

Graph Blockchain Limited

Financial Statements

For the Period from the Date of Incorporation (November 22, 2017) to April 30, 2018
(Expressed in Canadian dollars)

Financial Statements

| | |
|--|------|
| Independent Auditors' Report | 2 |
| Statement of Financial Position | 3 |
| Statement of Loss and Comprehensive Loss | 4 |
| Statement of Changes in Shareholders' Equity | 5 |
| Statement of Cash Flows | 6 |
| Notes to Financial Statements | 7-19 |

Independent Auditors' Report

To the Shareholders of Graph Blockchain Limited:

Opinion on the Financial Statements

We have audited the accompanying financial statements of Graph Blockchain Limited, which comprise the statement of financial position as at April 30, 2018, and the statement of loss and comprehensive loss, changes in shareholders' equity and cash flows for the period from the date of incorporation (November 22, 2017) to April 30, 2018, and the related notes, comprising a summary of significant accounting policies and other explanatory information (collectively referred to as the financial statements).

In our opinion, the financial statements present fairly, in all material respects, the financial position of Graph Blockchain Limited as at April 30, 2018, and its financial performance and its cash flows for the period from the date of incorporation (November 22, 2017) to April 30, 2018, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to error or fraud. Those standards also require that we comply with ethical requirements, including independence. We are required to be independent with respect to Graph Blockchain Limited in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We are a public accounting firm registered with PCAOB.

An audit involves performing procedures to assess the risks of material misstatements of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such include obtaining and examining, on a test basis, audit evidence regarding the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error or fraud. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Graph Blockchain Limited is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies and principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a reasonable basis for our audit opinion.

MNP LLP

Licensed Public Accountants
Chartered Professional Accountants

We have served as Graph Blockchain Limited's auditor since 2018.

Toronto, Canada
March 13, 2019

MNP

Graph Blockchain Limited

Statement of Financial Position

(Expressed in Canadian dollars)

| | As at April 30, 2018 \$ |
|---|-------------------------------|
| Assets | |
| Current assets | |
| Cash and cash equivalents | 2,821,279 |
| Trade and other receivables (note 10) | 163,517 |
| Prepaid expenses and other assets | <u>330,856</u> |
| Total current assets | 3,315,652 |
| Property and equipment, net (note 5) | <u>20,487</u> |
| Total assets | <u>3,336,139</u> |
| Liabilities and shareholders' equity | |
| Current liabilities | |
| Accounts payable and accrued liabilities | 176,879 |
| Contract liabilities (note 2) | <u>10,000</u> |
| | 186,879 |
| Total liabilities | <u>186,879</u> |
| Shareholders' equity | |
| Share capital (note 7) | 5,197,960 |
| Reserves (note 7) | 75,865 |
| Deficit | <u>(2,124,565)</u> |
| Total shareholders' equity | <u>3,149,260</u> |
| Total liabilities and shareholders' equity | <u>3,336,139</u> |

Approved and authorized for issue by the Board of Directors on March 13, 2019.

Signed "Jeff Steves" Chief Executive Officer Signed "David Posner" Director

The accompanying notes are an integral part of the financial statements.

Graph Blockchain Limited

Statement of Loss and Comprehensive Loss

(Expressed in Canadian dollars, except number of common shares)

| | November 22, 2017 to April 30, 2018 \$ |
|--|---|
| Revenue | |
| Service revenue (note 2) | - |
| Expenses | |
| Salaries, benefits and management fees (note 9) | 106,176 |
| Office and general (note 9) | 196,237 |
| Other operating expenses | 393,903 |
| Depreciation | 981 |
| Share based consulting fees (note 9) | 1,049,956 |
| Share based compensation (notes 7 and 9) | <u>377,595</u> |
| | 2,124,848 |
| Loss before undernoted items | (2,124,848) |
| Foreign exchange gain | <u>(283)</u> |
| Net loss and comprehensive loss | <u>(2,124,565)</u> |
| Weighted average number of common shares (note 8) | <u>84,572,847</u> |
| Basic and diluted loss per share (note 8) | <u>(0.025)</u> |

The accompanying notes are an integral part of the financial statements.

