of less than 12 months are evaluated by class of the underlying asset whereas lease payments for low-value assets are evaluated on a lease-by-lease basis. Short-term and low-value leases are expensed.

(s) Accounting standards issued but not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any new standards and determined that there are no standards that are expected to have a material impact to the Company.

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*(Expressed in Canadian dollars)***4. PROPERTY AND EQUIPMENT**

COST	Land	Construction in Progress	Power Substation	Data Centre	Computer and mining equipment	Furniture and other equipment	Motor Vehicle	Right of use Assets	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
As at September 30, 2018	413,000	6,657,118	-	2,716,299	1,493,174	15,494	35,631	-	11,330,716
Additions	-	5,837	1,785,533	3,701,658	35,585	8,247	6,999	849,956	6,393,815
Disposals	-	-	-	-	(115,198)	-	(35,631)	-	(150,829)
Reclassification	-	(6,657,118)	1,839,562	4,817,556	-	-	-	-	-
As at September 30, 2019	413,000	5,837	3,625,095	11,235,513	1,413,561	23,741	6,999	849,956	17,573,702
Additions	-	39,303	-	57,003	3,390,633	10,871	-	-	3,497,810
Disposals	-	-	-	(356,977)	(1,527)	-	-	(526,214)	(884,718)
Reclassification to assets held for sale (Note 8)	-	-	-	-	(3,312,689)	-	-	-	(3,312,689)
Reclassification	-	(22,978)	1,913	21,065	-	-	-	-	-
As at September 30, 2020	413,000	22,162	3,627,008	10,956,604	1,489,978	34,612	6,999	323,742	16,874,105
ACCUMULATED DEPRECIATION									
As at September 30, 2018	-	-	-	45,526	877,499	1,815	5,022	-	929,862
Depreciation	-	-	147,041	854,506	270,600	5,089	4,933	228,678	1,510,847
Disposals	-	-	-	-	-	-	(9,778)	-	(9,778)
As at September 30, 2019	-	-	147,041	900,032	1,148,099	6,904	177	228,678	2,430,931
Depreciation	-	-	136,675	884,492	716,514	6,882	1,785	286,966	2,033,314
Disposals	-	-	-	(55,711)	(70)	-	-	(213,222)	(269,003)
Reclassification to assets held for sale (Note 8)	-	-	-	-	(591,452)	-	-	-	(591,452)
As at September 30, 2020	-	-	283,716	1,728,813	1,273,091	13,786	1,962	302,422	3,603,790
NET BOOK VALUE									
As at September 30, 2019	413,000	5,837	3,478,054	10,335,481	265,462	16,837	6,822	621,278	15,142,771
As at September 30, 2020	413,000	22,162	3,343,292	9,227,791	216,887	20,826	5,037	21,320	13,270,315

Construction in progress relates to the Company's construction of the power substation and bitcoin mining data centre in Christina Lake, BC. The construction was completed in early fiscal 2019 and the costs were reclassified from Construction in Progress to Power Substation and Data Center.

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5. DIGITAL CURRENCY

At September 30, 2020 and 2019, 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 currency is as follows:

	September 30, 2020	September 30, 2020	September 30, 2019	September 30, 2019
	Units	\$	Units	\$
Opening balance	139.13	1,523,091	82.01	697,793
Digital currency mined	229.80	2,723,537	152.48	1,975,542
Digital currency received on settlement of amounts receivable and loans receivable	0.62	7,829	125.65	1,403,916
Digital currency sold	(302.23)	(3,613,897)	(221.01)	(2,498,942)
Digital currency revaluation	-	325,445	-	(55,218)
Ending balance in Bitcoins at fair value	67.32	966,005	139.13	1,523,091

6. AMOUNTS RECEIVABLE

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

	September 30, 2020	September 30, 2019
Trade receivables	\$ 616,083	\$ 1,202,968
Sales taxes recoverable	1,101,852	844,914
Provision for doubtful accounts	(372,014)	(412,072)
	\$ 1,345,921	\$ 1,635,810

