
TAAL Distributed Information Technologies Inc.

Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2022 and 2021

(Stated in Canadian Dollars)

(Unaudited – Prepared by Management)



Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.4(3), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

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

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

TAAL Distributed Information Technologies Inc.
Condensed consolidated statements of financial position
(Stated in Canadian dollars)
(Unaudited – Prepared by Management)

	June 30, 2022	December 31, 2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 8,169,900	\$ 3,979,970
Accounts receivable	18,041,578	79,707
Other receivables	8,145,158	1,013,290
Digital assets (Note 6)	5,279,410	12,653,838
Prepaid expenses and other current assets (Note 5)	403,503	994,141
Total current assets	40,039,549	18,720,946
Investments in associate	276,949	267,555
Note receivable	325,956	320,312
Property, plant and equipment, net (Note 7)	9,347,679	14,322,706
Intangible assets, net	4,555,778	5,205,910
Right of use asset (Note 8)	1,626,782	1,615,832
Deposits on hashing equipment and facility (Note 5)	29,782,300	28,272,106
Total assets	\$ 85,954,993	\$ 68,725,367
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,912,031	\$ 2,932,605
Lease liabilities (Note 8)	364,000	336,433
Total current liabilities	2,276,031	3,269,038
Lease liabilities, long term (Note 8)	1,237,311	1,245,172
Promissory note - long term (Note 9)	12,877,000	12,809,000
Total liabilities	16,390,342	17,323,210
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	100,933,092	91,779,341
Contributed surplus	13,225,774	8,224,365
Accumulated other comprehensive income/ (loss)	461,476	49,320
Accumulated deficit	(45,055,691)	(48,650,869)
Shareholders' equity	69,564,651	51,402,157
Total liabilities and shareholders' equity	\$ 85,954,993	\$ 68,725,367

See Note 13 for Subsequent events

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

TAAL Distributed Information Technologies Inc.
Condensed consolidated statements of income/ (loss) and comprehensive income/ (loss)
For the three and six months ended June 30, 2022 and 2021
(Stated in Canadian Dollars)
(Unaudited – Prepared by Management)

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Revenues				
Digital asset hashing (Note 6)	\$ 7,253,924	\$ 6,640,706	\$15,966,425	\$ 7,548,808
Digital asset hashing pool management – related party (Note 11)	-	18,411	-	74,297
Total revenues	7,253,924	6,659,117	15,966,425	7,623,105
Cost of revenues				
Site operating costs	5,724,122	1,853,271	9,267,363	1,910,968
Pool operating costs	328,190	161,368	627,107	360,307
Depreciation and amortization	1,019,809	679,601	2,125,531	1,046,675
Total cost of revenues	7,072,121	2,694,240	12,020,001	3,317,950
Income before value adjustments	181,803	3,964,877	3,946,424	4,305,155
Revaluation loss on digital assets (Note 6)	(2,306,220)	(8,822,049)	(2,299,460)	(5,895,610)
Gain/(loss) on sale of digital assets (Note 6)	(260,890)	(138,177)	(3,279,767)	1,845,492
Income/(loss) before operating expenses	(2,385,307)	(4,995,349)	(1,632,803)	255,037
Operating expenses				
Office and administration	499,223	518,050	1,006,578	1,008,092
Regulatory	23,436	59,237	36,609	127,665
Investor relations and marketing	297,908	238,088	666,611	490,042
Management fees, salaries and wages	3,687,104	2,751,871	7,646,690	5,100,186
Professional fees	707,813	450,421	1,507,039	1,444,947
Travel and entertainment	193,971	19,874	316,396	62,493
Share-based payments (Note 10)	6,613,857	1,123,397	14,155,260	1,490,297
Loss/ (gain) on foreign exchange	166,979	(14,243)	41,902	527,234
Total operating expenses	12,190,291	5,146,695	25,377,085	10,250,956
Income/ (loss) from operations	(14,575,598)	(10,142,044)	(27,009,888)	(9,995,919)

TAAL Distributed Information Technologies Inc.
Condensed Consolidated statements of loss and comprehensive loss
continued
(Stated in Canadian Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Other income (expense):				
Gain on sale of equipment, net of tax	3,694,637	(1,016)	3,694,637	20,055
Share of income/ (loss) in associate	-	(15,849)	9,494	(22,944)
Gain on sale of subsidiary, net of tax	27,404,928	-	27,404,928	2,479,063
Accretion of lease liability	(2,149)	(1,094)	(4,612)	(1,094)
Debt forgiveness	-	21,568	-	21,568
Interest expense, net	(250,277)	(2,774)	(499,381)	(930)
Net income (loss)	16,271,541	(10,141,208)	3,595,178	(7,500,201)
Other comprehensive income/ (loss)				
Foreign currency translation adjustment	628,707	(261,198)	412,516	(178,611)
Total comprehensive income/ (loss)	\$16,900,248	\$ (10,402,406)	\$ 4,007,694	\$ (7,678,812)
Basic income/ (loss) per common share	\$ 0.40	\$ (0.29)	\$ 0.10	\$ (0.24)
Diluted income/ (loss) per common share	\$ 0.33	\$ (0.29)	\$ 0.08	\$ (0.24)
Weighted average number of common shares outstanding	39,243,547	34,907,403	37,750,738	31,229,368

