



DIGICRYPTS BLOCKCHAIN SOLUTIONS INC.

(formerly TJR COATINGS INC.)

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED OCTOBER 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

NOTICE TO SHAREHOLDERS

The accompanying condensed interim financial statements of DigiCrypts Blockchain Solutions Inc. for the three and nine months ended October 31, 2019 and 2018 have been prepared by management in accordance with International Financial Reporting Standards applicable to interim financial statements (see notes 2 & 3 to the interim consolidated financial statements). Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

Auditors Involvement

The external auditors of DigiCrypts Blockchain Solutions Inc., have not audited or performed a review of the unaudited interim financial statements for the three and nine months ended October 31, 2019 and 2018 nor have they conducted any procedures with respect to the supplementary financial schedules included herein.

DIGICRYPTS BLOCKCHAIN SOLUTIONS INC. (FORMERLY TJR COATINGS INC.)

Unaudited Interim Condensed Consolidated Statements of Financial Position

Expressed in Canadian dollars

		As at October 31, 2019	As at January 31, 2019
	Notes		
ASSETS		\$	\$
Current			
Cash		388,397	146,080
Receivables		63,157	35,474
Prepaid expenses		-	15,134
		451,554	196,688
Long term			
Development costs	7	337,824	293,000
Total Assets		789,378	489,688
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		76,560	151,016
Subscriptions received in advance		-	10,000
Total Current Liabilities		76,560	161,016
Non-current liabilities			
Convertible debenture	11	839,582	380,140
Derivative liability	11	121,650	58,140
Total Liabilities		1,037,792	599,296
SHAREHOLDERS' DEFICIENCY			
Share capital	9	2,801,381	2,141,381
Contributed surplus		237,006	-
Accumulated deficit		(3,286,601)	(2,250,989)
Total Shareholders' Deficiency		(248,414)	(109,608)
Total Liabilities and Shareholders' Deficiency		789,378	489,688
Nature of operations and going concern	1		
Commitments	13		

Approved by the Board

Signed:

"David Posner", Director

Signed:

"Lowell Kamin", Director

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

DIGICRYPTS BLOCKCHAIN SOLUTIONS INC. (FORMERLY TJR COATINGS INC.)

Unaudited Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

For the three and nine months ended October 31, 2019 and October 31, 2018

(Expressed in Canadian dollars)

	Notes	Three months ended October 31,		Nine months ended October 31,	
		2019	2018	2019	2018
		\$	\$	\$	\$
Consulting income		6,384	-	33,591	-
Other		-	5,826	-	(2,335)
		6,384	5,826	33,591	(2,335)
Expenses					
Management and Consulting fees	12	215,453	-	400,722	215,000
Professional fees		13,909	93,220	75,115	340,115
Investor relations		34,346	-	84,974	-
Travel		30,429	37,139	83,320	110,299
General and administration		19,345	58,399	71,387	84,379
Share based compensation	9	-	-	237,006	-
Depreciation		-	25,536	-	52,737
Listing expense	4	-	-	-	664,021
Total expenses		313,482	214,294	952,524	1,466,551
Operating loss		(307,098)	(208,468)	(918,933)	(1,468,886)
Interest and accretion expense	11	(60,732)	(5,415)	(168,869)	(5,415)
Unrealized loss on digital currency		-	(119)	-	(7,481)
Gain on revaluation of derivative liability	11	11,960	-	51,990	-
Loss and comprehensive loss		(355,869)	(214,002)	(1,035,812)	(1,481,782)
Weighted average shares outstanding					
- Basic and diluted		59,233,766	54,090,909	55,811,497	50,781,166
Loss per share from continued		(0.00)	(0.00)	(0.01)	(0.03)
Loss per share from discontinued		(0.00)	(0.00)	(0.01)	(0.03)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

DIGICRYPTS BLOCKCHAIN SOLUTIONS INC. (FORMERLY TJR COATINGS INC.)

