CRYPTOLOGIC CORP. (formerly Vogogo Inc.)

Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2019
(expressed in Canadian dollars – unaudited)

Notice of No Auditors Review of Interim Financial Statements

Under National Instrument 51-102, if an auditor has not performed a review of the unaudited condensed interim consolidated financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and the board of directors of the Company (the "Board of Directors"). The Company's independent auditors have not performed a review of these unaudited condensed interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

CRYPTOLOGIC CORP. (formerly Vogogo Inc.)
Condensed Interim Consolidated Statements of Financial Position
(expressed in Canadian dollars – unaudited)

	Note	As at June 30, 2019	As at December 31, 2018
ASSETS			
Current assets			
Cash		$ 4,427,010	$ 1,166,077
Accounts receivable	6	—	834,716
Prepaid expenses and deposits	5	436,327	617,349
Sales tax receivable		1,354,489	255,161
Digital assets	6	592,278	1,562,290
Total current assets		**6,810,104**	**4,435,593**
Non-current assets			
Prepaid expenses and deposits	5	931,259	931,259
Right of use assets	7	6,257,381	—
Equipment	8	10,687,897	12,606,845
Total non-current assets		**17,876,537**	**13,538,104**
Total assets		**$ 24,686,641**	**$ 17,973,697**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	6, 9	$ 752,863	$ 2,150,409
Derivative liability	11	—	49,120
Current portion of lease obligation	10	1,387,016	—
Total current liabilities		**2,139,879**	**2,199,529**
Long-term liabilities			
Lease obligation	10	5,020,421	—
Convertible debenture	11	29,786,889	27,510,483
Total long-term liabilities		**34,807,310**	**27,510,483**
Total liabilities		**36,947,189**	**29,710,012**
Shareholders' equity			
Share capital	12	79,128,164	78,742,324
Warrants	13	2,154,478	2,892,314
Contributed surplus	13	11,953,800	11,852,605
Deficit		(105,496,990)	(105,223,558)
Total shareholders' equity		**(12,260,548)**	**(11,736,315)**
Total liabilities and shareholders' equity		**$ 24,686,641**	**$ 17,973,697**

Subsequent event (note 19)

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

CRYPTOLOGIC CORP. (formerly Vogogo Inc.)
Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the three and six months ended June 30, 2019
(expressed in Canadian dollars – unaudited)

		Three Months Ended June 30,		Six Months Ended June 30,	
	Note	**2019**	**2018**	**2019**	**2018**
Revenue					
Digital assets mined	6	$ 9,524,776	$ 2,709,176	$ 14,863,986	$ 2,709,176
Cost of revenue					
Site operating costs	16	(4,411,551)	(1,017,238)	(8,332,361)	(1,017,238)
Depreciation	8, 16	(1,333,399)	(988,301)	(2,668,621)	(988,301)
		3,779,826	**703,637**	**3,863,004**	**703,637**
Expenses					
General and administrative	16	566,449	594,631	1,099,212	794,198
Stock-based compensation	13	50,597	455,317	101,194	455,317
Acquisition related costs		20,705	333,561	95,908	333,561
Impairment		—	50,958,891	—	50,958,891
Fair value (gain) loss on re-measurement of digital assets	6	(410,584)	465,855	(456,654)	465,855
		227,167	**52,808,255**	**839,660**	**53,007,822**
Other income					
Unrealized fair value gain on derivative liability	11	35,641	—	49,120	—
Interest income		—	18,320	—	65,386
Interest expense		(1,141,117)	(125,623)	(3,711,702)	(125,623)
Recovery of sales tax receivable		610,432	—	610,432	—
Foreign exchange loss		(206,689)	(135,514)	(244,626)	(135,792)
Net income (loss) and comprehensive income (loss) before income tax		**2,850,926**	**(52,347,435)**	**(273,432)**	**(52,500,214)**
Income taxes		—	608,990	—	608,990
Net income (loss) and comprehensive income (loss)		**$ 2,850,926**	**$ (51,738,445)**	**$ (273,432)**	**$ (51,891,224)**
Income (loss) per share - basic and diluted	1	$ 0.22	$ (10.56)	$ (0.02)	$ (11.18)
Weighted average number of shares outstanding - basic and diluted	1	**12,935,838**	**4,955,389**	**12,719,171**	**4,696,994**

