



**Financial Statements**

**Years Ended December 31, 2018, 2017 and 2016**

**(Expressed in Canadian Dollars)**

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**INDEPENDENT AUDITORS' REPORT**

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To the Shareholders and Directors of BitRush Corp.

**Opinion**

We have audited the financial statements of BitRush Corp. (the "Company") which comprise the statements of financial position as at December 31, 2018, 2017 and 2016, and the statements of income (loss) and comprehensive income (loss), cash flows, changes in equity (deficiency) for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Basis for Opinion**

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' 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 audits 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.

**Material Uncertainty Related to Going Concern**

We draw attention to Note 1 of the accompanying financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Other Information**

Management is responsible for the other information, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

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.

If, based on the work we have performed on this other information, 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 as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

### **Auditors' 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 auditors' 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 auditors' 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 auditors' 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 auditors' report is Fernando J. Costa.

*Manning Elliott LLP*

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada

April 29, 2021

**BitRush Corp.**

Statements of Financial Position

As at December 31, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

	2018	2017	2016
	\$	\$	\$
<b>Assets</b>			
<b>Current Assets</b>			
Cash	3,603	16,530	21,413
Amounts receivable (Note 5)	97,759	63,465	34,231
Prepaid expenses	608	285	30,795
<b>Total Assets</b>	<b>101,970</b>	<b>80,280</b>	<b>86,439</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities (Note 7)	680,054	527,331	158,507
Other liabilities (Note 8)	88,239	352,063	40,607
Due to related party (Note 12)	420,686	317,214	70,927
<b>Total Liabilities</b>	<b>1,188,979</b>	<b>1,196,608</b>	<b>270,041</b>
<b>Shareholders' Deficiency</b>			
Share capital (Note 9)	3,260,963	3,416,934	2,951,434
Reserve for share-based payments (Note 10)	250,453	246,494	628,933
Reserve for warrants (Note 11)	-	188,500	654,000
Accumulated deficit	(4,598,425)	(4,968,256)	(4,417,969)
<b>Total Shareholders' Deficiency</b>	<b>(1,087,009)</b>	<b>(1,116,328)</b>	<b>(183,602)</b>
<b>Total Liabilities and Shareholders' Deficiency</b>	<b>101,970</b>	<b>80,280</b>	<b>86,439</b>

Nature of operations and going concern (Note 1)

Subsequent events (Note 16)

**Approved on behalf of the Board of Directors:**"Karsten Arend" (signed)

Director

"Hansjoerg Wagner" (signed)

Director

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

**BitRush Corp.**

Statements of Income (Loss) and Comprehensive Income (Loss)

For the Years Ended December 31, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

	2018	2017	2016
	\$	\$	\$
<b><u>Expenses</u></b>			
Professional fees (Note 12)	143,663	438,842	128,272
Management fees (Note 12)	60,000	60,000	57,355
General and administrative	23,523	69,190	235,277
Stock-based compensation (Note 10)	19,753	72,330	762,305
Business development	7,908	6,000	152,225
Filing fees (recovery)	(2,798)	39,198	20,453
	<b>(252,049)</b>	<b>(685,560)</b>	<b>(1,355,887)</b>
<b><u>Other Items</u></b>			
Loss of control (Note 4)	-	-	(441,728)
Impairment of cryptocurrencies	-	-	(96,400)
Impairment of intangible assets (Note 6)	-	-	(74,022)
Change in value of other liabilities (Note 8)	263,824	(311,456)	(28,487)
Foreign exchange loss	(2,210)	(8,040)	(791)
	<b>261,615</b>	<b>(319,496)</b>	<b>(641,428)</b>
<b>Net Income (Loss) and Comprehensive Income (Loss)</b>	<b>9,566</b>	<b>(1,005,056)</b>	<b>(1,997,315)</b>
<b>Weighted Average Number of Shares Outstanding</b>			
Basic and Diluted	<b>98,267,062</b>	126,957,239	125,594,534
<b>Net Income (Loss) per Share</b>			
Basic and Diluted	<b>0.000</b>	(0.008)	(0.016)

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

**BitRush Corp.**

## Statements of Cash Flows

For the Years Ended December 31, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

	2018	2017	2016
	\$	\$	\$
<b><u>Operating Activities</u></b>			
Net income (loss) for the year	9,566	(1,005,056)	(1,997,315)
Adjustments for non-cash items:			
Stock-based compensation (Note 10)	19,753	72,330	762,305
Loss of control (Note 4)	-	-	355,522
Impairment of cryptocurrencies	-	-	96,400
Impairment of intangible assets (Note 6)	-	-	74,022
Change in value of other liabilities (Note 8)	(263,824)	311,456	28,487
	(234,505)	(621,270)	(680,579)
Changes in non-cash working capital:			
Amounts receivables	(34,294)	(29,234)	(34,231)
Prepaid expenses	(323)	30,510	(15,483)
Accounts payable and accrued liabilities	152,723	368,824	42,843
<b>Cash Flows used in Operating Activities</b>	<b>(116,399)</b>	<b>(251,170)</b>	<b>(687,450)</b>
<b><u>Financing Activities</u></b>			
Proceeds from private placement (Note 9)	-	-	665,000
Advances from related party (Note 12)	103,472	246,287	36,823
<b>Cash Flows provided by Financing Activities</b>	<b>103,472</b>	<b>246,287</b>	<b>701,823</b>
<b><u>Investing Activities</u></b>			
Investment in intangible assets	-	-	(50,468)
Purchases of cryptocurrencies	-	-	(96,400)
Cash relinquished on deemed loss of control	-	-	(56,248)
<b>Cash Flows used in Investing Activities</b>	<b>-</b>	<b>-</b>	<b>(203,116)</b>
<b>Decrease in cash</b>	<b>(12,927)</b>	<b>(4,883)</b>	<b>(188,743)</b>
Effects of foreign exchange on cash	-	-	776
Cash, beginning of year	16,530	21,413	209,380
<b>Cash, end of year</b>	<b>3,603</b>	<b>16,530</b>	<b>21,413</b>

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

## BitRush Corp.

### Statements of Changes in Equity (Deficiency)

For the Years Ended December 31, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

	Share Capital		Reserves		Accumulated deficit	Accumulated other comprehensive loss	Total
	Number of shares	Amount	Share-based payments	Warrants			
	#	\$	\$	\$	\$	\$	\$
<b>Balance, January 1, 2016</b>	<b>120,307,239</b>	<b>2,746,800</b>	<b>145,776</b>	<b>193,634</b>	<b>(2,512,885)</b>	<b>(2,524)</b>	<b>570,801</b>
Adjustment on loss of control (Note 4)	-	-	-	-	(174,797)	2,524	(172,273)
Adjustment to opening other liabilities balance	-	-	-	-	(12,120)	-	(12,120)
Issuance of units from private placement (Note 9)	6,650,000	199,500	-	465,500	-	-	665,000
Stock-based compensation (Note 10)	-	-	762,305	-	-	-	762,305
Expiry of options (Note 10)	-	-	(279,148)	-	279,148	-	-
Expiry of warrants (Note 11)	-	5,134	-	(5,134)	-	-	-
Net loss for the year	-	-	-	-	(1,997,315)	-	(1,997,315)
<b>Balance, December 31, 2016</b>	<b>126,957,239</b>	<b>2,951,434</b>	<b>628,933</b>	<b>654,000</b>	<b>(4,417,969)</b>	-	<b>(183,602)</b>
Stock-based compensation (Note 10)	-	-	72,330	-	-	-	72,330
Expiry of options (Note 10)	-	-	(454,769)	-	454,769	-	-
Expiry of warrants (Note 11)	-	465,500	-	(465,500)	-	-	-
Net loss for the year	-	-	-	-	(1,005,056)	-	(1,005,056)
<b>Balance, December 31, 2017</b>	<b>126,957,239</b>	<b>3,416,934</b>	<b>246,494</b>	<b>188,500</b>	<b>(4,968,256)</b>	-	<b>(1,116,328)</b>
Cancellation of shares held by MezzaCap Investments (Note 9)	(68,894,175)	(344,471)	-	-	344,471	-	-
Stock-based compensation (Note 10)	-	-	19,753	-	-	-	19,753
Expiry of options (Note 10)	-	-	(15,794)	-	15,794	-	-
Expiry of warrants (Note 11)	-	188,500	-	(188,500)	-	-	-
Net income for the year	-	-	-	-	9,566	-	9,566
<b>Balance, December 31, 2018</b>	<b>58,063,064</b>	<b>3,260,963</b>	<b>250,453</b>	<b>-</b>	<b>(4,598,425)</b>	-	<b>(1,087,009)</b>

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

## **BitRush Corp.**

Notes to the Financial Statements

Years Ended December 31, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

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### **1. Nature of Operations and Going Concern**

BitRush Corp. (“BitRush”, or the “Company”) was incorporated under the laws of the Province of Ontario and is governed by the Business Corporations Act (Ontario). The Company previously operated an online advertising platform (“AdBit”) which uses Bitcoin (“BTC”) as a payment method, which has since been disposed of (see Note 16 for details). The Company is currently looking to adopt a new business plan or an acquisition. The Company’s common shares are listed on the Canadian Securities Exchange (the “CSE”) under the trading symbol “BRH” but are currently suspended from trading.

The address of the Company’s registered office is located at 77 King Street West, Suite 2905, Toronto, Ontario, M5K 1H1, Canada.

On December 2, 2016, a failure-to-file cease trade order (“CTO”) was issued by the Ontario Securities Commission (the “Commission”) as a result of the Company’s failure to comply with its financial reporting obligations. On April 29, 2019, the Company was granted a partial revocation order in respect of the CTO by the Commission. Since the issuance of the CTO, the Company’s activities had been minimal. As such, the Company has negligible commercial operations and, therefore, no revenue, and is subject to the normal risks and challenges experienced by other start-up companies in a comparable stage of development within the ad tech sector. The Company’s continued operations are dependent on its ability to obtain necessary financing to develop and establish a future development into a profitable commercial operation. As at December 31, 2018, the Company had a working capital deficiency of \$1,087,009 (2017 – \$1,116,328; 2016 – \$183,602).

These financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes the realization of assets and the settlement of liabilities in the normal course of business. The appropriateness of using the going concern basis is dependent upon, among other things, future profitable operations, the ability of the Company to obtain necessary financing, and the ability of the Company to identify, evaluate, and negotiate an acquisition of assets or businesses. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. These uncertainties, including the impact and continued evolution of the coronavirus pandemic (“COVID-19”), may cast significant doubt upon the Company’s ability to continue as a going concern.

These financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements. Such adjustments could be material.

### **2. Basis of Presentation**

#### **2.1 Statement of Compliance**

The Company’s financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The accounting policies set out below were consistently applied to all periods presented unless otherwise noted.

These financial statements were reviewed, approved and authorized for issuance by the Company’s Board of Directors (the “Board”) on April 29, 2021.

#### **2.2 Basis of Measurement**

The financial statements were prepared under the historical cost basis except for financial instruments which are measured at fair value, as explained in the accounting policies set out in Note 3. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.



## **BitRush Corp.**

Notes to the Financial Statements

Years Ended December 31, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

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### **2. Basis of Presentation (continued)**

#### **2.3 Functional Currency**

Items included in these financial statements are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of the Company is the Canadian Dollar (“\$” or “CAD”), which is also the presentation currency of these financial statements, unless otherwise noted.

#### **2.4 Significant Accounting Judgments and Estimates**

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. These estimates are reviewed periodically, and adjustments are made as appropriate in the period they become known. Items for which actual results may differ materially from these estimates are described as follows:

##### *Going concern*

At each reporting period, management exercises judgment in assessing the Company’s ability to continue as a going concern by reviewing the Company’s performance, resources and future obligations.

##### *Investments in and consolidation of subsidiaries*

Subsidiaries are entities that the Company controls directly. Control is defined as the exposure, or rights, or variable returns from involvement with a subsidiary and the ability to affect those returns through power over the subsidiary. At each reporting period, management exercises judgment in assessing the Company’s ability to control its subsidiaries by assessing whether the Company has the rights and ability to direct the activities of the subsidiaries. Where the Company has control over its subsidiaries, the financial statements are presented on a consolidated basis and all inter-company balances and transactions are eliminated upon consolidation.

During the year ended December 31, 2016, management determined that the Company no longer had the ability to direct the activities of certain of its subsidiaries and as a result recorded a loss on control of these subsidiaries (see Note 4). Therefore, these financial statements have been prepared on a non-consolidated basis.

##### *Fair value of financial assets and financial liabilities*

Fair value of financial assets and financial liabilities on the statements of financial position that cannot be derived from active markets, are determined using a variety of techniques including the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include, but are not limited to, consideration of model inputs such as volatility, estimated life and discount rates.

##### *Warrants and options*

Warrants and options are initially recognized at fair value, based on the application of the Black-Scholes valuation model (“Black-Scholes”). This pricing model requires management to make various assumptions and estimates which are susceptible to uncertainty, including the expected volatility of the share price, expected forfeitures, expected dividend yield, expected term of the warrants or options, and expected risk-free interest rate.

##### *Income taxes*

Income taxes and tax exposures recognized in the financial statements reflect management’s best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

## **BitRush Corp.**

Notes to the Financial Statements

Years Ended December 31, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

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### **2. Basis of Presentation (continued)**

#### **2.4 Significant Accounting Judgments and Estimates (continued)**

##### *Income taxes (continued)*

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

### **3. Summary of Significant Accounting Policies**

#### **3.1 Financial Instruments**

Financial assets and financial liabilities, including derivatives, are recognized on the statements of financial position when the Company becomes a party to the financial instrument or derivative contract.

##### *Classification*

The Company classifies its financial assets and financial liabilities in the following measurement categories: (a) those to be measured subsequently at fair value through profit or loss (“FVTPL”); (b) those to be measured subsequently at fair value through other comprehensive income (“FVTOCI”); and (c) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are recorded in profit or loss.

The Company reclassifies financial assets when its business model for managing those assets changes. Financial liabilities are not reclassified.

##### *Fair value through profit or loss*

This category includes derivative instruments as well as quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVTOCI. This category would also include debt instruments whose cash flow characteristics fail the solely principal and interest (“SPPI”) criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in profit or loss.

##### *Financial assets at fair value through other comprehensive income*

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in FVTOCI instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at FVTOCI are initially measured at fair value and changes therein are recognized in other comprehensive income (loss).

##### *Amortized cost*

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. Financial assets classified in this category are measured at amortized cost using the effective interest method.

## BitRush Corp.

Notes to the Financial Statements

Years Ended December 31, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

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### 3. Summary of Significant Accounting Policies (continued)

#### 3.1 Financial Instruments (continued)

*Classification (continued)*

The Company's classification of financial assets and financial liabilities is summarized below:

	<b>Classification</b>
Cash	FVTPL
Accounts payable	Amortized cost
Due to related party	Amortized cost
Other liabilities	FVTPL

#### *Measurement*

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (loss) (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income (loss).

#### *Expected credit loss impairment model*

IFRS 9 – Financial Instruments introduced a single expected credit loss (“ECL”) impairment model, which is based on changes in credit quality since initial application. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts.

#### *Derecognition*

##### Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of income (loss) and comprehensive income (loss).

##### Financial liabilities

The Company derecognizes financial liabilities only when its obligation under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of loss and comprehensive income.

## **BitRush Corp.**

Notes to the Financial Statements

Years Ended December 31, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

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### **3. Summary of Significant Accounting Policies (continued)**

#### **3.1 Financial Instruments (continued)**

##### *Fair value hierarchy*

The determination of fair value requires judgment and is based on market information, where available and appropriate. The Company classifies fair value measurements using a 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 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – 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 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### **3.2 Intangible Assets**

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. The estimated useful life, amortization method, and residual values are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Amortization on the Company's websites is provided over the estimated useful life.

##### *Impairment*

The carrying amounts of the Company's intangible assets are assessed for impairment indicators on at least an annual basis to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Should an impairment loss subsequently reverse, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but, limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit and loss.

#### **3.3 Provisions**

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

As at December 31, 2018, 2017 and 2016, the Company had no material provisions.

#### **3.4 Income Taxes**

Income tax expense comprises current and deferred tax expense. Current and deferred tax are recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or in other comprehensive income (loss).

##### *Current tax*

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

## **BitRush Corp.**

Notes to the Financial Statements

Years Ended December 31, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

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### **3. Summary of Significant Accounting Policies (continued)**

#### **3.4 Income Taxes (continued)**

##### *Deferred tax*

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized, and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent that future recovery is probable. At the end of each reporting period, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

#### **3.5 Share Capital**

In situations where the Company issues units, the value of units is bifurcated and the value of warrants is included as a separate reserve of the Company's equity, using the residual method, where the difference between the unit subscription price and the Company's closing share price on the date of closing of the private placement, is allocated to warrants reserves. In cases where there is no difference between the unit subscription price and the closing share price, the entire amount is allocated to share capital. On expiry, the fair value of the warrants is transferred to share capital.

#### **3.6 Share Issuance Costs**

Costs incurred in connection with the issuance of share capital are netted against the proceeds received. Costs related to the issuance of share capital and incurred prior to issuance are recorded as deferred share issuance costs and subsequently netted against proceeds when they are received.

#### **3.7 Income (Loss) per Share**

Basic income (loss) per share is computed by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted income (loss) per share assumes exercise or contingent issuance of options, warrants and securities only when such exercise or issuance would have a dilutive effect on income (loss) per share. For the years ended December 31, 2018, 2017 and 2016, no potential shares are included in the computation as they are anti-dilutive.

#### **3.8 Share-Based Payments**

Equity-settled share-based payments to employees (including directors and officers) are measured at the fair value of the equity instruments at the grant date. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period in which the options vest. The offset to the recorded cost is to reserve for share-based payments. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized on the statements of income (loss) such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserve for share-based payments.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

On expiry, the recorded fair value of the options is transferred to accumulated deficit.

## **BitRush Corp.**

Notes to the Financial Statements

Years Ended December 31, 2018, 2017 and 2016

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### **3. Summary of Significant Accounting Policies (continued)**

#### **3.9 Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

#### **3.10 Foreign Currency Transactions**

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period end exchange rates are recognized in profit and loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

#### **3.11 Changes in Accounting Policies**

The Company adopted the following standards, effective January 1, 2016. These new standards were made in accordance with the applicable transitional provisions:

##### *IFRS 7 – Financial Instruments: Disclosure (“IFRS 7”)*

IFRS 7 was amended to require additional disclosures on transition from IAS 39 – Financial Instruments: Recognition and Measurement’ (“IAS 39”) to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The Company adopted these amendments as of the effective date and has assessed no significant changes as a result of the adoption of these amendments.

##### *IFRS 9 – Financial Instruments (“IFRS 9”)*

IFRS 9 was issued by the IASB in July 2014 and replaces IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income (loss), rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative period results. As such, all comparative period information is presented in accordance with the previous accounting policies. Adjustments to the carrying amounts of financial assets and liabilities, at the date of initial application have been recognized in opening deficit and other components of equity for the current period. New or amended disclosures have been provided for the current period, where applicable, while comparative period disclosures are consistent with those made in prior periods.

## **BitRush Corp.**

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### **3. Summary of Significant Accounting Policies (continued)**

#### **3.11 Changes in Accounting Policies (continued)**

The Company also adopted the following amendments, effective January 1, 2018. The amendments were made in accordance with the applicable transitional provisions:

##### *IFRS 2 – Share-based Payments (“IFRS 2”)*

IFRS 2 was amended to clarify how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company has adopted these amendments as of the effective date and has assessed no significant changes as a result of the adoption of these amendments.

#### **3.12 Recent Accounting Pronouncements**

The IASB and the IFRS Interpretations Committee have issued certain pronouncements that are mandatory for the Company’s accounting periods commencing on or after January 1, 2019. Many are not applicable or do not have a significant impact to the Company and have been excluded.

##### *IFRS 16 – Leases (“IFRS 16”)*

IFRS 16 was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under 12 months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognizes a right-of-use (“ROU”) asset and a lease liability. The ROU asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the ROU asset at cost less accumulated amortization and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, it is an operating lease.

The Company has reviewed its leasing arrangements outstanding as at December 31, 2018, in respect of the new lease standard, and had assessed that there was no significant impact upon adoption of the new standard on the Company’s financial statements.

##### *IFRIC 23 – Uncertainty Over Income Tax Treatments (“IFRIC 23”)*

IFRIC 23 clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. The Company has assessed that there was no significant impact upon adoption of the new standard on the Company’s financial statements.

## **BitRush Corp.**

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### **4. Loss of Control**

On June 26, 2015, MezzaCap Investments Ltd. (“MezzaCap”) acquired control of the Company through the issuance of 24,672,738 common shares and 5,361,363 warrants through a reverse takeover transaction. For financial reporting purposes, the transaction has been accounted for under IFRS 2 and therefore the financial statements of the Company had been prepared as a continuation of MezzaCap through the period ended June 26, 2015 to December 31, 2015. MezzaCap owned approximately 70% of the Company’s outstanding shares as of December 31, 2015. MezzaCap is a United Kingdom corporation for which Werner Boehm, a former Chief Executive Officer (“Boehm” or the “Former CEO”) of the Company, was the sole director.

On December 7, 2016, the Board of the Company terminated the Former CEO for being in breach of his fiduciary duty to the Company. Motions were subsequently filed with the Ontario Superior Court of Justice (the “SCJ”) applying for relief under the oppression remedy against the Former CEO, MezzaCap and related parties. As the Former CEO repeatedly failed to deliver the corporate assets and property of BitRush and its subsidiaries, which included important financial information of the Company and its subsidiaries, the Company was not in a position to prepare and finalize its audited financial statements for the year ended December 31, 2016. As a result, the Board had determined there was effectively a loss of control of the Company’s subsidiaries as of January 1, 2016, shortly after the time when Boehm was appointed CEO of BitRush. Accordingly, the Company recorded a charge of \$441,728 to the statements of income (loss) and comprehensive income (loss) for the year ended December 31, 2016, related to the loss of the Company’s investment in and advances to the previously controlled subsidiaries.

On November 14, 2017, the SCJ declared that the Former CEO had breached his fiduciary duties to BitRush and caused the affairs of the Company to be conducted in an oppressive manner that unfairly disregarded and was unfairly prejudicial to the Company and its shareholders. The SCJ ordered, among other things, that Boehm and MezzaCap repay \$561,373 that had been misappropriated and ordered costs of \$225,956 payable to the Company. In the event the damage of \$561,373 was not repaid, the SCJ ordered that the Company could cancel shares held by MezzaCap of equivalent value.

On June 29, 2018, the SCJ amended its decision of November 14, 2017 to deem the appropriate share price for the cancellation of BitRush shares held by MezzaCap at \$0.005, which resulted in an order for the cancellation of up to 112,274,600 shares held by MezzaCap. MezzaCap was the registered shareholder of 68,894,175 shares of the Company, all of which were cancelled pursuant to the order effective August 1, 2018.

### **5. Amounts Receivable**

The Company’s amounts receivable balance represents amounts due from government taxation authorities in respect of the Harmonized Sales Tax. The Company anticipates full recovery of these amounts and therefore no credit loss has been recorded against these receivables, which are due in less than one year.

### **6. Intangible Assets**

Intangible assets consist of websites and website technology acquired through direct acquisitions and business combinations and are recorded at cost. In general, these assets are legally valid for 15 years, however as the company modifies them, a new set of rights is created for each modification and as such, an indefinite life is assumed for all intangible assets of the Company.

In accordance with the Company’s accounting policy these intangible assets were evaluated for impairment at year end. As at December 31, 2016, management had determined that the intangibles were impaired. This determination was made by comparing the carrying value of the intangible assets to their fair value less costs of disposal. The key assumption used in the estimate of fair value less costs of disposal are the daily visitors to each website. Accordingly, the Company recorded an impairment of \$74,022 on its intangible assets based on a recoverable amount of \$nil.



## BitRush Corp.

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### 7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities of the Company are principally comprised of amounts outstanding incurred in the normal course of business. The usual credit period taken for trade purchases is between 30 to 90 days.

	2018	2017	2016
	\$	\$	\$
Trade payable	645,699	434,121	100,700
Accrued liabilities	34,355	93,210	57,807
	<b>680,054</b>	527,331	158,507

### 8. Other Liabilities

In 2015, the Company purchased the AdBit business from a third-party for USD \$80,000. AdBit runs on the interface of the Adbit.biz website, an online advertising platform, where individual users can pay for showing their advertising on the network as an advertiser, or register their website as a publisher and get paid to show the advertising of others.

User balances are recorded in two categories:

- BTC, the digital currency, is the only currency used for deposits, withdrawals and balance records. As advertisers deposit BTC to pay for ads, publishers can withdraw BTC as their earnings from displaying the ads. The balances for each user are recorded for available spending on advertisements or withdrawals. The account balances are adjusted based on deposits, ad spending and or ad earnings.
- Ad Credits were an incentive priced in BTC which started in 2016, and cannot be withdrawn from a user's account, as they can only be spent on advertising on the platform. Although the Ad Credits incentive program was discontinued, the Company remains liable for the maintenance of these Ad Credits for spending on the platform. Management believes it to be highly unlikely that a material amount of the Ad Credits will be spent on the platform going forward and does not see this liability as a material risk.

As at December 31, 2018, the Company's outstanding BTC liability balance is comprised of 17.53101240 BTC (December 31, 2017 – 20.56925097 BTC; December 31, 2016 – 31.75696571 BTC), as follows:

	Number of BTC #	Fair value of BTC liabilities \$
<i>2016</i>		
Outstanding user balances (BTC)	20.71062208	USD 19,726
Outstanding user Ad Credit balances (priced in BTC)	11.0434363	USD 10,521
<b>Balance, December 31, 2016</b>	<b>31.75696571</b>	<b>USD 30,247</b>
<b>Adjusted for foreign exchange translation</b>		<b>CAD 40,607</b>
<i>2017</i>		
Outstanding user balances (BTC)	13.18023734	USD 179,827
Outstanding user Ad Credit balances (priced in BTC)	7.38901363	USD 100,813
<b>Balance, December 31, 2017</b>	<b>20.56925097</b>	<b>USD 280,640</b>
<b>Adjusted for foreign exchange translation</b>		<b>CAD 352,063</b>

## BitRush Corp.

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### 8. Other Liabilities (continued)

2018

Outstanding user balances (BTC)	11.35732877	USD 41,904
Outstanding user Ad Credit balances (priced in BTC)	6.17368363	USD 22,778
<b>Balance, December 31, 2018</b>	<b>17.53101240</b>	<b>USD 64,682</b>
<b>Adjusted for foreign exchange translation</b>		<b>CAD 88,239</b>

The BTC liabilities are classified as financial liabilities. The effect is that the BTC liabilities are measured at fair value based on the underlying price of a BTC, with changes in value being recorded in profit or loss.

For the years ended December 31, 2018, 2017 and 2016, the changes to the BTC liabilities are as follows:

	\$
<b>Balance, January 1, 2016</b>	<b>12,120</b>
Fair value changes of Bitcoin liabilities	28,487
<b>Balance, December 31, 2016</b>	<b>40,607</b>
Fair value changes of Bitcoin liabilities	311,456
<b>Balance, December 31, 2017</b>	<b>352,063</b>
Fair value changes of Bitcoin liabilities	(263,824)
<b>Balance, December 31, 2018</b>	<b>88,239</b>

### 9. Share Capital

*Authorized share capital*

The Company is authorized to issue an unlimited number of common shares and preferred shares.

Common shares issued and outstanding as at December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
	\$	\$	\$
Issued: 2018 – 58,063,064 common shares			
(2017 and 2016 – 126,957,239 common shares)	<b>3,260,963</b>	3,416,934	2,951,434

*Share capital transactions for the year ended December 31, 2018*

On August 1, 2018, 68,894,175 shares of the Company previously issued to and registered with MezzaCap were cancelled pursuant to the court order rendered by the SCJ on November 14, 2017 and subsequently amended on June 29, 2018. These shares were cancelled in favor of the Company, as the sum ordered by the SCJ had not been repaid by Boehm and MezzaCap. The cancelled shares were affixed at \$0.005 per share (see Note 4).

*Share capital transactions for the year ended December 31, 2017*

There were no share capital transactions during the year ended December 31, 2017.

*Share capital transactions for the year ended December 31, 2016*

On March 15, 2016, the Company closed a non-brokered private placement financing (the “Private Placement”), consisting of 6,650,000 units at a price of \$0.10 per unit, for gross proceeds of \$665,000. Each unit consists of one common share and one-half of a common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.20 per common share for a period of 18 months after the closing date, as disclosed in Note 11.

## BitRush Corp.

Notes to the Financial Statements

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### 10. Stock Options

The Company's stock option plan (the "Plan") provides for the granting of stock options to directors, officers and consultants of the Company. Share options are granted for a term not to exceed five years at exercise prices not less than the closing price of the shares on the CSE on the trading day immediately preceding the date the options are granted and are not transferrable.

The Plan is administered by the Board, which determines individual eligibility under the Plan, the number of shares reserved for optioning to each individual (not to exceed 5% of issued and outstanding shares to any one individual) and the vesting period. The maximum number of shares of the Company that are issuable pursuant to the Plan is limited to 10% of the issued and outstanding common shares. As at December 31, 2018, the Company had 6,530,724 common shares that are issuable under the Plan.

The following summarizes the stock option activity for the years ended December 31, 2018, 2017 and 2016:

	Number of options	Weighted average exercise price
	#	\$
<b>Balance, January 1, 2016</b>	<b>9,000,000</b>	<b>0.10</b>
Granted	5,550,000	0.10
Granted	50,000	0.20
Forfeited	(6,000,000)	(0.10)
<b>Balance, December 31, 2016</b>	<b>8,600,000</b>	<b>0.10</b>
Forfeited	(6,000,000)	(0.10)
<b>Balance, December 31, 2017</b>	<b>2,600,000</b>	<b>0.10</b>
Expired	(100,000)	(0.10)
<b>Balance, December 31, 2018</b>	<b>2,500,000</b>	<b>0.10</b>

#### *Option grants for the year ended December 31, 2018 and 2017*

There were no option grants during the years ended December 31, 2018 and 2017.

#### *Option grants for the year ended December 31, 2016*

On April 22, 2016, 2,500,000 stock options were granted to a director, who is also the current President and Chief Executive Officer ("CEO") of the Company, and 50,000 options were granted to a consultant, exercisable for \$0.10 per share. Of the 2,500,000 options granted to the director which expire on April 22, 2021, 1/6 of the options vested immediately on grant, with an additional 1/6 vesting every six months thereafter. The 50,000 options granted to the consultant vested immediately on grant and subsequently expired on April 22, 2018.

On June 7, 2016, 50,000 stock options were granted to a consultant of the Company, exercisable for \$0.20 per share. The options vested immediately on grant, and subsequently expired on June 7, 2018.

On November 7, 2016, 3,000,000 stock options were granted to two consultants of the Company, exercisable at \$0.10. The options vested immediately and subsequently expired on November 7, 2018.

## BitRush Corp.

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### 10. Stock Options (continued)

The Company used Black-Scholes to estimate the grant date fair value of the options granted during the year ended December 31, 2016, based on the following assumptions:

	April 22, 2016	April 22, 2016	June 7, 2016	November 7, 2016
Number of options	2,500,000	50,000	50,000	3,000,000
Share price on grant date	\$0.10	\$0.10	\$0.24	\$0.09
Exercise price	\$0.10	\$0.10	\$0.20	\$0.10
Expected life	5 years	2 years	2 years	2 years
Historical share price volatility	249%	249%	252%	242%
Risk-free interest rate	0.93%	0.67%	0.52%	0.74%
Grant date fair value	\$156,624	\$4,613	\$11,180	\$245,490

The following table summarizes information of options outstanding and exercisable as at December 31, 2018:

Date of expiry	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining life
	#	#	\$	Years
April 22, 2021	2,500,000	2,500,000	0.10	2.31
	<b>2,500,000</b>	<b>2,500,000</b>	<b>0.10</b>	<b>2.31</b>

### 11. Warrants

The following summarizes the warrants activity for the years ended December 31, 2018, 2017 and 2016:

	Number of warrants	Weighted average exercise price
	#	\$
<b>Balance, January 1, 2016</b>	<b>7,850,000</b>	<b>0.15</b>
Issued	3,325,000	0.20
Expired	(500,000)	(0.30)
<b>Balance, December 31, 2016</b>	<b>10,675,000</b>	<b>0.17</b>
Expired	(3,325,000)	(0.20)
<b>Balance, December 31, 2017</b>	<b>7,350,000</b>	<b>0.15</b>
Expired	(7,350,000)	(0.15)
<b>Balance, December 31, 2018</b>	<b>-</b>	<b>-</b>

*Warrant issuances for the years ended December 31, 2018 and 2017*

There were no warrant issuances during the years ended December 31, 2018 and 2017.

*Warrant issuances for the year ended December 31, 2016*

In connection with the Private Placement financing which closed on March 15, 2016, the Company issued 3,325,000 warrants at an exercise price of \$0.20 per share for a period of 18 months after the closing date. The warrants were valued at \$465,500 under the residual method.

## BitRush Corp.

Notes to the Financial Statements

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### 12. Key Management Compensation, Related Party Transactions and Balances

#### *Key management personnel compensation*

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executives, non-executive directors, officers and any employees. Compensation provided to key management personnel during the years ended December 31, 2018, 2017 and 2016 were as follows:

	2018	2017	2016
	\$	\$	\$
Consulting and management fees	60,000	60,000	113,355
Stock-based compensation	19,753	72,330	500,719
	<b>79,753</b>	132,330	614,074

During the year ended December 31, 2018, Just In-Genius Inc. (“Just In-Genius”), an entity controlled by Karsten Arend, the President, CEO, and a director of the Company, charged \$60,000 (2017 – \$60,000; 2016 – \$44,355) for consulting services provided to BitRush, which are included in management fees. As at December 31, 2018, an aggregate amount of \$211,862 (2017 – \$89,105; 2016 – \$21,305) owing to Just In-Genius, for the consulting fees, the reimbursement of expenses paid on behalf of the Company, and funding of working capital, was included in accounts payables and accrued liabilities. As at December 31, 2018, no balance was owed to the CEO (2017 – \$41,701; 2016 – \$10,599; included in accounts payables and accrued liabilities for reimbursement of expenses paid on behalf of the Company). These amounts outstanding are unsecured, non-interest bearing and due on demand.

During the year ended December 31, 2018, the CEO received stock-based compensation of \$19,753 (2017 – \$72,330; 2016 – \$156,624), in relation to vesting of the 2,500,000 stock options previously granted to him on April 22, 2016 (see Note 10).

During the year ended December 31, 2016, the Company recorded consulting fees of \$69,000 for services provided by certain former officers and directors to the Company, including \$53,000 from the Former CEO, and \$6,000 and \$10,000 from two former directors of the Company, respectively. The consulting fees were included in professional fees. As at December 31, 2018, an amount of \$401 (2017 – \$3,042; 2016 – \$3,042) owing to former officers and directors, was included in accounts payable and accrued liabilities.

During the year ended December 31, 2016, former officers and directors of the Company received stock-based compensation of \$344,095.

#### *Other related party transactions and balances*

To fund its working capital, the Company had received advances from HSRC Investments PTE Ltd. (“HSRC”), an entity that controls more than 10% of the Company, of which Hansjoerg Wagner, a director of BitRush, is also a director. During the year ended December 31, 2018, the Company received advances of \$103,472 (2017 – \$246,287; 2016 – \$36,823) from HSRC. As at December 31, 2018, total advances of \$420,686 (2017 – \$317,214; 2016 – \$70,927) owing to HSRC was recorded as due to related party on the statements of financial position. The advances outstanding are unsecured, non-interest bearing and due on demand.

On March 15, 2016, HSRC participated in the Private Placement, and subscribed for all 6,650,000 units at a price of \$0.10 per unit, for gross proceeds of \$665,000 (see Note 9).

## BitRush Corp.

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### 13. Income Taxes

#### *Provision for income taxes*

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2017 – 26.5%; 2016 – 26.5%) were as follows:

	2018	2017	2016
	\$	\$	\$
Income (loss) before income taxes	9,566	(1,005,056)	(1,997,315)
Expected income tax recovery based on statutory rate	3,000	(260,000)	(520,000)
Permanent differences and others	(66,000)	92,000	205,000
Effect of change in income tax rates	-	(15,000)	-
Changes in unrecognized deferred tax assets	63,000	183,000	315,000
Income tax provision (recovery)	-	-	-

#### *Deferred income tax*

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	2018	2017	2016
	\$	\$	\$
Non-capital loss carryforwards	638,000	575,000	392,000
Share issue costs and others	11,000	11,000	11,000
Deferred tax assets not recognized	(649,000)	(586,000)	(403,000)
	-	-	-

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

As at December 31, 2018, the Company has non-capital tax losses totaling \$2,363,000, which begins expiring in 2035. The other temporary differences do not expire under current legislation.

### 14. Capital Risk Management

The Company's objective in managing its capital structure is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The Company monitors its capital structure and makes adjustments according to market conditions to meet its objectives given the current outlook of the business and industry in general. The Board does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the management team to sustain the future development of the business.

As at December 31, 2018, the Company's capital consists of share capital, reserve in share-based payments, reserve in warrants and accumulated deficit.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company's capital management objectives, policies and processes have remained unchanged during the years ended December 31, 2018, 2017 and 2016.

The Company is not subject to externally imposed capital requirements.

## BitRush Corp.

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### 15. Financial Instrument Risks

#### *Credit risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Cash is held with reputable Canadian chartered banks, which is closely monitored by management. Management believes that the credit risk concentration with respect to financial instruments is minimal. The maximum exposure to credit risk at year-end is limited to the accounts receivable balance.

#### *Liquidity risk*

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company manages liquidity risk by ensuring that it has sufficient cash and other financial resources available to meet its needs. The Company forecasts cash flows for a period of 12 months to identify financial requirements. These requirements are met through cash management, dispositions of assets and accessing financing through advances from related parties. As at December 31, 2018, the Company had a cash balance of \$3,603 (2017 – \$16,530; 2016 – \$21,413) to settle current liabilities of \$1,188,979 (2017 – \$1,196,608; 2016 – \$270,041).

#### *Cryptocurrency risk*

The Company is exposed to risk with respect to cryptocurrency prices and valuations which are largely based on the supply and demand of BTC and other cryptocurrencies and their acceptance in the financial market. The Company adjusts its other liabilities in BTC to fair value at the end of each reporting period. This process could result in significant changes in the Company's other liabilities over one or more reporting periods, particularly during periods of overall market instability, which could have a significant unfavorable effect on the Company's financial position.

#### *Fair value*

Fair value estimates of financial instruments are made at a specific point in time based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values. The Company's financial instruments consist of cash, accounts payable, other liabilities and amounts due to related parties. The fair value of cash, accounts payable, other liabilities, and amounts due to related parties are approximately equal to their carrying value due to their short-term nature.

The Company classifies financial instruments recognized at fair value in accordance with a fair value hierarchy that include the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 - valuation based on quoted 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).

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	3,603	-	-	3,609
Other liabilities	88,239	-	-	88,239

As at December 31, 2018, the Company's financial instruments carried at fair value consisted of its cash and other liabilities, which have been classified as Level 1. There were no transfers between Levels 2 and 3 for recurring fair value measurements during the year ended December 31, 2018.

## **BitRush Corp.**

Notes to the Financial Statements

Years Ended December 31, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

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### **16. Subsequent Events**

#### *Partial Revocation Order*

On April 29, 2019, the Company was granted a partial revocation order by the Commission in respect of the CTO issued on December 2, 2016.

On October 25, 2019, the Company closed a private placement of 2,889,260 units at a price of \$0.05 per unit, for gross proceeds of \$144,463. Each unit is comprised of one common share of the Company and one common share purchase warrant, exercisable at \$0.10 to purchase one additional common share of the Company on or before the date that is three years from the date the common shares resume trading on the CSE, subject to acceleration if the closing trading price of the common shares on the CSE is not less than \$0.15 for 10 consecutive trading days.

Further to the partial revocation order, the Company also issued from treasury an aggregate of 10,356,910 common shares of BitRush as mandated by the order of the SCJ dated June 29, 2018 and certain shares-for-debt issuances from treasury to creditors in full satisfaction of the debts owed to such parties (the “Shares-for-Debt Issuances”). In the Shares-for-Debt Issuances, \$925,000 of debt was exchanged for 18,500,000 common shares of the Company, representing an exchange price of \$0.05 per share. All securities of the Company, including the aforementioned securities, will remain subject to the CTO until such time as the CTO has been revoked in its entirety.

#### *BTC Purchases*

On January 22, 2020, the Company purchased 4.37549234 BTC as investments.

#### *COVID-19*

On January 30, 2020, the World Health Organization declared COVID-19 a “Public Health Emergency of International Concern” and on March 10, 2020, declared COVID-19 a pandemic. As of the date of these financial statements, the extent to which the COVID-19 pandemic impacts the Company’s financial results will depend on future developments, remain highly uncertain and cannot be predicted, including new information which emerge concerning the severity of the COVID-19 pandemic and actions taken to contain it or its impact, among others.

#### *CEBA Loans*

On August 24, 2020, the Company received \$40,000 in revolving credit (the “CEBA Loan”) from the Government of Canada under the Canada Emergency Business Account (CEBA) COVID-19 Economic Response Plan. The funding is granted in the form of an interest-free loan of which up to \$40,000 may be drawn. On December 21, 2020, the Company received an additional CEBA Loan in the amount of \$20,000 under the CEBA expansion program.

#### *Sale of AdBit*

On December 31, 2020, the Company entered into an Asset Purchase Agreement (the “APA”) with an arm’s length third party (the “Buyer”) and sold the AdBit platform to the Buyer for the sum of \$1 and the assumption by the Buyer of certain liabilities. Pursuant to the APA, the Company will receive, as additional consideration for the sale of the AdBit platform, 25% of all monthly net revenue in excess of a monthly net revenue of \$10,000 generated via the AdBit platform (including any rebranded, further developed, new versions or white-labeled versions of the AdBit platform), to be paid to the Company on a quarterly basis. Furthermore, if the Buyer sells, transfers or otherwise monetizes all or part of the AdBit platform, including, but not limited to the platform code, domain name and/or database relating to the current or any further developed or new versions of the AdBit platform to a bona fide third party at any time after the date hereof for a sale price in excess of \$1, the Buyer will pay 50% of such excess amount to the Company upon the closing of such third party sale.

Pursuant to the APA, the Buyer assumed all user BTC balances totalling 11.16590343 BTC and Ad Credit balances valued at 6.14876311 BTC of Ad Credit.



## **BitRush Corp.**

Notes to the Financial Statements

Years Ended December 31, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

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### **16. Subsequent Events (continued)**

#### *Secured funding*

On March 21, 2021, the Company entered into a Bitcoin-backed loan and security agreement with a lender (the “Lender”). The loan is secured by the Company’s cryptocurrency investments into the Lender’s cryptocurrency wallet. On March 22, 2021, the Company received proceeds of \$131,784 (USD \$107,000) from the loan.

#### *Options expiry*

On April 22, 2021, 2,500,000 options exercisable at \$0.10, expired unexercised.