Graph Blockchain Limited

Statement of Changes in Shareholders' Equity

(Expressed in Canadian dollars, except number of common shares)

| | <u>Common Shares</u> | | | Reserves | Deficit | Accumulated other comprehensive income | Total |
|---|----------------------|------------------|---------------|--------------------|---------|---|------------------|
| | Number | Amount \$ | \$ | | | | |
| Balance – November 22, 2017 | - | - | - | - | - | - | - |
| Net loss for the period | - | - | - | (2,124,565) | - | - | (2,124,565) |
| Shares issued to founders in exchange for cash consideration | 24,219,524 | 400,000 | - | - | - | - | 400,000 |
| Shares issued to founders in exchange for services rendered | 9,990,553 | 165,000 | - | - | - | - | 165,000 |
| Shares issued under private placement | 42,803,417 | 3,455,376 | - | - | - | - | 3,455,376 |
| Share issuance costs for private placement | - | (124,146) | - | - | - | - | (124,146) |
| Broker warrants issued under private placement | - | (75,865) | 75,865 | - | - | - | - |
| Shares issued in exchange for management consulting fees | 12,109,762 | 1,000,000 | - | - | - | - | 1,000,000 |
| Share based compensation | 19,981,107 | 377,595 | - | - | - | - | 377,595 |
| Balance – April 30, 2018 | 109,104,363 | 5,197,960 | 75,865 | (2,124,565) | - | - | 3,149,260 |

The accompanying notes are an integral part of the financial statements.

Graph Blockchain Limited

Statements of Cash Flows

(Expressed in Canadian dollars)

| | November 22, 2017 to April 30, 2018 \$ |
|--|---|
| Cash flows from (used in) operating activities | |
| Net loss | (2,124,565) |
| Adjustments to reconcile net loss to operating cash flow | |
| Depreciation of property and equipment (note 5) | 981 |
| Management consulting fees (notes 7 and 9) | 884,956 |
| Shares issued to founders in exchange for services rendered (note 7) | 165,000 |
| Share based compensation (notes 7 and 9) | 377,595 |
| Net change in operating assets and liabilities (note 6) | <u>(192,450)</u> |
| | <u>(888,483)</u> |
| Cash flows used in investing activities | |
| Purchase of property and equipment (note 5) | (21,468) |
| Cash flows from financing activities | |
| Proceeds from issuance of share capital (note 7) | 3,731,230 |
| Increase (decrease) in cash and cash equivalents | 2,821,279 |
| Cash and cash equivalents, beginning of period | <u>-</u> |
| Cash and cash equivalents, end of period | <u>2,821,279</u> |

The accompanying notes are an integral part of the financial statements.

Graph Blockchain Limited

Notes to Financial Statements

For the Period from the Date of Incorporation (November 22, 2017) to April 30, 2018
(Expressed in Canadian dollars, except share and unit information)

1 Description of business and organization

Graph Blockchain Limited (the “Company” or “Graph”) is a privately held company that was founded as a joint venture between Datametrex AI Limited and Bitnine Global Inc. and incorporated in the province of Ontario on November 22, 2017. The Company is domiciled in Canada and the address of its registered office is 2161 Yonge St. Suite 210, Toronto, Ontario, M4S 3A6 Canada.

The Company is a blockchain development company that provides high performance private blockchain solutions that include graphic data analysis and consulting services, implementation of data mining analysis through the use of graph databases and speed enhancements of blockchain control systems for corporations and government agencies.

2 Significant accounting policies

Basis of presentation and statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively “IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The financial statements were approved and authorized for issuance by the Company’s Board of Directors on March 13, 2019. The financial statements are presented in Canadian dollars which is also the Company’s functional currency. The Company has one wholly-owned entity, the South Korean branch of Graph Blockchain Limited with a Korean Won functional currency. The accounting policies have been applied consistently in these financial statements, unless otherwise indicated.

Operating segments

Management has determined that the Company operates in two reportable operating segments based on geographical region. The Company provides blockchain services with a head office located in Canada (“Graph Canada”) and a branch located in the Republic of Korea (“Graph Korea”). As of April 30, 2018, there is no operation or activities within the South Korean branch.