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

CRYPTOLOGIC CORP. (formerly Vogogo Inc.)
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the six months ended June 30, 2019
(expressed in Canadian dollars – unaudited)

	Share Capital							
	Common shares Number	**Common shares Amount**	**Convertible preferred shares Number**	**Convertible preferred shares Amount**	**Warrants**	**Contributed Surplus**	**Deficit**	**Total**
Balance – December 31, 2017	**4,416,505**	**$ 35,074,123**	**—**	**$ —**	**$ 2,449,333**	**$ 6,058,639**	**$ (30,970,599)**	**$ 12,611,496**
Issue of common shares in relation to exercised warrants	1,438,500	7,094,286	—	—	(1,484,136)	—	—	**5,610,150**
Issue of convertible preferred shares in connection with the Crypto 205 acquisition	—	—	4,333,333	51,350,000	—	—	—	**51,350,000**
Equity component of convertible debenture (net of deferred tax)	—	—	—	—	625,824	1,616,897	—	**2,242,721**
Stock-based compensation	—	—	—	—	—	455,317	—	**455,317**
Net loss and comprehensive loss for the year	—	—	—	—	—	—	(51,891,224)	**(51,891,224)**
Balance – June 30, 2018	**5,855,005**	**$ 42,168,409**	**4,333,333**	**51,350,000**	**$ 1,591,021**	**$ 8,130,853**	**$ (82,861,823)**	**$ 20,378,460**
Balance – December 31, 2018	**12,719,171**	**$ 78,742,324**	**—**	**$ —**	**$ 2,892,314**	**$ 11,852,605**	**$ (105,223,558)**	**$ (11,736,315)**
Expiry of warrants	—	385,840	—	—	(737,836)	—		**(351,996)**
Stock-based compensation	—	—	—	—	—	101,195	—	**101,195**
Net loss and comprehensive loss for the year	—	—	—	—	—	—	(273,432)	**(273,432)**
Balance – June 30, 2019	**12,719,171**	**$ 79,128,164**	**—**	**$ —**	**$ 2,154,478**	**$ 11,953,800**	**$ (105,496,990)**	**$ (12,260,548)**

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

CRYPTOLOGIC CORP. (formerly Vogogo Inc.)
Condensed Interim Consolidated Statements of Cash Flows
For the six months ended June 30, 2019
(expressed in Canadian dollars – unaudited)

	Six Months Ended June 30,	
	2019	**2018**
Cash flows from operating activities		
Net loss	$ (273,432)	$ (51,891,224)
Changes in non-cash operating items:		
Mining revenue	(14,863,986)	(2,709,176)
Income taxes	—	(608,990)
Depreciation	2,711,983	988,301
Impairment	—	50,958,891
Fair value loss on re-measurement of digital assets	(456,654)	466,142
Unrealized fair value gain on derivative liability	(49,120)	—
Foreign exchange gain	(5,912)	—
Stock-based compensation	101,194	455,317
Interest income	—	(65,386)
Interest expense	1,632,518	78,852
Interest accretion	2,079,184	46,771
	(9,124,225)	(2,280,502)
Changes in non-cash working capital		
Prepaid expenses and deposits	181,022	(504,278)
Sales tax receivable	(1,099,328)	(253,098)
Digital assets	16,250,916	—
Accounts payable and accrued liabilities	(517,180)	(2,605,542)
Net cash provided by (used in) operating activities	**5,691,205**	**(5,643,420)**
Cash flows from financing activities		
Proceeds from exercise of warrants	—	5,610,150
Proceeds from convertible debenture	—	32,859,709
Interest paid	(1,380,000)	(76,666)
Repayment of lease obligations	(1,050,272)	—
Net cash (used in) provided by financing activities	**(2,430,272)**	**38,393,193**
Cash flows from investing activities		
Additions of equipment	—	(91,373)
Acquisition of subsidiaries	—	(40,083,883)
Interest earned on short term investment	—	65,386
Net cash used in investing activities	**—**	**(40,109,870)**
Change in cash during the period	3,260,933	(7,360,097)
Cash – beginning of period	1,166,077	12,796,056
Cash – end of period	**$ 4,427,010**	**$ 5,435,959**

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

1. NATURE OF OPERATIONS

Cryptologic Corp. (formerly Vogogo Inc.) (the "Company" or "Cryptologic"), has cryptocurrency mining activities in Québec.

