

DMG Blockchain Solutions Inc.

Condensed Consolidated Interim Financial Statements

For the Three Months Ended December 31, 2021

(Expressed in Canadian dollars)

(Unaudited)

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**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2021**

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

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

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

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

	Notes	As at December 31, 2021 (unaudited)	As at September 30, 2021 (audited)
ASSETS		\$	\$
Current			
Cash and cash equivalents		749,174	19,686,777
Amounts receivable		3,819,084	3,300,563
Digital currency	5	26,284,716	17,925,942
Prepaid expense and other current assets		583,390	426,600
Current portion of lease receivable		145,020	140,624
Amount recoverable		7,823,307	7,823,307
Marketable securities		503,835	486,615
Total current assets		39,908,526	49,790,428
Long-term deposits	6	30,966,056	24,368,883
Property and equipment	7	42,365,910	31,195,930
Long-term portion of lease receivable		-	36,312
Intangible assets		16,887	58,487
Long-term investments	8	5,696,850	5,677,650
Total assets		118,954,229	111,127,690
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Trade and other payables		4,651,844	4,123,241
Deferred revenue		1,114,675	1,151,496
Current portion of lease liability		197,523	173,372
Current portion of loans payable		291,880	291,881
Total current liabilities		6,255,922	5,739,990
Long-term lease liability		53,205	72,974
Total liabilities		6,309,127	5,812,964
Shareholders' Equity			
Share capital	9(a)	110,253,992	110,099,851
Reserves	9(b)(c)	42,311,072	41,057,232
Obligation to issue shares		-	7,538
Accumulated other comprehensive income (loss)		1,102,555	209,501
Accumulated deficit		(41,022,517)	(46,059,396)
Total shareholders' equity		112,645,102	105,314,726
Total liabilities and shareholders' equity		118,954,229	111,127,690
Commitments	15		
Subsequent event	16		

Approved on Behalf of the Board of Directors on March 23, 2022:

/s/ Steve Eliscu
Director

/s/ Sheldon Bennett
Director

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

DMG Blockchain Solutions Inc.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

(Unaudited)

	Notes	For the Three Months Ended	
		December 31, 2021	December 31, 2020
		\$	\$
Revenue	11	14,259,445	1,928,923
Expenses			
Operating and maintenance costs	12	2,751,571	1,504,655
General and administrative	12	1,009,294	534,990
Stock-based compensation		1,338,943	88,454
Research and development		298,960	40,771
Provision for doubtful accounts		12,384	1,491
Depreciation	7	3,483,100	259,811
Amortization of intangible assets		41,600	51,213
Total expenses		8,935,852	2,481,385
Income (loss) before other items		5,323,593	(552,462)
Other income (expense)			
Miscellaneous revenue		39,080	29,670
Gain (loss) on disposition of assets		1,788	(147,556)
Foreign exchange gain		(251,089)	(190,405)
Realized gain (loss) on sale of digital currency		(93,713)	167,362
Gain on change in fair value of marketable securities		17,220	-
Net income (loss)		5,036,879	(693,391)
Other comprehensive income			
Items that may be reclassified subsequently to income or loss:			
Unrealized revaluation gain on digital currency	5	883,805	556,201
Cumulative translation adjustment		9,249	116,203
Net income (loss) and comprehensive income (loss)		5,929,933	(20,987)
Net income (loss) attributable to:			
Shareholders		5,036,879	(670,845)
Non-controlling interest		-	(22,546)
		5,036,879	(693,391)
Basic and diluted income (loss) per share	9(d)	0.03	(0.01)
Weighted average number of shares outstanding	9(d)		
- basic		167,017,173	101,655,136
- diluted		170,109,125	101,655,136

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

DMG Blockchain Solutions Inc.