Unaudited Interim Condensed Consolidated Statements of Cash Flows

For the nine months ended October 31, 2019 and October 31, 2018

(Expressed in Canadian Dollars)

	2019	2018
	\$	\$
Cash Flows from Operating Activities		
Loss for the period	(1,035,812)	(1,481,782)
Non-cash items		
Listing expense	-	559,091
Depreciation	-	52,737
Gain on revaluation of derivative liability	(51,990)	1,831
Unrealized loss on digital currency	-	7,481
Share based compensation	237,006	-
Accretion and interest expense	168,869	-
	(681,927)	(860,642)
Net change in non-cash working capital items:		
Receivables	(27,683)	(99,660)
Digital currency	-	(10,319)
Prepaid expenses	15,134	-
Accounts payable and accrued liabilities	(74,457)	10,952
	(768,933)	(959,669)
Cash flows used in operating activities	(768,933)	(959,669)
Cash Flows from Financing Activities		
Convertible debenture, net of issuance costs	464,993	484,500
Private placements, net of issuance costs	650,000	1,426,653
Interest paid	(58,919)	-
Cash flows from financing activities	1,056,074	1,911,153
Cash Flows from Investing Activities		
Investment in fixed assets	-	(601,759)
Development costs	(44,824)	-
Cash flows used in investing activities	(44,824)	(601,759)
(decrease) Increase in cash	242,317	349,725
Cash, beginning of period	146,080	-
Cash, end of period	388,397	349,725
Supplemental cash flow information:		
Interest paid	\$ 58,919	\$ -
Tax paid	\$ -	\$ -
Derivative liability on issuance of convertible debenture	\$ 115,500	\$ -

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

DIGICRYPTS BLOCKCHAIN SOLUTIONS INC. (FORMERLY TJR COATINGS INC.)

Unaudited Interim Condensed Consolidated Statements of Changes in Equity (Deficiency)

For the nine months ended October 31, 2019 and October 31, 2018

(Expressed in Canadian dollars)

		Common Shares	Share Capital	Contributed surplus	Deficit	Total
	Notes	#	\$	\$	\$	\$
Balance, January 31, 2018		-	-	-	-	-
Shares issued for reverse takeover	4	5,590,909	559,091	-	-	559,091
Issuance of shares on private placements	9	20,900,000	1,208,500	-	-	1,208,500
Shares issued for services	9	15,000,000	210,000	-	-	210,000
Founders shares	9	12,500,000	175,000	-	-	175,000
Share issue costs	9	-	(11,210)	-	-	(11,210)
Net loss for the period		-	-	-	(1,481,782)	(1,481,782)
Balance, October 31, 2018		53,990,909	2,141,381	-	(1,481,782)	659,599
Balance, January 31, 2019		53,990,909	2,141,381	-	(2,250,989)	(109,608)
Share based payments		-	-	237,006	-	237,006
Issuance of shares on private placement		6,600,000	660,000	-	-	660,000
Net loss for the period		-	-	-	(1,035,812)	(1,035,812)
Balance, October 31, 2019		60,590,909	2,801,381	237,006	(3,286,801)	(248,414)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

DIGICRYPTS BLOCKCHAIN SOLUTIONS INC. (FORMERLY TJR COATINGS INC.)

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

Nine months ended October 31, 2019

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

DigiCrypts Blockchain Solutions Inc., formerly TJR Coatings Inc. (the “**Company**”) was incorporated on December 11, 1998 under the laws of the Province of Ontario, Canada. The registered office and principal place of business of the Company 33 Bloor St E, Toronto ON M4W 3H1.

On March 29, 2018, the Company completed a reverse takeover transaction (“RTO”) with 2618249 Ontario Corp. (“Digi”), pursuant to which the Company acquired all of the issued and outstanding shares of Digi in exchange for 5,590,909 common shares of the Company. These financial statements include the historical consolidated financial information of Digi. Digi was incorporated on January 31, 2018 and as such, the comparative periods for the consolidated statements of financial position, loss and comprehensive loss, cash flows and changes in equity (deficiency) are presented as nil, as there were no transactions or operations on or as at January 31, 2018.

As the former shareholders of Digi owned a majority interest in the Company immediately after closing, the substance of the transaction, for accounting purposes, is a RTO. The transaction does not constitute a business combination as the Company does not meet the definition of a business as defined under IFRS. As a result, the transaction will be accounted for as a capital transaction in substance, with Digi being identified as the acquirer for accounting purposes.

