

Graph Blockchain Inc.

Interim Condensed Consolidated Financial Statements For the Three and Six Months Ended October 31, 2020 and 2019 (Expressed in Canadian dollars) (Unaudited)

Interim Condensed Consolidated Financial Statements

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NOTICE TO READER

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

The accompanying interim condensed consolidated financial statements of Graph Blockchain Inc. (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 interim condensed consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity’s auditor.

Graph Blockchain Inc.

Interim Condensed Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

(Unaudited)

| | October 31, 2020 \$ | April 30, 2020 \$ |
|---|---------------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 40,279 | 105,252 |
| Trade and other receivables (Notes 8 and 11) | 484,332 | 12,313 |
| Inventory (Note 5) | 23,417 | - |
| Prepaid expenses and other assets | - | 10,800 |
| Total current assets | 548,028 | 128,365 |
| Property and equipment, net (Note 6) | 1,264 | 9,469 |
| Total assets | 549,292 | 137,834 |
| Liabilities and shareholders' deficiency | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Note 10) | 575,676 | 400,671 |
| Related party loan payable (Note 10) | - | 257,080 |
| | 575,676 | 657,751 |
| Loan payable (Note 14) | 40,000 | - |
| Total liabilities | 615,676 | 657,751 |
| Shareholders' deficiency | | |
| Share capital (Note 8) | 10,075,781 | 9,564,871 |
| Reserves (Note 8) | 434,026 | 418,926 |
| Accumulated other comprehensive income | (2,297) | (2,870) |
| Deficit | (10,573,894) | (10,500,844) |
| Total shareholders' deficiency | (66,384) | (519,917) |
| Total liabilities and shareholders' deficiency | 549,292 | 137,834 |
| Going concern (Note 2) | | |
| Subsequent event (Note 15) | | |

Signed “Paul Haber” Director

Signed “Andrew Ryu” Director

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

Graph Blockchain Inc.

Interim Condensed Consolidated Statement of Loss and Comprehensive Loss

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

(Unaudited)

| | Three months ended October 31, 2020 | Three months ended October 31, 2019 | Six months ended October 31, 2020 \$ | Six months ended October 31, 2019 \$ |
|--|--|--|---|--|
| Sales | 397,051 | - | 397,051 | - |
| Cost of sales | (299,248) | - | (299,248) | - |
| Gross profit | 97,803 | - | 97,803 | - |
| Expenses | | | | |
| Salaries, benefits and management fees (Note 10) | 12,224 | (23,166) | 51,224 | 170,261 |
| Office and general (Notes 3 and 10) | 6,525 | 65,325 | 13,319 | 190,801 |
| Other operating expenses (Note 10) | 187,424 | (59,031) | 281,751 | 224,744 |
| Depreciation (Note 6) | 131 | 20,049 | 262 | 40,408 |
| Loss on disposal of assets | - | - | 7,805 | - |
| Share-based consulting fees (Note 8) | - | 6,285 | - | 17,212 |
| | 206,304 | 9,462 | 354,361 | 643,426 |
| Loss before other income (expenses) | (108,501) | (9,462) | (256,558) | (643,426) |
| Interest expenses | (4) | (1,923) | (2,355) | (1,834) |
| Foreign exchange loss | (14) | (44) | (7,139) | (44) |
| Gain on settlement of debts (Note 8) | 193,002 | - | 193,002 | - |
| Net income (loss) | 84,483 | (11,429) | (73,050) | (645,304) |
| Other comprehensive income, net of tax | | | | |
| Foreign exchange translation adjustment | (3,638) | (3,163) | 573 | 45 |
| Comprehensive income (loss) | 80,845 | (14,592) | (72,477) | (645,259) |
| Basic and diluted earnings (loss) per share (Note 9) | 0.001 | (0.001) | (0.001) | (0.005) |
| Weighted average number of common shares (Note 9) | 157,832,553 | 137,778,899 | 154,273,850 | 137,627,808 |

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

Graph Blockchain Inc.