The following is continuity of the Company’s provision for doubtful accounts:

	September 30, 2020	September 30, 2019
Opening balance	\$ 412,072	\$ 804,839
Provision for doubtful accounts	25,222	412,072
Settled doubtful accounts	(65,280)	(804,839)
	\$ 372,014	\$ 412,072

During the year ended September 30, 2020, the Company recorded a provision for doubtful accounts of \$25,222 for expected credit losses and recovered \$65,280 included in expected credit losses in the prior year. In addition, the Company directly wrote off \$67,931 in accounts receivable to bad debt expense.

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During the year ended September 30, 2019, the Company recorded a provision for doubtful accounts of \$412,072 for expected credit losses. In addition, the Company directly wrote off \$161,047 in accounts receivable to bad debt expense. In fiscal 2019, the Company received proceeds of \$704,820 in settlement of doubtful accounts of \$804,839 that were recorded in the provision for doubtful accounts at September 30, 2018. As a result of the foregoing a net total of \$131,701 was recognized in operations as a recovery of doubtful accounts.

7. INTANGIBLE ASSETS

The continuity of intangible assets is as follows:

COST	Datient Tradename	Technology and Database	Total
	\$	\$	\$
As at September 30, 2018, 2019 and 2020	21,000	788,867	809,867
ACCUMULATED AMORTIZATION			
As at September 30, 2018	700	135,867	136,567
Amortization	1,050	204,063	205,113
As at September 30, 2019	1,750	339,930	341,680
Amortization	1,050	203,800	204,850
As at September 30, 2020	2,800	543,730	546,530
NET BOOK VALUE			
As at September 30, 2019	19,250	448,937	468,187
As at September 30, 2020	18,200	245,138	263,338

8. ASSETS HELD FOR SALE

During September 2020, the Company completed a software development project for which the Company had purchased 1,240 miners during year. Upon completion of the project, management committed to the sale of these assets rather than continuing to use the miners in its operations. As a result of this decision, the carrying value of miners of \$2,721,236 has been classified from property and equipment to assets held for sale in the consolidated statement of financial position as of September 30, 2020. The Company completed the sale of miners subsequent to year-end (Note 22).

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9. TRADE AND OTHER PAYABLES

Trade and other payables are comprised of the following:

	September 30, 2020	September 30, 2019
Trade payables and accrued liabilities	\$ 3,511,718	\$ 3,610,084
Trade payable and accrued liabilities - related parties (Note 13)	543,309	515,001
Sales taxes payable	90,822	263,753
	<u>\$ 4,145,849</u>	<u>\$ 4,388,838</u>

10. LEASE LIABILITY

The Company leases certain assets under lease agreements. The lease liability consists of leases for office space, vehicles and equipment. The leases bear interest of approximately 10% per annum and expiry dates for these leases range from November 2020 to January 2023. The related lease liability was measured at the present value of the remaining lease payments discounted using an incremental borrowing rate of that date of 4.2%.

At September 30, 2020 and 2019, the Company's lease liability is as follows:

Lease liability	September 30, 2020	September 30, 2019
Current portion	\$ 136,317	\$ 291,878
Long-term portion	172,529	334,628
Total lease liability	<u>\$ 308,846</u>	<u>\$ 626,506</u>

At September 30, 2020 and 2019, the Company is committed to minimum lease payments as follows:

Maturity analysis	September 30, 2020	September 30, 2019
Less than one year	\$ 146,130	\$ 312,388
One to five years	177,077	351,367
More than five years	-	-
Total undiscounted lease liabilities	<u>\$ 323,207</u>	<u>\$ 663,755</u>

Amounts recognized in profit or loss	September 30, 2020	September 30, 2019
Interest on lease liabilities	\$ 20,104	\$ 23,184
Income from sub-leasing right-of-use asset	-	-
Expenses related to short-term leases	\$ -	\$ -