Cash and cash equivalents

Cash and cash equivalents include cash deposit in financial institutions which are readily convertible into cash.

Revenue from contracts with customers

The Company early adopted IFRS 15, Revenue from Contracts with Customers (“IFRS 15”) upon incorporation. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control over a product or service to a customer.

Nature of goods and services

Graph Blockchain Limited

Notes to Financial Statements

For the Period from the Date of Incorporation (November 22, 2017) to April 30, 2018
(Expressed in Canadian dollars, except share and unit information)

The following is a description of principal activities – separated by reportable segments – from which the Company generates its revenue. For more detailed information about reportable segments, see note 4.

a) Graph Canada

The Graph Canada segment of the Company principally generated revenue from providing blockchain planning and consulting services for a Canadian customer who is in the process of considering the adoption of blockchain technology in their businesses. During the period ended April 30, 2018, total revenue recognized is \$nil. Billings or payments received from customers in advance of revenue recognition are recorded as contract liabilities on the statement of financial position, \$10,000 was recognized as contract liabilities as of April 30, 2018.

| Products and service | Nature, timing of satisfaction of performance obligations and significant payment terms |
|---|---|
| Development plan and budget for the blockchain platform | The Company recognizes revenue at the point in time when a customer takes control of the project development plan and budget. |

b) Graph Korea

The Graph Korea segment of the Company will principally develop prototype blockchain solutions for customers based in the Republic of Korea through its distribution partner located in the region. During the period ended April 30, 2018, total revenue recognized is \$nil.

| Products and service | Nature, timing of satisfaction of performance obligations and significant payment terms |
|--|--|
| Prototype blockchain solution services | Under the contracts between a distribution partner and a customer, the Company controls the work in progress as the prototypes are being built. Revenue is recognized at the point in time when the customer takes control of the prototype. |

Revenue and costs to obtain or fulfil contracts with customers

Revenue is recognized when a customer obtains control of promised goods or services. The Company follows the below criteria when assessing whether control has been obtained by a customer:

- (a) The Company has a present right to payment; and
- (b) The customer obtains legal title; and
- (c) The Company has transferred physical possession of the goods or services; and
- (d) The customer has the significant risks and rewards of ownership of the goods or services; and
- (e) The customer has accepted the goods or services.

Financial instruments

The Company adopted IFRS 9, Financial Instruments (“IFRS 9”) upon incorporation. IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Graph Blockchain Limited

Notes to Financial Statements

For the Period from the Date of Incorporation (November 22, 2017) to April 30, 2018
(Expressed in Canadian dollars, except share and unit information)

a) Classification of financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets are classified and measured based on the three categories: amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL"). Financial liabilities are classified and measured in two categories: amortized cost or FVTPL. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated, but the hybrid financial instrument as a whole is assessed for classification.

The following table summarizes the classification of the financial instruments upon the adoption of IFRS 9:

| | Classification |
|--|----------------|
| Cash and cash equivalents | FVTPL |
| Trade and other receivables | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |
| Contract liabilities | Amortized cost |

b) Impairment of financial assets

IFRS 9 uses a forward-looking "expected credit loss" ("ECL") model to measure the impairment loss of financial assets. The ECL model requires judgement, including consideration of how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model is applied, at each reporting date, to the Company's financial assets measured at amortized cost. Impairment losses are recorded in office and general expenses with the carrying amount of the financial asset reduced through the use of impairment allowance accounts.

Critical Accounting Estimates and Judgments

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions. These estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and activities that the Company may undertake in the future. Actual results could differ materially from these estimates. Areas requiring estimates and judgements include timing of recognizing revenue and valuation of equity instruments issued under share-based payment arrangements.

Revenue recognition

The Company uses judgment to assess whether contracts contain multiple products and services sold and whether these should be considered distinct and accounted as separate performance obligations or together. Estimates are required when allocating revenue where multiple performance obligations exist in a contract. Judgment is required as to determining when control of the product has been transferred to the customer.