Interim Condensed Consolidated Statement of Changes in Shareholders' Deficiency

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

(Unaudited)

| | Common Shares | | | | Accumulated Other Comprehensive Income | Total |
|---------------------------------------|--------------------|-------------------|----------------|---------------------|---|------------------|
| | Number | Amount \$ | Reserves \$ | Deficit \$ | | |
| Balance – April 30, 2019 | 137,376,349 | 9,449,979 | 371,133 | (9,742,313) | (84) | 78,715 |
| Share based consulting fees | 605,488 | 17,212 | - | - | - | 17,212 |
| Foreign exchange translation | - | - | - | - | 45 | 45 |
| Net loss for the period | - | - | - | (645,304) | - | (645,304) |
| Balance – October 31, 2019 | 137,981,837 | 9,467,191 | 371,133 | (10,387,617) | (39) | (549,332) |
| Balance – April 30, 2020 | 143,284,581 | 9,564,871 | 418,926 | (10,500,844) | (2,870) | (519,917) |
| Shares issued under private placement | 11,666,666 | 350,000 | - | - | - | 350,000 |
| Shares issued for finders' fee | 166,553 | 6,662 | - | - | - | 6,662 |
| Shares issued for debts | 7,720,080 | 193,002 | - | - | - | 193,002 |
| Share issue costs | - | (38,754) | 15,100 | - | - | (23,654) |
| Foreign exchange translation | - | - | - | - | 573 | 573 |
| Net loss for the period | - | - | - | (73,050) | - | (73,050) |
| Balance – October 31, 2020 | 162,837,880 | 10,075,781 | 434,026 | (10,573,894) | (2,297) | (66,384) |

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

Graph Blockchain Inc.

Interim Condensed Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

(Unaudited)

| | Six months ended October 31, 2020 \$ | Six months ended October 31, 2019 \$ |
|--|--|--|
| Cash flows used in operating activities | | |
| Net loss | (73,050) | (645,304) |
| Adjustments to reconcile net loss to operating cash flow | | |
| Depreciation and accretion (Note 6) | 262 | 41,641 |
| Share based consulting fees (Note 8) | - | 17,212 |
| Shares subscribed in private placements for services to be rendered (Note 3) | - | 62,857 |
| Loss on disposal of assets | 7,805 | - |
| Loss allowance on loan receivables (Note 11) | - | 69,715 |
| Gain on settlement of debts (Note 8) | (193,002) | - |
| Net change in operating assets and liabilities (Note 7) | (169,881) | 171,234 |
| | <u>(427,866)</u> | <u>(282,645)</u> |
| Cash flows from investing activities | | |
| Purchase of property and equipment (Note 6) | - | (1,460) |
| Repayments of loan receivables (Note 10) | - | 106,609 |
| | <u>-</u> | <u>105,149</u> |
| Cash flows from financing activities | | |
| Loan payable (Note 10) | 40,000 | 90,712 |
| Repayment of loan | - | (7,777) |
| Principal payment of lease liability | - | (16,229) |
| Proceeds from issuance of share capital (Note 8), net | 323,258 | - |
| | <u>363,258</u> | <u>66,706</u> |
| Effect of exchange rate changes on cash and cash equivalents | (365) | 88,686 |
| Decrease in cash and cash equivalents | (64,973) | (22,104) |
| Cash and cash equivalents, beginning of period | 105,252 | 22,171 |
| Cash and cash equivalents, end of period | <u>40,279</u> | <u>67</u> |

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

Graph Blockchain Inc.

Notes to Interim Condensed Consolidated Financial statements

For the six months ended October 31, 2020 and 2019

(Expressed in Canadian dollars)

Unaudited)

1 Description of business and organization

Graph Blockchain Inc (the “Company”) is a private blockchain technology company that develops, markets and implements high performance private blockchain database management solutions. The Company’s solution provides for a unique and more streamlined way of filtering through blockchain based data, providing users with querying capabilities, meta data management, and advanced analytics. The Company has modified these operations and commenced developing leading-edge business intelligence and data management solutions that is implemented into BluStem (blustem.com). BluStem is an e-commerce marketplace for B2C and B2B audiences in support of scaling both its own and its partner brands with vending of all COVID-19 related essential products including lab equipment and supplies as well as Personal Protective Equipment.

The Company is a publicly traded corporation, incorporated in the province of British Columbia, and its head office is located at 4711 Yonge St., Suite 1000, Toronto, Ontario, M2N 6K8 Canada. The Company’s common shares are listed on the Canadian Securities Exchange under the trading symbol “GBLC”. The Company was incorporated under the laws of the Province of British Columbia on October 6, 1982. On November 6, 2018, the Company completed its acquisition of BluStem Ltd. (formerly Graph Blockchain Limited) (“BluStem”) through a reverse takeover, and changed the Company’s name to Graph Blockchain Inc. Refer to Note 3 for more information.