Condensed Consolidated Interim Statements of Changes in Equity

(Expressed in Canadian dollars except the number of shares)

(Unaudited)

	Number of common shares	Share Capital	Share-based payment reserve	Obligation to issue shares	Accumulated deficit	AOCI	Non- Controlling Interest	Total
		\$	\$	\$	\$	\$	\$	\$
Balance, September 30, 2020	100,344,414	43,287,828	6,349,923	-	(32,703,841)	300,819	(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)
Shares issued on 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	-
Share-based compensation expense recognized	-	-	88,454	-	-	-	-	88,454
Unrealized gain on digital currency revaluation	-	-	-	-	-	556,201	-	556,201
Net loss and comprehensive loss for the period	-	-	-	-	(670,845)	116,203	(22,546)	(577,188)
Balance December 31, 2020	108,354,096	44,806,736	6,716,450	-	(34,279,178)	973,223	(1,786,043)	16,431,188
Balance, September 30, 2021	166,887,002	110,099,851	41,057,232	7,538	(46,059,396)	209,501	-	105,314,726
Share-based compensation expense recognized	-	-	1,338,943	-	-	-	-	1,338,943
Shares issued on exercise of options	80,000	66,194	(26,694)	-	-	-	-	39,500
Shares issued on exercise of warrants	109,375	87,947	(58,409)	(7,538)	-	-	-	22,000
Unrealized gain on digital currency revaluation	-	-	-	-	-	883,805	-	883,805
Net income and comprehensive income for the period	-	-	-	-	5,036,879	9,249	-	5,046,128
Balance December 31, 2021	167,076,377	110,253,992	42,311,072	-	(41,022,517)	1,102,555	-	112,645,102

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

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

	December 31, 2021	December 31, 2020
OPERATING ACTIVITIES		
Net income (loss) for the year	5,036,879	(693,391)
Non-cash items:		
Accretion	2,351	2,985
Amortization of intangible assets	41,600	51,213
Depreciation	3,483,100	259,811
Share-based payments	1,338,943	88,454
Unrealized gain on revaluation of digital currency	883,805	-
Unrealized foreign exchange loss	129,116	-
Loss (gain) on sale of assets	(2,088)	147,556
Unrealized gain on marketable securities	(17,220)	-
Bad debt expense	12,384	1,491
Digital currency mining revenue	(12,686,878)	(523,448)
Non-cash interest income	(4,203)	(2,767)
Accrued interest	(33,569)	-
Changes in non-cash operating working capital:		
Prepaid expenses and other current assets	(156,790)	(5,041)
Amounts receivable	(644,566)	46,544
Deferred revenue	(36,820)	(23,127)
Trade and other payables	583,451	(54,292)
Digital currencies	(790,094)	380,749
Net cash used in operating activities	(2,860,599)	(323,263)
INVESTING ACTIVITIES		
Purchase of property and equipment	(14,654,670)	(12,899)
Proceeds on sale of equipment	3,675	173,795
Deposits on mining equipment	(6,597,173)	-
Deposits received	-	4,625,260
Proceeds from sublease	35,779	32,300
Principal lease payments	(48,495)	(38,030)
Digital currency sold	5,122,401	-
Net cash provided (used) by investing activities	(16,138,483)	4,780,426
FINANCING ACTIVITIES		
Proceeds from issuance of share capital	-	1,000,405
Share issuance costs	-	(59,215)
Proceeds from option exercises	39,500	501,875
Proceeds from warrant exercise	22,000	-
Repayment of loans payable	-	(525,239)
Net cash provided by financing activities	61,500	917,826
Impact of currency translation on cash	(22)	708,932
Change in cash	(18,937,604)	6,083,921
Cash, beginning	19,686,778	1,073,838
Cash, end	749,174	7,157,759

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

DMG Blockchain Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended December 31, 2021

(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, B.C. V0H 1E0. 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 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. The Company's shares are listed on the TSX-V under the symbol DMGI.

2. BASIS OF PRESENTATION

a) *Statement of compliance*

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting of the International Financial Reporting Standards" ("IFRS") as issued by the International Accounting Standards Board ("IASB") and follow the same accounting policies and methods of application as the Company's September 30, 2021, 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 unaudited condensed consolidated interim 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 financial statements from the date control is obtained. Intercompany balances, transactions, income, and expense are eliminated and gains or losses on intercompany transactions are eliminated. Where the Company does not own 100% of the subsidiary or associate, non-controlling interest is classified as a component of equity. The accounting policies of subsidiaries are the same as those of the Company.

Principal subsidiaries	Percentage ownership		Country of incorporation
	December 31, 2021	September 30, 2021	
DMG-US, Inc.	100%	100%	United States
Datient, Inc.	100% indirect through DMG-US	100% indirect through DMG-US	United States
DMG Blockchain Services Inc.	100%	100%	United States

c) *Basis of measurement*

The functional of DMG parent and DMG-US, Inc. is the Canadian dollar. The functional currency of Datient Inc. and DMG Blockchain Services Inc. is the US dollar, which is determined to be the currency of the primary economic environment in which the subsidiary operates. The reporting currency used in preparation of these interim financial statements is the Canadian dollar.