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

TAAL Distributed Information Technologies Inc.
Consolidated statements of cash flows
For the six months ended June 30, 2022 and 2021
(Stated in Canadian Dollars)
(Unaudited – Prepared by Management)

	2022	2021
Cash flows from operating activities		
Net income/ (loss)	\$3,595,178	\$ (7,500,201)
Adjustments to non-cash operating activities:		
Share-based payments (Note 10)	14,155,161	1,490,297
Share of loss in associate	(9,394)	22,944
Digital assets hashed (Note 6)	(15,966,425)	(7,623,105)
Gain/(loss) on revaluation of digital assets (Note 6)	2,299,460	5,895,610
Loss/(gain) on sale of digital assets (Note 5)	3,279,767	(1,845,492)
Depreciation and amortization	1,941,068	957,014
Depreciation on right of use assets (Note 8)	184,463	89,661
Gain on sale of equipment	(3,694,639)	-
Gain on sale of subsidiary	(27,404,928)	(2,408,937)
Accretion of lease (Note 8)	4,612	1,094
Changes in working capital items related to:		
Digital assets	6,895,659	11,549,197
Accounts receivable	(424,514)	(528,541)
Other receivable	367,241	(6,286)
Prepaid expenses	8,004,113	848,625
Accounts payable and accrued liabilities	2,121,303	(2,248,442)
Net cash used by operating activities	(4,651,875)	(1,306,562)
Cash flows from investing activities		
Investment in associate	-	(155,055)
Deposit on hashing equipment (Note 5)	(8,861,024)	(9,198,143)
Refund on deposit of operational facility (Note 5)	356,644	-
Proceeds from sale of subsidiary	12,556,000	-
Proceeds from sale of equipment	5,384,400	20,055
Purchase of equipment, leasehold improvements	(655,210)	(1,074,002)
Net cash provided by/ (used) in investing activities	8,780,810	(10,407,145)

TAAL Distributed Information Technologies Inc.
Consolidated statements of cash flows
continued
For the six months ended June 30, 2022 and 2021
(Stated in Canadian Dollars)
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	2022	2021
Cash flows from financing activities		
Common shares issued for cash	-	17,578,164
Share issuance cost	-	(2,438,473)
Payment of lease obligations (Note 8)	(177,601)	(90,232)
Options exercise	-	663,399
Warrants exercised	-	90,000
Net cash provided by (used in) financing activities	(177,601)	15,802,858
Effects of foreign exchange on cash	238,594	(155,733)
Increase (decrease) in cash and cash equivalents	4,189,928	3,933,418
Cash and cash equivalents, beginning of the period	3,979,970	2,090,015
Cash and cash equivalents, end of the period	\$ 8,169,900	\$ 6,023,433

See Note 12 for supplemental non-cash cashflow information.

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

TAAL Distributed Information Technologies Inc.
Condensed consolidated statements of changes in shareholders' equity
For the six months ended June 30, 2022 and 2021
(Stated in Canadian Dollars)
(Unaudited – Prepared by Management)

	Number of common shares	Number of non- voting shares	Share capital	Contributed surplus	Accumulated other comprehensive income / (loss)	Accumulated deficit	Total
Balance, January 1, 2021	24,819,643	2,279,215	\$ 51,053,234	\$ 6,826,090	\$ 22,612	\$ (44,050,333)	\$ 13,851,603
Share-based payments	-	-	-	1,490,297	-	-	1,490,297
Exercise of options	290,000	-	1,206,025	(542,626)	-	-	663,399
Exercise of warrants	15,000	-	90,000	-	-	-	90,000
Issuance of RSU's	200,000	-	850,420	(850,420)	-	-	-
Non-voting shares transferred at par value	2,279,215	(2,279,215)	-	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	(178,611)	-	(178,611)
Shares issued on equity raise	8,695,652	-	39,999,999	873,961	-	-	40,873,960
Share issuance cost for public offering	-	-	(3,312,343)	-	-	-	(3,312,343)
Net loss for the period	-	-	-	-	-	(7,500,201)	(7,500,201)
Balance, June 30, 2021	36,299,510	-	\$ 89,887,335	\$ 7,797,302	(155,999)	\$ (51,550,534)	\$ 45,978,104
Balance, January 1, 2022	37,512,010	-	\$91,779,341	\$ 8,224,365	\$ 49,320	\$ (48,650,869)	\$ 51,402,157
Share based payments	-	-	-	14,155,260	-	-	14,155,260
Issuance of RSU's	830,876	-	2,858,210	(2,858,210)	-	-	-
Shares paid to Chief Fuels as compensation	2,250,000	-	6,295,541	(6,295,541)	-	-	-
Foreign currency translation adjustment	-	-	-	-	412,156	-	412,156
Net income for the period	-	-	-	-	-	3,595,178	3,595,178
Balance, June 30, 2022	40,592,886	-	\$100,933,092	\$13,225,774	\$461,476	(45,055,691)	69,564,651

