

## **DMG BLOCKCHAIN SOLUTIONS INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2018**

(All amounts expressed in Canadian dollars, unless otherwise stated)

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This management's discussion and analysis ("MD&A") of the operating results and financial position of DMG Blockchain Solutions Inc. (the "Company" or "DMG") is for the year ended September 30, 2018. The MD&A provides a detailed account and analysis of the Company's financial and operating performance for the year. This MD&A should be read in conjunction with the Company's Filing Statement dated May 13, 2019 which contains the audited financial statements for the Company's September 30, 2018 year end and other corporate filings available at [www.sedar.com](http://www.sedar.com) ("SEDAR"). Management is responsible for the financial statements referred to in this MD&A and provides officers disclosure certifications filed on SEDAR. The Audit Committee reviews the financial statements and MD&A and recommends approval to the Company's Board of Directors.

This MD&A contains certain statements that may constitute "forward-looking statements." Statements about the Company's plans and intentions, other potential transactions, further development of technologies, acquisition of customers, product development, events, courses of action, and the potential of the Company's technology and operations, among others, are all forward-looking information. Forward-looking statements consist of statements that are not purely historical, including any statements regarding beliefs, plans, expectations or intentions regarding the future. Such information can generally be identified by the use of forwarding looking wording such as "may", "expect", "estimate", "anticipate", "intend", "believe" and "continue" or the negative thereof or similar variations. The reader is cautioned that assumptions used in the preparation of any forward-looking information may prove to be incorrect. Events or circumstances may cause actual results to differ materially from those predicted, as a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the Company, including but not limited to, business, economic and capital market conditions; the ability to manage operating expenses, which may adversely affect the Company's financial condition; the ability to remain competitive as other better financed competitors develop and release competitive products; regulatory uncertainties; access to equipment; market conditions and the demand and pricing for products; the demand and pricing of bitcoins; security threats, including a loss/theft of DMG's bitcoins; DMG's relationships with its customers, distributors and business partners; the inability to add more power to DMG's facilities; DMG's ability to successfully define, design and release new products in a timely manner that meet customers' needs; the ability to attract, retain and motivate qualified personnel; competition in the industry; the impact of technology changes on the products and industry; failure to develop new and innovative products; the ability to successfully maintain and enforce our intellectual property rights and defend third-party claims of infringement of their intellectual property rights; the impact of intellectual property litigation that could materially and adversely affect the business; the ability to manage working capital; and the dependence on key personnel. DMG may not actually achieve its plans, projections, or expectations. Such statements and information are based on numerous assumptions regarding present and future business strategies and the environment in which the Company will operate in the future, including the demand for its products, the ability to successfully develop software, that there will be no regulation or law that will prevent the Company from operating its business, anticipated costs, the ability to achieve goals and the price of bitcoin. Given these risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements. Factors that could cause the actual results to differ materially from those in forward-looking statements include, failure to obtain regulatory approval, the continued availability of capital and financing, equipment failures, lack of supply of equipment, power and infrastructure, failure to obtain any permits required to operate the business, the impact of technology changes on the industry, competition, security threats including stolen bitcoins from DMG or its customers, consumer sentiment towards DMG's products, services and blockchain technology generally, failure to develop new and innovative products, litigation, increase in operating costs, increase in equipment and labor costs, failure of counterparties to

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perform their contractual obligations, government regulations, loss of key employees and consultants, and general economic, market or business conditions. Forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The reader is cautioned not to place undue reliance on any forward-looking information. The forward-looking statements contained in this MD&A are made as of the date hereof. Except as required by law, the Company disclaims any intention and assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Additionally, the Company undertakes no obligation to comment on the expectations of, or statements made by, third parties in respect of the matters discussed above.

Additional information relating to the Company can be located on SEDAR at [www.sedar.com](http://www.sedar.com)

This MD&A is current as at May 13, 2019.

**DESCRIPTION OF THE BUSINESS**

DMG Blockchain Solutions Inc. (the "Company") (formerly AIM Explorations Ltd.) was incorporated as a private company pursuant to the provisions of the British Columbia Business Corporations Act on April 18, 2011.

The Company's head office and principal place of business is Suite 490 – 1090 Homer Street, Vancouver, British Columbia, Canada, V6B 2W9.

On February 9, 2018, the Company completed its Qualifying Transaction with the private operating company formerly known as DMG Blockchain Solutions Inc. in accordance with the policies of the TSX-V. On February 13, 2018, the Company commenced trading under the name DMG Blockchain Solutions Inc. and trades under the symbol DMGI. On February 1, 2019, the Company was issued a cease trade order for failure to meet its continuous disclosure obligations; management is working towards reversing this order as of the approval date of this document.

The Company is a full service blockchain 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 ("Transaction Verification Services"), 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 developing enterprise blockchains, crypto-forensics and big data analytics as well as in research and development of technology solutions related to transaction verification services business.