The global outbreak of COVID-19 (“Coronavirus”) has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. This unprecedented pandemic may result in, among other things, increased loan default risk, service delays, personnel shortages, increased government regulations or interventions, and ongoing economic uncertainty, all of which may negatively impact the business, financial condition or results of operations of the Company. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

The Company continues to monitor COVID-19 developments. During the six months ended October 31, 2020, the pandemic had no material impact on the Company’s operation as a going concern and day to day operations remain largely unchanged.

2 Significant accounting policies

Basis of presentation and statement of compliance

These unaudited interim condensed consolidated financial statements (“interim financial statements”) were prepared using the same accounting policies and methods as those used in the Company’s audited consolidated financial statements for the year ended April 30, 2020. These interim condensed consolidated financial statements are in compliance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”). Accordingly, certain information and footnote disclosure normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), have been omitted or condensed.

Graph Blockchain Inc.

Notes to Interim Condensed Consolidated Financial statements

For the six months ended October 31, 2020 and 2019

(Expressed in Canadian dollars)

Unaudited)

2 Significant accounting policies (continued)

Basis of presentation and statement of compliance (continued)

These interim condensed consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on December 22, 2020. These interim condensed consolidated financial statements are presented in Canadian dollars which is also the Company's functional currency. The Company has one wholly-owned entity (unincorporated), the South Korean branch of Graph Blockchain Inc. with a Korean Won functional currency. The accounting policies have been applied consistently in these interim condensed consolidated financial statements, unless otherwise indicated.

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to Canadian dollars at the foreign exchange rate applicable as at that date. Realized and unrealized exchange gains and losses are recognized through profit or loss.

The assets and liabilities of foreign operations are translated in Canadian dollars at period-end exchange rates. Income and expenses, and cash flows of foreign operations are translated into Canadian dollars using average exchange rates. Exchange differences resulting from translating foreign operations are recognised in other comprehensive loss and accumulated in equity.

Certain comparatives have been reclassified to conform with current period presentation.

Going concern

These interim condensed consolidated financial statements were prepared on a going concern basis under the historical cost basis of accounting. As at October 31, 2020, the Company has an accumulated deficit of \$10,573,894 (April 30, 2020 - \$10,500,844). For the six months ended October 31, 2020, the Company recognized a net loss of \$73,050 (2019 - \$645,304) and had net cash outflows from operating activities of \$427,866 (2019 - \$282,645). At October 31, 2020, the Company has insufficient cash to fund its planned operations for the next twelve months. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent upon the ability of the Company to generate sufficient revenues and positive cash flows from its operating activities and/or obtain sufficient additional financing to settle its obligations and fund its planned operations. Accordingly, the Company may need further financing in the form of debt, equity or a combination thereof for the next twelve months. There can be no assurance that additional funding will be available to the Company, or, if available, that this funding will be on acceptable terms. If adequate funds are not available, the Company may be required to delay or reduce the scope of any or all of its projects.

These interim condensed consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Should the Company be unable to generate sufficient cash flow from operations or financing activities, the carrying value of the Company's asset could be subject to material adjustments and other adjustments may be necessary to these interim condensed consolidated financial statements.

Graph Blockchain Inc.

Notes to Interim Condensed Consolidated Financial statements

For the six months ended October 31, 2020 and 2019

(Expressed in Canadian dollars)

Unaudited)

2 Significant accounting policies (continued)

Basis of consolidation

These interim condensed consolidated financial statements include the accounts of the Company's wholly owned subsidiary, BluStem Ltd., as defined in Note 3 below. Any references to Company include references to such subsidiary. Intercompany balances and transactions are eliminated upon consolidation and preparation of these interim condensed consolidated financial statements, and any unrealized income and expenses arising from intercompany transactions, are eliminated.

Inventory

Inventory consists of COVID-19 related products valued at the lower of the actual costs or its current estimated market value less costs to sell. The Company periodically reviews its inventory for obsolete and potentially impaired items. As at October 31, 2020, the Company has no reserve for inventory.

Critical Accounting Estimates and Judgements

The preparation of these interim condensed consolidated financial statements in conformity with IFRS requires management to make estimates and judgements that affect the applications of accounting policies regarding certain types of assets, liabilities, revenues, and expenses in the preparation of these interim condensed consolidated financial statements. Estimates and judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. 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.