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

TAAL Distributed Information Technologies Inc.
Notes to the condensed interim consolidated financial statements
For the three and six months ended June 30, 2022 and 2021
(Stated in Canadian dollars)
(Unaudited – Prepared by Management)

1. Nature of operations

(a) Reporting entity

TAAL Distributed Information Technologies Inc. (the “Company”) is a reporting issuer in the Canadian provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland whose common shares are listed for trading on the Canadian Securities Exchange (“CSE”) under the symbol “TAAL” and the OTCQX under the symbol “TAALF”. The Company was incorporated under the Business Corporations Act (British Columbia) on March 23, 2011. On January 13, 2015 the Company changed its name from 0906251 B.C. Ltd. to Squire Mining Ltd. On December 11, 2019 the Company changed its name to TAAL Distributed Information Technologies Inc. and on July 8, 2021 was continued under the Canada Business Corporations Act as a federally incorporated corporation. The address of the Company’s registered and records office is 199 Bay Street, Suite 4000, Toronto, Ontario M5L 1A9. In August 2018, the Company completed a change of business and is now in the business of operating and managing blockchain infrastructure to solve complex computation problems to validate transactions on various blockchains. In 2020, the Company expanded its scope to other blockchain technologies and offering products related to blockchain enterprise.

(b) Liquidity, financial condition and going concern

These consolidated financial statements have been prepared on a going concern basis, notwithstanding that the Company has had an accumulated deficit. As of June 30, 2022, the Company had working capital of \$37,762,518 and shareholders equity of \$69,564,651.

The Company’s ability to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business is dependent upon maintaining sustained profitability and maintaining any liabilities in good standing. The significant expansion of the Company’s workforce beginning in the fourth quarter of 2020 led to significant increases in the Company’s working capital used to support operations. Additionally, there are various risks and uncertainties affecting the Company’s operations including, but not limited to, the liquidity of digital assets, the economics of digital asset hashing, the Company’s ability to maintain security of its digital assets, material operations in Russia, manage its expenditures and to successfully execute its business plan. The Company believes it has the ability to continue as a going concern by completing a sale of a subsidiary for approximately \$30 million (USD \$24 million) which has been received at the date of this report. The sale provides significant liquidity and supports covering operating expenses for the next twelve months. With this increased liquidity the Company concluded it will be able to continue as a going concern.

(c) Statement of compliance

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

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1. Nature of operations, continued

The Company operates with digital currencies (predominately Bitcoin Core “BTC”, Bitcoin Cash “BCH” and Bitcoin Satoshi Vision “BSV”). IFRS guidance does not directly address many aspects related to treatment and disclosure of digital currencies. Management is required to make significant judgments in the selection and application of its accounting policies. The Company has disclosed its presentation, measurement, recognition and derecognition of digital currencies, at the recognition of revenue as well as significant assumptions and judgements, however if specific guidance is enacted by IASB in the future, the impacts on disclosure may result in the changes to the Company’s earnings and financial position.

These condensed interim consolidated financial statements were authorized for issue by the Audit Committee of the Board of Directors on August 11, 2022.

2. Basis of presentation

(a) Consolidation

These condensed consolidated interim financial statements include the financial statements of the Company and its wholly owned subsidiaries. All intercompany transactions, balances, revenues and expenses are eliminated on consolidation. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Company. As at June 30, 2022, the Company had five wholly owned subsidiaries and one minority owned associate.