**QUALIFYING TRANSACTION**

On February 8, 2018, the Company, previously known as Aim Explorations Ltd., closed its qualifying transaction ("Transaction") with a B.C. private company previously known as DMG Blockchain Solutions Inc. ("OpCo"). As part of the transaction, OpCo performed a three-cornered amalgamation with its wholly-

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owned subsidiary 1139957 B.C. Ltd. ("AmalCo") to become the amalgamated entity 1152176 B.C. Ltd. Aim Explorations Ltd. was legally renamed DMG Blockchain Solutions Inc. and the new amalgamated entity became a legal subsidiary of DMG Blockchain Solutions Inc. (formerly Aim Explorations Ltd.). All the issued and outstanding shares warrants and options of AmalCo were exchanged for shares of DMG Blockchain Solutions Inc. on a one to one basis. AmalCo continues to be an operating entity of the group of companies and transacts business under the name of DMG Blockchain Solutions Inc.

**BUSINESS OUTLOOK**

The Company is a diversified blockchain and cryptocurrency company that manages, operates, and develops end-to-end digital solutions to monetize the blockchain ecosystem. DMG's Mining as a Service ("MaaS") model, allows DMG to host 3rd party servers as well as mines its own bitcoins. DMG also develops enterprise blockchain platforms for supply chain management, and has developed forensic software used by various groups including law enforcement agencies. The Company operates its Transaction Verification Services business, commonly known as bitcoin mining, in Western Canada since October 2016.

After completion of the Qualifying Transaction, DMG has continued the development of its current operations and also entered into server hosting arrangements for the Transaction Verification Services business. The Company is also building a blockchain platform to manage supply chains for regulated products. The Company provides these industries with end-to-end, frictionless trust verifications such as identity management, provenance, automated contract execution and rules compliance, all built on the blockchain technology platform.

DMG continues to put in place the infrastructure necessary to realize its growth plans for 2018 and 2019. At its flagship mining site, DMG will have in place the infrastructure to support up to 60 megawatts of electrical capacity by calendar year-end. This capacity will be built out at a rate that is dependent on customer demand.

**Bitcoin Market Trends**

The bitcoin market showed downward trends in the fourth quarter ended September 30, 2018, including average bitcoin pricing, transaction volume, transaction fees and network velocity. The following table summarizes key bitcoin network statistics:

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Figure 1 – Bitcoin Network Statistics

