
TAAL Distributed Information Technologies Inc.

Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(Stated in Canadian Dollars)



INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of
Taal Distributed Information Technologies Inc.

Opinion

We have audited the consolidated financial statements of Taal Distributed Information Technologies Inc. and Subsidiaries (the “Company”), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the related consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders’ equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management’s Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is John J. Hughes.

A handwritten signature in black ink that reads "Marcum LLP". The signature is written in a cursive, flowing style.

Marcum LLP

Los Angeles, CA
April 30, 2021

TAAL Distributed Information Technologies Inc.
Consolidated Statements of Financial Position
(Stated in Canadian dollars)

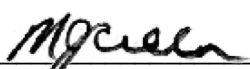
	December 31, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,090,015	\$15,622,778
Accounts receivable (Note 6)	171,292	2,219,781
Other receivable (Note 7)	547,839	314,085
Receivable for terminated acquisition (Note 19)	18,603,262	22,097,527
Digital assets (Note 10)	6,720,448	49,401
Prepaid expenses and other current assets (Note 8)	4,377,475	3,884,539
Total current assets	32,510,331	44,188,111
Investments in associate (Note 9)	156,343	-
Equipment, net (Note 11)	2,127,300	21,405
Intangible assets, net (Note 12)	6,240,246	2,566,912
Total assets	\$ 41,034,220	\$ 46,776,428
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 13)	\$ 3,987,278	\$ 4,606,134
Due to pool participant (Note 13)	106,205	-
Payable for terminated acquisition (Note 19)	18,603,262	17,514,618
Promissory note payable (Note 14)	-	19,350
Total current liabilities	22,696,745	22,140,102
Promissory Note - long term (Note 14)	4,485,872	-
Total liabilities	27,182,617	22,140,102
SHAREHOLDERS' EQUITY		
Share capital (Note 15)	51,053,234	31,882,205
Contributed surplus	6,826,090	15,528,237
Accumulated other comprehensive income (loss)	22,612	(112,717)
Accumulated deficit	(44,050,333)	(22,690,186)
Shareholders' equity attributed to owners of the Company	13,851,603	24,607,539
Non-controlling interest (Note 17)	-	28,787
Total shareholders' equity	13,851,603	24,636,326
Total liabilities and shareholders' equity	\$ 41,034,220	\$46,776,428

Subsequent events (Note 27)

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

Approved on behalf of the Board:


Chairman of the Board


Director

TAAL Distributed Information Technologies Inc.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2020 and 2019
(Stated in Canadian Dollars)

	Year ended December 31,	
	2020	2019
Revenues		
Digital asset hashing (Note 10)	\$ 5,285,447	\$ 15,489,528
Digital asset hashing pool management – related party (Note 16)	2,572,519	1,087,893
Software licensing	135,483	568,383
Total revenues	7,993,449	17,145,804
Cost of revenues		
Site operating costs	(5,693,181)	(11,741,450)
Pool operating costs	(293,769)	-
Depreciation and amortization (Notes 11 and 12)	(891,178)	(7,156,429)
Total cost of revenues	(6,878,128)	(18,897,879)
Income/(loss) before value adjustments	1,115,321	(1,752,075)
Revaluation of digital assets (Note 10)	(801,945)	(10,070)
Income (loss) on sale of digital assets (Note 10)	(1,124,521)	1,293,017
Loss	(811,145)	(469,128)
Operating expenses		
Office and administration	(1,748,325)	(510,403)
Regulatory	(92,070)	(37,776)
Investor relations and marketing	(276,507)	(61,733)
Management fees, salaries and wages	(4,514,992)	(1,232,360)
Professional fees	(4,657,565)	(1,646,906)
Travel and entertainment	(269,280)	(325,616)
Share-based payments	(1,810,695)	(438,755)
loss on foreign exchange	(119,997)	(302,298)
Reversal of impairment on equipment (Note 11)	106,605	-
Impairment of hashing equipment (Note 11)	(5,229,103)	(5,840,057)
Total operating expenses	(18,611,929)	(10,394,904)
Loss from operations	(19,423,074)	(10,864,032)

TAAL Distributed Information Technologies Inc.
Consolidated Statements of Loss and Comprehensive Loss
continued
(Stated in Canadian Dollars)

	2020	Year ended December 31, 2019
Other income (expense):		
Share of loss in joint ventures	-	(127,253)
Loss on sale of equipment (Note 11)	(2,018,420)	-
Loss on acquisition of joint venture (Note 9)	-	(1,733,870)
Share of loss in associate (Note 9)	(5,584)	-
Gain on sale of marketable securities	-	80,500
Net interest income	66,916	252,337
Net loss	(21,380,162)	(12,392,318)
Other comprehensive income/(loss)		
Foreign currency translation adjustment	135,327	(112,717)
Total comprehensive loss	\$ (21,244,835)	\$(12,505,035)
Net loss attributable to:		
Owners of the Company	(21,335,908)	(12,421,072)
Non-controlling interests	(44,254)	28,754
Net loss	\$ (21,380,162)	\$(12,392,318)
Total Comprehensive Income (loss) attributable to:		
Owners of the Company	(21,200,581)	(12,533,789)
Non-controlling interests	(44,254)	28,754
Total comprehensive loss	\$ (21,244,835)	\$(12,505,035)
Basic and diluted loss per common share	\$ (0.99)	\$ (0.98)
Weighted average number of common shares outstanding	21,635,511	12,603,709

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

TAAL Distributed Information Technologies Inc.
Consolidated Statements of Cash Flows
For the years ended December 31, 2020 and 2019
(Stated in Canadian Dollars)

	2020	2019
Cash flows from operating activities		
Net loss	\$(21,380,162)	\$(12,392,318)
Adjustments to non-cash operating activities:		
Share-based payments	1,810,695	438,755
Share of loss in joint ventures	-	127,253
Share of loss in associate	5,584	-
Digital assets hashed	(5,285,447)	(15,489,528)
Revaluation of digital assets	801,945	10,070
Loss (gain) on sale of digital assets	1,124,521	(1,293,017)
Loss on investment in joint venture	-	1,733,870
Depreciation and amortization	891,178	7,156,429
Gain on sale of marketable securities	-	(80,500)
Loss on sale on hashing equipment	2,018,420	-
Reversal of impairment of equipment	(106,605)	-
Impairment of equipment	5,229,103	5,840,057
Unrealized foreign exchange	-	(74,371)
Changes in working capital items related to:		
Digital assets	6,973,792	15,504,371
Accounts receivable	40,635	(2,677,068)
Other receivable	(233,754)	(262,640)
Prepaid expenses	434,988	(2,242,805)
Accounts payable and accrued liabilities	(852,171)	4,093,152
Net cash (used in) operating activities	(8,527,278)	391,710

TAAL Distributed Information Technologies Inc.
Consolidated Statements of Cash Flows continued
(Stated in Canadian Dollars)

	2020	2019
Repayment from joint venture	-	667,400
Sale of marketable securities	-	292,200
Investment in associate	(161,927)	-
Acquisition of intangible assets	(1,650,504)	(892,455)
Proceeds from sale of equipment	1,430,143	-
Purchase of equipment	(4,916,968)	(576,238)
Payable related to terminated acquisition	-	17,514,618
Receivable related to terminated acquisition	-	(22,097,527)
Net cash used in investing activities	(5,299,256)	(5,092,002)
Cash flows from financing activities		
Options exercised	-	57,220
Warrants exercised	-	1,151,466
Net cash (used in) provided by financing activities	-	1,208,686
Effects of foreign exchange on cash	293,771	(129,711)
Decrease in cash and cash equivalents	(13,532,763)	(3,621,317)
Cash and cash equivalents, beginning of the period	15,622,778	19,244,095
Cash and cash equivalents, end of the period	\$ 2,090,015	\$15,622,788

See Note 18 for supplemental non-cash cashflow information.