Company Name	Country of Operation	Ownership Interest	Functional Currency
12273977 Canada Inc.	Canada	100%	Canadian dollar (“CAD”)
Taal Technologies SEZC	Cayman Islands	100%	U.S. dollar (“USD”)
Taal Trading SEZC	Cayman Islands	100%	U.S. dollar (“USD”)
Taal DIT GmbH	Switzerland	100%	Swiss franc (“CHF”)
Codugh Pty Ltd	Australia	19.9%	Australian dollar (“AUD”)

Any reference to “the Company” throughout these condensed consolidated interim financial statements refers to the Company and its subsidiaries.

(a) Basis of presentation

The condensed consolidated interim financial statements have been prepared in Canadian dollars on a historical cost basis, except for certain financial assets and liabilities which are measured at fair value.

Fair value is the price that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether the price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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2. Statement of compliance and basis of presentation, continued

Fair value measurements are classified using the fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted market prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist.

3. Significant accounting policies

(a) Digital assets

The Company considers that digital assets are a commodity that can be actively traded on open markets. There is currently not an IFRS that defines the term “commodity”, the Company has considered the guidance in IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors that allow an entity to consider the most recent pronouncements of other standard setting literature bodies that use similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices to the extent that these do not conflict with the requirements of IFRS and the International Accounting Standards Board Conceptual Framework. Based on this definition and the guidance in IAS 8, the Company has therefore determined that digital assets are a commodity notwithstanding that digital assets lack physical substance.

The Company’s activities include trading digital assets and, therefore, subsequent to initial recognition, digital assets inventory is held at fair value less costs to sell, reflecting the Company’s intention to hold such digital asset inventory as a commodity broker-trader in accordance with IAS 2 Inventories. As a result of the digital assets protocol, costs to sell digital assets inventory are immaterial and no allowance is made for such costs. Changes in the amount of digital asset inventory based on the fair value are included in the profit or loss for the period.

The Company’s determination to classify its digital assets as current assets on its consolidated statement of financial position is based on (a) management’s internal decision to sell its digital assets for cash after they have been earned and (b) management’s assessment that its digital assets have available liquid markets to which the Company may sell such assets at any given time.

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3. Significant accounting policies, continued

(j) Reclassification of prior year balances

The Company may reclassify comparative balances for disclosure purposes as the Company's operations change and current year balances require additional detail within consolidated financial statements and the accompanying notes. Such reclassifications do not result in a change in prior year financial position or results from operations.

4. Significant estimates and judgements

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts; however, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company.

The following are the estimates and assumptions that have been made in applying the Company's accounting policies that have the most significant effect on the amounts in the audited consolidated financial statements:

(a) Useful life and depreciation of hashing equipment

Management is depreciating blockchain hashing equipment two to four years on a straight-line basis. Management increased its estimate of useful life based on an assessment while they were in use and determined the machines are more resilient to wear and tear than initially assessed. The hashing rig is used to calculate algorithms on the blockchain and generate rewards. The rate at which the Company generates digital assets and, therefore, consumes the economic benefits of its hashing equipment is influenced by several factors including the following:

- the complexity of the blockchain transaction process which is driven by the algorithms contained within the digital assets open source software.
- the general availability of appropriate computer processing capacity on a global basis, technological obsolescence reflecting rapid development in the hashing equipment such that more recently developed hardware is more economically efficient to run in terms of digital assets transaction processed as a function of operating costs.
- primarily power costs (i.e., the speed of hashing equipment) evolution in the industry is such that newer hashing rig models generally have faster, and more efficient hashing capacity combined with lower operating costs through lower overall power consumption on a per hash computation basis.
- based on the Company's, and the industry's short life cycle to date, management is limited by the market data available. Furthermore, the data available also includes data derived from the use of economic modelling to forecast future digital assets and the assumptions included in such forecasts, including digital assets' price and network difficulty, are derived.

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4. Significant estimates and judgements, continued

- from management's assumptions which are inherently judgmental. Based on current data available, management has determined that the straight-line method of depreciation over four years best reflects the current expected useful life of hashing equipment. Management will review this estimate at each reporting date and will revise such estimates as and when data becomes available. The hashing equipment have been assumed to have no residual value at the end of their useful life. Management will review the appropriateness of its assumption of no residual value at each reporting date.
- management also assesses whether there are any indicators of impairment of hashing equipment at the end of each reporting period and if any such indication exists, the Company will estimate the recoverable amount of its hashing equipment.

(b) Liquidity

The assumption that the Company is a going-concern and will continue its operations for the foreseeable future considering the cashflow from financing and investing activities subsequent to period end. (Note 1)

(c) Impairment

Judgement is required in assessing whether certain factors would be considered an indicator of impairment. Management considers both internal and external information to determine whether there is an indicator of impairment present and, accordingly, whether impairment testing is required. The information we consider in assessing whether there is an indicator of impairment includes but is not limited to, market transactions for similar assets, bitcoin prices, interest rates, market capitalization and operating results. During the periods ended June 30, 2022 and June 30, 2021, as a result of a wide range of indicators, digital asset prices and volatility in the blockchain space, down time of idle machines with damage incurred in transit during the year management reviewed the Company's hashing fleet and intangible assets for impairment under the requirements of IAS 36, Impairment of Assets and accordingly, performed an impairment test.