Concurrent with the transaction, the Company changed its name to DigiCrypts Blockchain Solutions Inc. and started trading on the Canadian Securities Exchange (“CSE”) under the symbol “DIGI”.

The Company’s focus is to assist businesses, as a non-registered consultant, interested in raising capital through the issuance of digital securities, and in the general development of their business.

As at October 31, 2019, the Company had working capital of \$374,994 (January 31, 2019 - \$35,672), had not yet achieved profitable operations, had accumulated losses of \$3,286,801 (January 31, 2019 - \$2,250,989), and currently expects to incur further losses in the development of its business. There is no assurance that the operations of the Company and any future operations will be successful and profitable, and as such, there is an uncertainty with respect to the Company’s ability to continue as a going concern.

These unaudited interim condensed consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the Company’s ability to continue as a going concern.

On December 27, 2018, the Company completed the consolidation of its common shares on the basis of one post-consolidation common share for every four pre-consolidation common shares. As a result, all outstanding share and warrant information presented in these unaudited interim condensed consolidated financial statements has been retroactively adjusted to reflect this consolidation.

These financial statements were authorized by the Board of Directors of the Company on December 30, 2019.

DIGICRYPTS BLOCKCHAIN SOLUTIONS INC. (FORMERLY TJR COATINGS INC.)

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

Nine months ended October 31, 2019

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance and compliance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the Company’s annual financial statements and should be read in conjunction with the Company’s annual financial statements for the year ended January 31, 2019.

(b) Significant judgments, estimates and assumptions

The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

The most significant judgments relate to the valuation of warrants, determination of functional currency, recognition of deferred tax assets and liabilities, capitalization of development costs, determination and valuation of derivative liabilities, and the accounting treatment of digital mining operations.

i. Determination of fair values using option pricing models

The Company measures the cost of equity-settled transactions consisting of share purchase warrants offered to service providers and employees 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 determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. Changes in the input assumptions can materially affect the fair value estimate. The Company uses the Black-Scholes Option Pricing Model to calculate the fair value.

ii. Determination of functional currency

Management uses its judgment to determine the functional currency that most appropriately represents the economic effects of the underlying transactions, events and conditions. The functional currency of a company is the currency of the primary economic environment in which the company operates. The presentation currency for a company is the currency in which the company chooses to present its financial statements.

iii. Deferred taxes

The recognition of deferred tax assets is based on likelihood of future taxable income. The measurement of future taxable income for the purposes of determining whether or not to recognize deferred tax assets depends on many factors, including the Company’s ability to generate such profits and the implementation of effective tax planning strategies. The occurrence or non-occurrence of such events in the future may lead to significant changes in the measurement of deferred tax assets.

DIGICRYPTS BLOCKCHAIN SOLUTIONS INC. (FORMERLY TJR COATINGS INC.)

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

Nine months ended October 31, 2019

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION - CONTINUED

iv. Development costs

The capitalization of costs for internally generated intangible assets is subject to judgment including the technical feasibility, timeframe to commercialization, assessment of availability of resources to complete the project, and if economic benefits will be generated from its use.

v. Derivative liabilities

The Company values derivative liabilities by reference to their fair value at the date at which the instrument is granted. Estimating fair value requires determining the most appropriate valuation model. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life and volatility and making assumptions about them. Changes in the input assumptions can materially affect the fair value estimate. The Company uses the Black-Scholes Option Pricing Model to calculate the fair value.

vi. Digital mining operations

During the year ended January 31, 2019, the Company experimented with a digital mining division to mine digital currencies, many aspects of which are not specifically addressed by current IFRS guidance. The Company is required to make judgments as to the application of IFRS and the selection of accounting policies. The Company has disclosed its presentation, recognition and de-recognition, measurement of digital currencies, and the recognition of revenue as well as significant assumptions and judgments; however, if specific guidance is enacted by the IASB in the future, the impact may result in changes to the Company's earnings and financial position as presented.

(c) Basis of presentation

These financial statements are presented in Canadian dollars, which is functional currency of the Company and its wholly owned subsidiaries. The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3 to the annual audited consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's January 31, 2019 annual financial statements, except for the adoption of new standards and interpretations as of February 1, 2019.