Amounts recognized in the statement of cash flows	September 30, 2020	September 30, 2019
Principal payments on lease liabilities	\$ 308,084	\$ 237,907
Total cash outflows for leases	<u>\$ 308,084</u>	<u>\$ 237,907</u>

On September 1, 2020, the Company entered into a sublease agreement related to office space. Upon the recognition of the sublease under IFRS 16, the Company derecognized Right of Use assets of \$281,276

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related to the office space and recognized a gain of \$25,068 on the sublease, which was included in general and administrative office expenses in the statement of loss and comprehensive loss for 2020.

At September 30, 2020 and 2019, the Company's lease receivable related to office leases is as follows:

Lease receivable	September 30, 2020	September 30, 2019
Current portion	\$ 110,769	\$ -
Long-term portion	162,614	-
Total lease receivable	\$ 273,383	\$ -

Maturity analysis	September 30, 2020	September 30, 2019
Less than one year	\$ 119,975	\$ -
One to five years	167,222	-
More than five years	-	-
Total undiscounted lease liabilities	\$ 287,197	\$ -

11. LOANS PAYABLE

- a) 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, totaling 4.20% as at September 30, 2019 (2018 - 4.25%). The Company deposited \$2,700,000 as a collateral for the loan. During the year ended September 30, 2020, the Company paid \$25,787 (2019: \$114,998) in interest on this loan. At September 30, 2020, \$2,700,000 the principal was repaid in full.
- b) At September 30, 2019, the Company owed \$119,450 (2018 – \$1,015,152) 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 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 became payable in equal installments over a period of nine months commencing February 2019. During the year ended September 30, 2020, the Company repaid the loan in full.
- c) On February 13 2019, the Company issued a promissory note in the amount of \$291,881 to Polyphase Capital LLC. The promissory note bears no interest and is unsecured. The repayment of the note is dependent on the receipt of a Goods and Services Tax (GST) refund of the same amount by the Company on behalf of Polyphase Capital LLC from the Canada Revenue Agency.
- d) On March 27, 2020, entered into a loan agreement for \$518,414 (\$362,477 USD) related to the purchase of mining equipment. The loan bears interest at 16.5% per annum. The principal, finance fee and interest are payable in installments over a period of twelve months with the final payment due on April 26, 2021. The loan is secured against the Company's miners.

The loan has been recorded at amortized cost of \$482,499, and the Company recorded \$28,115 in accretion during the year ended September 30, 2020. As at September 30, 2020, the principal balance remaining was \$241,754 (\$181,238 USD). Accrued interest of \$1,020 has been included in accounts payable and accrued liabilities.

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- e) On May 8, 2020, entered into a loan agreement for \$2,131,737 (\$1,531,200 USD) related to the purchase of mining equipment. The loan bears interest at 16% per annum. The principal, finance fee and interest are payable in installments over a period of twelve months with the final payment due on November 8, 2021. The loan is secured against the Company's miners.

The loan has been recorded at amortized cost of \$1,941,928, and the Company recorded \$18,027 in accretion during the year ended September 30, 2020. As at September 30, 2020, the principal balance remaining was \$1,702,056 (\$1,276,000 USD). Accrued interest of \$19,896 has been included in accounts payable and accrued liabilities.

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 year ended September 30, 2020

On May 14, 2020, the Company issued 1,481,500 units in a non-brokered private placement for proceeds of \$100,000. Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable into one common share of the Company at an exercise price of \$0.10 per share until May 14, 2021. These warrants have a relative fair value of \$36,741 determined using the Black Scholes model with the following inputs: i) exercise price: \$0.10; ii) share price: \$0.58; iii) term: 1.00 year; iv) volatility: 144%; v) discount rate: 0.52%.