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

TAAL Distributed Information Technologies Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2020 and 2019
(Stated in Canadian Dollars)

	Number of common shares	Number of non-voting shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Accumulated deficit	Non-controlling interest	Total
Balance, January 1, 2019	12,345,517	-	\$30,568,172	\$ 1,589,717	\$ -	\$(10,269,114)	\$ -	\$21,888,775
Exercise of options	38,147	-	95,367	(38,147)	-	-	-	57,220
Exercise of warrants	1,439,333	-	1,218,666	(67,200)	-	-	-	1,151,466
Share-based payments	-	-	-	438,755	-	-	-	438,755
Foreign currency translation adjustment	-	-	-	-	(112,717)	-	-	(112,717)
Share settled instrument for asset acquisition	-	-	-	13,605,112	-	-	-	13,605,112
Acquisition of joint venture	-	-	-	-	-	-	33	33
Net loss for the period	-	-	-	-	-	(12,421,072)	28,754	(12,392,318)
Balance, December 31, 2019	13,822,998	-	\$31,882,205	\$ 15,528,237	\$ (112,717)	\$(22,690,186)	\$ 28,787	\$24,636,326
Share settled for WatsonChain Limited shares	1,739,882	-	-	3,029,570	-	-	-	3,029,570
Issuance of equity settled instrument in connection to asset acquisition	-	2,279,215	5,565,917	-	-	-	-	5,565,917
Conversion of share settled instrument	9,256,763	-	13,605,112	(13,605,112)	-	-	-	-
Options issued for patent acquisition	-	-	-	62,700	-	-	-	62,700
Share-based payments	-	-	-	1,810,695	-	-	-	1,810,695
Foreign currency translation adjustment	-	-	-	-	135,329	-	-	135,329
Changes in ownership interest	-	-	-	-	-	(24,240)	15,467	(8,773)
Net loss for the period	-	-	-	-	-	(21,335,907)	(44,254)	(21,380,162)
Balance, December 31, 2020	24,819,643	2,279,215	\$ 51,053,234	\$ 6,826,090	\$ 22,612	\$(44,050,333)	\$ -	\$13,851,603

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

Taal Distributed Information Technologies Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(Stated in Canadian dollars)

1. Nature of operations

(a) Reporting entity

Taal Distributed Information Technologies Inc. (formerly Squire Mining Ltd.) (the “Company”) is a reporting issuer in the Canadian provinces of British Columbia, Alberta and Ontario 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. The address of the Company’s registered and records office is 595 Burrard St., Suite 2600, Vancouver, BC, V7X 1L3. From its incorporation to 2018, the Company was engaged primarily in the exploration of mineral resource properties. 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 assuming the Company will continue as a going concern, notwithstanding that the Company has an accumulated deficit. As of December 31, 2020, the Company had working capital of \$9,813,586 and shareholders equity of \$13,851,603.

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 expansion of the Company’s operations and 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, manage its expenditures and to successfully execute its business plan. Accordingly, there were material risks and uncertainties that cast significant doubt about the Company’s ability to continue as a going concern as disclosed in the restated September 30, 2020 financial statements. The Company’s strategy to mitigate these risks and uncertainties is to execute a business plan aimed at developing new product markets, revenue growth, managing operational expenses and working capital requirements and securing additional financing as needed through loans and equity investments.

The Company believes it has alleviated its past reported significant doubt regarding its ability to continue as a going concern by completing an equity capital raise of \$40 million. This raise 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.

Taal Distributed Information Technologies Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(Stated in Canadian dollars)

2. Statement of compliance and basis of presentation

(a) Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with 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”)

The Company operates with digital currencies (predominately Bitcoin “BTC” 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 may result in the changes to the Company’s earnings and financial position.

These consolidated financial statements were authorized for issue by the Audit Committee of the Board of Directors on April 30, 2021.

(b) Consolidation

These consolidated 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 December 31, 2020, the Company had eight wholly owned subsidiaries and one minority owned associate.

Company Name	Country of Operation	Ownership Interest	Functional Currency
Arasystems Technology Corp.	Canada	100%	Canadian dollar (“CAD”)
12273977 Canada Inc.	Canada	100%	Canadian dollar (“CAD”)
Freschette Limited	Antigua and Barbuda	100%	U.S. Dollar (“USD”)
Freschette (Kazakhstan) LLP	Republic of Kazakhstan	100%	U.S. Dollar (“USD”)
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	11%	Australian dollar (“AUD”)
WhatsonChain Limited	United Kingdom	100%	British Pound (“GBP”)

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

Taal Distributed Information Technologies Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
(Stated in Canadian dollars)

2. Statement of compliance and basis of presentation, continued

(c) Basis of presentation

The consolidated 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 to sell 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.

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.

Taal Distributed Information Technologies Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
(Stated in Canadian dollars)

3. Significant accounting policies, continued

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 almost immediately 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.

(b) Asset acquisitions

At the time of acquisition, the Company determines whether what is acquired meets the definition of a business, in which case, the transaction is considered a business combination, and otherwise it is recorded as an asset acquisition. The Company also considers the option to identify concentration of fair value in an acquisition; identifying whether substantially all the fair value of gross assets acquired is concentrated in a single identifiable asset or group.

For an asset acquisition, the cost is allocated to the individual identifiable assets and liabilities based on their relative fair values at the date of purchase and acquisition related costs are capitalized. No goodwill is recorded and no deferred tax asset or liability arising from the assets acquired or liabilities assumed are recognized upon the acquisition of the assets. Transaction expenses incurred are capitalized.

(c) Investment in associate

The Company accounts for investment in associate using the equity method from the date which it becomes an associate. On acquisition of the investment, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for with any goodwill relating to an associate included in the carrying amount of the investment. Goodwill is not amortized. Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity's share of the associate's profit or loss in the period in which the investment is acquired.

Appropriate adjustments to the entity's share of the associate's profit or loss after acquisition are made for expenses incurred and income earned.

(d) Intangible assets

Intangible assets acquired are measured on initial recognition at cost or fair value in an asset acquisition for equity settled share-based payments to non-employees. Following the initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses (if any). Intangible assets with finite lives are amortized on a straight-line basis over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization expense of intangible assets with finite lives is included within the cost of revenue category, consistent with the nature of the intangible assets. In rare circumstances when the Company cannot reliably estimate the fair value of the intangible assets received, the intangible assets are initially measured by reference to the fair value of equity instruments granted, measured at the date the Company obtains the intangible assets.

Taal Distributed Information Technologies Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
(Stated in Canadian dollars)

3. Significant accounting policies, continued

The following are used in the calculation of amortization:

Asset class	Amortization years
Software licenses	5
Intellectual properties	5
Customer list	5
Trademark and Brand	10
Patent license	10
Domain names	15

Residual values and useful lives of intangible assets are reviewed at each reporting date or whenever changes in circumstances occur. In addition, intangible assets are subject to impairment testing. When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in operations.

(e) Equipment

Equipment acquired by the Company is initially recognized at its acquisition cost, including any costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by the Company's management. Equipment is subsequently measured at cost less accumulated depreciation and any impairment charges.

The cost of servicing and repairs are recognized in the consolidated statements of loss and comprehensive loss as an operating expense, as incurred. Subsequent costs are capitalized if it is probable that the future economic benefit associated with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognized in the consolidated statements of loss and comprehensive loss as an expense, as incurred.

Depreciation commences when equipment is considered available for use. Depreciation is recognized in earnings or loss over the estimated useful lives of each part of an item of equipment and is in line with the pattern of use of the future economic benefits. Depreciation is computed on a straight-line basis and adjusted for any impairment and disposal charges.

The following rates are used in the calculation of depreciation and amortization:

Asset class	Amortization years
Hashing servers	2
Infrastructure	2-3

An item of equipment and any significant parts initially recognized is derecognized upon disposal or when no future economic benefits are expected from the continued use of the asset. Any gain or loss arising on the disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statements of loss and comprehensive loss.

Depreciation methods, useful lives and residual values are reassessed each reporting date and any changes arising from the assessment are applied prospectively.

Taal Distributed Information Technologies Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
(Stated in Canadian dollars)

3. Significant accounting policies, continued

(f) Functional currency translation

In the Company's financial statements, all assets, liabilities and results from operations of subsidiaries with a functional currency other than the Canadian dollar are translated into Canadian dollars upon consolidation.

On consolidation, assets and liabilities have been translated into Canadian dollars at the closing rate at the reporting date. Income and expenses have been translated into Canadian dollars at the average rate over the reporting period. Exchange differences are included in accumulated other comprehensive loss and recorded as foreign currency translation adjustments. On disposal of a foreign operation, the related foreign currency translation adjustments are reclassified to profit or loss and are recognized as part of the gain or loss on disposal.

(g) Revenue from contracts with customers

During the year ended December 31, 2020, the Company had three revenue generating streams – digital asset hashing, software licensing services to third party and fleet management services.

The Company recognizes revenue from the provision of digital asset hashing services within various SHA-256 blockchains, and as consideration for these services, the Company receives digital assets. Revenue is measured based on the fair value of the digital asset received.