New accounting standards

IFRS 16 was issued in January 2016 and requires lessees to recognize assets and liabilities for most leases. For lessors, there is little changed to the existing accounting in IAS 17 Leases. The new standards is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted, provided the new revenue standard, IFRS 15, has been applied, or is applied at the same date as IFRS 16. IFRS 16 had no impact on the financial statements of the Company.

DIGICRYPTS BLOCKCHAIN SOLUTIONS INC. (FORMERLY TJR COATINGS INC.)

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

Nine months ended October 31, 2019

(Expressed in Canadian Dollars)

4. ACQUISITION OF 2618249 ONTARIO CORP. ("DIGI")

On March 15, 2018, the Company entered into a definitive agreement with Digi. Pursuant to the definitive agreement, on March 29, 2018 the Company acquired all the issued and outstanding common shares of Digi (the "Digi Shares") on a 1-for-1-exchange basis from the Digi shareholders, which constituted a reverse takeover of the Company by Digi shareholders (the "RTO").

Pursuant to the RTO, the Company issued common shares at a deemed price of \$0.10 per common share in exchange for all of the issued and outstanding shares of Digi. The Company also issued 5,375,000 share purchase warrants under the same terms and conditions of the warrants issued by Digi.

The Company had 5,590,909 common shares outstanding prior to the completion of the RTO. On closing of the RTO the total shares outstanding in the Company subsequent to the RTO was 53,990,909. As a result, the original shareholders of the Company retained 10.3% and Digi shareholders obtained 89.7% of the Company.

Since the Company did not meet the definition of a business under IFRS 3 – Business Combinations, the acquisition was accounted for as a purchase of the Company's net assets. The consideration paid was determined as equity-settled share-based payments under IFRS 2, at the fair value of the Digi common shares on the date of closing of the RTO, which was determined to be \$0.10 per common share based on the most recent equity raise completed by Digi just prior to the RTO.

No stock options had been issued by either company at the time of the RTO.

The table below summarizes the fair value of the assets acquired and the liabilities assumed at the acquisition date, as well as the consideration paid:

The fair value of the consideration is as follows:

Issuance of 5,590,909 common shares to the former shareholders of the Company	\$ 559,091
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The allocation of the consideration is as follows:

Cash	\$ 69
Accounts payable and accrued liabilities	(104,746)
Listing expense	663,768
Value attributed to shares issued	\$ 559,091

In conjunction with the RTO transaction, on March 29, 2018, the Company issued 10,650,000 units for gross cash proceeds of \$1,065,000 less legal and other costs of \$6,487, resulting in net cash proceeds of \$1,058,513. Each unit was comprised of one common share and one half of one common share purchase warrant. Each whole share warrant can be converted into one common share at an exercise price of \$0.20 per common share until the earlier of two years from the Closing Date, or thirty days following notice from the Company after the common shares have traded on a stock exchange for ten consecutive days at a closing price in excess of \$0.40 per share (see note 9(ii)).

DIGICRYPTS BLOCKCHAIN SOLUTIONS INC. (FORMERLY TJR COATINGS INC.)

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

Nine months ended October 31, 2019

(Expressed in Canadian Dollars)

5. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the development of its planned business activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned business activities and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements.

The Company considers its capital to be shareholders' equity (deficiency), which is comprised of share capital, warrants, and accumulated deficit.

The Company's objective when managing capital is to obtain adequate levels of funding to support its business activities, to obtain corporate and administrative functions necessary to support organizational functioning and obtain sufficient funding to further the development of its business. The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through equity capital raised by way of private placements and issuance of convertible debentures. There can be no assurance that the Company will be able to continue raising equity capital in this manner.

6. EQUIPMENT

	Additions	January 31, 2019 Accumulated Depreciation and write offs	NBV
Computing equipment	\$ 381,211	\$ 381,211	\$ -

7. DEVELOPMENT COSTS

	Cost	Additions	Accumulated Amortization	NBV
Development costs	\$293,000	\$ 44,824	\$ -	\$ 44,824

The App was not yet available for sale as at October 31, 2019 and therefore no amortization has been taken.

