

DMG Blockchain Solutions Inc.

Condensed Interim Consolidated Financial Statements

For the Nine Months Ended June 30, 2020

(Expressed in Canadian dollars)

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**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED JUNE 30, 2020**

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

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

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

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

	Notes	As at June 30, 2020 (Unaudited)	As at September 30, 2019 (Audited)
		\$	\$
Assets			
Current			
Cash		1,299,456	1,133,429
Amounts receivable	5	1,416,772	1,635,810
Digital currencies	6	1,070,396	1,523,091
Prepaid expenses and other current assets		195,590	450,555
Due from related parties	13	25,000	25,000
Security deposit for loan and garnishment	11	-	2,700,000
Total current assets		4,007,214	7,467,885
Long-term deposits	15	1,323,800	2,202,605
Property and equipment	8	17,206,813	15,142,771
Intangible asset	7	314,550	468,187
Total Assets		22,852,377	25,281,448
Liabilities and Shareholders' Equity			
Current Liabilities:			
Trade and other payables	9	4,614,326	4,388,838
Deferred revenue	14	-	102,553
Current portion of lease liability	10	167,360	291,878
Current portion of loans payable	11	2,749,088	520,027
Total current liabilities		7,530,774	5,303,296
Loans payable	11	-	2,591,304
Long-term lease liability	10	204,852	334,628
Total Liabilities		7,735,626	8,229,228
Shareholders' Equity:			
Share capital	12	42,455,424	41,467,246
Reserves	12	6,346,480	6,014,301
Accumulated other comprehensive income		184,268	3,451
Accumulated deficit		(28,221,572)	(25,942,912)
Equity attributable to shareholders of parent		20,764,600	21,542,086
Non-controlling interest	12	(5,647,849)	(4,489,866)
Total equity		15,116,751	17,052,220
Total Liabilities and Shareholders' Equity		22,852,377	25,281,448

Approved on Behalf of the Board of Directors as at August 25, 2020:

/s/ Dan Reitzik

Director

/s/ Sheldon Bennett

Director

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

DMG Blockchain Solutions Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

(Unaudited)

	Notes	For the Three Months Ended		For the Nine Months Ended	
		June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
		\$	\$	\$	\$
Revenue	14	1,363,233	3,339,251	5,312,352	7,412,340
Expenses					
Operating and maintenance costs	15	1,103,930	2,112,291	4,347,921	5,318,515
General and administrative	15	512,393	1,173,237	1,796,971	3,230,722
Stock-based compensation	13	66,451	386,656	286,092	644,323
Research	17	23,046	2,683,358	425,586	3,783,450
Provision for doubtful accounts	5	(41,227)	(247,518)	65,544	(247,518)
Depreciation	8	542,837	506,347	1,291,296	1,263,860
Amortization of intangible assets	7	51,213	51,213	153,638	153,638
Total expenses		2,258,593	6,665,584	8,366,088	14,146,990
Loss before other items		(895,360)	(3,326,333)	(3,053,736)	(6,734,650)
Other income (expense)					
Miscellaneous revenue		39,726	83,401	306,845	89,677
Foreign exchange gain (loss)		(125,121)	13,767	222,304	217,575
Unrealized revaluation gain (loss) on loans		-	(86,956)	783	(130,848)
Unrealized revaluation gain (loss) on digital currency	7	125,790	960,550	-	608,508
Realized revaluation loss on digital currency		184,388	-	42,629	-
Impairment of related party receivable		-	(150,806)	-	(150,806)
Gain (loss) on disposal of assets		(21,203)	8,842	(21,203)	8,842
Net loss		(691,780)	(2,496,535)	(2,502,378)	(6,091,702)
Other comprehensive income					
Foreign exchange gain (loss) on translation of foreign subsidiary		159,709	(56,170)	(110,860)	(4,186)
Comprehensive loss		(532,071)	(2,552,705)	(2,613,238)	(6,095,888)
Net Loss Attributable To:					
Shareholders		(686,822)	(2,329,090)	(2,278,660)	(5,106,121)
Non-controlling interest	12	(4,959)	(167,445)	(223,718)	(985,581)
Basic and diluted loss per common share		(0.01)	(0.03)	(0.03)	(0.05)
Weighted average number of common shares outstanding		98,159,992	93,448,982	97,355,468	93,374,804

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

DMG Blockchain Solutions Inc.