Share-based payment

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires

Graph Blockchain Limited

Notes to Financial Statements

For the Period from the Date of Incorporation (November 22, 2017) to April 30, 2018
(Expressed in Canadian dollars, except share and unit information)

determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

Estimates

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive loss in the year of the change, if the change affects that year only, or in the year of the change and future years, if the changes affects both.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Assets under capital leases are recorded at the present value of the minimum future lease payments at the time of inception. Gains and losses arising on the disposal of individual assets are recognized in income in the period of disposal. Costs, including financing charges and certain design, construction and installation costs, related to assets that are under construction and are in the process of being readied for their intended use are recorded as construction in progress and are not subject to amortization.

Depreciation, which is recorded from the date on which each asset is available for service, is generally provided for on a straight-line basis over the estimated useful lives of the property, plant and equipment as follows:

| | |
|--------------------------------|---------|
| Computer equipment | 2 years |
| Office equipment and furniture | 5 years |

Maintenance and repairs are charged to expense as incurred. Renewals and betterments, which materially prolong the useful lives of the assets, are capitalized. The cost and related accumulated depreciation of property retired or sold are removed from the accounts, and gains or losses are recognized in the statement of loss and comprehensive loss.

Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated using discounted cash flows.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For any other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Graph Blockchain Limited

Notes to Financial Statements

For the Period from the Date of Incorporation (November 22, 2017) to April 30, 2018
(Expressed in Canadian dollars, except share and unit information)

Leases

Leases entered into by the Company in which substantially all of the benefits and risks of ownership are transferred to the Company are recorded as obligations under capital leases and under the corresponding category of property and equipment. Obligations under capital leases reflect the present value of future lease payments, discounted at an appropriate interest rate, and are reduced by rental payments, net of imputed interest. Property and equipment under capital leases are depreciated based on the effective useful lives of the assets. All other leases are classified as operating leases and leasing costs, including any rent holidays, leaseholds incentives, and rent concessions, are amortized on a straight-line basis over the lease term.

Income taxes

Income tax expense (benefit) comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, temporary differences related to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future, and taxable temporary differences arising on the initial recognition of goodwill.

Share based compensation

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as share based compensation in the statements of comprehensive loss, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. Share-based payment arrangements granted to non-employees are valued at the fair value of the goods or service received, measured at the date on which the goods are received, or the services are rendered. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure the value and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted, which the Company does using the Black-Scholes option-pricing model.

The increase in equity recognized in connection with a share based payment transaction is presented in the "Reserves" line item on the statements of financial position, as separate component in equity. For share-based payment awards with market conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Graph Blockchain Limited

Notes to Financial Statements

For the Period from the Date of Incorporation (November 22, 2017) to April 30, 2018
(Expressed in Canadian dollars, except share and unit information)

3 Future accounting pronouncements

The IASB has issued the following applicable standard:

IFRS 16, Leases (“IFRS 16”): In January 2016, the IASB issued IFRS 16 which supersedes IAS 17, Leases. This Standard introduces a single lessee accounting model. The new standard will affect the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position, including for most leases which are currently accounted for as operating leases. The Standard is effective for annual periods beginning on or after January 1, 2019. The Company assessed existing operating leases and determined that the adoption of IFRS 16 would not have a material impact on its financial statements.

4 Operating segments

The Company has two geographic segments as defined in note 2 to these financial statements. For the period ended April 30, 2018, there is no operation within the Graph Korea segment.

5 Property and equipment

| | Computer equipment \$ | Office equipment and furniture \$ | Total \$ |
|----------------------------------|-----------------------------|--|---------------|
| Cost | | | |
| Balance at November 22, 2017 | - | - | - |
| Additions | 19,027 | 2,441 | 21,468 |
| Translation adjustments | - | - | - |
| Balance at April 30, 2018 | <u>19,027</u> | <u>2,441</u> | <u>21,468</u> |
| Accumulated depreciation | | | |
| Balance at November 22, 2017 | - | - | - |
| Depreciation | 938 | 43 | 981 |
| Translation adjustments | - | - | - |
| Balance at April 30, 2018 | <u>938</u> | <u>43</u> | <u>981</u> |
| Carrying amounts | | | |
| Balance at November 22, 2017 | - | - | - |
| Balance at April 30, 2018 | <u>18,089</u> | <u>2,398</u> | <u>20,487</u> |

Depreciation of property and equipment was included in “Depreciation and amortization” on the statement of loss and comprehensive loss.