There is currently no specific definitive guidance in IFRS or alternative accounting frameworks for the accounting for the production of digital assets and management has exercised significant judgement in determining the appropriate accounting treatment for the recognition of revenue. In the event authoritative guidance is enacted by the IASB, the Company may be required to change its policies which could result in a change in the Company's financial position and earnings.

The Company measures revenue at the fair value of the consideration received, which is the market value of the digital assets (refer to Digital Asset Note 3(a)).

The Company generates revenue by licensing its software to a third party and revenue is charged monthly as a percentage of digital assets generated by its cloud computing and pool management software. The services are delivered as the third party utilizes the Company's software to generate blocks on the blockchains.

The Company generates revenue from managing third party hashing servers and revenue is charged per active server under management during the period. The Company's management team utilizes its knowledge of this business and monitors and maintains fleets on behalf of the third parties to ensure they are operating effectively and efficiently. The Company currently manages a fleet for one group and also licenses its software to the same group, which is controlled by the related party.

(h) Basic and diluted loss per share

Basic loss per share for a given period is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method. Diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

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3. Significant accounting policies, continued

(i) Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, and share warrants are classified as equity instruments.

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as deductions, net of tax, from the proceeds.

(j) Share-based payments

Equity-settled share-based payments for directors, officers and employees are measured at fair value at the date of grant and recorded as compensation expense in the consolidated financial statements. The fair value determined at the grant date of the equity-settled share-based payments is expensed using the graded vesting method over the vesting period based on the Company's estimate of shares that will eventually vest. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss over the remaining vesting period.

Compensation expense on share purchase options granted to non-employees is measured at the earlier of the completion of performance and the date the options are vested using the fair value method and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a Black-Scholes valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based payments are reflected in contributed surplus until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital along with any consideration paid. If the options expire unexercised, the amount recorded remains in contributed surplus.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

(k) Share-based payments for an asset acquisition

If the Company acquires a group of assets that do not compromise a business by issuing non-voting common shares or regular common shares, the identification of such transactions is within the scope of IFRS 2 – share based payments which requires significant judgement given that it is based on the interpretation of the substance of the contractual arrangement. The consideration paid will include issuance of common shares and transactions costs associated to the transaction. The equity settled share-based payment transactions are measured at the fair value of the goods received which could give rise to measurement uncertainty. If the goods received cannot be reliably measured, then the fair value of the shares issued will be referenced as the transaction value measured at the date the Company obtains the goods or services.

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3. Significant accounting policies, continued

(l) Investment in joint arrangements

Investments in joint arrangements are accounted for using proportionate consolidation when the arrangement is considered to be a joint operation, and by use of the equity method in circumstances where the arrangement is considered to be a joint venture for accounting purposes. Under proportionate consolidation, each party accounts for its proportionate share of an arrangement's assets, liabilities and operations statement items on a line for line basis within its own financial statements.

The equity method involves recording the initial investment at cost and subsequently adjusting the carrying value of the investment for the Company's proportionate share of the profit and loss, other comprehensive income and loss and any other changes in a joint venture's net assets, such as further investments and dividends.

The Company's proportionate share of a joint venture's profit or loss and other comprehensive income or loss is based on the most recent financial statements of that joint venture. Adjustments are made to align any inconsistencies between the Company's accounting policies and those of the joint venture before applying the equity method. Adjustments are also made to account for any depreciable assets based on their fair values at the acquisition date of the investment and for any impairment losses recognized by the joint venture.

(m) Impairment of non-financial assets

The Company's tangible and intangible assets are reviewed for indications of impairment at each financial position date. If indications of impairment exist, an assets recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in the consolidated statements of loss and comprehensive loss when incurred. Impairment losses recognized in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

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3. Significant accounting policies, continued

(n) Taxes

Income tax expense is comprised of current and deferred tax. Current and deferred income tax is recognized in the consolidated statements of loss and comprehensive loss except to the extent that it relates to a business combination or items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income.

Current income taxes are the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized in respect of all qualifying temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Deferred income tax assets and liabilities are presented as non-current.

(o) Cash and cash equivalents

Cash and cash equivalents consist of fiat currency and highly liquid investments with original maturities of three months or less and are readily convertible to known amounts of cash, subject to an insignificant risk of change in value. As at December 31, 2020 the Company's cash and cash equivalents consisted of cash of \$2,090,015 and demand deposit accounts of nil. As at December 31, 2019 the Company had cash of \$12,672,778 and demand deposit accounts of \$2,950,000.

(p) Trade and other receivables

Trade receivables are financial assets recognized initially at fair value and management reviews balances at each reporting date for any indicators of impairment and allowance required on existing balances.

(q) Cost of revenue

Costs of revenues include direct costs to generate the revenue earned by the Company. The amounts include the cost of inputs and depreciation directly consumed to generate the revenue.

(r) Financial instruments

Financial instruments are recognized on the date on which the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the rights to receive cash flow from assets have expired or have been transferred and the Company has transferred all the risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled, or expires. All financial instruments are initially recognized at fair value and measurement in subsequent periods is dependent upon the classification of the financial instrument.

Taal Distributed Information Technologies Inc.

Notes to the Consolidated Financial Statements

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3. Significant accounting policies, continued

Financial assets

The Company classifies its financial assets in the following categories: fair value through profit or loss, or amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

Financial liabilities

Financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

Financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable and accrued liabilities.

Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs in making the measurements. The levels of the fair value hierarchy are defined as follows.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Inputs for the asset or liability that are not based on observable market data.

(s) Non-monetary transactions

Where the Company is settling a liability for the purchase of goods or services or settling receivables where the price was established in a fiat currency, the difference between the liability settled and the fair value of the digital asset transferred is recognized as a gain or loss on settlement. Otherwise, the transaction is measured based on the fair value of the digital assets exchanged. Any difference between the fair value of digital assets exchanged and the carrying amount of the digital assets is recognized in profit and loss.

New and amended standards adopted by the Company

Taal's accounting policies are consistent with those disclosed in the notes to the December 31, 2019 consolidated financial statements, except for the narrow-scope amendments to IFRS 3, *Business Combinations*, which were adopted for use on transactions effective January 1, 2020. The amendments to the definition of a business are intended to assist companies in determining whether a transaction should be accounted for as a business combination or group of assets, and are applied prospectively.

New accounting standards issued but not yet effective

The IASB has not issued any significant accounting standard changes that impact the Corporation. Taal is evaluating the impact of narrow-scope amendments to IAS 1 and any changes to the treatment of digital assets issued by the IASB.

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3. Significant accounting policies, continued

The IASB issued an amendment on January 2020 on IAS 1, Presentation of Financial Statements, "Classification of Liabilities as Current or Non-current, to clarify the criterion for classifying a liability as non-current relating to the right to defer settlement of the liability for at least twelve months after the reporting period. The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted.

Taal continues to monitor changes to IFRS and has implemented applicable IASB changes to standards, new interpretations, and annual improvements.

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 rigs

Management is depreciating hashing rigs over two years on a straight-line basis. 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 rigs 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 rigs 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 rigs) 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.
- 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

- from management's assumptions which are inherently judgmental. Based on current data available, management has determined that the straight-line method of depreciation over two years best reflects the current expected useful life of hashing rigs. Management will review this estimate at each reporting date and will revise such estimates as and when data becomes available. The hashing rigs 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 rigs at the end of each reporting period and if any such indication exists, the Company will estimate the recoverable amount of its hashing rigs.

(b) Controlled entities and joint arrangements

The Company was party to certain arrangements over which it does not have control. Judgment is required in determining whether joint control over these arrangements exists and, if so, which parties have joint control and whether each arrangement is a joint venture or a joint operation. In assessing whether the Company has joint control, it analyses the activities of each arrangement and determine which activities most significantly affect the returns of the arrangement over its life. These activities are determined to be the relevant activities of the arrangement. If unanimous consent is required over the decisions about the relevant activities, the parties whose consent is required would have joint control over the arrangement. The judgments around which activities are considered the relevant activities of the arrangement are subject to analysis by each of the parties to the arrangement and may be interpreted differently. When performing the assessment, the Company generally considers decisions about activities such as managing the asset while it is being designed, developed and constructed, during its operating life and during the closure period. It may also consider other activities including the approval of budgets, expansion and disposition of assets, financing, significant operating and capital expenditures, appointment of key management personnel, representation on the board of directors and other items. When circumstances or contractual terms change, the Company reassesses the control group and the relevant activities of the arrangement.