8. FINANCIAL INSTRUMENTS

Fair value

Financial instruments of the Company consist of cash, receivables, accounts payable and accrued liabilities, convertible debenture, and the derivative liability. There are no significant differences between the carrying amounts of the items reported on the statements of financial position and their estimated fair values.

DIGICRYPTS BLOCKCHAIN SOLUTIONS INC. (FORMERLY TJR COATINGS INC.)

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

Nine months ended October 31, 2019

(Expressed in Canadian Dollars)

8. FINANCIAL INSTRUMENTS - CONTINUED

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. Where quoted market values are not readily available, the Company may use considerable judgment to develop estimates of fair value. Accordingly, any estimated values are not necessarily indicative of the amounts the Company could realize in a current market exchange and could be materially affected by the use of different assumptions or methodologies. The derivative liability is the only financial instrument at fair value through profit and loss and falls into level 3 fair value hierarchy.

The Company's risk exposures and their impact on the Company's financial instruments are summarized below:

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 prices comprise four types of risk: interest rate risk, foreign exchange risk, commodity price risk and other price risk, such as equity risk. Financial instruments affected by market risk include loans and borrowings and deposits.

Interest rate risk

The Company is exposed to interest rate risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk arising from fluctuations in interest rates received on its cash balance. Fluctuations in market interest rates do not have a significant impact on the Company's results of operations due to the short-term nature of interest-bearing cash.

Liquidity risk

The Company is exposed to liquidity risk. Liquidity risk is the exposure of the Company to the risk of not being able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's future liquidity is dependent on factors such as the ability to generate cash from operations and to raise money through debt or equity financing (see note 1).

Foreign exchange risk

The Company's functional currency is the Canadian dollar and all major purchases are transacted in Canadian dollars. Management believes the foreign exchange risk is negligible and therefore does not hedge its foreign exchange risk.

The Company does not hold balances in foreign currencies to give rise to exposure to foreign exchange risk.

Credit risk

The Company's credit risk is primarily attributable to cash and receivables. The Company has no significant concentration of credit risk arising from operations. Cash is held with reputable financial institutions, from which management believes the risk of loss to be remote. Currently, receivables are primarily sales taxes receivable which management believes are collectable. Management believes that the credit risk concentration with respect to these items is remote.

DIGICRYPTS BLOCKCHAIN SOLUTIONS INC. (FORMERLY TJR COATINGS INC.)

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

Nine months ended October 31, 2019

(Expressed in Canadian Dollars)

9. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without par value.

- (i) On February 10, 2018, the Company issued 12,500,000 shares at a fair value of \$175,000, recorded as share-based compensation in profit and loss.
- (ii) On February 10, 2018, the Company issued 10,250,000 shares at \$0.014 per share for gross and net cash proceeds of \$143,500.
- (iii) On February 10, 2018, the Company issued 15,000,000 shares at \$0.014 per share for services provided to the Company.
- (iv) On March 29, 2018, 10,650,000 units were issued at \$0.10 per share for gross proceeds of \$1,065,000, and net proceeds of \$1,058,513. Each unit entitled the holder to one common share and one-half common share purchase warrant. Each whole warrant is exercisable at a price of \$0.20 per share and expire on the earlier of (i) March 29, 2020, or (ii) 30 days following the date that a notice is delivered from the Company to the holder of the warrant that the shares have traded on a stock exchange for 10 consecutive days at a closing price in excess of \$0.40 per share.

The fair value of the common share purchase warrants was valued at \$nil using the residual method as the price of the units equaled the fair value of the common shares at the date of issuance.

- (v) On April 15, 2018, 100,000 units (as described in 9(iv)) were subscribed for at \$0.10 per unit for gross proceeds of \$10,000. These shares were issued during the nine months ended October 31, 2019.
- (vi) On August 20, 2019, the Company completed a non-brokered private placement of 6,500,000 common shares issued at \$0.10 per share for proceeds of \$650,000.

The Company is subject to a stock option plan that allows a fixed maximum number of options issuable of 5,375,000.

On March 22, 2019, the Company granted 4,389,000 options to officers, directors and consultants exercisable at \$0.10 expiring on March 22, 2021. The options were valued at \$237,006 using the black scholes option pricing model with the following assumptions: risk free interest rate 2.00%; expected volatility of 100%; expected dividend yield of 0% and an expected life of 3 years.