During the year ended September 30, 2020, the Company issued a total of 2,196,911 common shares upon conversion of a total of 2,196,911 of DMG-US, Inc. Class B common shares pursuant to the vesting terms of the conversion criteria in the 2018 acquisition of Datient. This conversion reduced the non-controlling interest from 32% to 19% such that the Company has a 81% residual interest in Datient as at September 30, 2020.

Share capital activity for the year ended September 30, 2019

During 2019 the Company issued a total of 3,446,521 common shares in four tranches upon conversion of a total of 3,446,521 of DMG-US, Inc. Class B common shares pursuant to the vesting terms of the conversion criteria in the 2018 acquisition of Datient. This conversion reduced the non-controlling interest from 70% to 39% during 2019 such that the Company has a 61% residual interest in Datient as at September 30, 2019.

b) Escrow Shares

As at September 30, 2020, there are 132,108 shares held in escrow. These shares will be released in accordance with the terms of the related escrow agreements with the last release scheduled for February 2021.

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c) Stock options

Stock option activity for the year ended September 30, 2020

On April 30, 2020, the Company announced that it had issued 700,000 incentive stock options to employees of the Company. The options are exercisable at a price of \$0.15 per option expiring on April 30, 2021. These options had a fair value of \$0.03 per option using the Black Scholes model with the following inputs: i) exercise price: \$0.15; ii) share price: \$0.09; iii) term: 1.00 year; iv) volatility: 139%; v) discount rate: 0.29%. The options vest 25% on each of July 30, 2020, October 30, 2020, January 30, 2021 and April 30, 2021. A portion of the vested value of these options was included in stock-based compensation and reserves for the year ended September 30, 2020.

On November 12, 2019, the Company announced that it had issued 1,850,000 incentive stock options to employees of the Company. The options are exercisable at a price of \$0.15 per option expiring on November 12, 2022. These options had a fair value of \$0.08 per option using the Black Scholes model with the following inputs: i) exercise price: \$0.15; ii) share price: \$0.11; iii) term: 3.00 years; iv) volatility: 131%; v) discount rate: 1.62%. The options vest 25% on each of February 12, 2020, May 12, 2020, August 12, 2020 and November 12, 2020. A portion of the vested value of these options was included in stock-based compensation and reserves for the year ended September 30, 2020.

Stock option activity for the year ended September 30, 2019

On October 25, 2018, the Company amended the exercise price of 2,126,666 stock options from \$0.80 to \$0.40. The Company calculated the incremental increase in the fair value of the stock option amendment to be \$60,679 using the Black-Scholes Option Pricing Model with the following inputs: i) exercise price of \$0.40; ii) share price: \$0.28; iii) term: 3.02 years; iv) volatility: 130%; v) discount rate: 2.38%. A portion of the vested value of these options was included in stock-based compensation and reserves for the year ended September 30, 2019.

On October 24, 2018, the Company announced that it had issued 50,000 incentive stock options to employees of the Company. The options are exercisable at a price of \$0.40 per option expiring on November 1, 2021. These options had a fair value of \$0.19 per option using the Black Scholes model with the following inputs: i) exercise price: \$0.40; ii) share price: \$0.28; iii) term: 3.03 years; iv) volatility: 129%; v) discount rate: 2.36%. 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, 2019.

On October 1, 2018, the Company announced that it had issued 190,000 incentive stock options to employees of the Company. The options are exercisable at a price of \$0.40 per option expiring on November 1, 2021. These options had a fair value of \$0.27 per option using the Black Scholes model with the following inputs: i) exercise price: \$0.40; ii) share price: \$0.36; iii) term: 3.09 years; iv) volatility: 128%; v) discount rate: 2.39%. 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, 2019.