If joint control over the arrangement exists, an assessment of whether the arrangement is a joint venture or joint operation is required. This assessment is based on whether the Company separately has rights to the assets and obligations of the arrangement, which would suggest a joint operation, or whether in fact it has rights to the net assets of the arrangement, suggesting that the arrangement is a joint venture. In making this determination, we review the legal form of the arrangement, the terms of the contractual arrangement and other facts and circumstances. In a situation where the legal form and the terms of the contractual arrangement do not give the Company rights to the individual assets and liabilities of an arrangement, an assessment of other facts and circumstances is required, including whether the activities of the arrangement are primarily designed for the provision of output to the parties and whether the parties are substantially the only source of cash flows contributing to the arrangement. The consideration of other facts and circumstances may result in the conclusion that a joint arrangement is a joint operation. This conclusion requires judgments that are specific to each arrangement.

During the year ended December 31, 2019, the Company made specific judgements involving these matters in respect to the following transactions;

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4. Significant estimates and judgements, continued

Accounting for 75% interest in Aracore Technology Corp. ("Aracore")

Prior to acquisition of control (see Note 9) based on an assessment of relevant facts and circumstances, primarily the requirement for unanimous agreement on management decisions relating to the development and operation of the arrangement, the Company concluded that Aracore Technology Corp. was a jointly controlled entity. Although the Company had a 75% interest in Aracore, it did not have control over the relevant activities of Aracore. Any major business decision required unanimous board approval. The Company's interest was further considered to be a joint venture rather than a joint operation, as the form of the investment in a separate legal entity is, on balance, more relevant than any other facts and circumstances which could be suggestive of a joint operation.

Accounting for 75% interest in Arasystems Technology Corp. ("Arasystems")

Prior to 100% acquisition of Arasystems, although the Company had a 75% interest in Arasystems, it did not have control over the relevant activities of Arasystems. Any major business decision required unanimous shareholder approval, and therefore the Company has concluded that Arasystems was also a jointly control entity. The Company's interest is further considered to be a joint venture rather than a joint operation, as the form of the investment in a separate legal entity is, on balance, more relevant than any other facts and circumstances which could be suggestive of a joint operation.

(c) Liquidity

The assumption that the Company is a going-concern and will continue its operations for the foreseeable future is a judgement, as is the decision to formally disclose material uncertainties in connection therewith. The relevant factors considered by management are disclosed in Note 2.

(d) 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 year ended December 31, 2020, as a result of wide range of bitcoin prices and volatility in the blockchain space, and the amount of time machines sat idle and subsequent re-sale value of dated hashing machines 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 (See note 11).

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. Acquisitions

On March 10, 2020, the Company acquired over 50,000 non-operational hashing servers located in the United States from companies affiliated with a related party (see Note 16). The Company intended to use the acquired hashing servers to support its on-going operations and blockchain infrastructure to generate revenue. The Company issued 2,279,215 non-voting participating shares of the Company for the hashing servers and recorded the transaction at an asset fair-value of \$5,566,170. The transaction was accounted for using IFRS 2 – Share based payments for an asset acquisition and was therefore treated as an asset acquisition for accounting purposes..

On September 15, 2020 the Company acquired all of the issued and outstanding shares of WhatsOnChain Limited, a UK company (“WhatsOnChain”) which owns intangible assets including intellectual property, a brand and a domain name, WhatsonChain, from independent developers who subsequently signed consulting contracts for IP development with a subsidiary of the Company. The Company intends on integrating the intellectual property into the overall business strategy to offer and monetize new products and services related to the BSV blockchain. The Company issued 1,739,882 common shares of the Company for the assets and recorded the transaction at a fair value of \$3,029,570.

Management has determined that the fair value of the WhatsOnChain assets acquired could not be estimated reliably due to the lack of reasonable comparable transactions in the BSV space and the conceptual nature of this emerging technology which currently lacks an established market. The fair value was therefore determined using the share price of the Company’s common shares issued as consideration on the date the assets were received taking into account non-vesting conditions discussed below. The shares are to be issued under two separate tranches with the first tranche to be released one year from the acquisition date and the second tranche are to be issued subject to certain milestones being achieved (non-vesting conditions) over a period of five years. Management has estimated a success probability of 75% for each of the five annual milestones that was factored into the determination of fair value. Management determined the milestones did not meet the definition of a vesting condition and were included as consideration for assets acquired. Management used its best judgement to determine the 75% probability of completing the milestones. Management notes there is a degree of estimation uncertainty with determining fair value. If the probability of completing the milestones was determined to be 100% the overall fair value of the transaction would be \$3,573,643. If the probability of completing the milestones was judged to be 25% the fair value of the transaction would be \$2,275,256. The number of common shares issued was 1,739,882 with a price of \$1.99 per share.

The transaction was accounted for using IFRS 2 – share based payments for an asset acquisition and was treated as an asset acquisition for accounting purposes.

6. Accounts receivable

	December 31, 2020	December 31, 2019
Trade accounts receivable	\$ 171,292	\$ 2,219,781

As at December 31, 2020 and December 31, 2019 all of the trade accounts receivable were due from a related party. Management expects this balance to be collectible in full and therefore, no allowance for doubtful accounts was considered necessary.

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7. Other receivable

	December 31, 2020	December 31, 2019
Other receivable	\$ 547,839	\$ 314,085

As at December 31, 2020 and December 31, 2019 all of the other accounts receivable were due from the Canada Revenue Agency as Goods and services tax collectible. Management expects this balance to be collectible in full and therefore, no allowance for doubtful accounts was considered necessary.

8. Prepaid expenses and other current assets

	December 31, 2020	December 31, 2019
Trade prepaid	\$ 451,047	\$ 106,646
Other assets	36,736	57,812
Equipment purchases prepayment (Note 26)	2,982,788	2,189,114
Prepayment to hosting service provider	906,904	1,530,967
	\$ 4,377,475	\$ 3,884,539

9. Investment in associate and joint ventures

Codugh Pty Ltd. ("Codugh") is a private company based in Sydney, Australia. Codugh is involved in the construction of application program interface (API) marketplaces.

On June 6, 2020, the Company acquired 199 seed preference shares for CAD \$161,927 (USD \$120,000) resulting in an 11% ownership of Codugh. The Company obtained significant influence by obtaining 33.3% board representation of Codugh in accordance with the acquisition agreement. As such the investment is accounted for using the equity method from the date which the initial investment was made.

As at December 31, 2020 the Company's share of loss in the associate was \$5,584.

On June 6, 2018, the Company entered into a shareholders' agreement and formed an incorporated joint venture, Aracore, to undertake the design, development, and manufacture of application specific integrated circuits (ASIC) chips for digital asset hashing for bitcoin and other digital assets. The Company initially was granted a 66 2/3% interest in Aracore and, after providing 100% of the initial funding of Aracore in the amount of US\$3,000,000, its ownership percentage increased to 75%. During the fourteen month period ended December 31, 2018, the Company advanced \$6,435,846 to this joint venture, with the carrying amount of the Company's investment offset by the Company's proportionate share of the \$4,066,301 loss incurred by Aracore during 2018. The residual investment in the accounts of the Company is therefore substantially representative of the carried interest, in Aracore, of the minority venture. During the year ended December 31, 2019, Aracore repaid \$667,400 to the Company, with the carrying amount of the Company's investment offset by the Company's proportionate share of the \$127,253 loss incurred by Aracore during the period. The minority venture is also entitled to a royalty on gross revenues generated from the sale of ASIC chips by Aracore equal to 1.5% until the Company has recovered 100% of its capital contributions in Aracore and 2.5% thereafter.

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9. Investment in associate and joint ventures, continued

On August 15, 2019, in accordance with the joint venture agreement, the joint venture was terminated. Although the Company had a 75% interest in Aracore prior to termination, it did not have control over the relevant activities of Aracore. At the date of termination, the Company assumed effective control and Aracore was consolidated with a 25% non-controlling interest partner. The Company accounted for the transaction as an asset acquisition. As such, the assets acquired, predominantly of cash, were recognized at cost based on their relative fair values. The Company had a loss on acquisition of Aracore of \$1,649,509 that was recorded in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019.