When impairment testing is required, discounted cash flow models are used to determine the recoverable amount of respective assets. These models are prepared internally or with assistance from third-party advisors when required. When market transactions for comparable assets are available, these are considered in determining the recoverable amount of assets. Significant assumptions used in preparing discounted cash flow models include digital asset pricing, volatility, network variables, operating costs, capital expenditure, and discount rates. These inputs are based on management's best estimates of what an independent market participant would consider appropriate. Change in these inputs may alter the results of impairment testing, the amount of the impairment charges recorded in the consolidated statements of loss and comprehensive loss and the resulting carrying value of the assets.

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5. Prepaid expenses and other assets

	June 30, 2022	December 31, 2021
Trade prepaid	\$ 391,953	\$ 801,151
Cloud computing web services	11,550	11,550
Prepayment to hosting service provider	-	181,440
Current prepaid expenses	\$ 403,503	\$ 994,141
Deposits on hashing equipment and power	\$ 29,782,300	\$ 28,272,106

During the six-month period ended June 30, 2022 the Company made deposits of \$5,711,566 to acquire digital asset hashing equipment along with additional shipping deposits for machines in transit that are yet to be put in use. The Company made significant deposits to acquire digital asset hashing equipment along with refundable deposits against facility upgrades of \$1,816,329 with the local power facility to construct a transformer and gain access to 50MW of power with the remainder of the balance, \$20,674,134 related to SHA-256 hashing equipment. This equipment is expected to be delivered throughout the subsequent quarters. During the year ended December 31, 2021 the Company also made a refundable operational deposit in the amount of \$5,425,000 with a provincial power authority to secure a pre-determined amount of energy.

6. Digital assets

	Bitcoin "BTC"	Bitcoin Cash "BCH"	Bitcoin SV "BSV"	Total
Balance, January 1, 2021	1.66	4.20	32,049.44	\$ 6,720,448
Digital assets hashed	-	3,887.26	162,172.87	34,555,908
Received in TAAL pool	-	-	29,497.73	8,005,573
Paid out from TAAL pool	-	-	(29,991.95)	(8,111,778)
Received from equity raise (Note 14)	-	-	56,563.53	13,523,205
Received for sale of subsidiary (Note 20)	38.46	-	-	2,408,937
Received from loan proceeds (Note 13)	-	-	18,037.53	4,469,850
Digital asset purchased	48.78	-	-	3,665,548
Received for amounts owed from customers	-	-	2,889.56	806,636
Received as collateral for options	-	-	100.00	23,427
Traded for fiat currency	(39.67)	(2,704.20)	(168,800.00)	(40,488,973)
Paid for prepaid hosting fees	-	-	(22,808.00)	(4,734,023)
Payment of vendor trade payables	(48.25)	-	(870.17)	(3,801,551)
Note receivable to FYX Gaming	-	-	(1,553.86)	(315,550)
Revaluation of digital assets (i)	-	-	-	(2,842,832)
Loss on sale of digital assets	-	-	-	(2,445,663)
Foreign exchange translation	-	-	-	1,214,676
Balance, December 31, 2021	0.98	1,187.36	77,286.68	\$ 12,653,838

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6. Digital assets, continued

Below are the digital assets received and transacted:

	Bitcoin "BTC"	Bitcoin Cash "BCH"	Bitcoin SV "BSV"	Total
Balance, January 1, 2022	0.98	1,187.36	77,268.68	\$ 12,653,838
Digital assets hashed	-	12,766.16	119,829.23	15,966,425
Digital asset purchased	114.00	-	9,865.01	5,991,759
Expense reimbursement	-	-	631.45	86,703
Traded for fiat currency	-	(7,650.00)	(90,642.00)	(12,887,418)
Paid for prepaid hosting fees	(19.38)	-	(57,080.69)	(7,661,997)
Payment of vendor trade payables	(11.54)	-	(503.26)	(48,116)
Hash rental payments	(66.80)	-	-	(2,980,824)
Hosting profit reimbursement	-	(97.46)	(3,142.75)	(200,333)
Revaluation of digital assets (i)	-	-	-	(2,299,460)
Loss on sale of digital assets	-	-	-	(3,279,767)
Foreign exchange translation	-	-	-	(61,400)
Balance, June 30, 2022	17.26	6,206.06	56,243.67	\$ 5,279,410

- (i) Digital assets held are considered Level 2 financial instruments and re-valued mark-to-market each reporting period on the fair value price of digital assets as of the reporting date.

