

DMG Blockchain Solutions Inc.

Condensed Interim Consolidated Financial Statements

For the Three Months Ended December 31, 2020

(Expressed in Canadian dollars)

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DMG Blockchain Solutions Inc.

Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

		As at December 31, 2020 (unaudited)	As at September 30, 2020
	Notes	\$	\$
Assets			
Current			
Cash		7,157,759	1,073,838
Amounts receivable	5	1,297,886	1,345,921
Digital currency	6	1,108,704	966,005
Prepaid expenses and other current assets		283,492	276,131
Lease receivable	10	111,049	110,769
Total current assets		9,958,890	3,772,664
Long-term deposit	15	1,321,480	1,323,800
Property and equipment	8	12,698,592	13,270,315
Lease receivable	10	132,801	162,614
Intangible asset	7	212,126	263,338
Assets held for sale	20	2,734,127	2,721,236
Total Assets		27,058,016	21,513,967
Liabilities			
Current Liabilities:			
Trade and other payables	9	4,091,561	4,145,849
Deferred revenue		2,662	25,790
Deposits received	20	4,625,260	-
Lease liability	10	130,944	136,317
Current portion of loans payable	11	1,635,741	1,772,414
Total current liabilities		10,486,168	6,080,370
Lease liability	10	140,661	172,529
Loans payable	11	-	340,411
Total Liabilities		10,626,829	6,593,310
Equity:			
Share capital	12	44,806,736	43,287,828
Reserves	12	6,716,449	6,349,923
Accumulated other comprehensive income		973,223	300,819
Accumulated deficit		(34,279,178)	(32,703,841)
Equity attributable to shareholders of parent		18,217,230	17,234,729
Non-controlling interest	12	(1,786,043)	(2,314,072)
Total equity		16,431,187	14,920,657
Total Liabilities and Equity		27,058,016	21,513,967

Approved on Behalf of the Board of Directors on March 1, 2021:

/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	
		December 31, 2020	December 31, 2019
		\$	\$
Revenue	14	1,928,923	2,466,701
Expenses			
Operating and maintenance costs	15	1,504,655	1,910,844
General and administrative	15	534,990	714,442
Stock-based compensation	12	88,454	110,530
Research and development	17	40,771	159,589
Provision for doubtful accounts	5	1,491	5,550
Depreciation	8	259,811	368,151
Amortization of intangible assets	7	51,213	51,213
Total expenses		2,481,385	3,320,319
Loss before other items		(552,462)	(853,618)
Other income (expense)			
Miscellaneous revenue		29,670	127,043
Foreign exchange gain (loss)		(190,405)	(12,716)
Unrealized revaluation loss on digital currency	6	-	(80,865)
Realized gain (loss) on digital currency		167,362	(129,969)
Loss on disposal of assets		(147,556)	-
Net loss		(693,391)	(950,125)
Other comprehensive income			
Items that may be reclassified subsequently to income or loss:			
Unrealized revaluation gain on digital currency	6	556,201	-
Foreign exchange gain on translation of foreign subsidiary		116,203	1,047
Comprehensive loss		(20,987)	(949,078)
Net Loss Attributable To:			
Shareholders		(670,845)	(854,024)
Non-controlling interest	12	(22,546)	(96,101)
Basic and diluted loss per common share		(0.01)	(0.01)
Weighted average number of common shares outstanding		101,655,136	96,694,080

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

DMG Blockchain Solutions Inc.