As at April 30, 2018, no property or equipment was under capital lease.

Graph Blockchain Limited

Notes to Financial Statements

For the Period from the Date of Incorporation (November 22, 2017) to April 30, 2018
(Expressed in Canadian dollars, except share and unit information)

6 Net change in operating assets and liabilities

| | November 22, 2017 to April 30, 2018 \$ |
|--|---|
| Cash flows provided by (used in) | |
| Trade and other receivables | (48,473) |
| Prepaid expenses and other assets | (330,856) |
| Accounts payable and accrued liabilities | 176,879 |
| Contract liabilities | 10,000 |
| | <u>(192,450)</u> |

Supplemental cash flow information

Non-cash HST receivable of \$115,044 on consulting fees was settled by issuance of equity instruments (note 7(a)).

7 Share capital and reserves

a) Common shares

The Company is authorized to issue an unlimited number of common shares with no par value.

Issuances of common shares are recorded in "Share capital" on the statement of financial position. The effects of a share split effective October 1, 2018 as disclosed in note 13 are reflected below.

The following summarizes transactions involving the common shares of the Company:

| | Number | Amount \$ |
|--|--------------------|------------------|
| Shares issued and outstanding at November 22, 2017 | - | - |
| Shares issued to founding companies in exchange for cash consideration | 24,219,524 | 400,000 |
| Shares issued to founders in exchange for services rendered | 9,990,553 | 165,000 |
| Shares issued from private placements, net of fees | 42,803,417 | 3,255,365 |
| Shares issued in exchange for management consulting fees (note 9) | 12,109,762 | 1,000,000 |
| Share based compensation | 19,981,107 | 377,595 |
| Shares issued and outstanding at April 30, 2018 | <u>109,104,363</u> | <u>5,197,960</u> |

On the inception of the Company, 24,219,524 shares were issued to two founding shareholder companies for cash consideration of \$400,000. During the period from November 22, 2017 (date of incorporation) to April 30, 2018, 9,990,553 shares were issued to founders for various services rendered. The shares were valued based on recent financing transactions with founders in close proximity to the issuance of the shares for an amount of \$165,000, included in "Share based consulting fees" in the statement of loss and comprehensive loss.

On January 10, 2018, the Company completed a non-brokered private placement (the "Private Placement") for aggregate gross proceeds of \$3,455,376. Under the Private Placement, the Company issued 41,843,791 shares in accordance with

Graph Blockchain Limited

Notes to Financial Statements

For the Period from the Date of Incorporation (November 22, 2017) to April 30, 2018
(Expressed in Canadian dollars, except share and unit information)

the terms and conditions of the subscription agreement representing a subscription price of \$0.083 per share. In connection with the Private Placement, finder's fees were paid to arm's length parties in an amount equal to 8% of the size of the Private Placement. This included cash commissions of \$124,146, the grant of 1,665,818 brokers' warrants and the issuance of 959,626 shares. Each whole broker's warrant shall be exercisable for one common share of the Company at a price of \$0.083 per broker warrant for a period of 24 months from the closing date. As a result of the Private Placement, the Company received in net proceeds of \$3,331,230, of which \$3,255,365 has been allocated to "Share capital" for the shares issued and \$75,865 has been allocated to "Reserves" for the broker warrants issued on the statement of financial position.

On April 1, 2018, the Company issued 2,421,952 common shares in escrow to an officer of the Company, vesting over eight quarterly instalments with April 1, 2018 as the first vesting date. During the period from November 22, 2017 (date of incorporation) to April 30, 2018, 302,744 common shares have vested, resulting in \$52,595 of "Share based compensation" recorded in the statement of loss and comprehensive loss. As the unvested shares are subject to claw-back provisions if performance conditions are not met, the remaining 2,119,208 shares held in escrow are not included in the issued and outstanding shares on the statement of changes in shareholders' equity. In addition, 19,678,363 shares were issued to members of key management and directors for service rendered for an amount of \$325,000, valued by comparing to recent cash issuance of shares at the time, and included in "Share based compensation" in the statement of loss and comprehensive loss.