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7. Property, plant and equipment

<u>Cost</u>	<u>Building (iii)</u>	<u>Land (iii)</u>	<u>Infrastructure</u>	<u>Hashing Servers (ii)</u>	<u>Total</u>
Balance on January 1, 2021	\$ -	\$ -	\$ 91,925	\$ 8,776,261	\$ 8,868,186
Additions(i)	1,805,098	359,667	101,246	11,125,147	13,391,158
Disposals(ii)	-	-	-	(6,708,966)	(6,708,966)
Impairment	-	-	-	(242,579)	(242,579)
Effects of movements in exchange rates	-	-	622	(10,787)	(10,165)
Balance on December 31, 2021	1,805,098	359,667	193,793	12,939,076	15,297,634
Additions	443,331	-	83,433	128,446	655,210
Disposals	(2,248,429)	(359,667)	-	(2,422,201)	(5,030,297)
Impairment	-	-	-	-	-
Effects of movements in exchange rates	-	-	17,622	-	17,622
Balance on June 30, 2022	-	-	-	-	10,940,170
 <u>Depreciation</u>	 <u>Building (iii)</u>	 <u>Land (iii)</u>	 <u>Infrastructure</u>	 <u>Hashing Servers (ii)</u>	 <u>Total</u>
Balance on January 1, 2021	-	-	21,827	6,719,058	6,740,885
Depreciation	-	-	37,902	914,575	952,477
Disposals	-	-	-	(6,719,058)	(6,719,058)
Effects of movements in exchange rates	-	-	403	221	624
Balance on December 31, 2021	-	-	60,132	914,796	974,928
Depreciation	-	-	40,811	1,385,071	1,425,882
Effects of movements in exchange rates	-	-	(919)	(807,400)	(807,400)
Balance on June 30, 2022	-	-	100,024	1,492,466	1,592,490
 <u>Net Book Value</u>	 <u>Building (iii)</u>	 <u>Land (iii)</u>	 <u>Infrastructure</u>	 <u>Hashing Servers (ii)</u>	 <u>Total</u>
Balance on December 31, 2021	\$ 1,805,098	\$ 359,667	\$ 133,662	\$ 12,024,279	\$ 14,322,706
Balance on June 30, 2022	-	-	194,824	9,152,855	9,347,679

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8. Leases

<i>Right of use assets</i>		Buildings and leaseholds
Cost		
Balance on January 1, 2022	\$	1,615,832
Modification		233,829
Leasehold improvements		50,275
Accumulated depreciation		(448,839)
Effects of movements in exchange rates		175,685
Net book value on June 30, 2022	\$	1,626,782

<i>Lease obligations</i>		Buildings and leaseholds
Cost		
Balance on January 1, 2022	\$	1,581,605
Payments		(177,601)
Modification		233,829
Accretion of lease		4,182
Effects of movements in exchange rates		40,704
Net lease obligations on June 30, 2022	\$	1,601,311

Minimum lease payments in respect of lease obligations and the effect of discounting cash flows are as follows:

<i>Undiscounted minimum lease payments</i>	June 30, 2022
Cost	
Year 1	364,000
Year 2	268,000
Year 3	172,000
Year 4	172,000
Year 5	172,000
Thereafter	435,000
Effects of discounting	(18,311)
Present value of minimum lease payments	1,601,311
Less: Current portion of lease payments	364,000
	\$ 1,237,311

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9. Promissory note payable, net

	June 30, 2022	December 31, 2021
Promissory note – long term portion	\$ 12,877,000	\$ 12,809,000

The Company completed a financing of \$12,809,000 (USD \$10,000,000) on December 3, 2021 by issuance of a promissory note. The note bears interest at 8% per annum payable quarterly and is repayable in full at the borrower's option without penalty after December 3, 2022. The loan matures on December 31, 2024. The note is secured by a general security interest in the assets of the Company. In the event of default, the loan will accrue interest at 15% per annum. The agreement was amended for repayment terms and USD \$5,000,000 was repaid subsequent to period-end.

The Company completed a financing of \$8,919,000 (USD \$7,000,000) by way of issuance of a promissory note. The promissory note is unsecured and accrues interest at 8% per annum. The principal was received in two separate installments of \$4,466,522 with the first tranche on December 18, 2020 and the second on January 12, 2021 for \$4,469,850, both received in full. The proceeds were advanced in Bitcoin SV at fair market value. The maturity date is considered to be January 29, 2023. The instrument was recorded at amortized cost and does not have any complex conversion features attached to it. Interest accrued on the loan to March 18, 2021 was \$143,682. This instrument was settled in full on March 18, 2021 at the option of the Company in conjunction with equity raise (Note 10).