On August 14, 2018, the Company entered into a shareholders' agreement and formed a second incorporated joint venture, Arasystems, to manage the development, manufacturing and assembly of the Company's digital asset hashing systems. At December 31, 2018, the Company owned a 75% interest in Arasystems. During the period ended December 31, 2018, the Company provided 100% of the funding of Arasystems, in the amount of \$260,328, with the Company's investment offset by its proportionate share of the \$195,104 loss incurred by Arasystems during 2018. The residual investment in the accounts of the Company is therefore substantially representative of the carried interest, in Arasystems, of the minority venturer. The Company concluded that the investment in Arasystems is a joint venture.

By an agreement dated January 12, 2019, the Company acquired the remaining 25% interest in the Arasystems joint venture from Future Farm Development Ltd for consideration of:

- \$1 in cash, and
- A conditional promissory note in the amount of \$80,000 reflecting the costs and expenses incurred by Future Farm Development Ltd in connection with its involvement with Arasystems.

The Company accounted for the transaction as an asset acquisition. As such, the assets acquired were recognized at cost based on their relative fair values. The Company uses Level 3 inputs for its valuation methodology for the promissory note as its fair value was determined by using a probability weighted average model based on various possible outcomes. The fair value of the promissory note is estimated at \$19,350. The Company determined that the estimated fair values of the net assets acquired are minimal. Thus, a loss of \$84,361 was recorded in the statement of loss and comprehensive loss for the year ended December 31, 2019.

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10. Digital assets

Below are the digital assets received and transacted:

	Bitcoin "BTC"	Bitcoin Cash "BCH"	Bitcoin SV "BSV"	Total
Balance at January 1, 2019	-	-	-	\$ -
Digital assets mined	425.99	27,248.36	5,832.29	15,489,528
Digital assets received from accounts receivable	41.89	-	479.78	465,389
Digital assets traded for fiat currency	(334.52)	(27,110.53)	(5,076.00)	(15,504,371)
Digital assets paid for services	(133.36)	-	(1,135.71)	(1,679,347)
Revaluation of digital assets	-	-	-	(10,070)
Gain on sale of digital assets	-	-	-	1,293,017
Foreign exchange translation	-	-	-	(4,745)
Balance, January 1, 2020	-	137.83	100.36	\$ 49,401
Digital assets mined	345.95	1,087.95	4,211.59	5,285,447
Digital assets received in TAAL pool	-	-	38,827.33	9,485,075
Digital assets paid out from TAAL pool	-	-	(38,313.08)	(9,371,268)
Digital assets purchased	47.56	-	(4,646.54)	-
Digital assets received for terminated acquisition (Note 19)	-	-	12,984.71	4,582,909
Digital assets received for expense reimbursement	-	-	2,753.05	779,035
Digital assets received for services	7.13	48.76	8,031.35	2,007,804
Digital asset received from loan proceed	-	-	19,882.99	4,466,522
Digital assets used as collateral for options	-	-	(100)	(21,020)
Digital assets traded for fiat currency	(352.57)	(1,270.34)	(9,309.40)	(6,973,826)
Digital assets paid for prepaid hosting fees (Note 8)	(46.41)	-	-	(906,904)
Digital assets use to repay vendor payables	-	-	(2,372.92)	(554,407)
Revaluation of digital assets (i)	-	-	-	(801,945)
Loss on sale of digital assets	-	-	-	(1,124,521)
Foreign exchange translation	-	-	-	(181,853)
Balance, December 31, 2020	1.66	4.20	32,049.44	\$ 6,720,448

- (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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11. Equipment

	<u>Infrastructure</u>	<u>Hashing Servers (iii)</u>	<u>Total</u>
<u>Cost</u>			
Balance at January 1, 2019	\$ -	\$ -	\$ -
Additions	29,046	12,559,115	12,588,161
Impairment		(5,840,057)	(5,840,057)
Effects of movements in exchange rate	(85)	-	(85)
Balance at December 31, 2019	28,961	6,719,058	6,748,019
Additions	72,624	10,410,514	10,483,138
Disposals	(8,597)	(3,231,120)	(3,239,717)
Impairment (i)(ii)	-	(5,122,191)	(5,122,191)
Effects of movements in exchange rates	(1,063)	-	(1,063)
Balance at December 31, 2020	91,925	8,776,261	8,868,186
<u>Amortization</u>			
Balance at January 1, 2019	\$ -	\$ -	\$ -
Depreciation for the year	7,566	6,719,058	6,726,624
Effect of movements in exchange rates	(10)	-	(10)
Balance at December 31, 2019	7,556	6,719,058	6,726,614
Depreciation for the year	19,113	-	19,113
Disposals	(4,635)	-	(4,635)
Effects of movements in exchange rates	(207)	-	(207)
Balance at December 31, 2020	21,827	6,719,058	6,740,885
<u>Net Book Value</u>			
Balance at December 31, 2019	\$ 21,405	\$ -	\$ 21,405
Balance at December 31, 2020	\$ 70,098	\$ 2,057,203	\$ 2,127,300

- (i) The Company recognized a reversal of impairment of \$106,605 as proceeds from a sale of hashing boards equipment impaired in the prior year.
- (ii) See Note 5 as it pertains to the addition to the hashing servers which were sold and the remainder of the equipment realized an impairment charge of \$2,444,857 to reflect the most recent market price of the remaining equipment at September 30, 2020. The company incurred a further impairment of \$2,784,246 on hash boards at December 31, 2020.
- (iii) At the end of the year the Company held SHA-256 hashing equipment, able to hash on all major blockchains.

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12. Intangible assets

	<u>Software License (i)</u>	<u>Intellectual Property (ii)</u>	<u>Customer List (ii)</u>	<u>Trademark and Brands (ii)</u>	<u>Patent License (ii)</u>	<u>Domain Names (ii)</u>	<u>Total</u>
<u>I b</u>							
Balance at January 1, 2019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	2,860,258	-	-	-	-	138,098	2,998,356
Effects of movements in exchange rate	-	-	-	-	-	(1,638)	(1,638)
Balance at December 31, 2019	2,860,258	-	-	-	-	136,460	2,996,718
Additions	129,176	3,025,587	7,204	145,518	1,410,055	7,204	4,724,744
Effects of movements in exchange rates	-	(133,325)	-	-	(48,222)	(2,891)	(184,438)
Balance at December 31, 2020	2,989,434	2,892,262	7,204	145,518	1,361,833	140,773	7,537,024
<u>Amortization</u>							
Balance at January 1, 2019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Amortization for the year	429,039	-	-	-	-	767	429,806
Effect of movements in exchange rates	-	-	-	-	-	-	-
Balance at December 31, 2019	429,039	-	-	-	-	767	429,806
Amortization for the year	617,263	153,161	-	-	92,279	9,373	872,076
Effects of movements in exchange rates	-	(3,431)	-	-	(1,947)	274	(5,104)
Balance at December 31, 2020	1,046,302	149,730	-	-	90,332	10,414	1,296,778
<u>Net Book Value</u>							
Balance at December 31, 2019	\$ 2,431,219	\$ -	\$ -	\$ -	\$ -	\$ 135,693	\$ 2,566,912
Balance at December 31, 2020	\$ 1,943,132	\$ 2,742,532	\$ 7,204	\$ 145,518	\$ 1,271,501	\$ 130,359	\$ 6,240,246

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- (i) On April 20, 2020, the Company entered into a licensing agreement with nChain Group Holdings Ltd. ("nChain Group") for ten years to use elements of its intellectual property patent portfolio. Pursuant to the IP Licensing Agreement, the Company will pay nChain Group approximately \$1.3 million in licensing fees.
- (ii) On September 15, 2020 the Company acquired all of the shares of WhatsOnChain Limited including the following recognized at fair value of common shares issued, intellectual property of \$3,025,588 brand of \$100,853, domain of \$7,204 and customer lists of \$7,204 (see note 5).

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13. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consisted of the following:

	December 31, 2020	December 31, 2019
Trade accounts payable	\$ 2,901,557	\$ 3,018,017
Due to pool participants	106,205	-
Accrued liabilities	1,074,131	1,588,117
Accrued interest	11,590	-
	\$ 4,093,483	\$ 4,606,134

14. Promissory note payable, net

	December 31, 2020	December 31, 2019
Promissory note – long term portion	\$ 4,466,522	\$ -
Promissory note – short term note	19,350	19,350
	\$ 4,485,872	\$ 19,350

The Company completed a financing of US\$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 instalments of US\$3,500,000 with the first tranche on December 18, 2020 and the second on January 12, 2021, 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 at December 31, 2020 was \$11,590. This instrument was settled in March 2021.

15. Share capital

a) Authorized:

Unlimited common shares without par value.