Condensed Interim Consolidated Statements of Changes in Equity

(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, 2019	96,666,003	41,467,246	3,451	6,014,301	(25,942,912)	(4,489,866)	17,052,220
Conversion of DMG US Class B common shares	30,388	24,308	-	-	-	(24,308)	-
Stock-based compensation	-	-	-	110,530	-	-	110,530
Net loss and comprehensive loss for the period	-	-	1,047	-	(854,024)	(96,101)	(949,078)
Balance December 31, 2019	96,696,391	41,491,554	4,498	6,124,831	(26,796,936)	(4,610,275)	16,213,672
Balance September 30, 2020	100,344,414	43,287,828	300,819	6,349,923	(32,703,841)	(2,314,073)	14,920,656
Units issued for cash	5,884,735	524,074	-	476,331	-	-	1,000,405
Share issuance costs	-	(277,295)	-	218,080	-	-	(59,215)
Exercise of options	1,682,500	918,213	-	(416,338)	-	-	501,875
Conversion of DMG US Class B common shares	442,447	353,916	-	-	(904,492)	550,576	-
Stock-based compensation	-	-	-	88,454	-	-	88,454
Unrealized gain on digital currency revaluation	-	-	556,201	-	-	-	556,201
Net loss and comprehensive loss for the period	-	-	116,203	-	(670,845)	(22,546)	(577,188)
Balance December 31, 2020	108,354,096	44,806,736	973,223	6,716,450	(34,279,178)	(1,786,043)	16,431,188

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

DMG Blockchain Solutions Inc.

Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian dollars) (Unaudited)

	For the three months ended	
	December 31, 2020	December 31, 2019
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	\$	\$
Net loss	(693,391)	(950,125)
Items not affecting cash:		
Depreciation	259,811	368,151
Amortization of intangible assets	51,213	51,213
Stock-based compensation	88,454	110,530
Unrealized loss on revaluation of digital currencies	-	387,995
Bitcoin mining revenue	(523,448)	(554,027)
Accretion	2,985	-
Loss on sale of assets	147,556	-
Interest income	(2,767)	-
Bad debt expense	1,491	-
Non-cash working capital items:		
Amounts receivable	46,544	(378,839)
Digital currencies	380,749	935,625
Prepaid expense	(5,041)	587,295
Deferred revenue	(23,127)	16,573
Trade and other payables	(54,292)	5,988
Net cash provided by operating activities	(323,263)	580,379
CASH FLOWS USED IN INVESTING ACTIVITIES		
Deposits received	4,625,260	-
Proceeds on sale of equipment	173,795	-
Purchase of property and equipment	(12,899)	(26,486)
Proceeds from lease receivable	32,300	-
Payments of lease liability	(38,030)	(80,685)
Net cash provided by (used in) investing activities	4,780,426	(107,171)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Proceeds from issuance of units	1,000,405	-
Share issuance costs	(59,215)	-
Proceeds from option exercise	501,875	-
Loan repayments	(525,239)	(2,819,063)
Proceeds from security deposit	-	2,700,000
Net cash provided by (used in) financing activities	917,826	(119,063)
Increase in cash and cash equivalents	5,374,989	354,145
Effect of exchange rate changes on cash	708,932	(565)
Cash & cash equivalents, beginning	1,073,838	1,133,429
Cash & cash equivalents, end	7,157,759	1,487,009

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

DMG Blockchain Solutions Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended December 31, 2020

(Expressed in Canadian dollars) (Unaudited)

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 795 Highway 395 Christina Lake, British Columbia. The Company's shares are listed on the TSX-V under the symbol DMGI.

The Company is a vertically integrated 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 December 31, 2020, the Company has a history of losses, negative cash flows from operations and an accumulated deficit of \$34,279,178. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon its ability to generate profits and positive cash flows from operations in order to cover its operating costs. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The Company's strategy to mitigate these risks and uncertainties is to execute a business plan aimed at operational efficiencies, revenue growth, managing operating expenses and working capital requirements. Failure to implement the Company's business plan could have a material adverse effect on the Company's financial condition and/or financial performance. Accordingly, there are material risks and uncertainties that cast significant doubt about the Company's ability to continue as a going concern.