10. Share capital

a) Authorized:

Unlimited common shares without par value.

Unlimited non-voting participating shares without par value.

b) Issued: As of June 30, 2022, 40,592,886 (December 31, 2021: 37,512,010) common shares were issued and outstanding.

The Company holds 695,952 unreleased shares held in lock-up agreements in relation to share acquisitions. These shares are to be released in 2022 subject to non-vesting conditions; the shares can be repurchased for \$0.01 by the Company should the certain conditions not be met and all voting rights related to these shares remain with the board until released and pertain to the acquisition of WatsonChain.

On April 4, 2022 the Company issued 2,250,000 shares as compensation to sellers of Chief Fuels Inc. as the sale of CFI triggered an immediate vesting of milestone shares in addition to 1,187,500 shares paid in consideration for the acquisition of Chief Fuels Inc. in 2021. The Company holds 3,062,500 unreleased shares held in lock-up agreements subject to non-vesting conditions.

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10. Share capital, continued

On March 18, 2021, 8,695,652 common shares units were issued at \$4.60 a share in a prospectus offering for aggregate proceeds of \$39,999,999. Each unit consisted of one common share and one-half warrant. Each warrant was issued at an exercise price of \$6.00 and valid until March 18, 2024. An existing shareholder acted as lead investor purchasing approximately \$13,500,000 of units. In conjunction with the offering, the outstanding promissory note (see note 9) was settled in full with offering units at the option of the Company. A portion of the raise was received in digital assets at fair market value (see note 6). Share issuance costs associated with the raise were \$3,243,827 including the fair market value of the agents warrants.

c) Stock options and restricted stock units

The Company has a stock option plan whereby share purchase options are granted in accordance with the policies of regulatory authorities at an exercise price equal to the market price of the Company's shares on the date of the grant and, unless otherwise stated, vest on the grant date and with a term not to exceed five years. Under the plan, the board of directors may grant up to 10% of the issued number of shares outstanding as at the date of the share purchase option grant and restricted stock unit grant.

A summary of the Company's share purchase options outstanding on June 30, 2022 and January 1, 2022 and changes are presented below:

	Options	Weighted average exercise price
Outstanding at January 1, 2021	1,487,500	\$ 2.08
Expired	(5,000)	\$ 2.45
Forfeited	(20,000)	\$ 1.82
Granted	225,000	\$ 3.01
Exercised	(315,000)	\$ 2.30
Outstanding on January 1, 2022	1,372,500	\$ 2.18
Granted	1,829,438	\$ 2.71
Forfeited	(25,000)	\$ 3.68
Outstanding on June 30, 2022	3,166,938	\$ 2.47

The weighted average share price of the Company at the time of options exercise was \$4.31 for the year ended December 31, 2021

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10. Share capital, continued

As of June 30, 2022, share purchase options outstanding, detailed below, have a weighted average remaining contractual life of 2.28 years (December 31, 2021: 2.66 years).

Expiry date	Exercise price	Outstanding	Vested and exercisable
December 9, 2022	\$ 1.10	62,500	62,500
September 12, 2024	\$ 3.65	45,000	45,000
September 1, 2025	\$ 1.90	122,500	122,500
October 13, 2025	\$ 1.79	300,000	300,000
December 1, 2025	\$ 1.90	100,000	100,000
December 3, 2023	\$ 2.10	435,000	435,000
December 14, 2023	\$ 1.95	57,500	57,500
January 29, 2024	\$ 2.80	200,000	133,333
September 7, 2026	\$ 4.68	25,000	25,000
January 21, 2022	\$ 3.36	1,169,438	1,169,438
May 3, 2022	\$ 1.91	300,000	300,000
May 5, 2022	\$ 1.29	360,000	-
		3,166,938	2,750,271

The fair value of the options granted was estimated using the Black-Scholes option pricing model with the following estimated assumptions during the period ended June 30, 2022:

Risk-free interest rate	1.40-2.58%
Expected dividend rate	0%
Expected volatility	77.32-124.80%
Expected life of options	1-3 years

The weighted average fair value of options granted for the period ended June 30, 2022: \$2.71

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10. Share capital, continued

d) Agent's Warrants:

A reconciliation of agent's warrants outstanding as at June 30, 2022 and December 31, 2021 is presented below:

	Agent's warrants	Weighted average exercise price
Outstanding and exercisable at December 31, 2021	424,253	\$ 4.60
Outstanding and exercisable at June 30, 2022,	424,253	\$ 4.60