Judgements

Areas requiring judgements include timing of recognizing revenue, impairment of financial assets and valuation of equity instruments issued under share-based payment arrangements.

a) Revenue recognition

The Company uses judgement 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.

b) Impairment of financial assets

The Company uses judgement to estimate the expected credit losses which is determined based on stage assessment. The ECL model requires judgement including but not limited to consideration of how changes in economic factors affect the ECLs.

Graph Blockchain Inc.

Notes to Interim Condensed Consolidated Financial statements

For the six months ended October 31, 2020 and 2019

(Expressed in Canadian dollars)

Unaudited)

2 Significant accounting policies (continued)

Critical Accounting Estimates and Judgements (continued)

c) 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 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.

3 Reverse take-over

On November 6, 2018, the Company completed its acquisition of BluStem by way of a three-cornered amalgamation among the Company, BluStem, and 2659468 Ontario Inc., a wholly-owned subsidiary of the Company, whereby 2659468 Ontario Inc and BluStem amalgamated to form a newly amalgamated company (“Amalco”). As a result of the Amalgamation, the holders of common shares of BluStem exchanged such common shares for the Company’s common shares on a one for one basis, and Amalco became a wholly-owned subsidiary of the Company.

The shareholders of BluStem owned 96% of the common shares of the Company and as a result, the transaction is considered a reverse acquisition of the Company by BluStem. For accounting purposes, BluStem is considered the acquirer, and the Company, the acquiree. Accordingly, the consolidated financial statements are a continuation of the financial statements of BluStem which has a financial year end of April 30 and a date of incorporation of November 22, 2017. The results of operations of the Company are included in the consolidated financial statements of the Company from the date of the reverse acquisition, November 6, 2018.

Graph Blockchain Inc.

Notes to Interim Condensed Consolidated Financial statements

For the six months ended October 31, 2020 and 2019

(Expressed in Canadian dollars)

Unaudited)

3 Reverse take-over (continued)

The following summarizes the reverse takeover of the Company by BluStem and the assets acquired and liabilities assumed as at November 6, 2018:

| | Amount |
|--|------------------|
| | \$ |
| Consideration | |
| Fair value of consideration paid to the Company's former holders of common shares and debtholders (5,954,715 common shares at \$0.21 per common share) | 1,250,490 |
| Debt forgiveness for amounts due to BluStem from the Company | 66,746 |
| Finder's fee (641,666 common shares at \$0.21 per common share) | 134,750 |
| | 1,451,986 |
| Identifiable assets acquired and liabilities assumed | |
| Cash | 228 |
| Trade and other receivables | 1,847 |
| Accounts payable and accrued liabilities | (106,199) |
| | (104,124) |
| Listing expense | 1,556,110 |

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 (liabilities) received (assumed), have been included in the listing expense on the consolidated statements of comprehensive loss.

The Company recorded in "Other reverse take-over fees" in the consolidated statement of loss and comprehensive loss, \$1,185,692 of professional, regulatory and other fees with respect to the reverse takeover, including \$884,956 management consulting fees charged by a shareholder company of the Company.

In connection with the above transaction, BluStem completed a non-brokered private placement on November 6, 2018 of 3,354,867 units to raise gross proceeds of \$1,006,460 that closed concurrently with the above transaction. Each unit was at a price of \$0.30 and consisted of one common share and one warrant of BluStem. Each warrant shall be exercisable into one common share of BluStem 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 \$22,232 comprised of \$13,000 in respect of cash finders' fees, together with other cash expenses of \$9,232, resulting in net proceeds of \$984,228, of which \$688,960 has been allocated to "share capital" for the shares issued and \$295,268 has been allocated to "Reserve" for the warrants issued on the consolidated statements of financial position.

Graph Blockchain Inc.

Notes to Interim Condensed Consolidated Financial statements

For the six months ended October 31, 2020 and 2019

(Expressed in Canadian dollars)

Unaudited)

3 Reverse take-over (continued)

The non-brokered private placement on November 6, 2018 includes cash subscriptions of \$324,020 for 1,080,067 common shares which were issued to certain marketing service providers of the Company. Subsequent to the subscriptions the Company paid \$318,500 to the same service providers for various marketing service agreements entered into, in substance, these transactions have been treated as issuance of shares for services. \$208,365 of the total \$318,500 has been included in “Office and general” in the consolidated statement of loss and comprehensive loss during the year ended April 30, 2019, and as at April 30, 2019, the remaining \$110,135 is included in “Prepaid expense and other assets”. During the year ended April 30, 2020, \$110,135 has been included in “Office and general” in the consolidated statement of loss and comprehensive loss.