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

2. BASIS OF PRESENTATION*a) Statement of compliance*

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" under 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, 2020 annual audited financial statements. These condensed consolidated interim financial statements do not contain all of the information required for full annual financial statements. Accordingly, they should be read in conjunction with the Company's most recent annual statements.

b) Basis of consolidation

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

DMG Blockchain Solutions Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended December 31, 2020

(Expressed in Canadian dollars) (Unaudited)

2. BASIS OF PRESENTATION (Continued)

Principal subsidiaries	Percentage ownership		Country of incorporation
	December 31, 2020	September 30, 2020	
DMG-US, Inc. ⁽ⁱ⁾	86%	81%	United States
Datient, Inc. ⁽ⁱⁱ⁾	86% indirect through DMG-US	81% 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 85.52%. DMG-US, Inc. is consolidated from the date control was acquired on February 13, 2018.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Company are set out in Note 3 to the audited consolidated financial statements for the year ended September 30, 2020 and have been consistently followed in the preparation of these consolidated condensed interim consolidated financial statements.

4. USE OF JUDGMENTS AND ESTIMATES

In preparing these condensed interim consolidated 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 prospectively in the period in which the estimates are revised. In preparing these condensed consolidated interim consolidated 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, 2020.

5. AMOUNTS RECEIVABLE

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

	December 31, 2020	September 30, 2020
Trade receivables	\$ 580,574	\$ 616,083
Sales taxes recoverable	1,090,817	1,101,852
Provision for doubtful accounts	(373,505)	(372,014)
	<u>\$ 1,297,886</u>	<u>\$ 1,345,921</u>

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

	December 31, 2020	September 30, 2020
Opening balance	\$ 372,014	\$ 412,072
Provision for doubtful accounts	1,491	25,222
Settled doubtful accounts	-	(65,280)
	<u>\$ 373,505</u>	<u>\$ 372,014</u>

DMG Blockchain Solutions Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended December 31, 2020

(Expressed in Canadian dollars) (Unaudited)

5. AMOUNTS RECEIVABLE (Continued)

During the three months ended December 31, 2020, the Company recorded a provision for doubtful accounts of \$1,491 for expected credit losses (2019 - \$5,550).

6. DIGITAL CURRENCY

At December 31, 2020 and September 30, 2020, the Company held bitcoins (“BTC”) and Ethereum (“ETH”) as its digital currency. Coins 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:

	BTC		ETH		Total
	Units	\$	Units	\$	\$
Opening balance, September 30, 2019	139.13	1,523,091	-	-	1,523,091
Digital currency mined	229.80	2,723,537	-	-	2,723,537
Digital currency received on settlement of amounts receivable and loans receivable	0.62	7,829	-	-	7,829
Digital currency sold	(302.23)	(3,613,897)	-	-	(3,613,897)
Digital currency revaluation	-	325,445	-	-	325,445
Opening balance, September 30, 2020	67.32	966,005	-	-	966,005
Digital currency mined	32.43	523,448	-	-	523,448
Digital currency received on settlement of amounts receivable and loans receivable	-	-	25.51	18,053	18,053
Digital currency sold	(70.00)	(955,003)	-	-	(955,003)
Digital currency revaluation	-	550,298	-	5,903	556,201
Ending balance at fair value, December 31, 2020	29.75	1,084,748	25.51	23,956	1,108,704

7. INTANGIBLE ASSETS

The continuity of intangible assets is as follows:

COST	Datient Tradename	Technology and Database	Total
	\$	\$	\$
As at September 30, 2019, 2020, and December 31, 2020	21,000	788,867	809,867
ACCUMULATED AMORTIZATION			
As at September 30, 2019	1,750	339,930	341,680
Amortization	1,050	203,800	204,850
As at September 30, 2020	2,800	543,730	546,530
Amortization	263	50,948	51,211
As at December 31, 2020	3,063	594,678	597,741
NET BOOK VALUE			
As at September 30, 2020	18,200	245,138	263,338
As at December 31, 2020	17,938	194,188	212,126

DMG Blockchain Solutions Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended December 31, 2020

(Expressed in Canadian dollars) (Unaudited)