During the period from November 22, 2017 (date of incorporation) to April 30, 2018, the Company issued 12,109,762 common shares in the amount of \$1,000,000 to a shareholder company of the Company in exchange for management consulting fees, resulting in \$884,956 (net of HST) being recorded in "Share based consulting fees" in the statement of loss and comprehensive loss. The shares issued were valued by comparing to recent cash issuance of the shares at the time.

b) Warrants

Issuances of warrants are recorded in "Reserves" on the statement of financial position. The following summarizes transactions involving warrants issued by the Company:

| | Number | Weighted average exercise price \$ |
|---|-------------------------|---|
| Warrants outstanding at November 22, 2017 | - | - |
| Brokers' warrants issued in connection with the Private Placement | <u>1,665,818</u> | <u>0.083</u> |
| Warrants outstanding at April 30, 2018 | <u>1,665,818</u> | <u>0.083</u> |

The Company uses the Black-Scholes Option Pricing Model to value broker warrants issued in connection with private placements. The weighted average assumptions used in the model were as follows:

- Risk-free annual interest rate – 2.05%
- Expected exercise price – \$0.083
- Expected life – 2 years
- Annualized volatility – 105%
- Expected dividend yield – 0%

As at April 30, 2018, the outstanding warrants had a remaining useful life of 1.70 years with a reserve balance of \$75,865.

Graph Blockchain Limited

Notes to Financial Statements

For the Period from the Date of Incorporation (November 22, 2017) to April 30, 2018
(Expressed in Canadian dollars, except share and unit information)

8 Loss per share

For the period from November 22, 2017 to April 30, 2018

| | |
|---|-------------------|
| Net loss | \$ (2,124,565) |
| Weighted average number of shares outstanding | 84,572,847 |
| Basic and diluted loss per share | <u>\$ (0.025)</u> |

Basic loss per share is calculated by dividing the total loss by the weighted average number of shares outstanding during the period. Outstanding warrants as at April 30, 2018 of 1,665,818 have not been factored into the calculation as they are considered anti-dilutive. The effects of a share split effective October 1, 2018 as disclosed in note 13 are reflected below.

The following table presents the maximum number of shares that would be outstanding if all dilutive and potentially dilutive instruments as described in note 7 were exercised or converted as April 30, 2018:

| | Number |
|---|--------------------|
| Common shares issued and outstanding | 109,104,363 |
| Common shares issued and held in escrow | 2,119,208 |
| Warrants outstanding | <u>1,665,818</u> |
| | <u>112,889,389</u> |

9 Related party transactions

a) Office and general

During the period from November 22, 2017 to April 30, 2018, the Company incurred occupancy costs of \$12,500 for rent charged by a shareholder company of the Company, and accounting fees of \$1,000 charged by a company controlled by a director and officer of the Company, which have been included in "Office and general" in the statement of loss and comprehensive loss.

b) Share based consulting fees

During the period from November 22, 2017 to April 30, 2018, the Company incurred \$884,956 of management consulting fees charged by a shareholder company of the Company, in the form of 12,109,762 common shares of the Company, which has been included in "Share based consulting fees" in the statement of loss and comprehensive loss.

c) Compensation of key management personnel

Key management includes members of the Board and executive officers of the Company. Compensation awarded to key management is listed below:

Graph Blockchain Limited

Notes to Financial Statements

For the Period from the Date of Incorporation (November 22, 2017) to April 30, 2018
(Expressed in Canadian dollars, except share and unit information)

| | November 22, 2017 to April 30, 2018 | |
|-------------------------|--|-------------------|
| | Amount \$ | Shares awarded |
| Cash based compensation | 82,075 | - |
| Shares issued | 377,595 | 19,981,107 |
| | <u>459,670</u> | <u>19,981,107</u> |

10 Financial instruments and risk management

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented below.