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

DMG Blockchain Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended December 31, 2021

(Expressed in Canadian dollars) (Unaudited)

2. BASIS OF PRESENTATION (Continued)

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

d) COVID-19

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

e) New IFRS pronouncements

New IFRS pronouncements that have been issued but are not yet effective at the date of these financial statements are listed below. These amendments will be applied in the annual period for which they are first required.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2

In January 2020, the IASB issued an amendment to IAS 1 Presentation of Financial Statements (IAS 1). The amendment applies to annual reporting periods beginning on or after January 1, 2023. The amendment clarifies the criteria for classifying a liability as non-current if there is the right to defer settlement of the liability for at least 12 months after the reporting period. Management will assess the impact of this standard.

In February 2021, the IASB issued an amendment to IAS 1 Presentation of Financial Statements (IAS 1) and IFRS Practice Statement 2. The amendment applies to annual reporting periods beginning on or after January 1, 2023. The amendment requires that an entity discloses its material accounting policies, instead of its significant accounting policies. The amendment also clarifies that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. Further, the amendment to IAS 1 clarifies that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, the Board also amended IFRS Practice Statement 2, 'Making Materiality Judgements', to provide guidance on how to apply the concept of materiality to accounting policy disclosures. This amendment is not expected to have a significant impact on the preparation of financial statements.

Amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37). The amendments clarify when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract – i.e. a full-cost approach. Such costs include both the incremental costs of the contract (i.e. – costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g. contract management and supervision, or depreciation of equipment used in fulfilling the contract. The amendments are effective for annual periods beginning on or after January 1, 2022.

DMG Blockchain Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended December 31, 2021

(Expressed in Canadian dollars) (Unaudited)

2. BASIS OF PRESENTATION (Continued)

There are no other IFRS's or International Financial Reporting Interpretations Committee interpretations that are not yet effective or early adopted that are expected to have a material impact on the Company.

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, 2021 and have been consistently followed in the preparation of these condensed consolidated interim financial statements.

4. USE OF JUDGMENTS AND ESTIMATES

In preparing these condensed consolidated interim financial statements, management has made judgments, estimates and assumptions that affect the applicable of the Company's accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted prospectively in the period in which the estimates are revised. In preparing these condensed consolidated interim financial statements, the significant estimates and critical judgments were the same as those applied to the annual financial statements as at and for the year ended September 30, 2021.

5. DIGITAL CURRENCY

At December 31, 2021 and September 30, 2021, the Company held bitcoins and ether as its digital currency. Bitcoins and ether are recorded at their fair value on the date they are received 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 relevant dates.

The continuity of digital currencies is as follows:

	BTC		ETH		TOTAL
	Units	\$	Units	\$	\$
Opening balance, September 30, 2020	67.32	966,005	-	-	966,005
Digital currency mined	88.83	3,823,293	-	-	3,823,293
Digital currency received on settlement of amounts receivable and loans receivable	21.03	1,250,362	45.34	64,917	1,315,279
Digital currency purchased	218.08	14,967,000	-	-	14,967,000
Digital currency sold	(70.00)	(955,003)	-	-	(955,003)
Digital currency revaluation	-	(2,298,337)	-	107,705	(2,190,632)
Opening balance, September 30, 2021	325.26	17,753,319	45.34	172,622	17,925,942
Digital currency mined	183.11	12,686,878	-	-	12,686,878
Interest income	0.06	4,203	-	-	4,203
Digital currency sold	(76.00)	(5,216,112)	-	-	(5,216,112)
Digital currency revaluation	-	845,379	-	38,426	883,805
Ending balance, December 31, 2021	432.43	26,073,667	45.34	211,048	26,284,716

6. LONG-TERM DEPOSITS

	December 31, 2021	September 30, 2021
Security deposits	\$ 1,323,872	\$ 1,447,009
Deposits on mining equipment	29,642,184	22,921,874
	\$ 30,966,056	\$ 24,368,883

DMG Blockchain Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended December 31, 2021