4 Operating segments

The Company has two geographic segments as defined in Note 2 to these interim condensed consolidated financial statements.

Segment information of the Company is summarized as follows:

| | Graph Canada | Graph Korea | Consolidated totals |
|--|-------------------------|------------------------|--------------------------------|
| | \$ | \$ | \$ |
| For the six months ended October 31, 2020 | | | |
| Revenue from external customers | 397,051 | - | 397,051 |
| Segment loss | (62,875) | (10,175) | (73,050) |
| As at October 31, 2020 | | | |
| Segment assets | 546,696 | 2,596 | 549,292 |
| Segment liabilities | 594,087 | 21,589 | 615,676 |
| | Graph Canada | Graph Korea | Consolidated totals |
| | \$ | \$ | \$ |
| For the October months ended October 31, 2019 | | | |
| Revenue from external customers | - | - | - |
| Segment loss | (456,227) | (189,077) | (645,304) |
| As at April 30, 2020 | | | |
| Segment assets | 127,338 | 10,496 | 137,834 |
| Segment liabilities | 447,562 | 210,189 | 657,751 |

Graph Blockchain Inc.

Notes to Interim Condensed Consolidated Financial statements

For the six months ended October 31, 2020 and 2019

(Expressed in Canadian dollars)

Unaudited)

5 Inventory

As at October 31, 2020, inventory consists of thermal cyclers (PCR) machines and Icopy™ COVID-19 qPCR Multi Kits.

6 Property and equipment

| | Computer equipment \$ | Office equipment and furniture \$ | Total \$ |
|------------------------------------|-----------------------------|--|---------------|
| Cost | | | |
| Balance at April 30, 2019 | 45,754 | 2,616 | 48,370 |
| Additions | 1,509 | - | 1,509 |
| Disposal | (6,876) | - | (6,876) |
| CTA | (167) | - | (167) |
| Balance at April 30, 2020 | 40,220 | 2,616 | 42,836 |
| Disposal | (17,400) | - | (17,400) |
| CTA | (308) | - | (308) |
| Balance at October 31, 2020 | 22,512 | 2,616 | 25,128 |
| Accumulated depreciation | | | |
| Balance at April 30, 2019 | 16,378 | 567 | 16,945 |
| Depreciation | 17,001 | 523 | 17,524 |
| Disposal | (1,102) | - | (1,102) |
| Balance at April 30, 2020 | 32,277 | 1,090 | 33,367 |
| Depreciation | - | 262 | 262 |
| Disposal | (9,595) | - | (9,595) |
| CTA | (170) | - | (170) |
| Balance at October 31, 2020 | 22,512 | 1,352 | 23,864 |
| Carrying amounts | | | |
| Balance at April 30, 2020 | 7,943 | 1,526 | 9,469 |
| Balance at October 31, 2020 | - | 1,264 | 1,264 |

Graph Blockchain Inc.

Notes to Interim Condensed Consolidated Financial statements

For the six months ended October 31, 2020 and 2019

(Expressed in Canadian dollars)

Unaudited)

7 Net change in operating assets and liabilities

| | Six months ended October 31, 2020 | Six months ended October 31, 2019 |
|--|---|---|
| | \$ | \$ |
| Cash flows provided by (used in) | | |
| Trade and other receivables | (462,269) | (6,141) |
| Inventory | (23,417) | - |
| Prepaid expenses and other assets | 10,800 | 107,326 |
| Accounts payable and accrued liabilities | 305,005 | 151,253 |
| | <u>(169,881)</u> | <u>252,438</u> |

8 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 interim condensed consolidated statements of financial position.

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

| | Number | Amount \$ |
|--|---------------------------|--------------------------|
| Shares issued and outstanding at April 30, 2019 | 137,376,349 | 9,449,979 |
| Shares issued in exchange for consulting fees | 908,232 | 19,586 |
| Shares issued from private placements, net of fees | 5,000,000 | 90,206 |
| Advance from private placement | | 5,100 |
| Shares issued and outstanding at April 30, 2020 | <u>143,284,581</u> | <u>9,564,871</u> |
| Shares issued from private placements, net of fees | 11,666,666 | 311,246 |
| Shares issued for finders' fees | 166,553 | 6,662 |
| Shares issued for settlement of debts | 7,720,080 | 193,002 |
| Shares issued and outstanding at October 31, 2020 | <u>162,837,880</u> | <u>10,075,781</u> |

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 year ended April 30, 2020, 908,232 common shares have vested, resulting in \$ 19,586 "Share based consulting fees" recorded in the consolidated statement of loss and comprehensive loss for the year ended April 30, 2020.