The fair value of the agents warrants granted was estimated using the Black-Scholes pricing model with the following estimated assumptions during the period ended December 31, 2021:

Risk-free interest rate	0.27%
Expected dividend rate	0%
Expected volatility	104.66%
Expected life of options	1.5 years

As at June 30, 2022, agent's warrants outstanding, have a weighted average remaining contractual life of 0.22 (December 31, 2021: 0.71) years.

e) Share purchase warrants:

A reconciliation of share purchase warrants outstanding as at June 30, 2022 and December 31, 2021 is presented below:

	Warrants	Weighted average exercise price
Outstanding and exercisable at December 31, 2021	4,332,826	\$ 6.00
Outstanding and exercisable at June 30, 2022	4,332,826	\$ 6.00

As at June 30, 2022, share purchase warrants outstanding, have a weighted average remaining contractual life of 1.72 (December 31, 2021: 2.21) years.

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10. Share capital, continued

e) Restricted Stock Units:

	Restricted stock units
Outstanding and exercisable at December 31, 2021	200,000
Granted	93,281
Exercised	(66,572)
Outstanding and exercisable at June 30, 2022	226,709

66,572 restricted stock units were exercised May 7, 2022 by executives of the Company.

93,281 restricted stock units were granted and vested immediately on March 4, 2022 to officers of the Company.

200,000 restricted stock units were issued on January 28, 2021, and vest equally over three years.

11. Related party transactions

Key management personnel of the Company are current members of the Board of Directors, as well as senior management, including the Chief Executive Officer and the Chief Financial Officer. Key management personnel compensation includes:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Management fees, salaries and wages	\$ 933,576	\$ 911,365	\$ 2,009,054	\$ 1,644,218
Directors fees	562,151	403,084	834,023	530,263
Share based payments	6,613,857	1,123,397	12,530,801	1,428,123
	<u>\$ 8,109,584</u>	<u>\$ 2,437,846</u>	<u>\$ 15,373,878</u>	<u>\$ 3,602,604</u>

On May 3, 2022 the Company issued 660,000 stock options to consultants of the Company.

On March 18, 2021 the Company completed a common share units issuance (Note 10) and an existing shareholder acquired approximately 2.9 million common shares units. In addition, the Company settled the promissory note and accrued interest in full on March 18, 2021. The promissory note holder received approximately 1.9 million common shares units to settle the liability making the individual a related party of the Company.

During the three months June 30, 2022 officers of the Company exercised 66,212 restricted stock units with a value of \$188,497.

The Company earned nil for the six months ended June 30, 2022 and \$74,297 for the six months ended June 30, 2021 in digital asset hashing pool management from a related party.

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12. Supplemental cash flow information

Non-cash transactions included in the working capital items consist of the following:

	June 30, 2022	June 30, 2021
Digital assets received for accounts receivable	\$ -	\$ 670,400
Digital assets received in TAAL pool	-	8,005,573
Digital assets paid out from TAAL pool	-	(8,111,778)
Digital assets exchanged for prepayment of hosting services	(7,661,997)	(987,683)
Digital assets received for expense reimbursement	86,703	-
Digital assets paid for hash rental	(2,980,824)	-
Digital assets paid for profit reimbursement	(200,333)	-
Digital assets used to repay vendor trade payables	(48,116)	(61,960)

Non-cash investing and financing transactions consist of the following:

	June 30, 2022	June 30, 2021
Issuance of equity to settle promissory note	\$ -	\$ 8,898,630
Issuance of equity in exchange for digital assets	-	13,523,205
Issuance of agent's warrants	-	873,961
Issuance of restricted stock units	-	850,420
Digital assets received for loan proceeds	-	4,469,850
Recognition of right of use asset and liability	-	1,877,338

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13. Subsequent events

The Company has evaluated all events that occurred after the balance sheet date through the date when the financial statements were issued.

The Company amended the Promissory note payable (see note 9) repayment terms and principle of approximately 6,450,000 (USD \$5,000,000) was repaid subsequent to June 30, 2022.

The Company purchased digital asset hashing equipment for USD \$3,800,000 that will be hosted at a facility in New Mexico, USA.

The Company entered into hosting agreements to bring online 300 PH/s in Ohio, USA and 100 PH/s in New Mexico, USA.

The Company acquired a United Kingdom entity from a director and officer of the Company subsequent to June 30, 2022 for GBP 50,000 plus an adjustment for cash on hand.

The Company entered into a lease agreement with the purchaser of Chief Fuels Inc. with arrangements to construct and host hashing equipment in the facility.