(Expressed in Canadian dollars)

(Unaudited)

7. PROPERTY AND EQUIPMENT

COST	Land	Construction in Progress	Power Substation	Data Centre	Computer and mining equipment	Furniture and other equipment	Motor Vehicle	Right of use Assets	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
As at September 30, 2020	413,000	22,162	3,627,008	10,956,604	1,489,978	34,612	6,999	323,742	16,874,105
Additions	-	514,563	-	16,447	19,593,921	73,525	-	69,516	20,267,972
Disposals	-	(41,525)	-	(412,093)	(460,852)	-	-	(57,422)	(971,892)
Reclassification	-	(174,279)	-	174,279	-	-	-	-	-
As at September 30, 2021	413,000	320,921	3,627,008	10,735,237	20,623,047	108,139	6,999	335,836	36,170,187
Additions	1,928,569	82,635	-	813,602	11,773,698	8,073	-	48,093	14,654,670
Disposals	-	(1,592)	-	-	-	-	-	-	(1,592)
Reclassification	-	(32,610)	-	32,610	-	-	-	-	-
As at December 31, 2021	2,341,569	369,354	3,627,008	11,581,449	32,396,745	116,212	6,999	383,929	50,823,265
ACCUMULATED DEPRECIATION									
As at September 30, 2020	-	-	283,716	1,728,813	1,273,091	13,786	1,962	302,422	3,603,790
Depreciation	-	-	131,308	751,818	936,553	6,158	1,320	20,528	1,847,685
Disposals	-	-	-	(93,664)	(326,565)	-	-	(56,991)	(477,220)
As at September 30, 2021	-	-	415,024	2,386,967	1,883,079	19,944	3,282	265,959	4,974,255
Depreciation	-	-	33,756	176,638	3,254,382	4,715	272	13,337	3,483,100
Disposals	-	-	-	-	-	-	-	-	-
As at December 31, 2021	-	-	448,780	2,563,605	5,137,461	24,659	3,554	279,296	8,457,355
NET BOOK VALUE									
As at September 30, 2021	413,000	320,921	3,211,984	8,348,270	18,739,913	88,195	3,717	69,877	31,195,930
As at December 31, 2021	2,341,569	369,354	3,178,228	9,017,844	27,259,284	91,553	3,445	104,633	42,365,910

DMG Blockchain Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended December 31, 2021

(Expressed in Canadian dollars)

(Unaudited)

8. LONG-TERM INVESTMENTS

	December 31, 2021	September 30, 2021
Convertible debentures of BOSONIC Inc.	\$ 2,598,816	\$ 2,579,616
Brane Inc.	3,000,000	3,000,000
Other	98,034	98,034
	\$ 5,696,850	\$ 5,677,650

On June 2, 2021, the Company purchased 8,000,000 units of Brane Inc. for \$3,000,000, representing a non-controlling interest in Brane Inc. Each unit consists of one common share and one warrant.

On July 2, 2021, the Company purchased a convertible debenture of BOSONIC Inc. for USD \$2,000,000. The convertible debenture is interest bearing at 5% per annum and matures on July 2, 2023. In the event that BOSONIC Inc. raises at least USD \$15,000,000 in new capital, the debenture will automatically convert into common shares of BOSONIC Inc. at a conversion price equal to:

- The product of 0.75 and the lowest price per share paid in the financing; or
- The price per share obtained by dividing USD \$200,000,000 by the total number of common shares of BOSONIC Inc. outstanding on a diluted basis.

9. 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, 2021

During the three months ended December 31, 2021, the Company issued 80,000 common shares in connection with the exercise of stock options for proceeds of \$39,500. As a result, \$26,694 has been reclassified from share-based payment reserve to share capital.

During the three months ended December 31, 2021, the Company issued 109,375 common shares in connection with the exercise of warrants for proceeds of \$22,000. As a result, \$58,409 has been reclassified from share-based payment reserve to share capital.

b) Stock options

Stock option activity for the three months ended December 31, 2021

On November 30, 2021, the Company issued 2,845,750 incentive stock options to employees of the Company. The options are exercisable at a price of \$1.20 per option expiring on November 30, 2024. These options had a fair value of \$0.97 per option using the Black Scholes model with the following inputs: i) exercise price: \$1.20; ii) share price: \$1.18; iii) term: 3.00 years; iv) volatility: 155%; v) discount rate: 0.95%. The options vest 25% on each of May 30, 2022, November 30, 2022, May 30, 2023, November 30, 2023. A portion of the vested value of these options was included in stock-based compensation and reserves for the three months ended December 31, 2021.