Graph Blockchain Inc.

Notes to Interim Condensed Consolidated Financial statements

For the six months ended October 31, 2020 and 2019

(Expressed in Canadian dollars)

Unaudited)

8 Share capital and reserves (continued)

a) Common shares (continued)

On March 9, 2020, the Company completed non-brokered private placement of 5,000,000 units to raise gross proceeds of \$150,000. Each unit was priced at a price of \$0.03 and consisted of one common shares and one-half warrant of the Company. Each warrant shall be exercisable into one common share of the Company at a price of \$0.06 for a period of two years from the date of issuance and includes a warrant acceleration clause at a share price of \$0.10 or greater under certain market conditions. Arms-length finder was paid 8% of the gross proceeds and received 400,000 non-transferable warrants on the same terms and conditions governing those warrants issued under the private placement. Share issuance costs, including cash expenses, amounted to \$12,000 resulting in net proceeds of \$138,000, of which \$90,206 has been allocated to "Share capital" for the shares issued, based on residual value of financing after amount allocated to common shares based its fair value, fair value of common shares as of the date of closing and \$47,793 has been allocated to "Reserves" for the warrants issued on the consolidated statement of financial position. Total costs incurred were allocated between shares and reserves based on the proportionate fair value allocation.

On June 3, 2020, the Company completed a non-brokered private placement for aggregate gross proceeds of \$350,000. Under the subscription, the Company issued 11,666,666 units in accordance with the terms and conditions of the subscription agreement representing a subscription price of \$0.03 per unit. Each unit is comprised of one common share of the Company and one-half common share purchase warrant of the Company. Each warrant is exercisable into one common share at a price of \$0.06 for a period of 24 months from the closing date. In connection with the subscription, an aggregate of \$16,992 in finders' fees, 166,553 common shares in finders' fees valued at \$6,662 and 399,866 broker warrants were paid to finders. Each broker's warrant shall be exercisable into one common share at \$0.06 for a period of 24 months from the closing date. Share issuance costs, including cash expenses, amounted to \$38,754 resulting in net proceeds of \$311,246, of which \$311,246 has been allocated to "Share capital" for the shares issued, based on residual value of financing after amount allocated to common shares based its fair value, fair value of common shares as of the date of closing and \$Nil has been allocated to "Reserves" for the warrants issued on the interim condensed consolidated statement of financial position.

On September 14, 2020, the Company issued 7,720,080 common shares of the Company valued at \$193,002 to settle total debts in the amount of \$386,004 resulting in a gain on settlement of debts of \$193,002 for the six months ended October 31, 2020. The creditors include a related party, Datametrex AI Limited, who has control of over 10% of the voting securities of the Company and will be receiving 5,120,080 common shares of the Company.

Graph Blockchain Inc.

Notes to Interim Condensed Consolidated Financial statements

For the six months ended October 31, 2020 and 2019

(Expressed in Canadian dollars)

Unaudited)

8 Share capital and reserves (continued)

b) Warrants

Issuances of warrants are recorded in “Reserves” on the interim condensed consolidated statements of financial position. The following summarizes transactions involving warrants issued by the Company:

| | Number | Weighted average exercise price \$ |
|---|-------------------------|---|
| Warrants outstanding at April 30, 2019 | 5,020,685 | 0.295 |
| Warrants expired | (1,665,818) | 0.083 |
| Warrants issued in connection with private placements | <u>2,900,000</u> | <u>0.06</u> |
| Warrants outstanding at April 30, 2020 | 6,254,867 | 0.242 |
| Warrants expired | (3,354,867) | 0.40 |
| Warrants issued in connection with private placements | <u>6,233,218</u> | <u>0.06</u> |
| Warrants outstanding at October 31, 2020 | <u>9,133,218</u> | <u>0.06</u> |

The Company used the residual method to value non-broker warrants issued in connection with private placement completed on March 9, 2020 and June 3, 2020, with the amount of consideration received in excess, if any, of the fair value of the shares issued being recognized in contributed surplus. Difference between the combined unit price at the time of each placement and the market price of the shares at that time is allocated to reserves.