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

On February 5, 2019, the Company completed a 30 to 1 share consolidation effective February 14, 2019. All share prices reflected in these condensed interim consolidated financial statements reflect the share consolidation.

On July 31, 2019, the Company announced a name change from Vogogo Inc. to Cryptologic Corp.

The common shares trade on the CSE under the symbol “CRY”.

These condensed interim 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 June 30, 2019, the Company had a working capital of $4,670,225 and has an accumulated deficit of $105,496,990 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 condensed interim 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 condensed interim consolidated financial statements have been prepared in accordance and compliance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed interim consolidated financial statements do not include all the information and disclosures required in the Company’s annual financial statements and should be read in conjunction with the Company’s annual financial statements for the year ended December 31, 2018.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 28, 2019.

Basis of presentation

The condensed interim 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 condensed interim consolidated financial statements have been prepared in Canadian dollars, which is the Company’s functional and presentation currency.

Consolidation

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

The Company had five wholly owned subsidiaries.

3. SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of the Company's condensed interim 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 condensed interim 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.

(expressed in Canadian dollars – unaudited)

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 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 supporting 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. CHANGES IN ACCOUNTING POLICIES

Newly adopted accounting policies

IFRS 16 Leases ("IFRS 16")

Effective January 1, 2019, the Company adopted IFRS 16. The standard supersedes IAS 17 Leases, International Financial Reporting Interpretations Committee ("IFRIC") 4 Determining whether an arrangement contains a lease, and related interpretations. IFRS 16 requires the recognition of a right-of-use asset ("ROU asset") and lease obligation on the statement of financial position for most leases, where the entity is acting as a lessee. For lessees applying IFRS 16, the duel classification model of leases as either operating or finance leases no longer exists, treating all leases as finance leases. IFRS 16 allows lessors to continue with the duel classification model for recognized leases as either a finance or an operating lease. The Company is the lessee in its lease arrangements.

Initial adoption

The Company has elected to apply IFRS 16 using a modified retrospective approach which does not require the restatement of prior period financial information. Modified retrospective application recognizes the cumulative effect of IFRS 16 as an adjustment to the opening deficit at January 1, 2019 and applies the standard prospectively.

(expressed in Canadian dollars – unaudited)

4. CHANGES IN ACCOUNTING POLICIES (continued)

The following table shows the impact of the adoption of IFRS 16 on the Company's statement of financial position, as at January 1, 2019.

Classification	Impact		Amount
ROU asset	Increase	$	7,050,416
Current portion of lease obligation	Increase	$	(1,312,555)
Long-term portion of lease obligation	Increase	$	(5,737,861)

At January 1, 2019, the Company applied the following optional exemptions permitted under the standard:

- Leases whose terms end within 12 months of initial adoption have been recognized as short-term leases.
- Certain leases having similar characteristics are measured on transition as a portfolio by applying a single discount rate.
- Initial measurements of the ROU assets have excluded initial direct costs where applicable.
- At January 1, 2019, the Company recognized its ROU assets for the lease of its head office space and operating facilities having measured it as if IFRS 16 had been applied since inception, using the incremental borrowing rate at January 1, 2019. This resulted is the recognition of an ROU asset that is not equal to its corresponding lease obligation on transition.

On transition to IFRS 16 under the modified retrospective approach, lease payments are discounted using the Company's incremental borrowing rate as of January 1, 2019. The Company used an incremental borrowing rate of 12% to measure the present value of the future lease payments on January 1, 2019.

Ongoing recognition and measurement

On the date that the leased asset becomes available for use, the Company recognized an ROU asset and a corresponding lease obligation. Interest expense associated with the lease obligation is charged to the statement of condensed interim consolidated statement of income (loss) and comprehensive income (loss) over the lease period with a corresponding increase to the lease obligation. The lease obligation is reduced as payments are made against the principal portion of the lease. The ROU asset is depreciated over the shorter of the asset's useful; life and the lease term on a straight-line basis. Depreciation of the ROU asset is recognized in depreciation expense.