|             | Average BTC CAD<br>(CoinDesk BPI) | Market Cap<br>(CAD) | Hash Rate<br>(PH/s) | New<br>BTCs | Transaction<br>Fees (BTC) | BTCs per<br>PH/s | Transaction<br>Volume | Cost per Tx<br>(CAD) | BTCs per<br>Transaction | Block size<br>(MB) | Total Payment<br>Volume (CAD) | Annualized<br>Velocity |
|-------------|-----------------------------------|---------------------|---------------------|-------------|---------------------------|------------------|-----------------------|----------------------|-------------------------|--------------------|-------------------------------|------------------------|
| 31-Mar 1Q13 | \$33.82                           | \$0.4B              | 0.0                 | 360,675     | 4,438                     | 11,618,904       | 4,715,365             | \$0.03               | 4.7                     | 0.15               | \$0.8B                        | 8.2                    |
| 30-Jun 2Q13 | \$125.57                          | \$1.4B              | 0.1                 | 379,300     | 4,440                     | 3,843,257        | 4,865,769             | \$0.12               | 4.1                     | 0.16               | \$2.5B                        | 7.2                    |
| 30-Sep 3Q13 | \$107.17                          | \$1.2B              | 0.5                 | 420,500     | 3,621                     | 773,208          | 4,511,875             | \$0.09               | 3.7                     | 0.12               | \$1.8B                        | 5.8                    |
| 31-Dec 4Q13 | \$526.90                          | \$6.4B              | 5.2                 | 425,150     | 2,777                     | 82,500           | 5,545,719             | \$0.21               | 3.6                     | 0.17               | \$10.5B                       | 6.6                    |
| 31-Mar 1Q14 | \$779.26                          | \$9.6B              | 25                  | 387,025     | 1,254                     | 15,638           | 5,759,179             | \$0.17               | 2.0                     | 0.21               | \$9.2B                        | 3.8                    |
| 30-Jun 2Q14 | \$553.51                          | \$7.1B              | 77                  | 380,075     | 1,098                     | 4,943            | 5,700,152             | \$0.11               | 1.6                     | 0.22               | \$5.1B                        | 2.9                    |
| 30-Sep 3Q14 | \$596.12                          | \$7.8B              | 179                 | 365,100     | 1,098                     | 2,049            | 6,187,940             | \$0.10               | 1.4                     | 0.25               | \$5.2B                        | 2.7                    |
| 31-Dec 4Q14 | \$412.51                          | \$5.6B              | 280                 | 339,575     | 1,187                     | 1,219            | 7,610,562             | \$0.06               | 2.0                     | 0.33               | \$6.3B                        | 4.6                    |
| 31-Mar 1Q15 | \$317.51                          | \$4.4B              | 327                 | 332,550     | 1,284                     | 1,022            | 8,580,950             | \$0.05               | 2.1                     | 0.38               | \$5.6B                        | 5.1                    |
| 30-Jun 2Q15 | \$295.54                          | \$4.2B              | 347                 | 327,425     | 1,624                     | 949              | 9,910,771             | \$0.05               | 1.8                     | 0.42               | \$5.2B                        | 4.9                    |
| 30-Sep 3Q15 | \$339.53                          | \$4.9B              | 397                 | 341,250     | 2,563                     | 866              | 12,036,768            | \$0.07               | 1.9                     | 0.54               | \$7.9B                        | 6.4                    |
| 31-Dec 4Q15 | \$479.05                          | \$7.1B              | 547                 | 356,800     | 2,726                     | 657              | 15,132,915            | \$0.09               | 2.3                     | 0.58               | \$16.9B                       | 9.5                    |
| 31-Mar 1Q16 | \$531.94                          | \$8.1B              | 1,062               | 349,975     | 3,812                     | 333              | 18,345,153            | \$0.11               | 1.5                     | 0.71               | \$14.6B                       | 7.2                    |
| 30-Jun 2Q16 | \$662.20                          | \$10.3B             | 1,395               | 339,475     | 5,020                     | 247              | 20,112,597            | \$0.17               | 1.5                     | 0.78               | \$19.6B                       | 7.6                    |
| 30-Sep 3Q16 | \$806.74                          | \$12.8B             | 1,594               | 185,488     | 5,768                     | 120              | 20,205,364            | \$0.23               | 1.1                     | 0.78               | \$18.1B                       | 5.7                    |
| 31-Dec 4Q16 | \$980.55                          | \$15.7B             | 2,034               | 171,863     | 7,967                     | 88               | 24,077,323            | \$0.33               | 1.0                     | 0.86               | \$24.1B                       | 6.2                    |
| 31-Mar 1Q17 | \$1,375.34                        | \$22.2B             | 3,152               | 172,488     | 15,130                    | 59.5             | 25,811,120            | \$0.83               | 0.9                     | 0.93               | \$32.9B                       | 5.9                    |
| 30-Jun 2Q17 | \$2,552.76                        | \$41.7B             | 4,397               | 172,013     | 30,579                    | 46.1             | 26,489,313            | \$3.21               | 1.0                     | 0.97               | \$69.4B                       | 6.7                    |
| 30-Sep 3Q17 | \$4,307.17                        | \$71.1B             | 6,764               | 176,838     | 19,993                    | 29.1             | 22,294,691            | \$4.01               | 1.0                     | 0.88               | \$98.2B                       | 5.5                    |
| 30-Dec 4Q17 | \$12,021.79                       | \$200.9B            | 10,888              | 177,763     | 34,453                    | 19.5             | 29,355,802            | \$17.29              | 0.8                     | 1.02               | \$279.3B                      | 5.6                    |
| 30-Mar 1Q18 | \$13,537.77                       | \$228.2B            | 21,576              | 175,988     | 18,561                    | 9.0              | 19,924,489            | \$15.35              | 0.8                     | 0.96               | \$215.9B                      | 3.8                    |
| 29-Jun 2Q18 | \$10,171.25                       | \$173.3B            | 32,374              | 174,088     | 3,045                     | 5.5              | 17,644,812            | \$1.77               | 0.6                     | 0.76               | \$109.7B                      | 2.5                    |
| 29-Sep 3Q18 | \$8,800.41                        | \$151.5B            | 46,571              | 173,363     | 1,982                     | 3.8              | 19,995,024            | \$0.88               | 0.5                     | 0.82               | \$84.5B                       | 2.2                    |

Source: Blockchain.info, CoinDesk

Figure 1 is based on calendar year quarters and is not aligned to the Company's quarter. The Company holds no liability for any inaccurate data.

## QUARTERLY HIGHLIGHTS

- On December 4, 2017, the Company announced that Element Fleet Management Corp. ("Element") (TSX:EFN) had committed to making a strategic investment in DMG for an ownership stake of 9,211,650 common shares or approximately 9.9% of the DMG on an undiluted basis.
- On February 8, 2018, the Company issued 35,076,000 subscription receipts at \$0.80 per subscription receipt for gross proceeds of \$28,060,800.
- On February 8, 2018, the Company also closed a brokered private placement of 862,500 common shares at a price of \$0.80 per share for aggregate proceeds of \$690,000.
- On February 13, 2018, the Company closed the acquisition of the issued and outstanding shares of Datient, Inc. ("Blockseer").
- For the quarter ending March 31, 2018, the company received orders for 2,650 miners.
- On April 3, 2018, 50,300 warrants were exercised for gross proceeds of \$17,605.
- For the quarter ending June 30, 2018, the Company's subsidiary, Datient, Inc. successfully launched its risk assessment and AML software for crypto wallets, known as WalletScore.
- For the quarter ending June 30, 2018, the Company entered into a licensing agreement with JCIS, a Japanese cryptocurrency company to support investment in the Japanese market to sell its Blockseer products.