For brokers’ warrants issued in connection with the private placement completed on March 9, 2020, the value was calculated using the Black-Scholes pricing model with the following assumptions: (i) risk-free annual interest rate – 0.53%; (ii) expected exercise price – \$0.06; (iii) expected life – 2 years; (iv) annualized volatility – 279%; and (v) expected dividend yield – 0%.

For brokers’ warrants issued in connection with the private placement completed on June 3, 2020, the value was calculated using the Black-Scholes pricing model with the following assumptions: (i) risk-free annual interest rate – 0.29%; (ii) expected exercise price – \$0.06; (iii) expected life – 2 years; (iv) annualized volatility – 282%; and (v) expected dividend yield – 0%.

As at October 31, 2020, the outstanding warrants had a remaining useful life of 1.51 years with a reserve balance of \$434,026 (April 30, 2020 – 0.87 years with a reserve balance of \$418,296).

As at October 31, 2020, the following warrants were outstanding:

| Number of warrants | Exercise price | Expiry date |
|-------------------------|----------------|---------------------|
| 2,900,000 | \$0.06 | March 9, 2022 |
| <u>6,233,218</u> | <u>\$0.06</u> | <u>June 3, 2022</u> |
| <u>9,133,218</u> | | |

Graph Blockchain Inc.

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For the six months ended October 31, 2020 and 2019

(Expressed in Canadian dollars)

Unaudited)

9 Loss per share

For the six months ended October 31, 2020

| | |
|---|--------------------|
| Net loss | \$ (73,050) |
| Weighted average number of shares outstanding | <u>154,273,850</u> |
| Basic and diluted loss per share | <u>\$ (0.001)</u> |

For the six months ended October 31, 2019

| | |
|---|--------------------|
| Net loss | \$ (645,304) |
| Weighted average number of shares outstanding | <u>137,627,808</u> |
| Basic and diluted loss per share | <u>\$ (0.005)</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 October 31, 2020 of 9,133,218 (2019 - 5,020,685) have not been factored into the calculation as they are considered anti-dilutive.

The following table presents the maximum number of shares that would be outstanding if all dilutive and potentially dilutive instruments as described in Note 8 were exercised or converted as at October 31, 2020:

| | Number |
|--------------------------------------|--------------------|
| Common shares issued and outstanding | 162,837,880 |
| Warrants outstanding | <u>9,133,218</u> |
| | <u>171,971,098</u> |

10 Related party transactions

a) Accounts payable and accrued liabilities

As at October 31, 2020, an amount of \$168,136 (April 30, 2020 - \$21,377) included accounts payable and accrued liabilities is due to certain officers and a shareholder company of the Company.

b) Loans payables

As at October 31, 2020, the Company has loan advancements from a shareholder company for a total amount of \$Nil (April 30, 2020 - \$65,700). During the year ended April 30, 2020, the Company was repaid the prior year's amount and an additional amount was advanced to the Company resulting in a loan payable balance. This loan is unsecured, non-interest bearing and repayable on demand.

As at October 31, 2020, the Company has loan advancements due on demand from the Korea segment of a shareholder company for a total amount of \$Nil (April 30, 2020 - \$191,380) bearing interest at 5.0% per annum and unsecured. Interest accrued of \$2,351 during the six months ended October 31, 2020 was included in accounts payable and accrued liabilities. Loan advances were made in the amount of \$76,180 during the year ended April 30, 2020.

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10 Related party transactions (continued)

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:

| | Six months ended October 31, 2020 \$ | Six months ended October 31, 2019 \$ |
|--|--|--|
| Accounting fees included in other operating expenses | 2,000 | - |
| Consulting fees included in other operating expenses | 52,000 | (20,000) |
| Management fees | 43,500 | - |
| | <u>97,500</u> | <u>(20,000)</u> |

11 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.

As at October 31, 2020, the Company's financial instruments are comprised of cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities and related party loan payables. The amounts reflected in the statement of financial position are carrying amounts and approximate their fair values due to their short-term nature.

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.

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11 Financial instruments and risk management (continued)

Credit risk and economic dependence

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, trade and other receivables, and loan receivables carried at amortized cost.

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 losses (ECL) prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade and other receivables, while ECL calculation based on stage assessment has been performed for loan receivables. As at October 31, 2020, the impairment allowance relating to trade and other receivables is \$Nil (April 30, 2020 - \$Nil).