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	Options outstanding and exercisable	Weighted average exercise price \$	Weighted average life remaining
Balance, September 30, 2018	10,028,000	0.55	3.36
Issued	240,000	0.40	-
Exercised/Cancelled	(3,489,500)	0.56	-
Balance, September 30, 2019	6,778,500	0.41	2.48
Issued	2,550,000	0.15	-
Exercised/Cancelled	(600,000)	0.48	-
Balance, September 30, 2020	8,728,500	0.33	1.56

The following table discloses the number of options outstanding as at September 30, 2020:

Number of options	Price per share	Expiry Date
	\$	
296,000	0.10	May 1, 2022
3,402,500	0.35	November 9, 2022
1,575,000	0.40	March 8, 2021
350,000	0.80	March 8, 2021
75,000	0.80	June 30, 2021
700,000	0.40	July 25, 2022
30,000	0.40	August 24, 2021
50,000	0.40	December 1, 2021
1,550,000	0.15	November 12, 2022
600,000	0.15	April 30, 2021
100,000	0.15	April 30, 2021
8,728,500		

d) Warrants

Warrant activity for the year ended September 30, 2020

On May 14, 2020, the Company issued 1,481,500 warrants in connection with a private placement financing.

In February of 2020, 2,439,781 warrants with an exercise price of \$0.80 expired unexercised.

In October of 2019, 764,206 warrants with an exercise price of \$0.35 expired unexercised.

Warrant activity for the year ended September 30, 2019

On April 30, 2019, 258,000 warrants with an exercise price of \$0.06 expired unexercised.

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	Warrants outstanding and exercisable	Weighted average exercise price \$	Weighted average life remaining
Balance, September 30, 2018	3,461,987	0.65	1.24
Expired	(258,000)	0.06	-
Balance, September 30, 2019	3,203,987	0.69	0.29
Granted	1,481,500	0.10	
Expired	(3,203,987)	0.69	
Balance, September 30, 2020	1,481,500	0.10	0.62

As at September 30, 2020, 1,481,500 warrants were exercisable at \$0.10 and will expire on May 14, 2021.

e) Non-Controlling Interest

Non-controlling interest represents equity in Datient, Inc. that is not attributable to the Company. During the year, the non-controlling interest has changed from 39% at September 30, 2019 to 19% at September 30, 2020 due to conversion of DMG-US, Inc. Class B common shares into shares of the Company by the former Datient shareholders which resulted in a reduction of the total number of shares of Datient held by its former shareholders (see Note 12 (a)).

A reconciliation of the beginning and ending balance for non-controlling interest is as follows:

	For the years ended September 30,	
	2020	2019
Balance – beginning of the year	\$ (4,489,866)	\$ (672,644)
Reduction in NCI upon conversion of shares of DMG-US, Inc. (Note 12 (a))	2,421,201	(2,757,217)
Share of net loss	(245,407)	(1,060,005)
Balance – end of the year	\$ (2,314,072)	\$ (4,489,866)

As of September 30, 2020, and 2019, non-controlling interest included the following amounts before intercompany eliminations:

	September 30, 2020	September 30, 2019
Current assets	\$ 69	\$ 29,464
Non-current assets	264,008	799,579
Total assets	\$ 264,677	\$ 829,043
Current liabilities	12,341	12,001
Non-current liabilities	3,865,250	3,609,698
Total Liabilities	\$ 3,877,591	\$ 3,621,699
Revenues	\$ -	\$ 95,428
Net Loss	\$ (791,696)	\$ (1,657,493)

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There are no items comprising other comprehensive income or loss during the years ended September 30, 2020 and 2019 that would be attributed to the non-controlling interest.

13. KEY MANAGEMENT COMPENSATION AND RELATED PARTY TRANSACTIONS

- (a) 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 relating to key management and entities over which key management have control or significant influence were as follows:

		For the years ended September 30,	
		2020	2019
Salaries, wages and benefits	\$	1,091,272	\$ 1,239,750
Consulting services		55,328	79,600
Share-based compensation		130,204	188,972
Total key management compensation	\$	1,276,804	\$ 1,508,322

- (b) Related party transactions and balances

As at September 30, 2020, \$543,309 (2019 – \$515,001) was owed to key management for outstanding salaries, wages and benefits, and consulting services, which is included in trade and other payables (Note 9).