General objectives, policies and processes

Management has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The overall objective of management is to set policies that seek to minimize risk as far as possible without unduly affecting the Company's competitiveness and flexibility. The Company has established risk management policies and procedures designed to reduce the potentially adverse effects of price volatility on operating results and distributions. Further details regarding these policies are set out below.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consists primarily of cash and cash equivalents and trade and other receivables.

Credit risk associated with cash is minimized by ensuring these financial assets are maintained with financial institutions of reputable credit and may be redeemed upon demand. The Company applies the simplified approach to providing for expected credit loss prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade and other receivables. The management measures the expected credit loss based upon historic default rate of customers and estimates the credit loss over the expected life of trade and other receivables. As at April 30, 2018, the impairment allowance relating to trade and other receivables was \$nil.

At April 30, 2018, the trade and other receivables balance of \$163,517 relates primarily to value added tax positions with Provincial and Federal government entities in Canada.

Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they become due. The Company's approach is to ensure it will have sufficient liquidity to meet operations, tax, capital and regulatory requirements and obligations, under both normal and stressed circumstances. Cash flow projections are prepared and reviewed by

Graph Blockchain Limited

Notes to Financial Statements

For the Period from the Date of Incorporation (November 22, 2017) to April 30, 2018

(Expressed in Canadian dollars, except share and unit information)

management to ensure a sufficient continuity of funding exists. The Company's financial liabilities are comprised of its accounts payable and accrued liabilities. The payments for the Company's accounts payable and accrued liabilities are due in less than a year.

The following table sets out the Company's contractual maturities (representing undiscounted contractual cash flows) of financial liabilities and commitments:

| | 12 months \$ | 1 to 2 years \$ | 2 to 5 years \$ | Total \$ |
|-------------------------------|-----------------|--------------------|--------------------|----------------|
| Accounts payable and accruals | 176,879 | - | - | 176,879 |
| At April 30, 2018 | <u>176,879</u> | <u>-</u> | <u>-</u> | <u>176,879</u> |

Fair values of financial instruments

IFRS 7 - Financial Instruments: Disclosures requires disclosure of a three-level hierarchy ("FV hierarchy") that reflects the significance of the inputs used in making fair value measurements and disclosures. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include those whose valuations are determined using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are those based on inputs that are unobservable and significant to the overall fair value measurement.

Cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities and contract liabilities have relatively short periods to maturity and the carrying values contained in the statement of financial position approximate their estimated fair value.

11 Income taxes

The provision for current income taxes differs from the results that would be obtained by applying Canadian Federal and Provincial (Ontario) statutory income tax rates to profit or loss before income taxes.

This difference results from the following:

| | November 22, 2017 to April 30, 2018 \$ |
|---|---|
| Loss before income taxes | (2,124,565) |
| Statutory income tax rates | 26.50% |
| Expected current income tax recovery | (563,010) |
| Non-deductible expenses | 17,920 |
| Share based management and consulting fees | 278,238 |
| Share issuance costs booked through equity | (32,899) |
| Change in unrecognized deferred income tax assets | <u>299,751</u> |
| Income tax expense (recovery) | <u>-</u> |

Graph Blockchain Limited

Notes to Financial Statements

For the Period from the Date of Incorporation (November 22, 2017) to April 30, 2018
(Expressed in Canadian dollars, except share and unit information)

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

| | April 30, 2018 |
|---|------------------|
| | \$ |
| Property, plant and equipment | 1,108 |
| Share issuance costs - 20(1)(e) | 184,567 |
| Non-capital losses carried forward - Canada | 945,458 |
| | <u>1,131,133</u> |

The Company has the following estimated Canadian carry-forward non-capital losses and corresponding expiry dates:

| | Amount |
|------|----------------|
| | \$ |
| 2038 | 945,458 |
| | <u>945,458</u> |

The potential benefits of these carry-forward non-capital losses and deductible temporary differences have not been recognized in these financial statements as it is not considered probable that sufficient future taxable profit will allow the deferred tax asset to be recovered.

12 Capital management

The Company defines its capital as its shareholders' equity. The Company's objectives when managing capital are to maintain a sufficient capital base in order to meet its short-term obligations and at the same time preserve investors' confidence required to sustain future development of the business. The Company is not exposed to any externally imposed capital requirements. There were no changes in the Company's approach to capital management during the period from November 22, 2017 to April 30, 2018.