DMG Blockchain Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended December 31, 2021

(Expressed in Canadian dollars) (Unaudited)

9. SHARE CAPITAL AND RESERVES (Continued)

	Options outstanding and exercisable	Weighted average exercise price	Weighted average life remaining
		\$	
Balance, September 30, 2020	8,728,500	0.33	1.56
Issued	8,505,106	0.98	
Expired	(600,000)	0.50	
Exercised	(6,644,142)	0.32	
Cancelled / Forfeited	(1,710,812)	0.58	
Balance, September 30, 2021	8,278,652	0.93	2.36
Issued	2,845,750	1.20	
Exercised	(80,000)	0.49	
Cancelled / Forfeited	(142,144)	1.17	
Balance, December 31, 2021	10,902,258	1.00	2.32

The following table discloses the number of options outstanding as at December 31, 2021:

Number of options	Price per share	Expiry Date	Number of options vested
	\$		
257,691	0.35	November 9, 2022	257,691
465,000	0.15	November 12, 2022	465,000
200,000	3.00	March 15, 2023	150,000
2,965,000	0.65	December 31, 2023	2,965,000
200,000	2.49	March 31, 2024	150,000
1,743,817	1.41	April 26, 2024	871,909
2,225,000	0.84	July 28, 2024	556,250
2,845,750	1.20	November 30, 2024	-
10,902,258			5,415,850

c) Warrants

	Warrants outstanding and exercisable	Weighted average exercise price	Weighted average life remaining
		\$	
Balance, September 30, 2020	1,481,500	0.10	0.11
Granted	42,406,487	1.94	
Expired	(6,521,169)	0.19	
Balance, September 30, 2021	37,666,818	2.17	2.49
Exercised	(109,375)	0.22	
Balance, December 31, 2021	37,557,443	2.18	2.24

DMG Blockchain Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended December 31, 2021

(Expressed in Canadian dollars) (Unaudited)

9. SHARE CAPITAL AND RESERVES (Continued)

The following table discloses the number of warrants outstanding as at December 31, 2021:

Number of warrants	Exercise price per share	Expiry Date
	\$	
1,083,429	0.22	December 18, 2022
11,666,667	3.55	March 5, 2024
1,283,333	3.75	March 5, 2024
22,297,644	1.50	May 3, 2024
1,226,370	1.575	May 3, 2024
37,557,443		

d) Earnings per share

(i) Basic

Basic earnings per share is calculated by dividing the income attributable to equity owners of the Company by the weighted average number of shares in issue during the period.

	For the three months ended	
	December 31, 2021	December 30, 2020
	\$	\$
Net income (loss) for the period	5,036,879	(693,391)
Weighted average number of shares	167,015,773	101,655,136
Basic earnings per share	0.03	(0.01)

(ii) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potentially dilutive shares. Potentially dilutive shares relate to the exercise of outstanding stock options and warrants.

	For the three months ended	
	December 31, 2021	December 30, 2020
	\$	\$
Net income (loss) for the period	5,036,879	(693,391)
Weighted average number of shares	167,015,773	101,655,136
Effect of dilutive securities:		
Stock options	2,231,697	-
Warrants	861,655	-
Weighted average diluted shares outstanding	170,109,125	101,655,136
Diluted earnings per share	0.03	(0.01)

DMG Blockchain Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended December 31, 2021

(Expressed in Canadian dollars) (Unaudited)

10. 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,	
		2021	2020
Salaries, wages, and benefits	\$	197,561	\$ 174,960
Consulting services		13,250	46,300
Share-based compensation		828,427	72,584
Total	\$	1,039,238	\$ 293,844

(b) Related party balances

As at December 31, 2021, \$228,694 (September 30, 2021 – \$298,478) was owed to key management for outstanding salaries, wages and benefits, and consulting services and included in trade and other payables.