At September 30, 2020, the Company had fully repaid (2019 – \$119,450) all principal and accrued interest on a promissory note issued to the director of the Company in February 2018 (see Note 11).

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. During the year ended September 30, 2020, the Company determined that this loan would not be recovered and recorded as a loss on settlement of loans receivable of \$25,000.

During the year ended September 30, 2020, the Company recovered \$247,058 in garnishment included in general and administrative expenses in wages to a former director of the Company related to court proceedings in the year ended September 30, 2019 (Note 21).

During the year ended September 30, 2017, the Company issued a promissory note with a principal of 9.119 bitcoins with a fair value of \$49,179 at September 30, 2017 to a director. The loan receivable was unsecured, non-interest bearing, with no specific terms of repayment. During the year ended September 30, 2019, management determined that the loan was uncollectible, and recorded bad debt expense of \$150,806.

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14. REVENUES

The Company's revenue is comprised of the following:

	For the year ended September 30, 2020	For the year ended September 30, 2019
Mining equipment hosting and set up service	\$ 4,292,704	\$ 5,829,188
Hashrate sales	-	1,329,595
Digital currency mining	2,723,537	1,975,542
Consulting and other revenue	387,259	968,440
	\$ 7,403,500	\$ 10,102,765

The Company had deferred revenue of \$25,790 as at September 30, 2020 relating to prepaid lease deposits on the Company's sublease. Deferred revenue of \$102,553 at September 30, 2019 relates to \$19,420 in prepaid software subscription fees and \$83,133 in the unamortized portion of equipment set-up fees.

15. CONCENTRATION OF CUSTOMERS

During the year ended September 30, 2020, the Company's revenue consisted of three major customers. Sales comprised 17%, 14% and 12% of total revenue generated from all sources to these three customers during the year ended September 30, 2020.

As at September 30, 2020, there were no balances due from these customers included in accounts receivable.

During the year ended September 30, 2019, the Company's revenue consisted of two major customers. Sales comprised 26% and 23% of total revenue generated from all sources to these two customers during the year ended September 30, 2019.

As at September 30, 2019, included in accounts receivable, net of allowance for doubtful accounts, is \$239,229 and \$290,767 due from these customers, comprising 33% and 41% of accounts receivable, respectively.

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16. EXPENSES

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

	September 30, 2020	September 30, 2019
Marketing, investor and public relations	\$ 5,202	\$ 78,782
Consulting	306,987	726,351
General and administrative office expenses	334,715	1,037,921
Investor relations	2,500	30,000
Interest – leases payable	20,104	23,184
Interest – loans payable and other	161,529	152,046
Accretion – loans payable	103,023	-
Professional fees	315,532	726,351
Wages	658,516	1,082,648
Regulatory and filing	-	134,473
	\$ 1,908,108	\$ 3,991,757

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

	September 30, 2020	September 30, 2019
Utilities	\$ 5,535,885	\$ 5,692,777
Contractors and other	125,161	760,535
Wages	476,791	1,018,274
	\$ 6,137,837	\$ 7,471,586

On December 18, 2018, the Company entered into an agreement under which \$2,202,605 was paid as a security deposit for the provision of utilities. As at September 30, 2020, \$1,323,800 of these funds still remain and are included in long term deposits.

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 equity 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.

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18. RESEARCH

	September 30, 2020	September 30, 2019
Salaries	\$ 449,972	\$ 1,528,865
IBM project Wazabi (Note 21 (b))	-	2,981,615
	\$ 449,972	\$ 4,510,480

Research costs incurred comprised of salaries of software developers involved in the research of existing and new crypto currency related tools and services.