10. RESERVE FOR WARRANTS

Share purchase warrant transactions for the nine months ended October 31, 2019 and the year ended January 31, 2019 are summarized as follows:

	Warrants #	Weighted Average \$	Fair Value \$
Balance January 31, 2018	-	-	-
Warrants issued (i)	5,325,000	0.20	-
Balance January 31, 2019	5,325,000	0.20	-
Warrants issued (ii)	2,586,250	0.30	-
Balance October 31, 2019	7,911,250	0.23	-

DIGICRYPTS BLOCKCHAIN SOLUTIONS INC. (FORMERLY TJR COATINGS INC.)

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

Nine months ended October 31, 2019

(Expressed in Canadian Dollars)

10. RESERVE FOR WARRANTS - CONTINUED

- (i) Pursuant to the issuance of 10,650,000 units (see Note 9 (iv)), the Company issued 5,325,000 common share purchase warrants. Each whole warrant is exercisable at a price of \$0.20 per share and expire on the earlier of (i) March 29, 2020, or (ii) 30 days following the date that a notice is delivered from the Company to the holder of the warrant that the shares have traded on a stock exchange for 10 consecutive days at a closing price in excess of \$0.40 per share.
- (ii) On February 8, 2019, the Company issued to the holders of the February 2019 Debentures (Note 11) and the September 2018 Debentures (note 11) 2,586,250 common share purchase warrants. These warrants are exercisable for a period of two years from issuance into common shares at an exercise price equal to the lowest of (i) \$0.30, (ii) the product of the Conversion Price multiplied by 1.5, and (iii) the exercise price of common share purchase warrants issued by the Company prior to the expiration of the warrants for each warrant exercised.

11. CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY

On February 8, 2019, the Company completed a secured convertible debenture (the "February 2019 Debentures") financing for \$550,000, incurring issuance costs of \$85,006, for net proceeds of \$464,994. Each February 2019 Debentures bears interest at a rate of 10% per annum, which is payable in cash to the holders thereof on the last date of each calendar quarter for a period of three years from the date of issue or the date the February 2019 Debentures are converted. The February 2019 Debentures are convertible: (i) at the option of the holder into common shares (the "Common Shares"), at a conversion price that is the lesser of (i) \$0.20, or (ii) 75% of the lowest price offered in a private placement of the Company's common shares (the "Conversion Price") while such February 2019 Debentures remain outstanding.

On September 29, 2018, the Company issued convertible debentures (the "September 2018 Debentures") in the amount of \$484,500. The holders of the September 2018 Debentures were granted a first-position General Security Arrangement over the assets of the Company and its subsidiaries. The September 2018 Debentures carry a 10% simple interest coupon payable in cash at the end of each calendar quarter and the Company may force the conversion of the September 2018 Debentures to common equity if the Company's shares are listed on the CSE and close above \$0.20 per share for more than 20 consecutive trading days. The conversion price will be the lower of \$0.075 per share, or 75% of the lowest price any common shares are issued by the Company subsequent to the closing of this September 2018 Debentures issuance. Upon conversion, the September 2018 Debentures holders will also receive a warrant for ½ of one common share for each converted common share at a strike price equal to 1.5 times the conversion price and such warrants will have a term of 2 years following the date of conversion. The September 2018 Debentures mature September 28, 2021.

On February 28, 2019, the Company issued amended secured convertible debentures to the holders of the September 2018 Debentures such that the terms of the September 2018 Debentures have been amended to mirror the terms of the above February 2019 Debentures.

DIGICRYPTS BLOCKCHAIN SOLUTIONS INC. (FORMERLY TJR COATINGS INC.)

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

Nine months ended October 31, 2019

(Expressed in Canadian Dollars)

11. CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY - CONTINUED

The following is a summary of the convertible debenture liability:

	September 2018 Debentures	February 2019 Debentures	Total
	\$	\$	\$
Balance January 31, 2018	-	-	-
Issuance of debentures	484,500	-	484,500
Issuance costs	(51,137)	-	(51,137)
Derivative liability component	(64,600)	-	(64,600)
Accretion expense	11,377	-	11,377
Balance, January 31, 2019	380,140	-	380,140
Issuance of debentures	-	550,000	550,000
Issuance costs	-	(85,006)	(85,006)
Derivative liability component	-	(115,500)	(115,500)
Accretion expense	26,845	83,104	109,948
Balance, October 31, 2019	406,985	432,597	839,582

The Debentures are classified as a liability recorded at amortized cost, with the exception of the portion relating to the conversion feature, resulting in the carrying value of the debentures being less than the face value.