Unlimited non-voting participating shares without par value.

b) Issued: As of December 31, 2020, 24,819,643 (December 31, 2019: 13,822,998) common shares were issued and outstanding. As of December 31, 2020, 2,279,215 (December 31, 2019: nil) non-voting participating shares were issued and outstanding.

The non-voting participating shares without par value have the same economic rights as the common shares without par value with the exception of not containing voting rights associated with common shares of the Company. Pursuant to an exchange agreement with the holder, these shares can be converted to common shares should the shareholder's percentage ownership in the Company fall below a predetermined threshold.

The Company holds 1,739,882 unreleased shares held in a lockup agreement in relation to a share acquisition (see note 4). Of these shares 869,941 are to be released within one year and the remaining 869,941 will be released subject to certain non-vesting conditions; the second tranche of 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.

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15. Share capital, continued

On May 1, 2020, 9,256,763 common shares were issued at \$3.00 a share in order to settle an outstanding convertible debenture that was issued by the Company in May 2019 in order to acquire all of the outstanding shares of Freschette Limited, a company that held a group of assets in Kazakhstan related to blockchain hashing. The convertible debenture was unsecured, accrued interest at 15% per annum, and matured May 1, 2020. The instrument became convertible in whole or part at any time after nine months of the issuance date at the option of the holder into common shares at \$4.50 per a fixed number of non-voting common shares, subject to certain adjustments. The ability to convert the note reverted back to the Company after March 27, 2020; the Company opted to satisfy the obligation on the maturity date with common shares pursuant to a formula based on its then current trading price and subject to a floor of \$3.00 per share. Due to the Company's conclusion that the acquisition of Freschette constituted an acquisition of assets, the Company determined that the convertible debenture was in the scope of IFRS 2 – Share based payments for an asset acquisition. The Company measured the equity settled instrument at the fair value of the assets acquired which was determined to be \$13,605,112 or the settlement value issued in shares on May 1, 2020.

On December 9, 2019, the Company completed a 10:1 share consolidation of all its issued and outstanding common shares. All share and per share information included in these audited consolidated financial statements reflect the 10:1 share consolidation.

During the period ended December 31, 2020, nil (December 31, 2019: 1,477,480) shares were issued for the exercise of options and warrants. For the period ended December 31, 2020, the total cash proceeds of \$nil (2019: \$1,208,686) has been received.

c) Stock options

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.

A summary of the Company's share purchase options outstanding on December 31, 2020 and December 31, 2019 and changes are presented below:

	Options	Weighted average exercise price
Outstanding and exercisable at December 31, 2018	460,589	\$ 3.30
Expired	(312,443)	\$ 3.29
Granted	300,000	\$ 2.89
Exercised	(38,147)	\$ 1.50
Outstanding at December 31, 2019	410,000	\$ 3.13
Expired	(110,000)	\$ 3.78
Forfeited	(85,000)	\$ 3.58
Granted	1,272,500	\$ 1.99
Outstanding at December 31, 2020	1,487,500	\$ 2.08

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15. Share capital, continued

As at December 31, 2020, share purchase options outstanding, detailed below, have a weighted average remaining contractual life of 3.81 years (December 31, 2019: 3.20 years).

Expiry date	Exercise price	Outstanding	Vested and exercisable
August 30, 2021	\$ 3.65	20,000	20,000
January 21, 2021	\$ 2.45	25,000	25,000
September 12, 2021	\$ 3.65	20,000	20,000
December 9, 2022	\$ 1.10	75,000	75,000
February 7, 2023	\$ 2.30	10,000	10,000
May 1, 2023	\$ 2.10	5,000	5,000
September 12, 2024	\$ 3.65	70,000	35,000
October 1, 2024	\$ 3.65	5,000	5,000
March 19, 2025	\$ 2.12	60,000	-
April 2, 2025	\$ 1.82	20,000	6,667
March 19, 2030	\$ 2.12	60,000	30,000
September 1, 2025	\$ 1.90	155,000	155,000
October 13, 2025	\$ 1.79	300,000	150,000
September 1, 2025	\$ 1.90	100,000	100,000
December 3, 2023	\$ 2.10	505,000	505,000
December 14, 2023	\$ 1.95	57,500	57,500
		1,487,500	1,199,167

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 December 31, 2020:

Risk-free interest rate	0.28-1.42%
Expected dividend rate	0%
Expected volatility	136.72-157.78%
Expected life of options	3-10 years

The weighted average fair value of options granted for the period ended December 31, 2020: \$2.07

The Company utilized assumptions in the estimation of fair value of stock-based compensation for the year ended December 31, 2019, as follows:

Risk-free interest rate	1.93%
Expected dividend rate	0%
Expected volatility	160.45%
Expected life of options	2 years

The weighted average fair value of options granted for December 31, 2019: \$2.38

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15. Share capital, continued

d) Warrants:

Agent's warrants:

A reconciliation of agent's warrants outstanding as at December 31, 2020 and December 31, 2019 is presented below:

	Agent's warrants	Weighted average exercise price
Outstanding and exercisable at December 31, 2018	233,675	\$ 3.88
Exercised	(56,000)	\$ 0.80
Expired	(40,250)	\$ 0.80
Outstanding and exercisable at December 31, 2019	137,425	\$ 6.04
Expired	(137,425)	\$ 6.04
Outstanding and exercisable at December 31, 2020	-	\$ -

As at December 31, 2020, agent's warrants outstanding, as follows, have a weighted average remaining contractual life of nil (December 31, 2019: 0.46) years.

e) Share purchase warrants:

A reconciliation of share purchase warrants outstanding as at December 31, 2020 and December 31, 2019 is presented below:

	Share purchase warrants	Weighted average exercise price
Outstanding and exercisable at December 31, 2018	5,239,558	\$ 5.70
Exercised	(1,383,333)	\$ 0.80
Expired	(10,000)	\$ 0.80
Outstanding and exercisable at December 31, 2019	3,846,225	\$ 7.49
Expired	(3,846,225)	\$ 7.49
Outstanding and exercisable at December 31, 2020	-	\$ -

As at December 31, 2020, share purchase warrants outstanding, have a weighted average remaining contractual life of nil (December 31, 2019: 0.57) years.

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16. 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 Operating Officer. Key management personnel compensation includes:

	Year ended December 31	
	2020	2019
Management fees, salaries and wages	\$ 1,915,995	\$ 879,080
Share based payments	840,296	387,755
	\$ 2,756,291	\$ 1,266,835

These transactions are in the normal course of operations and were measured by amounts agreed upon by the transacting parties.

During the year ended December 31, 2020, the Company was charged \$158,648 (for the year ended December 31, 2019: \$325,584) in software consulting services by nChain Limited ("nChain") in connection with the further development of the Company's proprietary cloud computing management and pooling software. The Chairman of the Board and CEO is also the Chairman of nChain Group Holdings Ltd., an affiliate of nChain.

On May 1, 2020, the Company settled a financial instrument by issuing common shares of the Company. In accordance with the agreement, the Company issued 9,256,763 shares at the floor of \$3.00 per common share. Upon the convertible debenture becoming exercisable, the holder of the debenture is considered a related party of the Company (the "Debenture Holder"). The Company earned \$2,572,519 (for the year ended December 31, 2019: \$1,087,893) in digital asset hashing pool management and \$135,483 (for the year ended December 31, 2019: \$568,383) in software licensing revenue for the year ended December 31, 2020 from the entity controlled by this related party.

As at December 31, 2020 the Company had \$171,292 (as at December 31, 2019: \$2,219,781) in trade receivables from the entity controlled by the related party. The Company had \$18,603,262 (as at December 31, 2019: \$22,097,527) due to a related party in association with the terminated acquisition (see Note 19).

On March 10, 2020 the Company acquired certain hashing equipment at a fair value of \$5,556,170 (see Note 4) by issuing 2,279,215 non-voting participating shares of the Company to the Debenture Holder.

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17. Non-controlling interest

On June 10, 2020, the Company amalgamated Aracore Systems Technology Corp. with Arasystems Technology Corp., both subsidiaries of the Company. All the shares of each amalgamating company were cancelled or exchanged for shares of the amalgamated company, Arasystems Technology Corp. All of the common shares of amalgamated company, Arasystems Technology Corp., are held by the Company.

The 25% non-controlling Interest previously held in the subsidiary of the Company was eliminated upon amalgamation due to the existing shares being cancelled without any repayment of capital and without being exchanged for the securities of any company or money.