8. 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, 2019	413,000	5,837	3,625,095	11,235,513	1,413,561	23,741	6,999	849,956	17,573,702
Additions	-	39,303	-	57,003	3,390,633	10,871	-	-	3,497,810
Disposals	-	-	-	(356,977)	(3,299)	-	-	(526,214)	(884,718)
Reclassification to assets held for sale (Note 20)	-	-	-	-	(3,312,689)	-	-	-	(3,312,689)
Reclassification	-	(22,978)	1,913	21,065	-	-	-	-	-
As at September 30, 2020	413,000	22,162	3,627,008	10,956,604	1,488,206	34,617	6,999	323,742	16,872,338
Additions	-	1,165	-	5,183	6,550	-	-	-	28,612
Disposals	-	-	-	(242,890)	(460,777)	-	-	(57,422)	(761,089)
Reclassification	-	(15,714)	-	-	-	-	-	-	(15,714)
As at December 31, 2020	413,000	7,613	3,627,008	10,734,611	1,033,979	34,617	6,999	266,320	16,124,147
ACCUMULATED DEPRECIATION									
As at September 30, 2019	-	-	147,041	900,032	1,148,099	6,904	177	228,678	2,430,931
Depreciation	-	-	136,675	884,492	716,514	6,882	1,785	286,966	2,033,314
Disposals	-	-	-	(55,711)	(70)	-	-	(213,222)	(269,003)
Reclassification to assets held for sale (Note 20)	-	-	-	-	(591,452)	-	-	-	(591,452)
As at September 30, 2020	-	-	283,716	1,728,813	1,273,091	13,786	1,962	302,422	3,603,790
Depreciation	-	-	33,322	199,646	19,139	1,024	368	6,312	259,811
	-	-	-	(54,535)	(326,521)	-	-	(56,991)	(438,047)
As at December 31, 2020	-	-	317,038	1,873,924	965,709	14,810	2,330	251,743	3,425,555
Effect of foreign exchange	-	-	-	-	492	-	-	-	492
NET BOOK VALUE									
As at September 30, 2020	413,000	22,162	3,343,292	9,227,791	215,115	20,831	5,037	21,320	13,268,548
As at December 31, 2020	413,000	7,613	3,309,970	8,860,687	68,270	19,807	4,669	14,577	12,698,592

Construction in progress relates to the Company's construction of a bitcoin mining centre in Western Canada.

DMG Blockchain Solutions Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended December 31, 2020

(Expressed in Canadian dollars) (Unaudited)

9. TRADE AND OTHER PAYABLES

Trade and other payables are comprised of the following:

	December 31, 2020	September 30, 2020
Trade payables and accrued liabilities	\$ 3,457,430	\$ 3,511,718
Trade payable and accrued liabilities - related parties (Note 13)	543,309	543,309
Sales taxes payable	90,822	90,822
	\$ 4,091,561	\$ 4,145,849

10. LEASE LIABILITY

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

At December 31, 2020 and September 30, 2020, the Company's lease liability related to office leases is as follows:

Lease liability	December 31, 2020	September 30, 2020
Current portion	\$ 130,944	\$ 136,317
Long-term portion	140,661	172,529
Total lease liability	\$ 271,605	\$ 308,846

At December 31, 2020 and September 30, 2020, the Company is committed to minimum lease payments as follows:

Maturity analysis	December 31, 2020	September 30, 2020
Less than one year	\$ 139,352	\$ 146,130
One to five years	143,621	177,077
More than five years	-	-
Total undiscounted lease liabilities	\$ 282,973	\$ 323,207

Amounts recognized in profit or loss	December 31, 2020	September 30, 2019
Interest on lease liabilities	\$ 2,985	\$ 23,184
Income from sub-leasing right-of-use asset	-	-
Expenses related to short-term leases	\$ -	\$ -

Amounts recognized in the statement of cash flows	December 31, 2020	September 30, 2019
Principal payments on lease liabilities	\$ 38,030	\$ 237,907
Total cash outflows for leases	\$ 38,030	\$ 237,907

On September 1, 2020, the Company entered into a sublease agreement related to office space. At December 31, 2020 and September 30, 2020, the Company's lease receivable related to office leases is as follows:

Lease receivable	December 31, 2020	September 30, 2020
Current portion	\$ 111,049	\$ 110,769
Long-term portion	132,801	162,614
Total lease receivable	\$ 243,850	\$ 273,383

DMG Blockchain Solutions Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended December 31, 2020

(Expressed in Canadian dollars) (Unaudited)

10. LEASE LIABILITY (Continued)

Maturity analysis	December 31, 2020	September 30, 2020
Less than one year	\$ 130,968	\$ 119,975
One to five years	135,201	167,222
More than five years	-	-
Total undiscounted lease receivable	\$ 266,169	\$ 287,197

11. LOANS PAYABLE

- a) 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.
- b) 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 (included in assets held for sale at December 31, 2020).