Statements of Consolidated Changes in Shareholders' Equity (Deficit)

(Expressed in Canadian dollars except the number of shares)

(Unaudited)

	Class A common shares	Share Capital	AOCI	Share- based payment reserve	Accumulated deficit	Non-Controlling Interest	Total
		\$	\$	\$	\$	\$	\$
Balance September 30, 2018	93,219,482	38,710,029	14,762	5,229,101	(19,251,329)	(672,644)	24,030,518
Conversion of DMG US Class B common shares	229,499	-	-	-	-	-	-
Stock-based compensation	-	-	-	257,667	-	-	257,667
Less: IFRS 16 changes in opening equity	-	-	-	-	(14,881)	-	(14,881)
Net loss and comprehensive loss for the period	-	-	(14,325)	-	(2,777,029)	(818,136)	(3,609,491)
Balance June 30, 2019	93,448,981	38,710,029	437	5,486,768	(22,043,239)	(1,490,781)	20,663,814
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	53,913	-	46,087	-	-	100,000
Conversion of DMG US Class B common shares	1,167,968	934,265	-	-	-	(934,265)	-
Stock-based compensation	-	-	-	286,092	-	-	286,092
Unrealized gain on intangible assets	-	-	291,677	-	-	-	291,677
Net loss and comprehensive loss for the period	-	-	(110,860)	-	(2,278,660)	(223,718)	(2,613,238)
Balance June 30, 2020	99,315,471	42,455,424	184,268	6,346,480	(28,221,572)	(5,647,849)	15,116,751

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

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

	For the nine months ended	
	June 30, 2020	June 30, 2019
	\$	\$
OPERATING ACTIVITIES		
Net loss for the period	(2,502,378)	(6,091,702)
Items not affecting cash:		
Adjustment to opening retained earnings	-	-
Accretion	50,800	-
Amortization of intangibles	153,638	153,638
Depreciation	1,291,296	1,263,860
Stock based compensation	286,092	644,323
Unrealized loss on revaluation of digital currencies	-	(608,508)
Bad debt expense (recovery)	65,544	(247,581)
Bitcoin mining revenue	(1,642,042)	-
Interest	-	16,095
Loss (gain) on disposal of assets	21,203	(8,842)
Unrealized foreign exchange loss on loans payable	-	-
Loss on impairment of related party receivable	-	130,848
Non-cash working capital items:		
Amounts receivable	80,226	(44,394)
Prepaid expenses	1,207,037	(2,126,013)
Digital currencies	2,094,737	624,359
Deferred revenue	(102,553)	(658,413)
Trade and other payables	(12,747)	1,360,608
Net cash provided by (used in) operating activities	990,854	(6,283,221)
INVESTING ACTIVITIES		
Advance payment made for equipment	-	(2,128)
Purchase of property and equipment	(758,108)	(3,790,484)
Proceeds on disposal of equipment	-	34,692
Principal lease payments	(238,687)	(157,576)
Net cash used in investing activities	(996,795)	(3,915,496)
FINANCING ACTIVITIES		
Proceeds from issuance of shares	100,000	-
Acquisition of Datient Net Assets	-	-
Due from related parties	-	19,958
Repayment of loans payable	(2,821,738)	(424,789)
Proceeds from security deposit	2,700,000	-
Net cash used in financing activities	(21,738)	(404,831)
Decrease in cash	(27,679)	(10,603,548)
Effect of exchange rate changes on cash	193,706	-
Cash, beginning	1,133,429	12,004,180
Cash, end	1,299,456	1,400,632

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

DMG Blockchain Solutions Inc.

Notes to the Consolidated Financial Statements

For the Nine Months Ended June 30, 2020

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS

DMG Blockchain Solutions Inc. (the "Company") was incorporated under the provisions of the *British Columbia Business Corporations Act* on April 18, 2011. The Company's head office and principal place of business is Suite 490 – 1090 Homer Street, Vancouver, British Columbia, Canada, V6B 2W9. In February 2018, a Reverse Take Over transaction was completed (see Note 4) 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 June 30, 2020, the Company has a history of losses, negative cash flows from operations and an accumulated deficit of \$28,221,572. 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.

Covid-19

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

2. BASIS OF PRESENTATION

a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting of the International Financial Reporting Standards" ("IFRS") as issued by the International Accounting Standards Board ("IASB") and follow the same accounting policies and methods of application as the Company's September 30, 2019 annual audited financial statements. Accordingly, they should be read in conjunction with the Company's most recent annual statements.