11. REVENUES

The Company's revenue is comprised of the following:

		For the three months ended	
		December 31, 2021	December 31, 2020
Digital currency mining	\$	12,686,878	\$ 523,448
Mining equipment hosting and set up service		1,150,532	1,379,976
Forensics and consulting income		10,000	25,499
Software license income		412,035	-
	\$	14,259,445	\$ 1,928,923

12. EXPENSES

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

		For the three months ended	
		December 31, 2021	December 31, 2020
Consulting	\$	24,155	\$ 53,512
General and administrative office expenses		13,395	234,434
Marketing, investor and public relations		72,762	4,558
Interest and bank charges		3,567	-
Insurance		29,515	-
Travel and entertainment		12,170	-
Professional fees		545,703	110,263
Regulatory and filing		41,974	-
Wages		266,053	132,223
	\$	1,009,294	\$ 534,990

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For the Three Months Ended December 31, 2021

(Expressed in Canadian dollars) (Unaudited)

12. EXPENSES (Continued)

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

	For the three months ended	
	December 31, 2021	December 31, 2020
Utilities	\$ 2,534,279	\$ 1,391,623
Contractors and other	108,127	23,296
Wages	109,165	89,736
	\$ 2,751,571	\$ 1,504,655

13. CAPITAL DISCLOSURES

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

14. 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, 2021								
Cash	\$	749,174	\$	-	\$	-	\$	749,174
Marketable securities (i)	\$	503,835	\$	-	\$	-	\$	503,835
Long-term investments	\$	-	\$	5,696,850	\$	-	\$	5,696,850
September 30, 2021								
Cash	\$	19,686,777	\$	-	\$	-	\$	19,686,777
Marketable securities (i)	\$	486,615	\$	-	\$	-	\$	486,615
Long-term investments	\$	-	\$	5,677,650	\$	-	\$	5,677,650

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).

DMG Blockchain Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended December 31, 2021

(Expressed in Canadian dollars) (Unaudited)

14. FINANCIAL INSTRUMENTS (Continued)

The level within which the financial asset or financial liability is classified is determined based on the lowest level of significant input to the fair value measurement. The Company's cash and marketable securities are categorized as Level 1. The long-term investments in unlisted private companies are measured using Level 2 inputs based on prices in recent financings.

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 condensed consolidated interim statements of financial position. At December 31, 2021, no amounts were held as collateral.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations when they become due. As at December 31, 2021, the Company has a working capital of \$33,652,604 and does not require any additional financing to meet short-term operating requirements. The Company's cash is held with large Canadian financial institutions and is available on demand. If there are additional cash requirements, the Company has the option to liquidate digital currencies to meet operating needs. These digital currencies are subject to fluctuations in the market price of digital currencies.

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.

DMG Blockchain Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended December 31, 2021

(Expressed in Canadian dollars) (Unaudited)

14. FINANCIAL INSTRUMENTS (Continued)

Foreign Currency Risk

Currency risk relates to the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign exchange rates. In addition, the Company mines bitcoin which have a market value stated in US dollars. Exchange rate fluctuations affect the costs that the Company incurs in its operations.

The Company's presentation currency is the Canadian dollar and major purchases are transacted in US dollars. As the Company operates in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the entity's functional currency. The fluctuation in foreign currencies in relation to the Canadian dollar will consequently impact the profitability of the Company and may also affect the value of the Company's assets and liabilities and the amount of shareholders' equity. At December 31, 2021, the Company held net financial assets of \$647,775 denominated in US dollars (US\$510,944). A 10% change in the foreign exchange rate would result in a change in the net loss for the period of approximately \$64,777.

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 exposed to price risk through its holding of Digital Currencies. As at December 31, 2021, the Company held bitcoin and ether which have a limited history and historically prices have been volatile. A significant change to the price of bitcoin may affect the Company's ability to liquidate digital currencies. A 30% variance in price of these digital currencies would impact the Company's comprehensive net loss by \$7,822,000 and \$63,000 respectively. The Company is not exposed to any other significant price risks with respect to its financial instruments other than its marketable securities and long term investment which are measured at fair value totaling \$6,200,685. A 10% change in the market price would result in a change in the net loss for the period of approximately \$620,000.

15. CONTINGENCIES

Subsequent to December 31, 2021, the Company signed a settlement agreement with a former director and paid a total of \$62,500 for the settlement of two claims.

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.

16. SUBSEQUENT EVENT

- a) On January 17, 2022, the Company issued 150,000 common shares related to the exercise of warrants for proceeds of \$33,000.