The conversion feature meets the definition of a derivative liability instrument because the conversion rate is variable and therefore does not meet the “fixed-for-fixed” criteria outlined under IFRS. As a result, the conversion feature is required to be recorded as a derivative liability recorded at fair value and marked-to-market each period with the changes in fair value each period recorded in profit or loss.

The derivative liability of the September 2018 Debentures was valued at \$64,600 on the issuance date. As at October 31, 2019, the derivative warrant liability had a value of \$96,900 (January 31, 2019 - \$58,140), which resulted in a gain on revaluation of the derivative liability for the nine months ended October 31, 2019 of \$38,760. The derivative liability was valued as at September 29, 2018, January 31, 2019, and October 31, 2019 using the Black Scholes model with the following assumptions:

	September 29, 2018	January 31, 2019	October 31, 2019
Annualized volatility	100%,	100%	100%
Risk-free interest rate	2.00%	2.00%	2%
Dividend yield	0%	0%	0%
Expected life	3 years	2.66 years	1.91 years

DIGICRYPTS BLOCKCHAIN SOLUTIONS INC. (FORMERLY TJR COATINGS INC.)

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

Nine months ended October 31, 2019

(Expressed in Canadian Dollars)

11. CONVERTIBLE DEBENTURE - CONTINUED

The derivative liability of the February 2019 Debentures was valued at \$115,500 on the issuance date. As at October 31, 2019, the derivative warrant liability had a value of \$24,750, which resulted in a loss on revaluation of the derivative liability for the nine months ended October 31, 2019 of \$90,750. The derivative liability was valued as at February 8, 2019 and October 31, 2019 using the Black Scholes model with the following assumptions:

	February 8, 2019	October 31, 2019
Annualized volatility	100%	100%
Risk-free interest rate	2.00%	2%
Dividend yield	0%	0%
Expected life	3.00 years	2.28 years

12. RELATED PARTY TRANSACTIONS, KEY MANAGEMENT COMPENSATION AND CONSULTING FEES

Key management salaries

Key management includes members of the board of directors, the Chief Executive Officer and the Chief Financial Officer. The aggregate value of transactions relating to key management personnel and entities over which they have control or significant influence were as follows for the nine months ended October 31, 2019:

- (i) During the three and nine months ended October 31, 2019, \$30,000 and \$90,000 (three and nine months ended October 31, 2018 – nil and \$83,500) was charged by the CEO for consulting fees.
- (ii) During the three and nine months ended October 31, 2019, \$9,000 and \$27,000 (plus HST) was charged by CFO Advantage Inc. ("CAI"), a Company owned by the Chief Financial Officer of the Company, for CFO consulting fees. As at October 31, 2019, \$13,560 (January 31, 2019 - \$4,500) of these fees were included in accounts payable and accrued liabilities.

Other during the three and nine months ended October 31, 2018

During the nine months ended October 31, 2018, \$42,000 was charged by 1600793 Ontario Inc., a Company owned by the Chief Financial Executive of the Company, for consulting fees.

During the nine months ended October 31, 2018, was charged by 1407535 Ontario Limited., a Company owned by a director of the Company, for consulting fees and \$38,500 for marketing services.

During the nine months ended October 31, 2018, \$143,000 was charged by three founders of the Company for consulting services.

See note 9(i).

Consulting fees

For the nine months ended October 31, 2019, related parties represented only 5 of 15 separate consultants providing services to the company and provided. Consultants provided such services as exempt market dealer compliance, business development, corporate services, technological development and other such services required for operations.

DIGICRYPTS BLOCKCHAIN SOLUTIONS INC. (FORMERLY TJR COATINGS INC.)

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

Nine months ended October 31, 2019

(Expressed in Canadian Dollars)

13. COMMITMENTS

The Company has no commitments as at October 31, 2019.