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- For the quarter ending June 30, 2018, the Company increased revenues to \$2,228,496 from \$420,588 from the comparable period.
- For the quarter ending June 30, 2018, the Company invested \$45,000 in IComplyICO, an ICO Compliance platform.
- For the year ending September 30, 2018, the Company increased revenue to \$11,466,443 from \$850,326 from the comparable period.

**RESULTS OF OPERATIONS*****Three and Twelve Months Ended September 30, 2018***

The Company had incurred a net loss of \$25,511,362 for the year ended September 30, 2018. The Company had incurred a net loss of \$12,666,091 for the quarter ended September 30, 2018.

***Three and Twelve Months Ended September 30, 2017***

The Company had a comprehensive loss of \$272,904 and \$543,505 net loss for the three and twelve months ended September 30, 2017, respectively.

**SELECTED QUARTERLY INFORMATION FOR MOST RECENT COMPLETED QUARTERS**

|                                                    | <b>September 30,<br/>2018</b> | <b>June 30, 2018</b> | <b>March 31, 2018</b> | <b>December 31,<br/>2017</b> |
|----------------------------------------------------|-------------------------------|----------------------|-----------------------|------------------------------|
|                                                    | <b>Q4</b>                     | <b>Q3</b>            | <b>Q2</b>             | <b>Q1</b>                    |
| <b>Net loss and comprehensive loss</b>             | (12,666,091)                  | (704,506)            | (9,881,967)           | (2,248,027)                  |
| <b>Basic and diluted earnings (loss) per share</b> | (0.14)                        | (0.01)               | (0.17)                | (0.06)                       |
|                                                    | <b>September 30,<br/>2017</b> | <b>June 30, 2017</b> | <b>March 31, 2017</b> | <b>December 31, 2016</b>     |
|                                                    | <b>Q4</b>                     | <b>Q3</b>            | <b>Q2</b>             | <b>Q1</b>                    |
| <b>Net loss and comprehensive loss</b>             | (255,912)                     | (164,659)            | (104,494)             | (14,449)                     |
| <b>Basic and diluted earnings (loss) per share</b> | (0.01)                        | (0.01)               | (0.01)                | (0.01)                       |

***Three and Twelve Months Ended September 30, 2018***

Revenue for the three months ended September 2018 was \$5,286,101 and twelve months ended September 30, 2018 was \$11,466,443 from mining of Bitcoins, hosting services, sales of miners and consulting services. Revenue from bitcoin mining was \$642,320 for the year ended September 30, 2018.

Operating and maintenance and cost of miners combined for three months ended September 30, 2018 were \$5,615,339 and twelve months ended September 30, 2018 were \$9,145,488 consisting mostly of cost of miners, utility bills, contractors' fees and wages with relation to the data center improvements and construction.

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General and administrative costs for both three months ended September 30, 2018 were \$1,025,580 and twelve months ended September 30, 2018 were \$ 6,861,522. These consisted mostly of Consulting, Wages, Marketing, investor and public relations, Regulatory and filing and Professional fees.

Research and Development costs for both three months ended September 30, 2018 were \$580,922 and twelve months ended September 30, 2018 were \$1,384,390.

Share based compensation for the three months ended September 30, 2018 were \$67,399 and twelve months ended September 30, 2018 was \$2,872,600.

***Three and Twelve Months Ended September 30, 2017***

Revenue for both the three months ended September 2017 was \$230,428 and twelve months ended September 30, 2017 was \$850,326 mostly from mining of Bitcoins.

Operating and maintenance costs for both three months ended September 30, 2017 were \$19,660 and twelve months ended September 30, 2017 were \$181,660 consisting mostly of utility bills, contractors' fees.

General and administrative costs for both three months ended September 30, 2017 were \$50,754 and twelve months ended September 30, 2017 were \$ 647,860. These consisted mostly of Consulting, Wages, Marketing, investor and public relations, Regulatory and filing and Professional fees.

Research and Development costs for both three months ended September 30, 2017 were \$nil and twelve months ended September 30, 2017 were \$nil.

Share based compensation for the three months ended September 30, 2017 were \$nil and twelve months ended September 30, 2017 was \$nil.