On August 15, 2019, in accordance with the joint venture agreement, the Aracore joint venture was terminated (see Note 9) and a change of control occurred, resulting in Aracore being consolidated with a 25% non-controlling interest. \$33 represents the minority interests initial investment in the common shares of Aracore.

The following table shows the effect of the increase in the Company's ownership interest in its subsidiaries, net of related transaction costs:

January 1, 2019	\$	-
Acquisition of joint venture		33
Net income attributable to non-controlling interest		28,754
December 31, 2019	\$	28,787
Net loss attributable to non-controlling interest to the date of amalgamation		(44,254)
Increase in ownership interest in subsidiary		15,467
December 31, 2020	\$	-

18. Supplemental cash flow information

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

	December 31, 2020	December 31, 2019
Digital assets received for accounts receivable	\$ 2,007,804	\$ (465,389)
Digital assets received in TAAL pool	9,485,075	-
Digital assets paid out from TAAL pool	(9,371,268)	-
Digital assets exchanged for prepayment of hosting services	(906,904)	-
Digital assets received for expense reimbursement	779,000	-
Digital assets used as collateral for options	(21,020)	-
Digital assets used to repay vendor payables	(554,407)	1,679,347

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18. Supplemental cash flow information, continued

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

	December 31, 2020	December 31, 2019
Issuance of equity settled instrument in connection with asset acquisition (see Note 5)	\$ 5,566,170	\$ -
Issuance of equity settled instrument in connection with asset acquisition (see Note 5)	3,029,570	
-Issuance of equity in conversion of share settled instrument (see Note 11)	13,605,112	-
Issuance of stock options for patent acquisition	62,700	-
Promissory note received in digital assets	4,466,522	-
Issuance of share settled instrument for asset acquisition	-	13,605,112
Issuance of promissory note payable in joint venture acquisition	-	19,350
Acquisition of domain name included in accounts payable	-	136,451
Acquisition of joint venture	-	33
Acquisition of intangible asset included in accounts payable and accrued liabilities	-	1,969,114

19. Amounts related to terminated acquisition

Receivable related to terminated acquisition

	December 31, 2020	December 31, 2019
Shipping expenses	\$ -	\$ 3,092,882
Prepayments to service providers	18,603,262	19,004,645
	\$ 18,603,262	\$ 22,097,527

Payable related to terminated acquisition

	December 31, 2020	December 31, 2019
Payables due to Debenture Holder	\$ 18,603,262	\$ 17,514,618

On November 30, 2018, as updated on March 25, 2019, the Company entered into a non-binding letter of intent and exclusivity agreement with Bigfoot Holdings Group Ltd. ("CoinGeek") to purchase cloud computing assets owned by CoinGeek and certain of its affiliates representing approximately 3,000 pethash per second (PH/s) of computing power and other blockchain related assets, for total consideration to be determined by negotiation between the parties and paid in common shares of the Company based on a price of \$0.45 per share (the "CoinGeek Transaction").

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19. Amounts related to terminated acquisition, continued

On May 28, 2019, as updated on July 30, 2019, in connection with the CoinGeek Transaction, the Company entered into a letter agreement with the Debenture Holder, Cunning Hams Limited ("Cunning Hams") and Tansley Equipment Limited ("Tansley") to directly or indirectly purchase all of the issued and outstanding shares of four corporations, consisting of Cunning Hams, Tansley, Woodland Technology Group Inc. ("Woodland" and, together with Tansley and Cunning Hams, the "Group") and Laser Lollypop Limited (the "Letter Agreement Transaction").

On June 4, 2019, based on the Letter Agreement Transaction, the Company entered into a binding letter of intent with Core Scientific, Inc. (the "Core LOI") to relocate 41,166 blockchain hashing servers to Core Scientific's facility in the United States.

Additionally, on July 9, 2019 the Company entered into a memorandum of understanding (the "MOU") with the Debenture Holder and certain of his affiliates and Freschette pursuant to which Freschette agreed to act as agent for Cunning Hams and other affiliates of the Debenture Holder with respect to entering into and completing a hosting agreement with a local hosting provider and to provide prepayments for the buildout of suitable facilities in the Republic of Kazakhstan for hosting the equipment of Cunning Hams and other affiliates of the Debenture Holder in that jurisdiction.

On August 29, 2019, the Company entered into a share purchase agreement, which terminated and replaced the Letter Agreement Transaction, with the Debenture Holder and the Group to purchase all of the issued and outstanding shares of the Group. The Group owned and operated a fleet of blockchain hashing servers in Canada, the United States and China, representing approximately 2,892 petahash per second of computing power. As consideration, the Company agreed to (i) issue 800,000 common shares in the capital of the Company, (ii) issue 8,270,000 non-voting participating shares, a new class of shares to be created in the capital of the Company, and (iii) enter into a profit-sharing agreement with the respect to the assets of the Group.

On November 8, 2019, the Company agreed to terminate the share purchase agreement dated August 29, 2019 between the Company, the Debenture Holder and the Group. The Company entered into a termination agreement pursuant to which the Debenture Holder agreed to reimburse all costs expended by the Company in connection with the Core LOI and the MOU (the "Returned Funds"), and the Company agreed to assign the hosting agreement entered into in respect to the MOU to the debenture holder or his designates. In connection with the terminated acquisition the Company paid \$19,511,849 prepayments to service providers and received \$19,511,849 in reimbursements related to these payments.

The Company will continue to recognize hosting prepayments as an asset and the received Returned Funds related to unassigned hosting agreements in the amount of \$18,603,262, as a liability until the Freschette sale was executed on February 5, 2021.

The change in the liability during the year was due an operational prepayment of \$1,144,688 made by a party on our behalf coupled with the revaluation at period end. In addition during 2020 the Company was reimbursed for a portion of the terminated acquisition receivable for a total of \$3,494,834 incurred on behalf of the debenture holder in preparation to execute the proposed transaction. The Company continued to recognize hosting prepayments as an asset and the received Returned Funds related to the unassigned hosting agreements in the amount of \$18,603,262, as a liability until the Freschette sale was executed on February 5, 2021 the asset and the liability will be eliminated.

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19. Amounts related to terminated acquisition, continued

On February 5, 2021 a third party purchased all of the issued and outstanding shares of Freschette Limited from The Company (see subsequent events note). On the same date the Company, the purchaser, and the companies involved in the terminated acquisition entered into an assumption and release agreement. The assumption and release agreement released TAAL from all of its obligation under the letter agreement dated November 8, 2019 – which were assumed by purchaser. The Company has no further obligations after the sale under the agreements referenced above other than to provide assistance from time to time with respect to the matters referenced above at the cost of at the cost of the purchaser.

20. Operating Segments

As a result of the asset acquisition on May 1, 2019, the Company has one key operating segment: hashing of digital assets on various blockchains and providing services to third parties related to this operation. Certain geographical information has been provided as follows:

Revenue	Year ended December 31, 2020		
	Canada	Cayman Island	Total
Digital assets hashing	\$ -	\$ 5,285,447	\$ 5,285,447
Digital asset hashing pool management	-	2,572,519	2,572,519
Software licensing	135,483	-	135,483
	\$ 135,483	\$ 7,857,966	\$ 7,993,449

Revenue	Year ended December 31, 2019		
	Canada	Cayman Island	Total
Digital assets hashing	\$ -	\$ 15,489,528	\$ 15,489,528
Digital asset hashing pool management	-	1,087,893	1,087,893
Software licensing	568,383	-	568,383
	\$ 568,383	\$ 16,577,421	\$ 17,145,804

Assets, as at December 31, 2020	Equipment		Intangible Assets		Total
Canada	\$ 2,063,236	\$ 1,987,798			\$ 4,051,034
Switzerland	52,155	-			52,155
Cayman Island	11,909	4,252,448			4,264,357
	\$ 2,127,300	\$ 6,240,246			\$ 8,367,546

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20. Operating Segments, continued

Assets, as at December 31, 2019	Equipment	Intangible Assets	Total
Canada	\$ 14,946	\$ 2,430,638	\$ 2,445,584
Cayman Island	6,459	136,274	142,733
	\$ 21,405	\$ 2,566,912	\$ 2,588,317

21. Management of capital risk

The Company manages its cash and cash equivalents, and common shares as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its businesses and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and adjusts it considering changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

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22. Income taxes

The provision for income taxes reported differs from the amounts computed by applying statutory Canadian federal and provincial tax rates to the loss before tax due to the following:

	December 31, 2020	December 31, 2019
Loss for the year before income taxes	\$ (21,244,835)	\$ (12,392,318)
Statutory tax rate	27%	27%
Recovery of income taxes computed at statutory rates	(5,736,000)	(3,346,000)
Share based payments	479,000	118,000
Non-deductible expenditures	-	(122,000)
Differing effective tax rate on loss in foreign jurisdiction	953,000	1,910,000
Unrecognized deferred tax assets	4,304,000	3,203,000
Impact of foreign exchange and other	-	(1,763,000)
Total income tax (expense) recovery	\$ -	\$ -

The Company has the following deductible temporary differences for which no deferred tax assets have been recognized:

	December 31, 2020	Expiry dates	December 31, 2019
Non-capital losses	\$ 23,067,000	2029-2040	\$ 15,162,000
Convertible debenture	-	no expiry	-
Financing fees	648,000	2040 - 2042	588,000
Intangible assets	5,212,000	no expiry	655,000
Other	135,000	no expiry	298,000
Total	\$ 29,062,000		\$ 16,703,000

At December 31, 2020, the Company has non-capital loss carry forward in Canada aggregating \$23,067,000 (December 31, 2019: \$15,162,000), which expire over the period between 2029 and 2040, available to offset future taxable income in Canada.

Tax attributes are subject to review, and potential adjustment, by competent authority.

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23. Economic dependence

The Company generated revenues from the following customer as fleet management and software licencing revenue:

	For the year ended December 31, 2020		For the year ended December 31, 2019	
Customer A	\$	2,680,133 34%	\$	1,656,276 9.7%

24. Financial instruments and risk management

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 throughout these consolidated financial statements.

a) Foreign currency risk:

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and other foreign currencies will affect the Company's operations and financial results. The Company settles its revenue and incurs expenses in US dollars and therefore the fluctuation in foreign currencies in relation to the Canadian dollar will consequently impact the profitability of the Company and may also affect the value of the Company's assets and liabilities and the amount of equity. The only foreign currency the Company holds are US Dollars and a 10% decline against the Canadian Dollar would negatively impact the Company by approximately \$161,000.

b) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not exposed to significant interest rate risk relating to its convertible debenture and accounts payable. The interest rate on the convertible debt is fixed and the accounts payable are not subject to any interest. Interest rate risk is limited to potential decreases on the interest rate offered on cash held with chartered Canadian financial institutions. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash is limited because of the short-term nature of the investments.

c) Price risk:

Price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices, other than those arising from interest rate risk and foreign currency risk. The Company is not exposed to any significant price risks other than price of digital assets.

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24. Financial instruments and risk management, continued

d) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consists primarily of cash and cash equivalents, trade and other receivables. Cash and cash equivalents are maintained with highly rated financial institutions and may be redeemed upon demand. The company is exposed to a significant concentration of credit risk with respect to its trade accounts receivable balance because of its dependence on one customer (see Note 6). All accounts receivable balances are expected to be settled in full when due and because of the nature of the counterparty.

The Company's maximum exposure to credit risk at the end of any period is equal to the carrying amount of these financial assets as recorded in the consolidated statements of financial position.

e) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the Company's cash flow projections. If future cash flows are fairly uncertain, liquidity risk increases. The Company manages liquidity risk through the management of its capital structure. The Company ensures that there is sufficient capital in order to meet short-term operating requirements, after taking into account the Company's holdings of cash and cash equivalents. The Company's cash and cash equivalents are held in corporate bank accounts available on demand.

f) Halving risk

In May 2020, the bitcoin hashing reward halved to 6.25 bitcoin per block mined, or approximately 900 bitcoin per day in aggregate. At the reward level of 6.25 coins, this halving may have a potential adverse impact on the Company's profitability. It is unlikely that the network difficulty rate and price would remain at current levels when the bitcoin rewards per block are halved, given the historical data on bitcoin prices and network difficulty rate after a halving effect. The Company believes that the halving of the block hashing rewards will be offset by other market fundamentals including network difficulty rate and price of bitcoin which may offset the impact of halving sufficiently for the Company to maintain its profitability. Management notes there is a risk the halving will have adverse impacts on the profitability of blockchain hashing and render the Company unprofitable.

g) Risk of not realizing the benefits of forks

Although no group or individual controls the source code to a blockchain network, if enough participants in the network representing a significant majority of the Hash rate were to agree on certain modifications, those changes could be implemented and the blockchain network would then be subject to those new protocols and modified software. If, however, less than a significant majority consent by downloading the altered software or upgrading and implementing the changes to the software, then, two networks will emerge: one represented by the pre-modification source code, and the other a new network using the modified source code. This division is described as a "fork" in the network, so-called because the modification will result in two incompatible "prongs."

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24. Financial instruments and risk management, continued

The Company may not be able to realize the economic benefit of a fork, either immediately or ever, which could adversely affect its value. If the Company holds a digital asset that splits into two assets, industry standards would dictate that the Company would be expected to hold an equivalent amount of the old and new assets following the fork. However, the Company may not be able, or it may not be practical, to secure or realize the economic benefit of the new asset for various reasons, such as risks related to custody of new assets or the holdings in the old assets, or that the costs of taking possession and/or maintaining ownership of the new digital asset exceed the benefits of owning it. Additionally, laws, regulation or other factors may prevent us from benefitting from the new asset even if there is a safe and practical way to custody and secure the new asset.

h) Self Custody of wallets

During the year the Company made use of self-custodied wallets for practical purposes. The safeguarding surrounding private keys of self-custody wallets is controlled solely by the organization and has an inherent risk of loss without the ability to recover the assets. Management has implemented controls to mitigate this risk by implementing processes to control access and recovery of the keys.

Determination of fair value:

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The financial position carrying amounts for cash and cash equivalents, accounts receivable, accounts payable, promissory note payable and accrued liabilities approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

25. Marketable securities

Marketable securities are classified as FVTPL financial assets and, accordingly, changes in their fair values are reported in operations on a quarterly basis. Marketable securities were comprised of 730,000 common shares of Universal mCloud Corp., a public company trading on the TSX Venture Exchange. During the year ended December 31, 2019 all the marketable securities were sold for the total proceeds of \$292,200 and the Company realized a gain on sale of \$80,500.

26. Subsequent events

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

In January 2021, Codugh Pty. Ltd. achieved certain pre-determined milestones that would trigger an increase in investment by TAAL for approximately \$160,000 (USD \$120,000). The accounting treatment for Codugh will remain the same.

On January 28, 2021 200,000 Restricted Stock Units were issued to an officer and consultant of the Company, these RSU's vest equally over three years.

On February 5, 2021, the Company sold its inactive subsidiary Freschette Ltd to a third-party Personification Hazard Limited for approximately \$2,500,000 (USD \$1,934,199). With the sale Taal was released from any obligations and receivables related to the terminated acquisition (see note 14).

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26. Subsequent events, continued

On March 18, 2021 TAAL announced the closing of a \$40.0 million public offering 8,695,652 units at a price of \$4.60. Each unit consisted of one common share and one-half purchase warrant of stock, the warrants have an exercise price of \$6.00 and are exercisable for 3 years after the issuance. The Company also issued 424,253 broker's warrants exercisable up to 18 months after issuance at a price of \$4.60 to the agents of the equity raise. The debenture holder(Note 15) acted as lead investor of the offering purchasing approximately \$13.5 million of units.

On March 18, 2021 in conjunction with the public offering management elected to settle the promissory note with the issuance of the equivalent number of units in the public offering. The promissory note was settled in full on this date.

On April 22, the Company converted its non-voting participating shares into common shares subject to the exchange agreement established in 2020 (Note 15).

Subsequent to year end in conjunction with the capital raise the Company completed installment payments throughout 2021 on its hashing equipment purchases (Note 8) with the machines expected to arrive throughout 2021. This will give the Company approximately 400 Petahash in output. The Company notes as global supply chains are constrained it could take additional time to take delivery.

The "COVID-19" pandemic is still impacting worldwide economic activity and markets. Conditions surrounding the pandemic continue to shift on short notice and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures may have an adverse impact on global economic conditions as well as on the Company's business activities. The extent to which the coronavirus may impact the Company's business activities will depend on future developments. The Company has transitioned to remote work and limited travel between offices. The Company notes a significant decrease in travel expense and also a significant rise in Digital Asset prices subsequent to year-end. The Company also notes that the purchase of hardware from Asia has increased lead times.