The loan has been recorded at amortized cost of \$482,499, and the Company recorded \$6,349 in accretion during the three months ended December 31, 2020 (2019 - \$Nil). As at September 30, 2020, the principal balance remaining was \$115,376 (\$90,619 USD) (September 30, 2020 - \$241,745 (\$181,238 USD)). Accrued interest of \$695 (September 30, 2020 - \$1,020) has been included in accounts payable and accrued liabilities.

- c) 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 \$45,318 in accretion during the three months ended December 31, 2020. As at December 31, 2020, the principal balance remaining was \$1,299,683 (\$1,020,800 USD) (September 30, 2020 - \$1,702,056 (\$1,276,000 USD)). Accrued interest of \$19,896 has been included in accounts payable and accrued liabilities.

12. SHARE CAPITAL AND RESERVES

- a) Share capital

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

Share capital activity for the three months ended December 31, 2020

On December 18, 2020, the Company closed a brokered private placement for 5,884,735 units for gross proceeds of \$1,000,405. Each unit consists of one common share and one warrant. Each warrant is exercisable at \$0.22 until December 18, 2022. These warrants have a relative fair value of \$476,331 determined using the Black Scholes model with the following inputs: i) exercise price: \$0.22; ii) share price: \$0.69; iii) term: 2.00 year; iv) volatility: 194%; v) discount rate: 0.24%.

In connection with the financing, the Company incurred finders' fees of \$59,215 and issued 347,738 brokers' warrants. Each warrant is exercised into one common share at \$0.22 until December 18, 2022. These warrants have a relative fair value of \$218,081 determined using the Black Scholes model with the following inputs: i) exercise price: \$0.22; ii) share price: \$0.69; iii) term: 2.00 year; iv) volatility: 194%; v) discount rate: 0.24%.

DMG Blockchain Solutions Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended December 31, 2020

(Expressed in Canadian dollars) (Unaudited)

12. SHARE CAPITAL AND RESERVES (Continued)

During the three months ended December 31, 2020, the Company issued 1,682,500 common shares in connection with the exercise of stock options for proceeds of \$501,875. As a result, \$416,338 has been reclassified from share-based payment reserve to share capital.

During the three months ended December 31, 2020, the Company issued a total of 442,447 common shares upon conversion of a total of 442,447 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 19% to 14% such that the Company has a 86% residual interest in Datient as at December 31, 2020.

Share capital activity for the three months ended December 31, 2019

On October 8, 2019, the Company issued a total of 30,388 common shares upon conversion of a total of 30,388 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 38% such that the Company has a 62% residual interest in Datient as at December 31, 2019.

b) Stock options

Stock option activity for the three months ended December 31, 2020

On December 31, 2020, the Company issued 3,655,000 incentive stock options to employees of the Company. The options are exercisable at a price of \$0.65 per option expiring on December 31, 2023. These options had a fair value of \$0.15 per option using the Black Scholes model with the following inputs: i) exercise price: \$0.65; ii) share price: \$0.60; iii) term: 3.00 years; iv) volatility: 135%; v) discount rate: 0.2%. The options vest 25% on each of March 31, 2021, June 30, 2021, September 30, 2021 and December 31, 2021. A portion of the vested value of these options was included in stock-based compensation and reserves for the three months ended December 31, 2020.

Stock option activity for the three months ended December 31, 2019

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 three months ended December 31, 2019.