**SELECTED ANNUAL INFORMATION**

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|                                                       | <b>Years Ended September 30</b> |             |
|-------------------------------------------------------|---------------------------------|-------------|
|                                                       | <b>2018</b>                     | <b>2017</b> |
| <b>Revenue</b>                                        | 11,466,443                      | 850,326     |
| <b>Net gain(loss) from continuing operations</b>      | (25,633,831)                    | (543,505)   |
| <b>Basic and diluted gain (loss) per common share</b> | (0.34)                          | (0.03)      |
| <b>Total assets</b>                                   | 30,609,717                      | 1,335,031   |
| <b>Total non-current liabilities</b>                  | 2,591,304                       | -           |

Revenue has increased by \$10,616,117 from \$850,326 in September 30, 2017 to \$ 11,466,443 in September 30, 2018 which consists of revenue from 3 new revenue sources: Mining equipment hosting and set up fee, Sale of mining equipment and other income from Foreside, Bitmaster and Mogo. The revenue increase was mainly due to increase of sale of equipment which has increased by \$8,112,640 for the year ending September 30, 2018 from nil for the year ending September 2017.

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Total assets for the period ended September 30, 2018 was \$30,609,717 (2017 - \$1,335,031) and these have increased by \$29,274,687 with increase of \$17,195,669 for current asset and \$12,907,017 of non-current assets respectively.

Total current assets have increased by \$17,195,669 from \$825,458 for the year ended September 30, 2017 to \$18,021,126 for the year ended September 30, 2018. Account receivable for the year ended September 30, 2018 was \$1,921,492 (2017 - \$69,532) and the increase is due to the expansion of customer base during the year ended September 30, 2018.

Digital currencies were \$697,793 for the quarter ended December 31, 2018 (2017- \$59,103). The increase was largely due to the Company mining coins for its operations in the first quarter ended December 31, 2018.

Total non-current assets for the year ended September 30, 2018 were \$12,588,591 (2017- \$509,574). The increase of \$12,907,017 was from purchase of equipment for the investment in the Company's substation and mining facilities and intangible assets acquired on acquisition of Datient, Inc.

**LIQUIDITY AND CAPITAL RESOURCES**

At September 30, 2018, the Company had working capital of \$14,033,232 (September 30, 2017: \$214,944).

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. During the year ended September 30, 2018, the Company had a net loss before tax of \$25,511,362 (September 30, 2017: \$543,505) and comprehensive loss of \$25,500,591 (September 30, 2017: \$539,514).

**SHARE CAPITAL ACTIVITY****Share capital activity for the year ended September 30, 2018:**

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

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- On February 8, 2018, the Company also closed a brokered private placement of 862,500 common shares at a price of \$0.80 per share for aggregate proceeds of \$690,000. The Company paid \$45,458 in Agent's fees and \$13,500 in legal fees and disbursements. The Company also issued 56,823 Agent's warrants exercisable at \$0.80 per common share for a period of two years from issuance. The agent's warrants were valued at \$0.55 per warrant using the Black-Scholes option pricing model with an average risk-free interest rate of 1.66%, expected life of 2 years, volatility of 142% and dividend yield of 0%.
- On February 8, 2018, the Company issued 46,651,995 common shares in exchange for all the issued and outstanding shares of the private operating company formerly known as DMG Blockchain Solutions Inc.
- On February 20, 2018, 140,000 stock options were exercised for gross proceeds of \$14,000. In addition, 11,214 broker warrants were exercised for gross proceeds of \$3,925.
- On October 31, 2017, prior to completion of the reverse-takeover transaction (see Note 4), the private operating company previously known as DMG Blockchain Solutions Inc. issued 9,124,286 common shares at \$0.35 per common share for aggregate proceeds of \$3,193,500. On October 31, 2017, the Company granted 624,023 brokers' warrants with an exercise price of \$0.35 per common share and an expiry date of October 31, 2019 in connection with this share issuance. The warrants were exchanged into warrants of the Company on a 1:1 basis on February 8, 2018 with all existing terms carried forward. The brokers' warrants were valued at \$0.24 per warrant using the Black-Scholes option pricing model with an average risk-free interest rate of 1.66 %, expected life of 2 years, volatility of 139% and dividend yield of 0%.
- On October 27, 2017, prior to completion of the reverse-takeover transaction (see Note 4), the private operating company previously known as DMG Blockchain Solutions Inc. issued 4,736,927 common shares at \$0.35 per common share for aggregate proceeds of \$1,657,924. On October 27, 2017, Blockchain Solutions Inc. granted 154,097 brokers' warrants with an exercise price of \$0.35 per common share and an expiry date of October 27, 2019 in connection with this share issuance. The warrants were exchanged into warrants of the Company on a 1:1 basis on February 8, 2018 with all existing terms carried forward. The brokers' warrants were valued at \$0.24 per warrant using the Black-Scholes option pricing model with an average risk-free interest rate of 1.66 %, expected life of 2 years, volatility of 139% and dividend yield of 0%.
- On October 20, 2017, prior to completion of the reverse-takeover transaction (see Note 4), the private operating company previously known as DMG Blockchain Solutions Inc. issued 4,290,782 common shares at \$0.35 per common share for aggregate proceeds of \$1,501,774. DMG Blockchain Solutions Inc. granted 47,600 brokers' warrants with an exercise price of \$0.35 per common share and an expiry date of October 20, 2019 in connection with this share issuance. The warrants were exchanged into warrants of the Company on a 1:1 basis on February 8, 2018 with all existing terms carried forward. The brokers' warrants were valued at \$0.24 per warrant using the Black-Scholes option pricing model with an average risk-free interest rate of 1.66 %, expected life of 2 years, volatility of 139% and dividend yield of 0%.

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- On May 1, 2017, the Company completed a private placement for 6,378,000 shares at a price of \$0.06 per share for total gross proceeds of \$382,680. The Company paid finder's fees of \$15,480 and issued 258,000 agent's warrants exercisable into common shares at \$0.06 per share for a period of 24 months with a fair value equal to \$7,740. The following assumptions were used for the Black-Scholes valuation of the agent's warrants risk-free interest rate – 1%; expected dividend yield – 0%; expected volatility – 104%; expected life of option – 2 years.

**OUTSTANDING SHARE DATA**

As at the date of this document, the Company had 93,333,139 common shares issued and outstanding, 9,318,000 stock options issued and outstanding, and 3,461,987 warrants issued and outstanding.

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

|                    |     | Quoted prices<br>in active<br>markets for<br>identical<br>instruments<br>Level 1 | Significant<br>other<br>observable<br>inputs<br>Level 2 | Significant<br>unobservable<br>inputs<br>Level 3 | Total         |
|--------------------|-----|----------------------------------------------------------------------------------|---------------------------------------------------------|--------------------------------------------------|---------------|
| September 30, 2018 |     |                                                                                  |                                                         |                                                  |               |
| Cash               | (i) | \$ 14,704,180                                                                    | -                                                       | \$ -                                             | \$ 14,704,180 |
| September 30, 2017 |     |                                                                                  |                                                         |                                                  |               |
| Cash               | (i) | \$ 492,640                                                                       | \$ -                                                    | \$ -                                             | \$ 492,640    |

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 all of its miner sales, set up and hosting fees sales are with three counterparties (2017 - none). The Company records an allowance against its trade receivables when there is uncertainty over collection of this amount. All balances due are expected to be settled partially or in full when due (typically within 60 days of submission) and because of the nature of the counterparties.

The Company's maximum exposure to credit risk at the end of any period is equal to the carrying amount of these financial assets as recorded in the consolidated statement of financial position. At September 30, 2018, no amounts were held as collateral.

*Liquidity risk*

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

*Market Risk*

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

*Interest Rate Risk*

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

*Foreign currency risk*

Currency risk relates to the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign exchange rates. In addition, the Company mines

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Bitcoin which have a market value stated in US dollars. Exchange rate fluctuations affect the costs that the Company incurs in its operations. The Company's presentation currency is the Canadian dollar and major purchases are transacted in US dollars. As the Company operates in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the entity's functional currency. The fluctuation in foreign currencies in relation to the Canadian dollar will consequently impact the profitability of the Company and may also affect the value of the Company's assets and liabilities and the amount of shareholders' equity.

*Price Risk*

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

*Concentrated customer risk*

The Company has three major customers that accounted for approximately 92% of revenue for the year ended September 30, 2018. The loss of one of the major customers could have a significant impact on operations and revenues if they were not replaced. Subsequent to September 30, 2018, two of the customers cancelled their contracts, however their contracts were replaced with other contracts.

**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 and outstanding balances relating to key management and entities over which key management have control or significant influence were as follows:

|                              | For the years ended September 30, |            |
|------------------------------|-----------------------------------|------------|
|                              | 2018                              | 2017       |
| Salaries, wages and benefits | \$ 864,249                        | \$ -       |
| Consulting services          | 176,633                           | 135,400    |
| Share-based compensation     | 1,262,729                         | -          |
| Total                        | \$ 2,303,611                      | \$ 135,400 |

- (b) Related party transactions and balances

As at September 30, 2018, \$144,575 (2017 – \$43,075) was owed to key management for outstanding salaries, wages and benefits, and consulting services, which is included in trade and other payables (Note 10).

At September 30, 2018, the Company owed \$1,015,152 (2017 – Nil) in principal and accrued interest on a promissory note issued to a director of the Company in February 2018 (see Note 11).

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During the year ended September 30, 2017, the Company issued a promissory note and loaned a principal of US\$50,000 (2016 - \$Nil) to a Company controlled by common directors and officers. As at September 30, 2017, interest receivable accrued on this loan amounted to US\$781. The promissory note was repaid in full during the year ended September 30, 2018.

During the year ended September 30, 2017, the Company issued a promissory note 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. As at September 30, 2018, the loan remained outstanding and was included in due from related parties.

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 September 30, 2018, the loan was outstanding and was included in due from related parties.

During the year ended September 30, 2017, the Company entered into a promissory note with an entity who shares a common director with the Company. The entity provided a loan of 37 bitcoins. As at September 30, 2018, the loan was fully repaid.

On November 22, 2016, the Company entered into a loan agreement with another entity who shares a common director with the Company. The entity provided a loan of 37 bitcoins. Outstanding bitcoins borrowed would become immediately payable on demand no later than fifteen months from November 22, 2016. As at September 30, 2017, the Company had 19.67 bitcoins owing, with fair value of \$106,091. During the year ended September 30, 2018, the loan was repaid by the Company in full.

On May 19, 2017, the Company purchased a crypto currency wallet and distribution software from a Director of the Company as described in Note 9 (b) to the consolidated financial statements. At September 30, 2018, the carrying value was entirely impaired as the Company has no further plan to use the software.

During the year ended September 30, 2018, the Company paid \$112,297 (September 2017 - \$93,875) of business expenses on behalf of a company controlled by the Company's director. During the year ended September 30, 2018, the associated balance owed to the Company was repaid in full.

**Off-Balance Sheet Transactions**

The Company has not entered into any significant off-balance sheet arrangements or commitments.

***New accounting pronouncements***

*New Standards Not Yet Adopted:*

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

- IFRS 9 - Financial Instruments - In July 2014, the IASB issued the final version of IFRS 9 – Financial Instruments (“IFRS 9”) to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking ‘expected-loss’ impairment model, as well as a substantially reformed approach to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company will apply IFRS 9 at the date it becomes effective. Except for hedge accounting, retrospective application is required, but the provision of comparative information is not required. For hedge accounting, the requirements are generally applied prospectively.
- The classification of financial assets and liabilities is expected to remain consistent under IFRS 9, with the possible exception of equity securities. Under IFRS 9, the Company will have the option to designate equity securities as financial assets at fair value through other comprehensive income or loss. If the Company does not make this election, changes in the fair value of equity securities will continue to be recognized in profit or loss in accordance with the Company’s current policy.

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

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

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

- IFRS 15 - In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”) which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step model

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framework for the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Either a modified retrospective application or full retrospective application is required for IFRS 15. The Company has not committed to either application, but it is expected that the Company will apply the full retrospective approach upon transition on January 1, 2018.

- Under IFRS 15, revenue related to the transfer of promised goods or services should be recognized when the control of the goods or services passes to the customers. The Company has evaluated the impact of applying IFRS 15 by analyzing its server hosting agreements and concluded that there is no material change in the timing of revenue recognized under the new standard, and based on the facts and circumstances at September 30, 2018, there will be no material impact to the timing of the Company's recognition of revenues.
- IFRS 15 also requires entities to apportion revenue earned from contracts to distinct performance obligations on a relative standalone selling price basis. Based on the facts and circumstances at September 30, 2018, the Company has determined that the impact of this change is insignificant, and there will be no material impact to the Company's recognition of revenues.
- IFRS 15 contains presentation and disclosure requirements which are currently more detailed than current standards, with many requirements being new. Under IFRS 15, the Company will present disclosure relating to the timing of completion of the Company's performance obligations.

**PROPOSED TRANSACTIONS**

There are no proposed transactions as at the date of this document.

**RISKS AND UNCERTAINTIES****Digital Currency and Risk Management**

Digital currencies are measured using fair value measurement. The rate is taken from xe.com.

Digital currency prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and the global political and economic conditions. The profitability of the Company is directly related to the current and future market price of coins; in addition, the Company may not be able to liquidate its inventory of digital currency at its desired price if required. A decline in the market prices for coins could negatively impact the Company's future operations. The Company has not hedged the conversion of any of its coin sales.

Digital currencies have a limited history and the fair value historically has been very volatile. Historical performance of digital currencies is not indicative of their future price performance. The Company's digital currencies currently consist of Bitcoins.

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**Negative Operating Cash Flows**

The Company is at an early stage of operations, and without the injection of further capital and the development of revenue streams from its business, the Company may continue to have negative operating cash flows until it can realize stable cash flows from operations.

**Reliance on Key Personnel and Advisors**

The Company relies heavily on its officers. The loss of their services may have a material adverse effect on the business of the Company. There can be no assurance that one or all of the employees (if any) of, and contractors engaged by, the Company will continue in the employ of, or in a consulting capacity to, the Company or that they will not set up competing businesses or accept positions with competitors. There is no guarantee that certain employees (if any) of, and contractors to, the Company who have access to confidential information will not disclose the confidential information.

**Market Risk for Securities**

The Company is a reporting issuer whose common shares are listed for trading on a stock exchange. There can be no assurance that an active trading market for the Company's common shares will be sustained in the future. The market price for the Company's common shares could be subject to wide fluctuations. Factors such as commodity prices, government regulation, interest rates, share price movements of peer companies and competitors, as well as overall market movements, may have a significant impact on the market price of the Company's securities. The stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies. Consequently, you may lose your entire investment.

**Uninsured or Uninsurable Risk**

The Company may become subject to liability for risks against which the Company cannot insure or against which the Company may elect not to insure due to the high cost of insurance premiums or other factors. The payment of any such liabilities would reduce the funds available for the Company's usual business activities. Payment of liabilities for which the Company does not carry insurance may have a material adverse effect on the Company's financial position and operations.

**Conflicts of Interest Risk**

Certain directors and officers of the Company are also directors and operators in other companies. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors and officers conflict with or diverge from the Company's interests. In accordance with the *BC Business Corporation Act*, directors who have a material interest in any person who is a party to a material contract or a proposed material contract are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors and the officers are required to act honestly and in good faith with a view to the Company's best interests. However, in conflict of interest situations, the Company's directors and officers may owe the same duty to another company and will need to balance their competing interests with their duties to the Company.

Circumstances (including with respect to future corporate opportunities) may arise that may be resolved in a manner that is unfavorable to the Company. Consequently, there exists the possibility for such directors to

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be in a position of conflict. Any decision made by such directors involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with the Company and such other companies. In addition, such directors will declare, and refrain from voting on any matter in which such directors may have a conflict of interest.

**Key Personnel Risk**

The Company's success will depend on its directors and officers to develop its business, manage its operations, and attract any consultants as may be necessary to continue its business. The loss of any key person or the inability to find and retain new key persons could have a material adverse effect on the Company's business. Competition for qualified officers, directors and other key personnel can be intense and no assurance can be provided that the Company will be able to attract or retain key personnel in the future, which may adversely impact the Company's operations.

**Global Economic Risk**

Economic slowdown and downturn of global capital markets would make raising of capital through equity or debt financing more difficult. The Company will be dependent upon capital markets to raise additional financing in the future. The Company is subject to liquidity risks in meeting developmental and future operating cost requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact the Company's ability to raise equity or obtain loans and other credit facilities in the future and on terms favorable to the Company and its management. If uncertain market conditions persist, the Company's ability to raise capital could be jeopardized resulting in an adverse impact on the Company's operations and the price of the Company's common shares.

**Dividend Risk**

The Company has not paid dividends in the past and does not anticipate paying dividends in the near future. The Company expects to retain its earnings to finance further growth and, when appropriate, retire debt.

**Share Price Volatility Risk**

In recent years, the securities markets in Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies, particularly cryptocurrency companies, like the Company, have experienced wide fluctuations that have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that these price fluctuations and volatility will not continue to occur.

**Capital Asset Impairment Testing**

DMG has a methodology for tangible asset impairment testing. For crypto-mining equipment, DMG looks at the initial investment, the BTC to CAD converted cash profit to date and the expected future cash profit. The initial estimate for mining equipment revenue generation is based on the current ratio of the BTC to CAD converted bitcoin revenue being generated by the network per amount of computing power over the expected remaining useful life of the equipment. The expectation is that the rate of revenue generation decay (based on technology improvements) is 3% per month, assuming a fixed BTC CAD exchange rate. As DMG expects the accumulated cash generation to exceed its initial mining equipment investment, the equipment would not be impaired.

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For the data centre impairment testing, DMG estimates that it can generate at least \$120,000 of margin per megawatt per year. With an expected operating life for most of the value of the data centre property, plant and equipment of at least 10 years and current capacity of up to 60 megawatts, DMG expects to recoup its investment well within the equipment's useful life period, and hence it would not be impaired.

**SUBSEQUENT EVENTS**

On October 1, 2018 the Company issued 190,000 stock options to employees with an exercise price of \$0.40 and expiry of November 1, 2021. On October 24, 2018, the Company issued another 50,000 stock options to employees with an exercise price of \$0.40 expiring on December 1, 2021.

Effective December 1, 2018, the Company received a notice to stop hosting services for two of its three major customers. The cancellation of the contracts did not have a significant impact on the Company's operations as these contracts were replaced with the other contracts with new customers signed subsequent to September 30, 2018.

In December 2018 and January 2019, the Company issued a total of 229,499 common shares upon conversion of 229,499 shares of DMG-US, Inc. Class B common shares.

On December 18, 2018, the Company issued 50,000 stock options to employees with an exercise price of \$0.40 expiring on December 19, 2021.

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

**OTHER INFORMATION**

Additional information on the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).