The following table sets out the stage continuity for the allowance for credit losses for loan receivables:

| | Stage 1 \$ | Stage 2 \$ | Stage 3 \$ | Total \$ |
|---|---------------|---------------|---------------|-------------|
| Balance at May 1, 2019 | 176,324 | - | - | 176,324 |
| Additions of new loan receivables | - | - | - | - |
| Repayments | (109,907) | - | - | (109,907) |
| Accretion income | 1,003 | - | 2,296 | 3,299 |
| Transfer between stages | (67,420) | - | 67,420 | - |
| Loss allowance on loans receivable | - | - | (69,716) | (69,716) |
| Balance at April 30, 2020 and October 31, 2020 | - | - | - | - |

The following continuity schedule summarizes the allowance for ECL of loans receivable:

| | Due from Related Party \$ | Loans Receivable \$ | Total \$ |
|---|---------------------------------|---------------------------|-------------|
| Balance at May 1, 2019 | 108,904 | 67,420 | 176,324 |
| Repayments | (109,907) | - | (109,907) |
| Accretion income | 1,003 | 2,296 | 3,299 |
| ECL allowance | - | (69,716) | (69,716) |
| Balance at April 30, 2020 and October 31, 2020 | - | - | - |

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11 Financial instruments and risk management (continued)

Credit risk and economic dependence (continued)

During the year ended April 30, 2020, the loss allowance of \$69,716 was recorded in “Other operating expenses”, and is related to the loan receivable of \$133,000 issued by the Company as part of a potential future acquisition of Blockchain Innovations Inc (“BCI”), in which the letter of intent was signed on April 3, 2019. The loan was a secured loan issued on April 4, 2019 with a maturity date of July 4, 2019, bearing an interest rate of 10% per annum. As at the date of these interim condensed consolidated financial statements, the loan is in default and management has assessed there is deterioration of the credit risk on the loan receivable.

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 management to ensure a sufficient continuity of funding exists. The Company’s financial liabilities are comprised of its accounts payable and accrued liabilities, debt, and contingent consideration. 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 under operating leases of office premise:

| | 12 months \$ | 1 to 2 years \$ | 2 to 5 years \$ | Total \$ |
|--|-----------------|--------------------|--------------------|----------------|
| Accounts payable and accrued liabilities | 400,671 | - | - | 400,671 |
| Related party loan payable | 257,080 | - | - | 257,080 |
| Balance at April 30, 2020 | 657,751 | - | - | 657,751 |

| | 12 months \$ | 1 to 2 years \$ | 2 to 5 years \$ | Total \$ |
|--|-----------------|--------------------|--------------------|----------------|
| Accounts payable and accrued liabilities | 575,676 | - | - | 575,676 |
| Loan payable | - | - | 40,000 | 40,000 |
| Balance at October 31, 2020 | 575,676 | - | 40,000 | 615,676 |

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11 Financial instruments and risk management (continued)

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.

12 Capital management

The Company defines its capital as its shareholders’ deficit in the amount of (\$66,384). 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 six months ended October 31, 2020.

13 Commitments

In March 2020, the Company entered into a service agreement with a financial advisor. According to the agreement, the Company has obligation to grant the advisor share options to purchase common shares in the Company which will equal 2.5% of the total fully diluted shares. The Options will be granted once the Option Plan is in place and approved at the Company’s upcoming AGM and is subject to approval from the regulatory (such as Canadian Securities Exchange) bodies. The Company entered into a twelve-month agreement included in the service agreement with the financial advisor. The payment shall be comprised of \$15,000 monthly payments made in stock that will be paid at a deemed price of \$0.05 per share. As at October 31, 2020, no shares have been issued to the financial advisor.

14 Government of Canada loan

During the six months ended October 31, 2020, the Company received \$40,000 under the Canada Emergency Business Account (“CEBA”). The loan is non-interest bearing and no principal repayments are required up to December 31, 2022. If the principal balance of \$30,000 is repaid by December 31, 2022, then the remaining \$10,000 of the principal balance will be forgiven. Any remaining balance after January 1, 2023 will be converted into a 3 year term loan with a fixed interest of 5% per annum, monthly interest-only payments and the outstanding balance must be repaid in full by December 31, 2025.

15 Subsequent event

On December 10, 2020, the Company granted incentive stock options to certain directors and officers of the Company to purchase up to 8,500,000 common shares of the Company at a price of \$0.05 per share for a period of 2 years from the date of grant.