	Options outstanding and exercisable	Weighted average exercise price	Weighted average life remaining
		\$	
Balance, September 30, 2019	6,778,500	0.41	2.48
Issued	2,550,000	0.15	-
Exercised/Cancelled	(600,000)	0.48	-
Balance, September 30, 2020	8,728,500	0.33	1.56
Issued	3,655,000	0.65	-
Exercised/Cancelled	(2,502,500)	0.37	-
Balance, December 31, 2020	9,881,000	0.45	1.89

DMG Blockchain Solutions Inc.

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(Expressed in Canadian dollars) (Unaudited)

12. SHARE CAPITAL AND RESERVES (Continued)

The following table discloses the number of options outstanding as at December 31, 2020:

Number of options	Price per share	Expiry Date
	\$	
296,000	0.10	May 1, 2022
1,955,000	0.35	November 9, 2022
1,000,000	0.40	March 8, 2021
350,000	0.80	March 8, 2021
75,000	0.80	June 30, 2021
700,000	0.40	July 25, 2022
30,000	0.40	August 24, 2021
50,000	0.40	December 1, 2021
1,070,000	0.15	November 12, 2022
700,000	0.15	April 30, 2021
3,655,000	0.65	December 31, 2023
9,881,000		

c) Warrants

Warrant activity for the three months ended December 31, 2020

On December 18, 2020, the Company issued 6,232,473 warrants in connection with a private placement financing.

Warrant activity for the three months ended December 31, 2019

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

	Warrants outstanding and exercisable	Weighted average exercise price	Weighted average life remaining
		\$	
Balance, September 30, 2019	3,203,987	0.69	0.29
Granted	1,481,500	0.10	
Expired	(3,203,987)	0.69	
Balance, September 30, 2020	1,481,500	0.80	0.11
Granted	6,232,473	0.22	
Balance, December 31, 2020	7,713,973	0.20	1.66

The following table discloses the number of warrants outstanding as at December 31, 2020:

Number of warrants	Exercise price per share	Expiry Date
	\$	
1,481,500	0.10	May 14, 2021
6,232,473	0.22	December 18, 2022
7,713,973		

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12. SHARE CAPITAL AND RESERVES (Continued)

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 62% at December 31, 2019 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, 2019	\$	(4,489,866)
Reduction in NCI upon conversion of shares of DMG-US, Inc. (Note 12(a))		2,421,201
Share of net loss		(245,408)
Balance, September 30, 2020	\$	(2,314,073)
Reduction in NCI upon conversion of shares of DMG-US, Inc. (Note 12 (a))		550,576
Share of net loss		(22,546)
Balance, December 31, 2020	\$	(1,786,043)

As of December 31, 2020 and 2019, non-controlling interest included the following amounts before intercompany eliminations:

		For the three months ended December 31, 2020	For the three months ended December 31, 2019
Current assets	\$	7,883	\$ 1,918
Non-current assets		493	90,298
Total assets	\$	8,376	\$ 92,215
Current liabilities		-	11,782
Non-current liabilities		3,685,247	3,637,309
Total Liabilities	\$	3,685,247	\$ 3,649,091
Revenues	\$	21,675	\$ 201,329
Net Income	\$	19,881	\$ (155,707)

There are no items comprising other comprehensive income or loss during the years ended December 31, 2020 and 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 three months ended December 31,	
		2020	2019
Salaries, wages and benefits	\$	174,960	\$ 278,835
Consulting services		14,750	14,000
Share-based compensation		72,584	38,522
Total	\$	291,544	\$ 331,356

(b) Related party balances

As at December 31, 2020, \$534,084 (September 30, 2020 – \$543,309) was owed to key management for outstanding salaries, wages and benefits, and consulting services and included in trade and other payables.