DMG Blockchain Solutions Inc.
Notes to the Consolidated Financial Statements
For the Nine Months Ended June 30, 2020
(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (Continued)

b) *Significant accounting judgments and estimates*

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
	June 30, 2020	September 30, 2019	
DMG-US, Inc. ⁽ⁱ⁾	72%	61%	United States
Datient, Inc. ⁽ⁱⁱ⁾	72% 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 72.1%. 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⁾ On October 30, 2019, the Company incorporated a wholly owned subsidiary in the state of Texas in the United States under the name DMG Blockchain Services Inc.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Company are set out in Note 4 to the audited consolidated financial statements for the year ended September 30, 2019 and have been consistently followed in the preparation of these consolidated condensed interim financial statements.

4. USE OF JUDGMENTS AND ESTIMATES

In preparing these condensed consolidated interim financial statements, management has made judgments, estimates and assumptions that affect the applicable of the Company's accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised. In preparing these condensed consolidated interim financial statements, the significant estimates and critical judgments were the same as those applied to the financial statements as at and for the year ended September 30, 2019.

DMG Blockchain Solutions Inc.
Notes to the Consolidated Financial Statements
For the Nine Months Ended June 30, 2020
(Expressed in Canadian dollars)

5. AMOUNTS RECEIVABLE

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

	June 30, 2020	September 30, 2019
Trade receivables	\$ 827,498	\$ 1,202,968
Sales taxes recoverable	1,066,889	844,914
Provision for doubtful accounts	(477,616)	(412,072)
	<u>\$ 1,416,772</u>	<u>\$ 1,635,810</u>

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

	June 30, 2020	September 30, 2019
Opening balance	\$ 412,072	\$ 804,839
Provision for doubtful accounts	65,544	412,072
Settled doubtful accounts	-	(804,839)
	<u>\$ 477,616</u>	<u>\$ 412,072</u>

During the nine months ended June 30, 2020, the Company recorded a provision for doubtful accounts of \$65,544 for expected credit losses.

5. DIGITAL CURRENCY

At June 30, 2020 and September 30, 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 currencies is as follows:

	June 30, 2020	June 30, 2020	September 30, 2019	September 30, 2019
	Units	\$	Units	\$
Opening balance	139.13	1,523,091	82.01	697,793
Digital currency mined	148.81	1,642,043	152.48	1,975,542
Digital currency received on settlement of amounts receivable and loans receivable	0.62	7,828	125.65	1,403,916
Digital currency sold	(202.23)	(2,394,724)	(221.01)	(2,498,942)
Digital currency revaluation	-	292,158	-	(55,218)
Ending balance in Bitcoins at fair value	<u>86.33</u>	<u>1,070,396</u>	<u>139.13</u>	<u>1,523,091</u>

DMG Blockchain Solutions Inc.

Notes to the Consolidated Financial Statements

For the Nine Months Ended June 30, 2020

(Expressed in Canadian dollars)

6. INTANGIBLE ASSETS

The continuity of intangible assets is as follows:

COST	Datient Tradename	Technology and Database	Total
	\$	\$	\$
As at September 30, 2018, 2019, and June 30, 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	788	152,850	153,638
As at June 30, 2020	2,538	492,780	495,317
NET BOOK VALUE			
As at September 30, 2019	19,250	448,937	468,187
As at June 30, 2020	18,463	296,088	314,550

DMG Blockchain Solutions Inc.

Notes to the Consolidated Financial Statements

For the Nine Months Ended June 30, 2020

(Expressed in Canadian dollars)

7. 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	-	32,856	-	67,989	3,344,993	-	-	4,552	3,444,410
Disposals	-	-	-	(75,061)	-	-	-	(29,408)	(98,489)
Reclassification	-	(22,978)	1,913	21,065	-	-	-	-	-
As at June 30, 2020	413,000	15,715	3,627,008	11,249,506	4,758,554	23,741	6,999	825,100	20,919,623
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	-	-	103,015	658,535	292,079	2,364	1,391	233,912	1,291,296
Disposals	-	-	-	(13,858)	-	-	-	-	(13,858)
As at June 30, 2020	-	-	250,056	1,544,709	1,440,178	9,268	1,568	462,590	3,780,369
Effect of foreign exchange	-	-	-	-	-	-	-	(4,441)	(4,441)
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 June 30, 2020	413,000	15,715	3,376,952	9,704,797	3,318,376	14,473	5,431	358,069	17,206,813

Construction in progress relates to the Company's construction of a Bitcoin mining centre in Western Canada. These were reclassified to the data centre and power substation during the nine months ended June 30, 2020 and amortization was applied accordingly.

DMG Blockchain Solutions Inc.
Notes to the Consolidated Financial Statements
For the Nine Months Ended June 30, 2020
(Expressed in Canadian dollars)

8. TRADE AND OTHER PAYABLES

Trade and other payables are comprised of the following:

	June 30, 2020	September 30, 2019
Trade payables and accrued liabilities	\$ 3,475,922	\$ 3,610,084
Trade payable and accrued liabilities - related parties (Note 13)	859,127	515,001
Sales taxes payable	279,277	263,753
	\$ 4,614,326	\$ 4,388,838

9. LEASE LIABILITY

The Company leases certain assets under lease agreements. The lease liability consists of leases for office space and vehicles. The leases are calculated using an incremental borrowing rate of 4.2% per annum.

At June 30, 2020, the Company's lease liability related to office leases is as follows:

Lease liability	June 30, 2020	September 30, 2019
Current portion	\$ 167,360	\$ 291,878
Long-term portion	204,852	334,628
Total lease liability	\$ 372,212	\$ 626,506

At June 30, 2020, the Company is committed to minimum lease payments as follows:

Maturity analysis	June 30, 2020	September 30, 2019
Less than one year	\$ 178,062	\$ 312,388
One to five years	211,323	351,367
More than five years	-	-
Total undiscounted lease liabilities	\$ 389,385	\$ 663,755

Amounts recognized in profit or loss	June 30, 2020	June 30, 2019
Interest on lease liabilities	\$ 16,582	\$ 16,095
Income from sub-leasing right-of-use asset	-	-
Expenses related to short-term leases	\$ -	\$ -

Amounts recognized in the statement of cash flows	June 30, 2020	June 30, 2019
Principal payments on lease liabilities	\$ 241,872	\$ 157,576
Total cash outflows for leases	\$ 241,872	\$ 157,576

10. 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. The Company deposited \$2,700,000 as a collateral for the loan. During the year ended September 30, 2019, the Company paid \$114,998 in interest on this loan. As at June 30, 2020, the Company had repaid the loan in full.

At September 30, 2019, the Company owed \$119,450 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. 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. As at June 30, 2020 the principal and accrued interest were repaid in full.

DMG Blockchain Solutions Inc.

Notes to the Consolidated Financial Statements

For the Nine Months Ended June 30, 2020

(Expressed in Canadian dollars)

11. LOANS PAYABLE (Continued)

- 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 \$494 in accretion. As at June 30, 2020, the principal balance remaining was \$370,488 (\$370,488 USD). Accrued interest of \$1,005 has been included in accounts payable and accrued liabilities.

- 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. As at June 30, 2020, the principal balance remaining was \$2,086,719 (\$1,531,200 USD). Accrued interest of \$48,480 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 nine months ended June 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 \$46,087 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 nine months ended June 30, 2020, the Company issued a total of 1,167,968 common shares upon conversion of a total of 1,167,968 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 28% such that the Company has a 72% residual interest in Datient as at June 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.

DMG Blockchain Solutions Inc.
Notes to the Consolidated Financial Statements
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12. SHARE CAPITAL AND RESERVES (Continued)

b) Stock options

Stock option activity for the nine months ended June 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 \$0.37 per option using the Black Scholes model with the following inputs: i) exercise price: \$0.15; ii) share price: \$0.48; 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 nine months ended June 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 \$0.15 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 nine months ended June 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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12. SHARE CAPITAL AND RESERVES (Continued)

	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	(450,000)	0.38	
Balance, June 30, 2020	8,878,500	0.33	1.82

The following table discloses the number of options outstanding as at June 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
1,300,000	0.40	March 8, 2021
600,000	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
1,725,000	0.15	November 12, 2022
700,000	0.15	April 30, 2021
8,878,500		

c) Warrants

Warrant activity for the nine months ended June 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.

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12. SHARE CAPITAL AND RESERVES (Continued)*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.

	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
Issued	1,481,500	0.10	
Expired	(3,203,987)	0.69	
Balance, June 30, 2020	1,481,500	0.10	0.87

d) 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 61% at September 30, 2019 to 72% at June 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:

Balance, September 30, 2018	\$	(672,644)
Reduction in NCI upon conversion of shares of DMG-US, Inc. (Note 12 (a))		(2,757,217)
Share of net loss		(1,060,005)
Balance, September 30, 2019	\$	(4,489,866)
Reduction in NCI upon conversion of shares of DMG-US, Inc. (Note 12 (a))		(934,265)
Share of net loss		(223,718)
Balance, June 30, 2020	\$	(5,647,849)

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

		June 30, 2020		September 30, 2019
Current assets	\$	12,602	\$	29,464
Non-current assets		24,192		126,279
Total assets	\$	36,794	\$	155,743
Current liabilities		36,561		12,001
Non-current liabilities		3,920,513		3,609,698
Total Liabilities	\$	3,957,074	\$	3,621,699
Revenues	\$	125,948	\$	95,428
Net Loss	\$	(346,077)	\$	(1,657,493)

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

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13. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Key management compensation and other related party transactions

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

	For the nine months ended June 30,	
	2020	2019
Salaries, wages and benefits	\$ 1,003,194	\$ 927,688
Consulting services	32,000	59,000
Share-based compensation	100,371	101,927
Total	\$ 1,135,565	\$ 1,088,615

(b) Related party balances

- As at June 30, 2020, \$859,127 (2019 – \$135,480) was owed to key management for outstanding salaries, wages and benefits, and consulting services.
- As at June 30, 2020, the Company fully repaid the 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 11) (2019 – \$1,015,152).
- During the year ended September 30, 2017, the Company entered into an asset purchase agreement with three individuals, one of which was a director. 4,600,000 Class A common shares with a deemed price of \$0.0658 per common share were paid to the Director in connection to the purchase. During the year ended September 30, 2017, the Company issued the same director a promissory note and loaned \$25,000 to the director. The loan receivable was unsecured, non-interest bearing, with no specific terms of repayment. As at June 30, 2020, the loan was outstanding.

14. REVENUES

The Company's revenue is comprised of the following:

	For the three months ended		For the nine months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Digital currency mining	\$ 484,615	\$ 659,689	\$ 1,642,042	\$ 669,826
Mining equipment hosting and set up service	730,928	1,998,843	3,324,516	5,850,201
Forensics income	103,693	347,024	245,300	407,757
Consulting income	43,997	333,695	100,493	483,556
	\$ 1,363,233	\$ 3,339,251	\$ 5,312,352	\$ 7,412,340

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15. EXPENSES

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

General and administrative	For the Three Months Ended		For the Nine Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Consulting	\$ 79,935	\$ 217,101	\$ 255,895	\$ 541,051
General and administrative office expenses	248,698	537,590	329,789	1,225,024
Marketing and public relations	2,458	15,982	5,202	72,776
Investor relations	-	7,500	2,500	22,500
Professional fees	57,534	226,887	290,812	566,975
Regulatory and filing	5,650	46,136	-	113,366
Wages	118,116	122,041	912,772	689,030
	\$ 512,392	\$ 1,173,237	\$ 1,796,971	\$ 3,230,722

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

	For the Three Months Ended		For the Nine Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Utilities	\$ 1,010,490	\$ 1,859,034	\$ 3,827,871	\$ 4,060,131
Contractors and other	11,348	107,205	121,108	465,293
Wages	82,092	146,052	398,313	792,981
Total	\$ 1,103,930	\$ 2,112,291	\$ 4,347,291	\$ 5,318,405

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 June 30, 2020, \$1,215,513 of these funds still remain and are included in long term deposits.

16. CAPITAL DISCLOSURES

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

17. RESEARCH

Research costs incurred comprised of salaries of software developers involved in the research of existing and new crypto currency related tools and services for which no proved future benefit can be demonstrated yet.

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18. FINANCIAL INSTRUMENTS

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

		Quoted prices in active markets for identical instruments	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Total
June 30, 2020					
Cash	(i)	\$ 1,299,456	-	\$ -	\$ 1,299,456
September 30, 2019	(i)				
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).

b) Management of Industry and Financial Risk

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

Credit Risk

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

The Company is exposed to a significant concentration of credit risk with respect to its trade accounts receivable balance because of its dependence on three major customers. 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 June 30, 2020, no amounts were held as collateral.

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18. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk

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

Market Risk

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

Interest Rate Risk

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

Foreign Currency Risk

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

Price Risk

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

19. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

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.

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19. COMMITMENTS AND CONTINGENCIES (continued)

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 \$500,000. As at June 30, 2020, the Company has incurred fees of \$2,981,615 related to the agreement included in research costs.

20. SUBSEQUENT EVENT

- a) On August 17, 2020, the Company issued a total of 386,987 common shares upon the conversion of 386,987 shares of DMG-US, Inc. Class B common shares.