13 Subsequent events

Graph Korea

Subsequent to April 30, 2018, the Graph Korea segment of the Company entered into an operating lease agreement commencing June 2018 and ended in December 2018. Effective January 1, 2019, Graph Korea entered into a new operating lease for a term of 2 years. Graph Korea will principally develop blockchain solutions for customers based in the Republic of Korea through its distribution partner located in the region.

Share split

On September 4, 2018, a special resolution of the shareholders of Graph was made to subdivide all of the issued and outstanding common shares on the basis of 1.210976238250372 post-subdivision shares for every one pre-subdivision share with an effective split date of October 1, 2018. Any resulting fractional shares shall be either rounded up or down to the nearest whole number.

Graph Blockchain Limited

Notes to Financial Statements

For the Period from the Date of Incorporation (November 22, 2017) to April 30, 2018
(Expressed in Canadian dollars, except share and unit information)

Acquisition of Reg Technologies Inc.

Subsequent to April 30, 2018, the Company entered into a definitive amalgamation agreement (the "Amalgamation Agreement") to acquire Reg Technologies Inc. ("RegTech") through a reverse takeover. Pursuant to the terms of the Amalgamation Agreement, RegTech will consolidate its outstanding shares on a ten to one basis, and acquire all of the issued and outstanding shares of Graph pursuant to a three-cornered amalgamation whereby 2659468 Ontario Inc., a wholly-owned subsidiary of RegTech, and Graph will amalgamate (the "Amalgamation") to form a newly amalgamated company ("Amalco"), and upon the Amalgamation, former shareholders of Graph ("Graph Shareholders") will receive one new common share of RegTech for each one common share of Graph held and Amalco will become a wholly-owned subsidiary of RegTech (the "RTO Transaction").

Upon completion of the Amalgamation, RegTech will be the parent and the sole shareholder of Amalco and thus will indirectly carry on the business of Graph. As a result, RegTech intends to change its name to "Graph Blockchain Inc." or such other name as is acceptable to the regulators.

The RTO Transaction is considered to be a reverse takeover by Graph, the accounting acquirer, of RegTech, the accounting acquiree. A reverse takeover transaction involving a non-public operating entity and a non-operating company is considered to be in substance a share based payment transaction and is not a business combination. Any difference in the value of the shares deemed to have been issued by the accounting acquirer and the fair value of the acquiree's net assets will be expensed in the period of acquisition as a payment for a stock exchange listing.

Private placement

In connection with the acquisition of Reg Technologies Inc., the Company completed a non-brokered private placement on November 6, 2018 of 3,354,866 post-subdivision units to raise gross proceeds of \$1,006,460 that closed concurrently with the RTO Transaction. Each unit was at a price of \$0.30 and consisted of one common share and one warrant of Graph. Each warrant shall be exercisable into one common share of Graph at a price of \$0.40 for a period of 18 months from the date of issuance. Certain dealers and arms-length finders were paid 8% of the gross proceeds. Share issuance costs of \$33,000 comprised of \$13,000 in respect of cash finders' fees, together with other cash expenses of \$20,000, resulting in net proceeds of \$973,460. As a result of the private placement, share capital is adjusted by \$681,422 to reflect the common shares issued and reserves are adjusted by \$292,038 to reflect the warrants issued. The weighted average assumptions used in calculating the fair value of the warrants include, share price – \$0.21, expected life – 1.5 years, annualized volatility – 130%, dividend yield – 0%, and risk-free rate – 2.19%.

Issuance of shares

Subsequent to April 30, 2018, the Company issued 5,000,000 common shares (post-subdivision) at \$0.21 per share to certain employees, officers and directors of Graph and certain employees of a shareholder company who support the Company's sales efforts. The shares were valued based on financing transactions in close proximity to the issuance of the shares.

Change of Financial Year End

Subsequent to April 30, 2018, the financial year end of the Company was changed from December 31 to April 30 in each year commencing with the financial period ended April 30, 2018.