14. REVENUES

The Company's revenue is comprised of the following:

		For the three months ended	
		December 31, 2020	December 31, 2019
Digital currency mining	\$	523,448	683,331
Mining equipment hosting and set up service		1,379,976	1,630,211
Sale of mining equipment		-	42,235
Forensics income		25,499	101,820
Other income		-	9,104
	\$	1,928,923	2,466,701

15. EXPENSES

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

		For the three months ended	
		December 31, 2020	December 31, 2019
Consulting	\$	53,512	93,808
General and administrative office expenses		234,434	211,321
Marketing, investor and public relations		4,558	2,744
Investor relations		-	2,500
Professional fees		110,263	101,757
Regulatory and filing		-	19,363
Wages		132,223	282,949
	\$	534,990	714,442

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(Expressed in Canadian dollars) (Unaudited)

15. EXPENSES (Continued)

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

		For the three months ended	
		December 31, 2020	December 31, 2019
Utilities	\$	1,391,623	1,603,326
Contractors and other		23,296	112,533
Wages		89,736	194,985
	\$	1,504,655	1,910,844

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 December 31, 2020, \$1,321,480 (September 30, 2020 - \$1,323,800) 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 proven future benefit can be demonstrated yet.

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	Significant unobservable inputs	Total
		Level 1	Level 2	Level 3	
December 31, 2020		\$	\$	\$	\$
Cash	(i)	7,157,759	-	-	7,157,759
September 30, 2020		\$	\$	\$	\$
Cash	(i)	1,073,838	-	-	1,073,838

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18. FINANCIAL INSTRUMENTS (Continued)

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 December 31, 2020, no amounts were held as collateral.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations when they become due. 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.

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(Expressed in Canadian dollars) (Unaudited)

18. FINANCIAL INSTRUMENTS (Continued)

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. At December 31, 2020, the Company held net financial liabilities of \$702,944 denominated in US dollars (US\$551,761). A 10% change in the foreign exchange rate would result in a change in the net loss for the period of approximately \$70,000.

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**

During the year ended September 30, 2019, a former director of the Company initiated a lawsuit against the Company. The former director claims that he is owed finder's fees and expense reimbursements from the Company for services rendered and expenses incurred in prior years. In the opinion of management, an outcome of the claim and any amounts payable by the Company cannot be reasonably estimated at this time.

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

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

b) Contract commitments

On September 30, 2018, the Company entered into an agreement with IBM Canada Ltd. to develop a global cannabis supply chain platform. The Company is committed to spend \$10,000,000 on development activities over a three-year period. If the Company terminates the agreement prior to its three-year anniversary, the Company will owe IBM Canada a payment equal to five percent of the outstanding committed spend which amounts to \$350,900. As at December 31, 2020, the Company has incurred cumulative fees of \$2,981,615 since inception of the project. These costs are expensed as research costs. No additional costs were incurred during the three month period ended December 31, 2020. As at December 31, 2020, the Company has \$2,048,315 payable to IBM Canada and included in trade and other payables.

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20. SUBSEQUENT EVENTS

- a) On January 8, 2021, the Company amended the terms related to 1,350,000 and 75,000 stock options that were to be fully vested on January 31, 2021 and April 30, 2021 respectively, to be fully vested on January 7, 2021.
- b) On January 8, 2021, the Company closed the sale of 1,240 miners included in assets held for sale at December 31, 2020. The miners were sold for \$4,393,749 (US \$3,366,600) before sales taxes. At December 31, 2020, \$4,625,260 (US \$3,534,930) was received as a refundable deposit for this sale and is included and recorded as deposits received.
- c) During January 2021, the Company issued 2,572,309 common shares related to the exercise of stock options for proceeds of \$901,558. In addition, 150,000 stock options previously outstanding were cancelled.
- d) During January 2021, the Company issued a total of 1,419,117 common shares upon the conversion of 1,419,117 shares of DMG-US, Inc. Class B common shares representing the remaining outstanding shares. As a result, the Company obtained 100% ownership of DMG-US Inc..
- e) During February 2021, the Company issued 242,309 common shares related to the exercise of stock options for proceeds of \$64,808.
- f) On February 12, 2021 the Company filed a preliminary short form base shelf prospectus relating to the following securities (collectively referred to as the "Securities") of the Company in one or more series or issuances, with a total offering price of such securities, in the aggregate, of up to \$100,000,000 in common shares, warrants, subscription receipts, units and debt securities. The Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale.