

DMG Blockchain Solutions Inc.

Condensed Consolidated Interim Financial Statements

For the three and six months ended March 31, 2022

(Expressed in Canadian Dollars)

(Unaudited)

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**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2022**

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 March 31, 2022 (unaudited) \$	As at September 30, 2021 (audited) \$
ASSETS			
Current			
Cash and cash equivalents		6,296,829	19,686,777
Amounts receivable		5,500,474	3,300,563
Digital currency	5	21,815,632	17,925,942
Prepaid expense and other current assets		529,407	426,600
Current portion of lease receivable		109,499	140,624
Amount recoverable		7,823,307	7,823,307
Marketable securities	6	1,094,399	486,615
Total current assets		43,169,547	49,790,428
Long-term deposits	7	22,214,841	24,368,883
Property and equipment	8	53,644,371	31,195,930
Assets held for sale	8	44,150	-
Long-term portion of lease receivable		-	36,312
Intangible assets		16,625	58,487
Long-term investments	9	5,690,355	5,677,650
Total assets		124,779,889	111,127,690
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Trade and other payables	10	3,924,812	4,123,241
Deferred revenue	13	5,315,959	1,151,496
Current portion of lease liability		180,497	173,372
Current portion of loans payable		291,880	291,881
Total current liabilities		9,713,148	5,739,990
Long-term lease liability		45,626	72,974
Total liabilities		9,713,148	5,812,964
Shareholders' Equity			
Share capital	11(a)	110,374,606	110,099,851
Reserves	11(b)(c)	42,837,193	41,057,232
Obligation to issue shares		-	7,538
Accumulated other comprehensive income		2,775,367	209,501
Accumulated deficit		(40,966,051)	(46,059,396)
Total shareholders' equity		115,021,115	105,314,726
Total liabilities and shareholders' equity		124,779,889	111,127,690
Contingencies	17		
Subsequent event s	18		

Approved on Behalf of the Board of Directors on May 30, 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		For the Six Months Ended	
		March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
		\$	\$	\$	\$
Revenue	13	11,899,546	2,496,452	26,158,991	4,425,375
Expenses					
Operating and maintenance costs	14(b)	3,243,567	1,713,424	5,995,138	3,218,079
General and administrative	14(a)	1,413,736	1,397,358	2,423,030	1,932,348
Stock-based compensation		613,735	633,278	1,952,678	721,732
Research and development		289,983	49,280	588,943	90,051
Provision for doubtful accounts		15,337	5,378	27,721	6,869
Depreciation	8	4,822,136	236,087	8,305,236	495,898
Amortization of intangible assets		263	51,212	41,863	102,425
Total expenses		10,398,757	4,085,017	19,334,609	6,567,402
Income (loss) before other items		1,500,789	(1,589,565)	6,824,382	(2,142,027)
Other income (expense)					
Miscellaneous revenue		68,251	42,344	107,331	72,014
Gain on disposition of assets		-	1,543,138	1,788	1,395,582
Foreign exchange gain (loss)		(96,112)	3,169	(347,201)	(187,236)
Gain on write-down of accounts payable	10	2,050,827	-	2,050,827	-
Realized gain (loss) on sale of digital currency		(3,057,853)	-	(3,151,566)	167,362
Loss on change in fair value of marketable securities		(409,436)	-	(392,216)	-
Net income (loss)		56,466	(914)	5,093,345	(694,305)
Other comprehensive income					
Items that may be reclassified subsequently to income or loss:					
Unrealized revaluation gain on digital currency	5	1,619,615	2,393,421	2,503,420	3,274,631
Cumulative translation adjustment		53,197	(216,544)	62,446	(164,560)
Comprehensive income		1,729,278	2,175,963	7,659,211	2,415,766
Net income (loss) attributable to:					
Shareholders		56,466	(914)	5,093,345	(691,579)
Non-controlling interest		-	-	-	(2,726)
Basic and diluted income (loss) per share	11(d)	0.00	(0.00)	0.03	(0.01)
Weighted average number of shares outstanding	11(d)				
- basic		167,199,710	113,847,737	167,107,437	110,461,449
- diluted		167,199,710	113,847,737	169,065,696	110,461,449

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	29,218,069	50,907,193	20,093,214	-	-	-	-	71,000,407
Share issuance costs	-	(7,324,184)	2,645,519	-	-	-	-	(4,678,665)
Shares issued on exercise of options	5,018,697	3,078,188	(1,478,887)	20,625	-	-	-	1,619,926
Shares issued on exercise of warrants	1,481,500	1,013,346	(865,196)	-	-	-	-	148,150
Conversion of DMG US Class B common shares	1,861,564	1,489,077	-	-	(3,805,875)	-	2,316,798	-
Share-based compensation expense recognized	-	-	721,732	-	-	-	-	721,732
Unrealized gain on digital currency revaluation	-	-	-	-	-	3,274,631	-	3,274,631
Net loss and comprehensive loss for the period	-	-	-	-	(691,579)	(164,560)	(2,725)	(858,864)
Balance March 31, 2021	137,924,244	92,451,448	27,466,305	20,625	(37,201,295)	3,410,890	-	86,147,973
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	-	-	1,952,678	-	-	-	-	1,952,678
Shares issued on exercise of options	80,000	66,194	(26,694)	-	-	-	-	39,500
Shares issued on exercise of warrants	259,375	208,561	(146,023)	(7,538)	-	-	-	55,000
Unrealized gain on digital currency revaluation	-	-	-	-	-	2,503,420	-	2,503,420
Net income and comprehensive income for the period	-	-	-	-	5,093,345	62,446	-	5,155,791
Balance March 31, 2022	167,226,377	110,374,606	42,837,193	-	(40,966,051)	2,775,367	-	115,021,115

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)

	For the Six Months Ended	
	March 31, 2022	March 31, 2021
	\$	\$
OPERATING ACTIVITIES		
Net income (loss) for the period	5,093,345	(694,305)
Non-cash items:		
Accretion	4,755	5,992
Amortization of intangible assets	41,863	102,425
Depreciation	8,305,236	495,898
Share-based payments	1,952,678	721,732
Unrealized loss on revaluation of digital currency	2,503,420	(3,274,631)
Unrealized foreign exchange loss	186,553	-
Gain on sale of assets	(2,088)	(1,395,582)
Gain on write-down of accounts payable	(2,050,827)	-
Unrealized loss on marketable securities	392,216	-
Bad debt expense	27,721	6,869
Digital currency mining revenue	(22,950,448)	(691,507)
Non-cash interest income	(3,878)	(5,322)
Accrued interest	(65,652)	17,108
Changes in non-cash operating working capital:		
Prepaid expenses and other current assets	(102,807)	(1,004,792)
Amounts receivable	(3,432,549)	(347,799)
Deferred revenue	4,164,463	622
Trade and other payables	2,118,409	75,958
Digital currencies	392,002	(13,730,385)
Net cash used in operating activities	(3,488,088)	(19,717,719)
INVESTING ACTIVITIES		
Purchase of property and equipment	(3,259,407)	(99,559)
Proceeds on sale of equipment	3,675	4,451,061
Deposits on mining equipment	(25,385,968)	(12,606,000)
Proceeds from sublease	72,570	65,040
Digital currency sold	18,672,457	-
Net cash used by investing activities	(9,896,673)	(8,189,458)
FINANCING ACTIVITIES		
Proceeds from issuance of share capital	-	71,000,407
Share issuance costs	-	(4,678,665)
Proceeds from option exercises	39,500	1,619,926
Proceeds from warrant exercise	55,000	148,150
Due from related parties	-	(80,000)
Principal lease payments	(99,536)	(78,632)
Repayment of loans payable	-	(1,943,810)
Net cash provided by (used in) financing activities	(5,036)	66,066,008
Impact of currency translation on cash	(151)	3,221,309
Change in cash	(13,389,948)	38,080,199
Cash, beginning	19,686,777	1,073,838
Cash, end	6,296,829	42,375,346

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 and Six Months Ended March 31, 2022

(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 currency 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 and Six Months Ended March 31, 2022

(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, and is not expected to have a significant impact.

DMG Blockchain Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months Ended March 31, 2022

(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 application 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 March 31, 2022 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	379.08	22,950,448	-	-	22,950,448
Mining pool fees	4.65	256,320	-	-	256,320
Interest income	0.06	3,878	-	-	3,878
Digital currency sold	(337.07)	(21,824,023)	-	-	(21,824,023)
Digital currency revaluation	-	2,490,034	-	13,385	2,503,419
Exchange differences	-	(352)	-	-	(352)
Ending balance, March 31, 2022	371.98	21,629,624	45.34	186,008	21,815,632

DMG Blockchain Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months Ended March 31, 2022

(Expressed in Canadian Dollars) (Unaudited)

6. MARKETABLE SECURITIES

Marketable securities are recorded at their fair value at the end of each reporting period. The fair values of the common shares of publicly traded companies have been directly referenced to published price quotations in an active market. A continuity of the Company's marketable securities is as follows:

	March 31, 2022	September 30, 2021
Fair value, opening	\$ 486,615	\$ -
Shares of INX Ltd. received	1,000,000	625,300
Loss on fair value change of marketable securities	(392,216)	(138,685)
	\$ 1,094,399	\$ 486,615

During the six months ended March 31, 2022, the Company received 800,000 shares of INX Ltd. reclassified from amounts receivable. On

7. LONG-TERM DEPOSITS

	March 31, 2022	September 30, 2021
Security deposits	\$ 1,346,011	\$ 1,447,009
Deposits on mining equipment	20,868,830	22,921,874
	\$ 22,214,841	\$ 24,368,883

DMG Blockchain Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months Ended March 31, 2022

(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, 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	293,532	-	848,417	27,593,328	17,199	-	74,222	30,755,267
Disposals	-	(1,592)	-	-	-	-	-	-	(1,592)
Reclassification	-	(361,544)	-	289,900	-	71,644	-	-	-
As at March 31, 2022	2,341,569	251,317	3,627,008	11,873,554	48,216,375	196,982	6,999	410,058	66,923,862
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	-	-	67,176	353,478	7,843,977	9,666	524	30,415	8,305,236
As at March 31, 2022	-	-	482,200	2,740,445	9,727,056	29,610	3,806	296,374	13,279,491
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 March 31, 2022	2,341,569	251,317	3,144,808	9,133,109	38,489,319	167,372	3,193	113,684	53,644,371

During the six-months ended March 31, 2022, a vendor of the Company completed the construction of a container for a customer commissioned by the Company. As payment was not received from this customer, the Company paid for the container and committed to sell it during the year. The value of this container at March 31, 2022, was \$44,150.

DMG Blockchain Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months Ended March 31, 2022

(Expressed in Canadian Dollars) (Unaudited)

9. LONG-TERM INVESTMENTS

		March 31, 2022		September 30, 2021
Convertible debentures of BOSONIC Inc.	\$	2,592,321	\$	2,579,616
Brane Inc.		3,000,000		3,000,000
Other		98,034		98,034
	\$	5,690,355	\$	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:

- a. The product of 0.75 and the lowest price per share paid in the financing; or
- b. 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.

10. TRADE AND OTHER PAYABLES

Trade and other payables are comprised of the following:

		March 31, 2022		September 30, 2021
Trade payables and accrued liabilities	\$	3,418,975	\$	3,733,941
Trade payables and accrued liabilities - related parties (Note 11)		477,515		298,478
Sales taxes payable		90,822		90,822
	\$	3,987,312	\$	4,123,241

During the six months ended March 31, 2022, the Company recognized a gain on the write-off of accounts payable of \$2,050,827 related to accounts that had previously been accrued, and recently passed the statute of limitations.

11. 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 six months ended March 31, 2022

During the six months ended March 31, 2022, 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 six months ended March 31, 2022, the Company issued 259,375 common shares in connection with the exercise of warrants for proceeds of \$55,000. As a result, \$146,023 has been reclassified from share-based payment reserve to share capital.

DMG Blockchain Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months Ended March 31, 2022

(Expressed in Canadian Dollars) (Unaudited)

11. SHARE CAPITAL AND RESERVES (Continued)

b) Stock options

Stock option activity for the six months ended March 31, 2022

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.

	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	(1,516,650)	1.02	
Balance, March 31, 2022	9,527,752	1.00	1.30

The following table discloses the number of options outstanding as at March 31, 2022:

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	200,000
2,615,000	0.65	December 31, 2023	2,615,000
200,000	2.49	March 31, 2024	200,000
1,598,511	1.41	April 26, 2024	1,198,883
1,915,000	0.84	July 28, 2024	957,500
2,276,550	1.20	November 30, 2024	-
9,527,752			5,894,074

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	(259,375)	0.22	
Balance, March 31, 2022	37,407,443	2.19	1.25

DMG Blockchain Solutions Inc.

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11. SHARE CAPITAL AND RESERVES (Continued)

The following table discloses the number of warrants outstanding as at March 31, 2022:

Number of warrants	Exercise price per share	Expiry Date
	\$	
933,429	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
37,407,443		

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		For the Six Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
	\$	\$	\$	\$
Net income (loss) for the period	56,466	(914)	5,093,345	(694,305)
Weighted average number of shares	167,199,710	113,847,737	167,107,437	110,461,449
Basic earnings (loss) per share	0.00	(0.00)	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		For the Six Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
	\$	\$	\$	\$
Net income (loss) for the period	56,466	(914)	5,093,345	(694,305)
Weighted average number of shares	167,199,710	113,847,737	167,107,437	110,461,449
Effect of dilutive securities:				
Stock options	-	-	1,257,936	-
Warrants	-	-	700,323	-
Weighted average diluted shares outstanding	167,199,710	113,847,737	169,065,696	110,461,449
Diluted earnings (loss) per share	0.00	(0.00)	0.03	(0.01)

Options to purchase 4,275,061 common shares at a weighted average \$1.42 per share were issued and outstanding during the period ended March 31, 2022 but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. The options, which expire on March 15, 2023 (200,000), March 31, 2024 (200,000), April 26, 2024 (1,598,511), and November 30, 2024 (2,276,550) were still outstanding as at March 31, 2022.

DMG Blockchain Solutions Inc.

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11. SHARE CAPITAL AND RESERVES (Continued)

Warrants exercisable to purchase 36,474,014 common shares at a weighted average \$2.24 per share were issued and outstanding during the period ended March 31, 2022 but were not included in the computation of diluted EPS because the warrants' exercise price was greater than the average market price of the common shares. The warrants, which expire on March 5, 2024 (12,950,000) and May 3, 2024 (23,524,014) were still outstanding as at March 31, 2022.

12. 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 six months ended March 31,	
		2022	2021
Salaries, wages, and benefits	\$	410,023	\$ 858,380
Consulting services		22,250	17,300
Share-based compensation		1,557,399	461,799
Total	\$	1,989,672	\$ 1,337,479

(b) Related party balances

As at March 31, 2022, \$477,515 (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.

13. REVENUES

The Company's revenue is comprised of the following:

	For the Three Months Ended		For the Six Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
	\$	\$	\$	\$
Digital currency mining	10,263,570	168,058	22,950,448	691,507
Mining equipment hosting and set up service	973,536	1,664,893	2,124,068	3,044,869
Mining pool fees	256,320	-	256,320	-
Forensics and consulting income	-	38,201	10,000	63,699
Software license income	406,120	625,300	818,155	625,300
	11,899,546	2,496,452	26,158,991	4,425,375

The Company's deferred revenue consists of the following:

		As at		As at
		March 31, 2022		September 30, 2021
Customer deposits on contracts	\$	5,169,081	\$	927,371
Unearned revenue on licensing agreement		128,945		191,640
Other		17,933		32,485
	\$	5,315,959	\$	1,151,496

DMG Blockchain Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months Ended March 31, 2022

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13. REVENUES (Continued)

Included in customer deposits on contracts is \$3,510,562 relating to the purchase of miners from the Company, \$100,230 related to the purchase of equipment, \$840,397 relating to hosting clients, and \$685,850 relating to a purchase of digital currency.

14. EXPENSES

a) General and Administrative Expense

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

	For the Three Months Ended		For the Six Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
	\$	\$	\$	\$
Consulting	15,325	34,255	39,480	87,768
General and administrative office expenses	5,499	398,311	18,894	632,744
Marketing, investor, and public relations	58,292	36,103	131,054	40,661
Interest and bank charges	3,482	-	7,049	-
Insurance	35,922	-	65,437	-
Travel and entertainment	11,837	-	24,007	-
Professional fees	847,285	166,540	1,392,988	276,803
Regulatory and filing	96,907	-	138,881	-
Wages	401,687	762,149	667,740	894,372
	1,476,236	1,397,370	2,485,530	1,932,348

b) Operating and maintenance costs

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

	For the Three Months Ended		For the Six Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
	\$	\$	\$	\$
Utilities	3,089,346	1,484,122	5,623,625	2,875,753
Contractors and other	47,844	6,500	155,971	29,788
Wages	106,377	222,802	215,542	312,538
	3,243,567	1,713,424	5,995,138	3,218,079

15. CAPITAL DISCLOSURES

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

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For the Three and Six Months Ended March 31, 2022

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16. FINANCIAL INSTRUMENTS

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

	Quoted prices in active markets for identical instruments Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Total
March 31, 2022				
Cash	\$ 6,296,829	\$ -	\$ -	\$ 6,296,829
Marketable securities	\$ 1,094,399	\$ -	\$ -	\$ 1,094,399
Long-term investments	\$ -	\$ -	\$ 5,690,355	\$ 5,690,355
September 30, 2021				
Cash	\$ 19,686,777	\$ -	\$ -	\$ 19,686,777
Marketable securities	\$ 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).

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 March 31, 2022, no amounts were held as collateral.

DMG Blockchain Solutions Inc.

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16. FINANCIAL INSTRUMENTS (Continued)

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations when they become due. As at March 31, 2022, the Company has a working capital of \$32,685,374 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. The current value of these securities as at March 31, 2022 is \$21,815,632, based on subsequent prices may be valued at significantly less. The Company is currently set-up to maintain positive cashflow in the event of further decline of digital currency prices. In the event where the Company cannot rely upon the liquidation of digital currencies to meet operating needs, the Company will have to explore debt financing opportunities of which there is no guarantee of the receipt of funds to cover operations.

Market Risk

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

Interest Rate Risk

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

Foreign Currency Risk

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

The Company's presentation currency is the Canadian dollar and major purchases are transacted in US dollars. As the Company operates in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the entity's functional currency. The fluctuation in foreign currencies in relation to the Canadian dollar will consequently impact the profitability of the Company and may also affect the value of the Company's assets and liabilities and the amount of shareholders' equity. At March 31, 2022, the Company held net financial assets of \$3,676,903 denominated in US dollars (US\$2,942,464). A 10% change in the foreign exchange rate would result in a change in the net income for the period of approximately \$368,000.

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 exposed to price risk through its holding of Digital Currencies. As at March 31, 2022, 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 40% variance in price of these digital currencies would impact the Company's comprehensive net loss by \$8,651,000 and \$74,000 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 \$6,784,754. A 20% change in the market price would result in a change in the net loss for the period of approximately \$1,357,000.

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17. CONTINGENCIES

During the six months ended March 31, 2022, 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.

18. SUBSEQUENT EVENTS

Subsequent to March 31, 2022, the Company issued 30,000 common shares related to the exercise of stock options for proceeds of \$4,500.

On May 9, 2022, the Company granted 2,730,000 stock options to employees, consultants and directors of the Company. The options are exercisable at \$0.39 per share for a period of five years. The options vest 25% on each of the six, twelve, eighteen and twenty-four months following the date of issuance.

Subsequent to March 31, 2022, the Company arranged the purchase and sale of 313 S19 Antminers for the proceeds of \$3,510,562 (USD \$2,808,000). The sale of these miners will not affect the overall plans for the Company's miner hashrate growth.