VOGOGO INC.

Consolidated Financial Statements
For the year ended December 31, 2018
(expressed in Canadian dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Vogogo Inc.

Opinion

We have audited the consolidated financial statements of Vogogo Inc. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year 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, 2018, and its financial performance and its cash flows for the year 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The financial statements of the Company for the year ended December 31, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on February 28, 2018.

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. 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.

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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 David Goertz.

/s/ DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

April 30, 2018

VOGOGO INC.
Consolidated Statements of Financial Position
(expressed in Canadian dollars)

	Note	As at December 31, 2018	2017
ASSETS			
Current assets			
Cash		$ 1,166,077	$ 12,796,056
Accounts receivable	6	834,716	—
Prepaid expenses and deposits	5	617,349	13,377
Sales tax receivable		255,161	26,886
Digital assets	6	1,562,290	—
Total current assets		**4,435,593**	**12,836,319**
Non-current assets			
Prepaid expenses and deposits	5	931,259	—
Equipment	7	12,606,845	—
Total non-current assets		**13,538,104**	—
Total assets		**$ 17,973,697**	**$ 12,836,319**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	6, 8	$ 2,150,409	$ 224,823
Derivative liability	11	49,120	—
Total current liabilities		**2,199,529**	**224,823**
Long-term liabilities			
Convertible debenture	11	27,510,483	—
Total long-term liabilities		**27,510,483**	—
Total liabilities		**29,710,012**	**224,823**
Shareholders' equity			
Share capital	12	78,742,324	35,074,123
Warrants	13	2,892,314	2,449,333
Contributed surplus	13	11,852,605	6,058,639
Deficit		(105,223,558)	(30,970,599)
Total shareholders' equity		**(11,736,315)**	**12,611,496**
Total liabilities and shareholders' equity		**$ 17,973,697**	**$ 12,836,319**

Subsequent event (note 22)

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

VOGOGO INC.
Consolidated Statements of Loss and Comprehensive Loss
For the year ended December 31, 2018
(expressed in Canadian dollars)

		Year Ended December 31,	
	Note	**2018**	**2017**
Revenue			
Digital assets mined	6	$ 15,758,349	$ —
Colocation revenue	6	2,320,656	—
Total revenue		**18,079,005**	**—**
Cost of revenue			
Site operating costs	17	(10,171,502)	—
Depreciation	7, 17	(6,856,200)	—
		1,051,303	**—**
Expenses			
General and administrative	17	2,759,497	992,207
Stock-based compensation	13	3,087,170	761,384
Impairment	7, 18	65,458,793	—
Acquisition related costs		414,779	—
Fair value loss on re-measurement of digital assets	6	2,748,829	—
		74,469,068	**1,753,591**
Other income			
Unrealized fair value gain on derivative liability	11	732,807	—
Interest income		65,386	89,870
Interest expense		(4,275,329)	(4,037)
Allowance on sales tax receivable	21	(867,194)	—
Foreign exchange loss		204,455	(9,731)
Net loss and comprehensive loss before income tax		**(77,557,640)**	**(1,677,489)**
Income tax recovery	10	3,304,681	—
Net loss and comprehensive loss		**$ (74,252,959)**	**$ (1,677,489)**
Loss per share - basic and diluted	1	$ (12.98)	$ (0.61)
Weighted average number of shares outstanding - basic and diluted		**5,977,444**	**2,750,751**

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

VOGOGO INC.
Consolidated Statements of Changes in Shareholders' Equity
For the year ended December 31, 2018
(expressed in Canadian dollars)

	Share Capital							
	Common shares Number	Common shares Amount	Convertible preferred shares Number	Convertible preferred shares Amount	Warrants	Contributed Surplus	Deficit	Total
Balance – December 31, 2016	**72,495,137**	**$ 31,222,125**	**—**	**$ —**	**$ 403,826**	**$ 5,279,312**	**$ (29,293,110)**	**$ 7,612,153**
Stock-based compensation	—	—	—	—	—	761,384	—	**761,384**
Expiry of warrants	—	—	—	—	(17,943)	17,943	—	**—**
Issuance of units through private placement, net of issue costs	60,000,000	3,851,998	—	—	2,063,450	—	—	**5,915,448**
Net loss and comprehensive loss for the year	—	—	—	—	—	—	(1,677,489)	**(1,677,489)**
Balance – December 31, 2017	**132,495,137**	**$ 35,074,123**	**—**	**$ —**	**$ 2,449,333**	**$ 6,058,639**	**$ (30,970,599)**	**$ 12,611,496**
Issue of common shares in relation to exercised warrants	44,080,000	7,246,348	—	—	(1,515,948)	—	—	**5,730,400**
Issue of convertible preferred shares in connection with the Crypto 205 acquisition	—	—	130,000,000	28,921,853	—	—	—	**28,921,853**
Conversion of preferred shares to common	130,000,000	28,921,853	(130,000,000)	(28,921,853)				**—**
Equity component of convertible debenture (net of deferred tax)	—	—	—	—	1,606,933	2,706,796	—	**4,313,729**
Equity component of broker warrant units issued in relation to the convertible debenture	—	—	—	—	351,996	—	—	**351,996**
Issuance of common shares in relation to settlement of promissory note	75,000,000	7,500,000	—	—	—	—		**7,500,000**
Stock-based compensation	—	—	—	—	—	3,087,170	—	**3,087,170**
Net loss and comprehensive loss for the year	—	—	—	—	—	—	(74,252,959)	**(74,252,959)**
Balance – December 31, 2018	**381,575,137**	**$ 78,742,324**	**—**	**$ —**	**$ 2,892,314**	**$ 11,852,605**	**$ (105,223,558)**	**$ (11,736,315)**

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

VOGOGO INC.
Consolidated Statements of Cash Flows
For the year ended December 31, 2018
(expressed in Canadian dollars)

	Year ended December 31,	
	2018	**2017**
Cash flows from operating activities		
Net loss	$ (74,252,959)	$ (1,677,489)
Changes in non-cash operating items:		
Mining revenue	(15,758,349)	—
Income tax recovery	(3,304,681)	—
Depreciation	6,861,239	—
Impairment	65,458,793	—
Fair value loss on re-measurement of digital assets	2,748,829	—
Unrealized fair value gain on derivative liability	(732,807)	—
Foreign exchange gain	(347,263)	—
Stock-based compensation	3,087,170	761,384
Interest income	(65,386)	—
Interest expense	1,766,386	—
Interest accretion	2,508,943	—
	(12,030,085)	(916,105)
Changes in non-cash working capital		
Accounts receivable	(834,716)	—
Prepaid expenses and deposits	(1,483,022)	13,813
Sales tax receivable	828,525	(4,624)
Digital assets	12,450,931	—
Accounts payable and accrued liabilities	(4,624,480)	(121,439)
Net cash used in operating activities	**(5,692,847)**	**(1,028,355)**
Cash flows from financing activities		
Issuance of common shares in relation to exercised warrants	5,730,400	—
Proceeds from issuance of units	—	5,915,448
Proceeds from convertible debenture	32,859,709	—
Settlement of promissory note	(2,500,000)	—
Interest paid	(1,766,386)	—
Net cash provided by financing activities	**34,323,723**	**5,915,448**
Cash flows from investing activities		
Additions of equipment	(242,358)	—
Acquisition of subsidiaries, net of cash acquired	(40,083,883)	—
Interest earned on short term investment	65,386	—
Net cash used in investing activities	**(40,260,855)**	**—**
Change in cash during the year	(11,629,979)	4,887,093
Cash – beginning of year	12,796,056	7,908,963
Cash – end of period	**$ 1,166,077**	**$ 12,796,056**

Supplemental disclosure with respect to cash flows:

Significant non-cash transactions for the year ended December 31, 2018 included:

- recognition of the fair value of broker warrants of $351,996;
- recognition of the fair value of warrant and equity component of convertible debenture of $1,958,929 and $4,302,285 respectively;
- purchase of infrastructure equipment with digital assets valued at $86,976.

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

1. NATURE OF OPERATIONS

Vogogo Inc. (the "Company" or "Vogogo"), on April 3, 2018 and June 29, 2018, acquired 100% of the shares of two companies engaged in the business of mining for cryptocurrencies (note 18). Vogogo currently has cryptocurrency mining activities in Québec.

The head office and registered record office is located at 300-5 Hazelton Ave., Toronto, Ontario, M5R 2E1.

The shares of Vogogo are traded on the Canadian Stock Exchange ("CSE") under the symbol VGO as of January 19, 2018.

On February 5, 2019, the Company completed a 30 to 1 share consolidation effective February 14, 2019.

The common shares trade on the CSE under the symbol "VGO".

These consolidated financial statements have been prepared by management on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred ongoing losses and expects to incur further losses in the development of its business. At December 31, 2018, the Company had a working capital of $2,236,063 and has an accumulated deficit of $105,223,560 since its inception. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future and repay its liabilities arising from normal business operations as they become due. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance and compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on April 30, 2019.

Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis except for some financial instruments that have been measured at fair value.

Functional and presentation currency

These consolidated financial statements have been prepared in Canadian dollars, which is the Company's functional and presentation currency.

Consolidation

These consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries. All inter-company transactions are eliminated on consolidation.

As of December 31, 2018, the Company had three wholly owned subsidiaries: (i) Vogogo Canada Inc., (ii) Crypto 205 Inc. ("Crypto 205"), and (iii) 9376-9974 Quebec Inc. ("828").

3. SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and contingent liabilities at the end of the reporting period. 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. Such changes are reflected in the assumptions when they occur.

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 consolidated financial statements.

Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. The Company has not recognized the value of any deferred tax assets in its statements of financial position.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained based on its technical merits. The Company measures and records the tax benefits from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company's estimated liabilities related to these matters are adjusted in the period in which the uncertain tax position is effectively settled, the statute of limitations for examination expires or when additional information becomes available. The Company's liability for unrecognized tax benefits requires the use of assumptions and significant judgment to estimate the exposures associated with its various filing positions. Although the Company believes that the judgments and estimates made are reasonable, actual results could differ and resulting adjustments could materially affect its effective income tax rate and income tax provision.

The Company has earned Bitcoin from the commercial activity of Bitcoin mining. The Company has followed the published Canada Revenue Agency ("CRA") view that Bitcoin is a commodity and inventory of the business, the value of which is included in the calculation of taxable income from the business. Bitcoin is valued in accordance with Section 10 of the Income Tax Act. Revenue from Bitcoin mining is included in taxable income when the Bitcoin earned is sold or exchanged for cash or another asset. There is uncertainty regarding the taxation of cryptocurrency and the CRA may assess the Company differently from the position adopted. This could result in additional current taxes payable with equal offset to deferred tax expense.

Impairment of non-financial assets

Assets are deemed to be impaired when the carrying value exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. These calculations are based on available data, other observable inputs and projections of cash flows, all of which are subject to estimates and assumptions. Recoverable amounts are also sensitive to assumptions about the future usefulness of in-process development and the related marketing rights.

Foreign currency translation

Within each entity, transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at that date. Foreign exchange differences arising on translation are recognized in the statement of operations. Non-monetary assets and liabilities that are measured at historical cost are translated using the exchange rate at the date of the transaction.

Fair value measurement of stock options and warrants

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the warrants, volatility and dividend yield, and making assumptions about them. The assumptions and models used for estimating fair value for stock options and warrants are disclosed in note 13.

3. SIGNIFICANT JUDGEMENTS AND ESTIMATES (continued)

Accounting for digital assets

At present, there is limited guidance in IFRS on the recognition and measurement of digital assets. Noted below are the key policies used to account for these assets.

Fair value of digital assets

Digital assets are measured at fair value using the quoted price on www.coinmarketcap.com ("Coin Market Cap"). Management considers this fair value to be a Level 2 input under IFRS 13 Fair Value Measurement fair value hierarchy as the price on this source represents an average of quoted prices on multiple digital currency exchanges. The digital assets are valued based on the closing price obtained from Coin Market Cap at the reporting period. The Company is relying on the data available at Coin Market Cap to be an accurate representation of the closing price for the different digital assets.

Useful life of mining equipment

Management is depreciating mining equipment using a straight-line basis, with a useful life of:

Mining equipment	3 years
Supporting infrastructure	5 years

The mining equipment is used to generate digital assets. The rate at which the Company generates digital assets and, therefore, consumes the economic benefits of its mining equipment is influenced by a number of factors including the following:

- The complexity of the mining 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; and,
- Technological obsolescence resulting from rapid development in the mining machines, such that more recently developed hardware generally increases processing capacity, which usually renders new machines more economically efficient to operate, resulting in lower costs of operations. Further, the newer machines may be made available at a lower cost of purchase.

Based on the Company's and the industry's short life cycles to date, there is limited market data available. Furthermore, the data available also includes data derived from the use of economic modeling to forecast future digital assets and the assumptions included in such forecasts, including the digital asset's price and network difficulty, and derived from management's assumptions that are inherently judgmental. Based on current data available, management has determined that the straight-line method of amortization over three years best reflects the current expected useful life of mining equipment. Management will review this estimate at each reporting date and will revise such estimates as and when data becomes available. The mining equipment has been assumed to have no residual value at the end of its useful life. Management will review the appropriateness of its assumption of nil residual value at each reporting date.

4. SIGNIFICANT ACCOUNTING POLICIES

Accounting for business combinations

Business combinations are accounted for using the acquisition method. Under this method, the identifiable assets acquired, and liabilities assumed, including contingent liabilities, are recognized, regardless of whether they have been previously recognized in the acquiree's financial statements prior to the acquisition. On initial recognition, the assets and liabilities of the acquired entity are included in the consolidated statements of financial position at their respective fair values. Goodwill is recorded based on the excess of the fair value of the consideration transferred over the fair value of the Company's interest in the acquiree's net identifiable assets on the date of the acquisition. Any excess of the identifiable net assets over the fair value of the consideration transferred is immediately recognized in net earnings.

The consideration transferred by the Company to acquire control of an entity is calculated as the sum of the acquisition-date fair values of the assets transferred, liabilities incurred, and equity interests issued by the Company, including the fair value of all the assets and liabilities resulting from a deferred payment arrangement. Acquisition related costs are expensed as incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Bitcoin mining

Revenue is comprised of the fair value of consideration received for the provision of services in the ordinary course of business. The Company derives its revenue through the receipt of Bitcoin in exchange for providing successful "mining" services to the blockchains corresponding to various Bitcoin. Mining is the process by which transactions are verified and added to a blockchain.

Revenue is recognized in accordance with IFRS 15, Revenue from Contracts with Customers. Bitcoin mining is the ordinary business activity of the Company and the consideration received meets the definition of revenue as income arising in the course of the Company's ordinary activities. The Company has determined that the substance of its mining activities is a service provision under the scope of IFRS 15 notwithstanding the lack of a formal contractual arrangement under which it provides such services as the services are provided through the blockchain protocol. Also, there is no collaboration arrangement within the blockchain and the Company's rights and obligations are implied by the customary business practices prevalent within the industry.

Revenue is recognized by the Company when payment, in the form of Bitcoin, is received for successful mining services rendered. Revenue earned from Bitcoin mining activities is recognized at the fair value of the Bitcoin received as consideration on the date of actual receipt. Fair value is measured using the closing price on Coin Market Cap on the date of receipt. During the year ended December 31, 2018, the Company recognized $15,758,349 (2017 - $nil) in revenue from Bitcoin mining.

The amended standard was effective January 1, 2018 and did not have an impact on the consolidated financial statements.

Colocation services

The Company earns colocation revenue from one customer at one of its mining facilities in exchange for hosting the customers cryptocurrency mining equipment. Colocation revenue is recognized in profit or loss on a straight-line basis over the term of the customer contract. The customer is invoiced monthly in advance and income is recognized on a straight-line basis.

Digital assets

Digital assets are generated from the Company's mining activities. The Company classifies and measures digital assets at fair value and realized and unrealized gains and losses are recorded through profit and loss.

The Company obtains the equivalency rate of tradable digital assets to USD from Coin Market Cap, a source that aggregates data from multiple exchanges and applies a methodology to determine the best quoted USD price on the date the digital assets were generated. The Company converts the price from USD to CAD based on the closing exchange rate on the date of asset generation. Subsequent to initial recognition, digital assets are remeasured at each reporting period. The resulting gain or loss from subsequent remeasurement is recognized in the statement of loss and comprehensive loss as a fair value remeasurement of digital assets. The equivalency rate obtained from Coin Market Cap represents a generally well recognized quoted price for tradeable digital assets, and this information and all related databases are accessible to the Company.

Equipment

Equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the equipment and any expenditure required to make the equipment ready for use. Repairs and maintenance expenses are charged against income as incurred. Expenditures that extend the estimated life of an asset are capitalized.

Depreciation is provided annually on equipment at rates designed to charge the cost of the assets over their estimated useful lives, as follows:

Mining servers	3 years	straight-line
Supporting infrastructure	5 years	straight-line
Office equipment	5 years	straight-line

The asset's residual values, useful lives and methods of depreciation are reviewed at each fiscal year end and adjusted prospectively, if appropriate. Depreciation of mining equipment is recognized in cost of revenue on the consolidated statement of loss and comprehensive loss.

Refer to note 3 for a discussion of the estimation uncertainty in respect of the determination of the appropriate method of depreciation the underlying useful life and the estimation of residual values in respect of mining equipment.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial instruments are accounted for in accordance with IFRS 9, "Financial Instruments: Classification and Measurement". A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed.

All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income.

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 of the associated risks and rewards of ownership to another entity.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Cash is measured at FVTPL.

Impairment of financial assets

IFRS 9 uses the expected credit loss ("ECL") model. The credit loss model groups receivables based on similar credit risk characteristics and days past due in order to estimate bad debts. The ECL model applies to the Company's receivables.

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable, due to shareholder, and convertible debentures are classified under other financial liabilities and carried on the statement of financial position at amortized cost.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Gains and losses on derecognition are generally recognized in profit or loss.

The Company retrospectively adopted IFRS 9 on January 1, 2018. Due to the short-term and/or liquid nature of its financial assets and financial liabilities, the adoption had no impact on the amounts recognized in the Company's consolidated financial statements for the year-ended December 31, 2018.

Loss per share

The calculation of loss per common share is based on the reported net loss divided by the weighted average number of shares outstanding during the period. Diluted loss per share is calculated on the treasury stock basis. Where potentially dilutive equity instruments are anti-dilutive, basic and diluted earnings per share are the same.

Share issue costs

Costs incurred for the issue of common shares are deducted from share capital.

Share-based transactions

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 that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted on the date the entity obtains the goods or the counterparty renders the service.

Income taxes

The Company is in the business of mining for digital assets in a commercial manner. The income from the business is included in determining taxable income for the period. Revenue from digital assets mining is included in taxable income when the digital assets earned are sold or exchanged for cash or another asset. The digital assets held at period end are treated as a commodity and valued pursuant to section 10 of the Income Tax Act.

Income tax expense consists of current and deferred tax expenses. Current and deferred taxes are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or other comprehensive income.

Current income tax

Current income tax is measured as the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted at the reporting date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income 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 income.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right to offset.

(expressed in Canadian dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting policies not yet adopted

The following new standards, amendments to standards and interpretations have been issued but are not yet effective for the period ended December 31, 2018 and accordingly, have not been applied in preparing these consolidated financial statements:

IFRS 16, Leases

IFRS 16 was issued in January 2016 and requires lessees to recognize assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases.

The new standard is effective for annual periods beginning on or after January 1, 2019. The Company is in the process of assessing the impact of this standard on the Company's consolidated financial statements.

5. PREPAID EXPENSES AND DEPOSITS

The Company's prepaid expenses comprise the following:

	As at December 31,	
	2018	**2017**
Prepaid expenses	617,349	13,377
Vendor deposits	931,259	—
Prepaid expenses and deposits	**1,548,608**	**13,377**
Current	617,349	13,377
Long-term	931,259	—

Included in prepaid expenses and deposits as at December 31, 2018, are security deposits for rent of $145,343 and security deposits for electricity costs of $785,916 (December 31, 2017 - $nil) that have been classified as long-term.

6. DIGITAL ASSETS

Digital assets consist of Bitcoin coins. Below is a continuity of digital assets mined, acquired through purchase, settled and revalued during the year.

	$	Units
Balance as at December 31, 2017	$ —	—
Coins acquired on acquisition (note 18)	368,654	40.03
Mined additions	15,758,349	1,978.45
Coins received to settle accounts receivable	931,180	113.55
Coins sold	(12,450,931)	(1,792.47)
Coins transferred to settle accounts payable	(296,133)	(33.58)
Losses in FVTPL	(2,748,829)	—
Balance as at December 31, 2018	**$ 1,562,290**	**305.98**

During the period ended December 31, 2018, the Company's colocation customer became delinquent in settling their obligations. As a result, the Company directed miners to wallets controlled by the Company as collateral for settlement of the outstanding accounts receivable balance. At December 31, 2018, 113.55 Bitcoin with a value of $579,783 was recorded as a liability in accounts payable and accrued liabilities.

Subsequent to year end, the Company reached a settlement agreement with the customer whereby a certain entity of the Company would assume 6,598 Bitmain Antminer S9's previously owned by the customer in exchange for termination of the contract and a receivable of $834,716 less a liability balance of $579,783 at December 31, 2018 (see note 22).

(expressed in Canadian dollars)

7. EQUIPMENT

COST	**Mining equipment**	**Infrastructure**	**Office equipment**	**Total**
Balance as at December 31, 2017	$ —	$ —	$ —	$ —
Additions from acquisition (note 18)	23,904,459	17,649,856	—	41,554,315
Additions	65,631	189,820	73,883	329,334
Balance as at December 31, 2018	**$ 23,970,090**	**$ 17,839,676**	**$ 73,883**	**$ 41,883,649**
ACCUMULATED AMORTIZATION				
Balance as at December 31, 2017	$ —	$ —	$ —	$ —
Amortization	4,902,903	1,953,297	5,039	6,861,239
Impairment (note 18)	13,480,788	8,934,777	—	22,415,565
Balance as at December 31, 2018	**$ 18,383,691**	**$ 10,888,074**	**$ 5,039**	**$ 29,276,804**
Net carrying amount				
At December 31, 2017	$ —	$ —	$ —	$ —
At December 31, 2018	**$ 5,586,399**	**$ 6,951,602**	**$ 68,844**	**$ 12,606,845**

During the year ended December 31, 2018, $6,856,200 of depreciation was charged as a cost of revenue.

The Company recognized impairment losses related to the mining equipment of $13,480,788 (December 31, 2017 – $nil) and mining infrastructure of $8,934,777 (December 31, 2017 – $nil). As at December 31, 2018, the Company determined that the recoverable amount of mining equipment acquired in the Crypto 205 and the 828 Acquisitions were less than the recoverable amount of the equipment. The Company impaired the mining equipment and infrastructure to its value-in-use.

Management assessed the indicators of possible impairment to Bitcoin mining equipment, as at December 31, 2018, and determined that impairment indicators exist. Due to the decline in the market value of servers, weakening prices of Bitcoin and volatility in network difficulty levels during the year, an impairment analysis was completed. Management has determined the recoverable amount as the value in use ("VIU"). The significant assumptions in determining VIU included the following:

- Bitcoin price – $5,027.19 (US$3,742.70)
- Network difficulty – 5.619 trillion
- Discount rate – 35%

For the purpose of the VIU calculation, management assumed no changes in Bitcoin price or network difficulty.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company's accounts payable and accrued liabilities comprise of the following:

	As at December 31,	
	2018	**2017**
Trade accounts payable	1,204,966	199,823
Accrued liabilities	365,660	25,000
Bitcoin owed to colocation customer (note 6)	579,783	—
Accounts payable and accrued liabilities	**2,150,409**	**224,823**

(expressed in Canadian dollars)

9. PROMISSORY NOTE

On June 29, 2018, the Company entered into a promissory note (note 18). The note bears interest at 8% with interest payments due monthly on the 25th of each month. Principal repayments of $5,000,000 are due on the 1-year anniversary date and 2-year anniversary date. The note is secured by the physical assets of 9376-9974 Quebec Inc.

On November 5, 2018, the Company announced that it had entered into a settlement and release agreement (the "Settlement Agreement") for the promissory note. Under the terms of the Settlement Agreement, the Company issued 75,000,000 common shares with a fair value of $7,500,000 and made a cash payment of $2,500,000 in exchange for the cancellation of the promissory note.

	Effective interest rate	Interest	Interest accretion	Total interest
Promissory note	12%	$ 279,053	$ 541,641	$ 820,694

10. INCOME TAXES

Details of income tax recovery was as follows:

	Year Ended December 31, 2018	2017
Current income tax expense	$ —	$ —
Deferred income tax recovery	(3,304,681)	—
Income tax recovery	**$ (3,304,681)**	**$ —**

The reconciliation of the combined Canadian federal and provisional statutory income tax rate of 26.5% (2017 – 27%) to the effective tax rate is as follows:

	Year Ended December 31, 2018	2017
Loss before income taxes	**$ (77,557,640)**	**$ (1,677,489)**
Statutory tax rate	26.5%	27.0%
Statutory income tax recovery	(20,552,775)	(452,922)
Non-deductible expenses	1,777,617	183,758
Financing fee recognized in convertible debenture	(641,178)	—
Change in unrecognized deferred tax assets	16,111,655	269,164
Income tax recovery	**$ (3,304,681)**	**$ —**

(expressed in Canadian dollars)

10. INCOME TAXES (continued)

The following table summarizes the movement of deferred tax liabilities:

	Opening Balance	Recognized in loss	Recognized in equity	Acquired in business combination	Total
Convertible debenture	$ —	$ —	$ 1,595,489	$ —	**$ 1,595,489**
Mining, infrastructure and office equipment	—	—	—	1,709,192	**1,709,192**
Impairment	—	(1,709,192)	—	—	**(1,709,192)**
Tax losses	—	(1,595,489)	—	—	**(1,595,489)**
Total deferred tax liability	**$ —**	**$ (3,304,681)**	**$ 1,595,489**	**$ 1,709,192**	**$ —**

As at December 31, 2018, The Company has non-capital loss carry forwards of approximately 34,310,000 (2017 - $24,180,000). The non-capital loss carry forwards expire at various dates from 2031 to 2038.

11. CONVERTIBLE DEBENTURE

On June 21, 2018, the Company issued 34,500 debenture units (the "Units") for proceeds of $34,500,000. Each Unit is comprised of $1,000 principal amount of senior unsecured extendible non-redeemable convertible debentures ("Convertible Debentures") and 1,000 warrants ("Warrants"). Each unit entitles the holder to a conversion rate of 2,000 common shares per $1,000 principal amount of Convertible Debentures at a value of $0.50 per share and 1,000 warrants exercisable for 1,000 shares at a price of $0.70 per Share.

The Convertible Debentures bear interest at 8% per annum, payable semi-annually, are unsecured and mature in 24 months. The fair value of the Convertible Debentures was recorded at $25,543,181, discounted at 20% and is net of transaction costs. The accretion expense for the year ended December 31, 2018 was $1,967,302. Interest expense incurred for the year ended December 31, 2018, was $1,487,333. Interest paid for the year ended December 31, 2018 for Convertible Debentures was $1,487,333.

The residual value of the warrants and the equity conversion feature was estimated at $1,606,934 and $4,302,285.

On closing, the Company paid the agent: (i) a commission of $1,380,000 representing 4% of the gross proceeds; (ii) agent expenses and legal fees of $260,291 and (iii) 1,380 broker warrant units (“Broker Warrant Units”). Each Broker Warrant Unit is priced at $1,000 per unit and is exercisable into a Unit. The estimated fair value of the Broker Warrants on issuance was $1,133,923 which was based on the fair value of the underlying conversion rights as follows:

- The 1,000 warrants per Unit were determined to be valued at $351,996 using the Black-Scholes pricing model using the following assumptions: Market price - $0.45; Annualized volatility – 130%; Risk-free interest rate – 1.82%; Dividend yield – 0%; and Expected life – 2 years. This amount was treated as equity.

- The option to purchase the debentures was determined to be a derivative liability. The fair value at initial recognition was determined to be $781,927 based on the resulting option to convert into 2,000 common shares. The fair value was determined using the Black-Scholes pricing model using the following assumptions: Market price - $0.45; Annualized volatility – 130%; Risk-free interest rate – 1.82%; Dividend yield – 0%; and Expected life – 2 years.

As at December 31, 2018, the Company revalued the derivative relating to the option to purchase the debentures to the estimated fair value of $49,120. The Company recorded a decrease in the estimated fair value of the derivative warrant liability of $732,807 for the year ended December 31, 2018 (2017 - $nil). The following assumptions were used to estimate the fair value of the derivative warrant liability at December 31, 2018: Market price – $0.09; Annualized volatility – 130%; Risk-free interest rate – 1.82%; Dividend yield – 0%; and Expected life – 1.47 years.

(expressed in Canadian dollars)

11. CONVERTIBLE DEBENTURE (continued)

If there are an aggregate of 15 days on which the daily volume-weighted average trading price of the common shares on the CSE (or such other Canadian stock exchange on which the common shares may trade) equals or exceeds $0.90, the Company may force conversion at $0.50, upon giving Convertible Debenture holders 30 days advance written notice (a “Forced Conversion”). If Convertible Debentures are subject to a Forced Conversion in the 12 month period following the closing date, holders of Convertible Debentures will receive an interest payment in cash on such Convertible Debentures equal to any accrued and unpaid interest up to the date of conversion and additional interest for the period from the date of conversion to the date that is 12 months following the closing date of June 21, 2018.

Should there be an aggregate of 15 trading days on which the daily volume-weighted average trading price of the common shares on the CSE equals or exceeds $1.10 the Company may issue a notice of acceleration (an “Acceleration Notice”) and, thereafter, the Warrants will expire on a Business Day specified in the Acceleration Notice, which date shall not be less than 20 days after the date of the Acceleration Notice.

The Company has accounted for its convertible debt containing a conversion feature that exchanges a fixed amount of cash for a fixed number of shares by bifurcating and splitting accounting between the liability and equity components of the financial instrument. The Company has recognized the liability component of the transaction at fair value, calculated by discounting the cash flows associated with the liability component at its market rate for nonconvertible debt, and determined the fair value of the Warrants based upon a simulation model recording the Warrants as a debt discount with corresponding adjustment to additional paid-in capital, and lastly recorded the equity conversion feature as a residual amount into equity with corresponding adjustment to debt discount with no subsequent remeasurement. The Company has allocated issuance costs associated with the liability and equity components of the Convertible Debenture based on their relative fair values.

The Company will amortize the debt discount recorded in relation to the transaction using the effective interest method over the term of the related debt.

	Proceeds	Transaction costs	Net
Liability component	$ 28,018,203	$ (2,475,021)	$ 25,543,182
Equity component	6,481,797	(572,578)	5,909,219
Total	**$ 34,500,000**	**$ (3,047,599)**	**$ 31,452,401**

The recognition of the equity component resulted in a deferred tax liability of $1,595,489, which was offset by the recognition of a corresponding deferred tax asset relating to the Company’s non-capital losses.

The following table reflects movements recognized during the year ended December 31, 2018:

	Liability component of Convertible Debenture	Warrants component of Convertible Debenture	Equity component of Convertible Debenture
Opening balance (net of transaction costs and deferred tax)	**$ 25,543,181**	**$ 1,606,933**	**$ 2,706,796**
Accretion of liability component of Convertible Debenture (effective interest rate of 25%)	1,967,302	—	—
Balance - December 31, 2018	**$ 27,510,483**	**$ 1,606,933**	**$ 2,706,796**

(expressed in Canadian dollars)

12. SHARE CAPITAL

The Company has authorized share capital of an unlimited number of common shares.

During the year ended December 31, 2018:

- the Company issued 44,080,000 common shares for $5,730,400 on exercise of warrants. Initially the 44,080,000 warrants were valued at $1,515,948 using the Black-Scholes valuation model.

- the Company issued 130,000,001 non-voting, convertible series 1 preferred shares to the shareholders of Crypto 205 for a consideration of $28,921,853. The terms of the Preferred Shares provide, among other things, that they: (i) are non-voting; (ii) are convertible into common shares of Vogogo on a one for one basis, subject to customary adjustments; (iii) are eligible to participate in dividends if and when declared on the common shares; (iv) have priority rights on liquidation; and (v) are subject to a restriction that no holder of the Preferred Shares may convert into a number of common shares that would result in such holder beneficially owning greater than 9.9% of the outstanding common shares of the Company. A total of 25,764,258 Preferred Shares with a recorded value of $5,731,924 were converted to Common Shares at the discretion of certain preferred shareholders.

- On November 5, 2018, the Company announced that it had entered into a settlement and release agreement (the "Settlement Agreement") for the promissory note. Under the terms of the Settlement Agreement, the Company issued 75,000,000 common shares with a fair value of $7,500,000 in exchange for the cancellation of the promissory note (note 9).

- On December 31, 2018, the Company converted a total of 104,235,743 Preferred Shares with a recorded value of $23,189,929, representing all of the outstanding preferred shares, to common shares.

- Subsequent to the year ended December 31, 2018, the Company announced that its Board of Directors had authorized the implementation of a share consolidation of the Company's common shares on the basis of one post-consolidation common share for every 30 pre-consolidation common shares (see note 1).

During the year ended December 31, 2017:

- On October 31, 2017, the Company issued 60,000,000 units for proceeds of $6,000,000. Each unit comprised of one common share and one share purchase warrant for a total issuance of 60,000,000 share purchase warrants. Each share purchase warrant entitles the holder to purchase one common share at an exercise price of $0.13 per common share for up to two years following the issuance date. The fair value of these warrants was determined to be $2,063,450, which was allocated to warrants from share capital.

13. CONTRIBUTED SURPLUS AND WARRANTS

	As at December 31, 2018		As at December 31, 2017	
	Contributed surplus	Warrants	Contributed surplus	Warrants
Beginning balance	**$ 6,058,639**	**$ 2,449,333**	**$ 5,279,312**	**$ 403,826**
Stock-based compensation	3,087,170	—	761,384	—
Issuance of warrants	—	—	—	2,063,450
Expiry of warrants	—	—	17,943	(17,943)
Exercised warrants	—	(1,515,948)	—	—
Warrants and equity portion of convertible debenture	4,302,285	1,606,933	—	—
Equity component of broker warrant units issued in relation to the convertible debenture	—	351,996	—	—
Deferred tax on equity component of convertible debenture	(1,595,489)	—	—	—
Ending balance	**$ 11,852,605**	**$ 2,892,314**	**$ 6,058,639**	**$ 2,449,333**

(expressed in Canadian dollars)

13. CONTRIBUTED SURPLUS AND WARRANTS (continued)

Stock options

The Company has a stock option plan ("the Plan") under which the Board of Directors may grant to directors, officers, employees and technical consultants to the Company non-transferable options to purchase common shares, exercisable for a period of up to 5 years from the date of grant. On November 21, 2017, the Board of Directors authorized and approved the immediate vesting of all outstanding options. As such, any unamortized expense relating to these options was recognized during the year ended December 31, 2017.

During the year ended December 31, 2018, the Board of Directors agreed to issue stock options under the Company's Plan to various consultants, key management, and employees. The options granted to key management and employees shall vest and become exercisable at 33.33% over a three-year period. A certain consultant received immediate vesting of their grant while another consultant' options will vest 25% quarterly over one year. All options expire five years from the date of their grant.

On November 22, 2018, the Company cancelled an aggregate of 18,485,951 stock options (the "Cancelled Options") previously held by certain officers, directors, employees and consultants of the Company. The Cancelled Options represent all of the previously outstanding option grants issued under the Company's stock option plan at that time. The Cancelled Options were voluntarily surrendered by the holders thereof for no consideration. On December 14, 2018, the Board of Directors authorized and approved the granting of 6,500,000 options to the CEO of the Company.

A summary of the Plan transactions for the year ended December 31, 2018 and 2017 are as follows:

	As at December 31, 2018		As at December 31, 2017	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Beginning balance	5,890,000	$ 0.23	6,060,000	$ 0.24
Granted	19,095,951	0.29	60,000	0.38
Cancelled	(18,485,951)	(0.35)	(230,000)	0.42
Ending balance	**6,500,000**	**$ 0.07**	**5,890,000**	**$ 0.23**

The following provides a summary of options outstanding and exercisable as at December 31, 2018:

Number of Options Outstanding	Exercise Price $	Expiry Date	Number of Options Exercisable	Exercise Price $
6,500,000	$ 0.07	December 13, 2023	—	$ 0.07
6,500,000	**$ 0.07**		**—**	**$ 0.07**

The fair value of each share-based payment transaction was estimated on the date of the grant, as determined by using the Black-Scholes option pricing model with the following weighted average assumptions:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Expected volatility	130%	123%
Expected life	3.5 years	5 years
Expected forfeiture rate	0%	0%
Risk-free interest rate	2.03%	1.61%
Dividend yield	0%	0%
Weighted average share price	$ 0.07	$ 0.38
Weighted average fair value of options at grant date	$ 0.05	$ 0.31

(expressed in Canadian dollars)

13. CONTRIBUTED SURPLUS AND WARRANTS (continued)

The Company recorded stock-based compensation expense for options of $3,087,170 (2017 – $761,384) with an offsetting increase to contributed surplus in respect of the stock options granted during the year ended December 31, 2018. No stock options were exercised during the year ended December 31, 2018 or 2017, and as a result $nil was transferred to share capital from contributed surplus. The weighted average remaining life of the options is 4.95 years.

Warrants

A summary of warrant transactions for the year ended December 31, 2018 and 2017 is as follows:

	As at December 31, 2018			As at December 31, 2017		
	Number of warrants		Weighted average exercise price $	Number of warrants		Weighted average exercise price $
Beginning balance	60,910,000	$	0.13	1,054,231	$	0.36
Expired	—		—	(144,231)		0.52
Issued	34,501,380		0.74	60,000,000		0.13
Exercised	(44,080,000)		0.13	—		—
Ending balance	**51,331,380**	**$**	**0.54**	**60,910,000**	**$**	**0.13**

The following provides a summary of warrants outstanding as at December 31, 2018:

Expiry date	Number of warrants outstanding		Exercise price
February 11, 2019	910,000	$	0.33
October 31, 2019	15,920,000	$	0.13
June 21, 2020	1,380	$	1,000.00
June 21, 2020	34,500,000	$	0.70
	51,331,380		

The fair value of warrants was estimated on the date of the issuance, as determined by using the Black-Scholes option pricing model with the following weighted average assumptions:

		For the year ended December 31, 2018		For the year ended December 31, 2017
Expected volatility		130%		134%
Expected life		2 years		2 years
Expected forfeiture rate		0%		0%
Risk-free interest rate		1.82%		1.39%
Dividend yield		0%		0%
Weighted average share price	$	0.74	$	0.13
Weighted average fair value of warrants at grant date	$	0.22	$	0.07

During the year ended December 31, 2018, 1,380 Broker Warrants Units were issued in connection with the prospectus financing with an allocated fair value of $351,996 (note 11). Further, 34,500,000 warrants convertible to 34,500,000 common shares were issued in connection with the convertible debenture prospectus financing with an allocated fair value of $1,606,933. The warrants have an exercise price of $0.70 per common share. The warrants may be exercised during a period of two years from the date of issuance.

During the year ended December 31, 2018, the Company received $5,730,400 for the exercise of 44,080,000 warrants with a value of $1,515,948 which was originally allocated to reserves was reallocated to the share capital.

13. CONTRIBUTED SURPLUS AND WARRANTS (continued)

Convertible Debenture

During the year ended December 31, 2018, the Company entered into a Convertible Debenture for $34.5 million (note 11). The residual value of the warrants and equity conversion feature was estimated at $5,909,219, net of issue costs using relative fair value allocation. Deferred tax liability of $1,595,489 on the warrant and equity component of the Convertible Debenture was recorded to contributed surplus.

14. FAIR VALUE DISCLOSURE AND CAPITAL MANAGEMENT

Fair value hierarchy

Digital assets recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The hierarchy is summarized as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly from observable market data; and

Level 3: Inputs that are not based on observable market data.

The Company determined that the carrying values of its short-term financial assets and liabilities approximate their fair value because of the relatively short periods to maturity of these instruments and their low credit risk.

The carrying value of the Company's convertible debentures approximates fair value as the liability component was discounted using an estimated market rate.

The Company's cash is measured at fair value using level 1 inputs.

The Company's derivative liabilities are measured at fair value using level 3 inputs. The assumptions are disclosed in note 11.

Digital assets and risk management

Digital asset prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and the global political and economic conditions. The profitability of the Company is directly related to the current and future market price of digital assets; in addition, the Company may not be able liquidate its inventory of digital assets at favorable prices. A decline in the market prices for digital assets could negatively impact the Company's future operations. The Company has not hedged the conversion of any of its sales of digital assets.

Digital assets have a limited history and the fair value historically has been very volatile. Historical performance of digital assets is not indicative of their future price performance. The Company's digital assets currently consist of Bitcoin.

15. CAPITAL MANAGEMENT

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of equity comprised of issued share capital, warrants, and stock options. The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the period ended December 31, 2018.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to various risks including market risk, liquidity risk, and other risks related to its current concentration in a single asset, Bitcoin. Investing in Bitcoin is highly speculative and volatile. The investment objective of the Company is to track the market price of Bitcoin, less the Company's liabilities and expenses, by investing the assets of the Company in Bitcoin. As Bitcoin prices rise, the Company should achieve those gains. However, there can be no assurance that the Company matches the gains in Bitcoin and other cryptocurrencies. The company does not employ leverage as part of its investment strategy.

To the extent private keys for Bitcoin addresses are lost, destroyed or otherwise compromised and no backup of the private keys are accessible, the Company may be unable to access the Bitcoin held in the associated address and the private key will not be capable of being restored by the Bitcoin network. The processes by which Bitcoin transactions are settled are dependent on the Bitcoin peer-to-peer network, and as such, the Company is subject to operational risk. A risk also exists with respect to previously unknown technical vulnerabilities, which may adversely affect the value of Bitcoin.

The nature and extent of the financial instruments outstanding at the reporting date, and the risk management policies employed by the Company, are discussed below.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will impact the cash flows of the Company. As all of the Company's financial debts are based on fixed interest rates, the impact of a change in interest rates will not impact the Company's income or cash flows.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than Canadian dollars, which represents the functional currency of the Company.

The table below indicates the foreign currencies to which the Company has significant exposure at December 31, 2018 in Canadian dollar terms:

	USD
Cash	$ 680
Accounts payable and accrued liabilities	$ (200,637)

The table below details the effect on earnings before tax of a 10% strengthening or weakening of the CAD exchange rate at the balance sheet date for balance sheet items denominated in USD:

Currency	10% Strengthening (weakening)
USD	$ (19,996)

Price risk

Price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk).

The net asset value of the Company relates directly to the value of the Bitcoin held by the Company, and fluctuations in the price of Bitcoin could materially and adversely affect an investment in the shares of the Company. The price of Bitcoin has a limited history. During such history, Bitcoin prices have been volatile and subject to influence by many factors including the levels of liquidity. If Bitcoin markets continue to experience significant price fluctuations, the Company may experience corresponding losses or gains. Several factors may affect the price of Bitcoin, including, but not limited to, global Bitcoin supply and demand, and competition from other forms of digital currency or payment services.

At December 31, 2018, had the market price of the Company's holdings of Bitcoin increased or decreased by 10% with all other variables held constant, the corresponding asset value increase or decrease respectively would amount to $156,290.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company.

The Company's accounts receivable of $834,716 consist of unpaid colocation services that have been provided. The Company directed the miners of the colocation customer to wallets controlled by the Company as collateral for settlement of the outstanding accounts receivable balance. At December 31, 2018, 113.55 Bitcoins with a carrying value of $579,783 were recorded as a liability in accounts payable and accrued liabilities. As a result, the Company's credit risk has been partially mitigated.

There is currently no central or major depository for the custody of Bitcoin. There is a risk that some or all of the Company's Bitcoins could be lost or stolen. The Company does not have insurance protection on its Bitcoin, which exposes the Company and its shareholders to the risk of loss of the Bitcoin. Further, Bitcoin transactions are irrevocable and stolen or incorrectly transferred Bitcoin may be irretrievable. As a result, any incorrectly executed Bitcoin transactions could adversely affect an investment in the Company.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash that is generated from financing activities and through the sale of digital assets. The value of digital assets is subject to changes in market value of the underlying digital currency, which can fluctuate materially over time. All of the Company's liabilities are due within the next two years.

Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. Currently, the Company has its investment highly concentrated in a single asset, Bitcoin. The Company tracks the market price of Bitcoin, less the Company's liabilities and expenses, by investing in the assets of the company in Bitcoin. The only investments of the Company will be direct investments in Bitcoin.

Security risk

Bitcoins are controllable only by the possessor of both the unique public key and private key relating to the local or online digital wallet in which the Bitcoins are held. The Bitcoin network requires a public key relating to a digital wallet to be published when used in a spending transaction and, if keys are lost or destroyed, this could prevent trading of the corresponding Bitcoins.

Security breaches, computer malware and computer hacking attacks have been a prevalent concern in the Bitcoin exchange market since the launch of the Bitcoin network. Any security breach caused by hacking could cause loss of Bitcoin investments.

Bitcoin network risk

The open-source structure of the Bitcoin network protocol means that the core developers of the Bitcoin network and other contributors are generally not directly compensated for their contributions in maintaining and developing the Bitcoin network protocol. A failure to properly monitor and upgrade the Bitcoin network protocol could damage the Bitcoin network.

(expressed in Canadian dollars)

17. EXPENSES CLASSIFIED BY NATURE

Expenses are classified by function on the statement of income and comprehensive income and are comprised of general and administrative. Below is a breakdown of what is included within general and administrative expenses:

	Year Ended December 31,	
	2018	2017
Cost of revenue - Mining		
Electricity	$ 7,021,559	$ —
Facility costs	1,324,616	—
Contractor fees	642,627	—
	$ 8,988,802	**$ —**
Cost of revenue - Colocation		
Electricity	$ 860,507	$ —
Facility costs	270,963	—
Contractor fees	51,230	—
	$ 1,182,700	**$ —**
General and administrative		
Office and administrative	$ 260,344	$ 36,427
Legal and Professional fees	944,055	649,882
Consulting fees	378,499	83,179
Travel and entertainment	229,262	55,711
Depreciation	5,039	—
Salaries	942,298	167,008
	$ 2,759,497	**$ 992,207**

(expressed in Canadian dollars)

18. BUSINESS COMBINATIONS

Crypto 205

The acquisition of 100% of the shares of Crypto 205 has been accounted for as a business combination and the results of operations are included in the consolidated statement of loss from the date of acquisition, April 3, 2018.

The following table summarizes the estimated fair value of the identifiable assets and liabilities acquired at the date of acquisition:

Fair value of consideration	**$**	**28,921,853**
Cash		916,117
Prepaids		52,209
Sales tax receivable		1,054,527
Digital assets		368,654
Subscription receivable		2,272
Equipment		12,147,796
Accounts payable and accrued liabilities		(5,901,918)
Shareholder loan		(5,000,000)
Deferred income tax liability		(27,042)
Total acquisition date fair value of assets acquired, and liabilities assumed		**3,612,615**
Goodwill		**25,309,238**
Impairment allocation		
Goodwill		25,309,238
Equipment		8,024,170
	$	**33,333,408**

The Company issued 130,000,001 non-voting, convertible series 1 preferred shares to the shareholders of Crypto 205 for consideration of $28,921,853 to finance the Crypto 205 Acquisition. The fair value of the consideration was determined using a put option valuation discount on the preferred shares.

In measuring the fair value of the purchase price, the Company applied a discount for lack of marketability to reflect the restriction period on the preferred shares. Given that the preferred shares were convertible into common shares on a one-for-one basis, the quantum of the discount for lack of marketability was based on the theoretical price for a put option on the Company's shares using the Black-Scholes model using the following assumptions: Market price - $0.36; Annualized volatility – 130%; Risk-free interest rate – 1.12%; Dividend yield – 0%; and Expected life – 1 year.

In measuring the fair value of the mining equipment at the date of acquisition, the Company used replacement method. The replacement value of the mining equipment was estimated based on recent open market transaction data involving the acquisition of Bitmain Antminer S9 mining machines observed prior to the acquisition date. Observed values from the transaction data were then adjusted for accumulated depreciation/functional obsolescence. The mining equipment was estimated to have an average useful life of three years. An allowance for accumulated depreciation was deducted based on the estimated age of the mining equipment at the date of acquisition.

If the acquisition had occurred on January 1, 2018, Crypto 205 would have contributed $9,641,686 and $33,267,447 to consolidated revenues and net loss, respectively. As at December 31, 2018, Crypto 205 has contributed $5,863,007 and $34,196,597 to consolidated revenues and net loss of the Company, respectively.

Acquisition-related costs directly related to the Crypto 205 acquisition were $99,820 and were expensed in net loss during the year ended December 31, 2018.

As at December 31, 2018, the Company conducted a valuation of the mining assets, infrastructure and goodwill and determined that an impairment was required. It was determined that in order to carry the assets at their fair value, an impairment of $33,333,408 was recorded.

As of December 31, 2018, the allocation of the purchase consideration is based on preliminary estimates related to the fair value of the assets acquired and liabilities assumed and has not been finalized.

(expressed in Canadian dollars)

18. BUSINESS COMBINATIONS (continued)

9376-9974 Quebec Inc.

The acquisition of 100% of the shares of 9376-9974 Quebec Inc. (the “828 Acquisition”) has been accounted for as a business combination and the results of operations are included in the consolidated statement of loss from the date of acquisition, which was June 29, 2018.

The following table summarizes the estimated fair value of the identifiable assets and liabilities acquired at the date of acquisition:

Fair value of consideration	**$**	**45,458,359**
Equipment		29,406,519
Deferred tax liability		(1,682,151)
Total acquisition date fair value of assets acquired, and liabilities assumed		**27,724,368**
Goodwill		**17,733,991**
Cash consideration		36,000,000
Fair value of promissory note		9,458,359
Total Consideration		**45,458,359**
Impairment allocation		
Goodwill		17,733,991
Equipment		14,391,394
	$	**32,125,385**

The 828 Acquisition provided the company with a state-of-the-art cryptocurrency mining facility, including 14,000 Antminer S9 cryptocurrency mining machines and full HVAC and electrical infrastructure. In addition to the 14,000 Antminer S9 cryptocurrency mining machines, and supporting infrastructure, Vogogo was also able to negotiate with 828 L.P. (the “Vendor”) for the inclusion of certain additional supporting infrastructure beyond what is required to operate the 14,000 mining machines, at no additional cost to the Company. Vogogo acquired additional HVAC and electrical equipment, which, now supports cryptocurrency mining for an additional 4,000 mining machines at the facility, either mining for its own account or on a colocation basis for other miners.

As of the closing of the 828 Acquisition, approximately 10,500 mining machines were fully operational, with installation of the remaining mining machines completed in the third quarter. Concurrent with closing, the Company entered into a lease agreement for the facility, which will have access to 30 megawatts of power for cryptocurrency mining, of which approximately 27 megawatts are used for mining and the balance for supporting HVAC and electrical systems. According to confirmation from Hydro-Québec, the electricity required to operate the 828 assets forms part of the 120 MW block of electricity previously allocated and approved for blockchain use in the Province of Quebec.

In measuring the fair value of the mining equipment at the date of acquisition, the Company employed the depreciated replacement cost methodology. The replacement value of the mining equipment was estimated based on recent open market transaction data involving the acquisition of Bitmain Antminer S9 mining machines observed prior to the acquisition date. Observed values from the transaction data were then adjusted for accumulated depreciation/functional obsolescence. The mining equipment was estimated to have an average useful life of three years (if acquired in new condition); an allowance for accumulated depreciation was deducted based on the estimated age of the mining equipment at the date of acquisition.

If the acquisition had occurred on January 1, 2018, 828 would have contributed $12,215,998 and $31,715,921 to consolidated revenues and net loss, respectively. Since the date of acquisition, 828 has contributed $12,215,998 and $31,715,921 to consolidated revenues and net loss, respectively.

Acquisition-related costs directly related to the 828 Acquisition were $296,952 and were expensed in net loss during the year ended December 31, 2018.

(expressed in Canadian dollars)

18. BUSINESS COMBINATIONS (continued)

Consideration for the 828 Acquisition includes a two-year secured promissory note in favor of the vendor of 9376-9974 Quebec Inc. for $10,000,000. The note bears interest at 8% per annum with interest payments due monthly on the 25th of each month. Principal repayments of $5,000,000 are due on the one-year anniversary date of the note and at maturity. The note is secured by the physical assets of the 9376-9974 Quebec Inc. The Company used a discount rate of 12% in deriving the present value of the promissory note (see note 9).

The Company acquired net assets with a fair value of $27,724,368, resulting in goodwill of $17,733,991. The business combination resulted in a deferred tax liability in the amount of $1,682,151 directly related to the fair value adjustment of the mining infrastructure acquired.

As at December 31, 2018, the Company conducted a valuation of the mining assets, infrastructure and goodwill and determined that an impairment was required. It was determined that in order to carry the assets at their fair value, an impairment of $32,125,385 was recorded.

As of December 31, 2018, the allocation of the purchase consideration is based on preliminary estimates related to the fair value of the assets acquired and has not been finalized.

19. RELATED PARTY TRANSACTIONS

The key management personnel of the Company are certain members of the Company's executive management team and the Board of Directors.

The compensation of such key management for the year ended December 31, 2018 and 2017 included the following:

	2018	2017
Salaries and director remuneration	$ 700,089	$ 187,889
Stock-based compensation expense - directors and officers	2,471,087	719,011
	$ 3,171,176	**$ 906,900**

As at December 31, 2018, included in accounts payable and accrued liabilities was $107,256 (December 31, 2017 – $69,751) of payments owed to key management personnel. As at December 31, 2018, $39,794 of the amount included in accounts payable and accrued liabilities relate to salaries payable, and was settled subsequent to year end through the transfer of Bitcoin.

20. COMMITMENTS

At December 31, 2018, the Company's future minimum lease payments under non-cancellable operating leases aggregate to $9.1 million and are payable as follows:

	Within one year	Later than one year but not later than 5 years	More than 5 years
Lease obligations	$ 2,087,970	$ 7,012,268	$ —
Total	**$ 2,087,970**	**$ 7,012,268**	**$ —**

21. ALLOWANCE ON SALES TAX RECEIVABLE

At December 31, 2018, the Company recorded an allowance of $867,195 (2017 - $nil) for sales tax receivable.

22. SUBSEQUENT EVENT

Termination of colocation contract

On April 30, 2019, the Company announced that a subsidiary of the company, 9376-9974 Quebec Inc., has acquired 6,598 Antminer S9 cryptocurrency mining machines as a result of the termination of the colocation agreement. As consideration for the early termination of the colocation agreement, in addition to the Company receiving the Miners, the Company retained the security deposit it was paid pursuant to the colocation agreement, and the Bitcoin mined by the Miners during the period the termination agreement was negotiated. The termination agreement represents settlement of all obligations under the colocation agreement.