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 Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Total
September 30, 2020				
Cash	\$ 1,073,838	\$ -	\$ -	\$ 1,073,838
September 30, 2019				
Cash	\$ 1,133,429	\$ -	\$ -	\$ 1,133,429

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

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

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

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

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

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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.

During the year ended September 30, 2020, the Company decreased its exposure to concentration of credit by increasing the number of customers. 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 September 30, 2020, 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. As at September 30, 2020, the Company has a working capital deficit of \$2,307,706 and requires additional financing to meet short-term operating requirements. The Company's cash is held in corporate bank accounts available on demand.

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.

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

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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 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.

20. INCOME TAX

Income tax expense (recovery) varies from the amount that would be computed from applying the combined Canadian federal and provincial income tax rate to income before taxes as follows:

	2020	2019
Net loss for the year before taxes	\$ (2,827,812)	\$ (7,751,589)
Statutory Canadian corporate tax rate	27%	27.00%
Anticipated tax recovery	\$ (763,509)	\$ (2,092,929)
Non-deductible items and other differences	1,339,955	225,956
Change in income tax rates and foreign tax rates	27,622	(49,804)
Change in unrecognized deferred income tax assets	(604,068)	1,916,777
Deferred income tax recovery	\$ -	\$ -

The significant components of the Company's deferred tax assets are as follows:

	2020	2019
Property and equipment and digital assets	\$ 1,073,316	\$ 531,984
Digital currencies	(87,870)	14,908
Non-capital loss carry-forwards	2,635,575	3,543,485
Share issue costs	269,423	404,135
	3,890,444	4,494,512
Unrecognized deferred tax assets	(3,890,444)	(4,494,512)
Net deferred income tax assets	\$ -	\$ -

At September 30, 2020, the Company has available non-capital tax losses for Canadian income tax purposes of approximately \$5,243,000 available for carry-forward to reduce future years' taxable income, if not utilized, expiring between 2036 and 2040. During the year ended September 30, 2020, Canada Revenue Agency re-assessed the Company's non-capital carry-forward balance at September 30, 2019 from \$9,441,000 to \$4,027,037 due to non-filing of income tax returns, which were accidentally omitted by the Company and not filed on time. The Company is planning on filing these returns in 2021.

At September 30, 2020, the Company has available non-capital tax losses for United States income tax purposes of approximately \$4,094,000 available for indefinite carry-forward to reduce future years' taxable income.

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21. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

During the year ended September 30, 2019, 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. On February 11, 2019, the Company paid a garnishment of \$247,058 related to the lawsuit and has been included in general and administrative expenses in wages. On March 18, 2020, the garnishment amount of \$247,058 was recovered by the Company and included in general and administrative expenses in wages. In the opinion of management, an outcome of the claim and any amounts payable by the Company cannot be reasonably estimated at this time.

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

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.

b) 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 five percent of the outstanding committed spend which amounts to \$350,900. As at September 30, 2020, the Company has incurred cumulative fees of \$2,981,615 since inception of the project. These costs are expensed as research costs. As at September 30, 2020, the Company has \$2,048,315 payable to IBM Canada and included in trade and other payables.

22. SUBSEQUENT EVENTS

a) On November 6, 2020, the Company sold 1,240 miners (Note 8) for US\$3,366,600 with proceeds of this sale to settle repayment obligations of loans (Note 11) first and shipping, customs and taxes on the sale second.

b) On December 18, 2020, the Company closed a brokered private placement for 5,884,735 units for gross proceeds of \$1,000,405. Each unit consists of one common share and one

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warrant. Each warrant is exercisable at \$0.22 until December 18, 2022. In connection with the financing, the Company incurred finders' fees of \$59,115 and issued 347,738 brokers' warrants.

c) During October to December 2020, the Company issued a total of 442,447 common shares upon the conversion of 442,447 shares of DMG-US, Inc. Class B common shares.

d) During December 2020, the Company issued 1,682,500 common shares for the exercise of stock options for proceeds of \$473,875 and cancelled 820,000 stock options.