ROU assets and lease obligations are initially measured on a present value basis. Lease obligations are measures at the net present value of the lease payments which may include: fixed lease payments, variable lease payments that are based on an index or a rate, and amounts expected to be payable under residual value guarantees and payments exercise an extension or termination option, the Company is reasonably certain to exercise either of those options. ROU assets are measures at cost, which is comprised of the amount of the initial measurement of the lease obligation, less any incentives received, plus any lease payments made at, ore before, the commencement date and initial direct costs and asset restoration costs, if any. The rate implicit in the lease is used to determine the present value of the liability and ROU asset arising from a lease, unless this rate is not readily determinable, in which case the Company's incremental borrowing rate is used.

5. PREPAID EXPENSES AND DEPOSITS

The Company's prepaid expenses comprise the following:

	As at June 30, 2019	As at December 31, 2018
Prepaid expenses	436,327	617,349
Vendor deposits	931,259	931,259
Prepaid expenses and deposits	**1,367,586**	**1,548,608**
Current	436,327	617,349
Long-term	931,259	931,259

Included in prepaid expenses and deposits as at June 30, 2019, are security deposits for rent of $145,343 and security deposits for electricity costs of $785,916 (December 31, 2018 - $145,343 and $785,916) that have been classified as long-term.

(expressed in Canadian dollars – unaudited)

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 period.

		Amount	Units
Balance as at December 31, 2017	**$**	**—**	**—**
Coins acquired on acquisition		368,654	40.03
Mined additions		15,758,349	1,978.45
Coins received to settle accounts receivable		931,180	113.55
Coins sold		(12,450,931)	(1,792.47)
Coins transferred to settle accounts payable		(296,133)	(33.58)
Losses in FVTPL		(2,748,829)	—
Balance as at December 31, 2018	**$**	**1,562,290**	**305.98**
Mined additions		14,863,986	2,049.00
Coins sold		(16,250,916)	(2,305.00)
Coins transferred to settle accounts payable		(39,794)	(8.14)
Gain in FVTPL		456,712	—
Balance as at June 30, 2019	**$**	**592,278**	**41.84**

During the year 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.

On April 30, 2019, the Company 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. The Company assumed the customer's assets in exchange for termination of the contract and a receivable of $834,716 less the $815,548 of coins mined on behalf of the customer at April 30, 2019.

7. RIGHT OF USE ASSETS

		Buildings		Total
Balance as at January 1, 2019	$	7,050,416	$	7,050,416
Depreciation		(793,035)		(793,035)
Balance as at June 30, 2019	**$**	**6,257,381**	**$**	**6,257,381**

(expressed in Canadian dollars – unaudited)

8. EQUIPMENT

COST	Mining equipment	Infrastructure	Office equipment	Total
Balance as at December 31, 2018	**$ 23,970,090**	**$ 17,839,676**	**$ 73,883**	**$ 41,883,649**
Balance as at June 30, 2019	**$ 23,970,090**	**$ 17,839,676**	**$ 73,883**	**$ 41,883,649**

ACCUMULATED AMORTIZATION	Mining equipment	Infrastructure	Office equipment	Total
Balance as at December 31, 2018	**$ 18,383,691**	**$ 10,888,074**	**$ 5,039**	**$ 29,276,804**
Amortization	1,136,146	775,413	7,389	1,918,948
Balance as at June 30, 2019	**$ 19,519,837**	**$ 11,663,487**	**$ 12,428**	**$ 31,195,752**

COST	Mining equipment	Infrastructure	Office equipment	Total
Balance as at December 31, 2017	**$ —**	**$ —**	**$ —**	**$ —**
Additions from acquisition (note 17)	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	Mining equipment	Infrastructure	Office equipment	Total
Balance as at December 31, 2017	**$ —**	**$ —**	**$ —**	**$ —**
Amortization	4,902,903	1,953,297	5,039	6,861,239
Impairment (note 17)	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, 2018	**$ 5,586,399**	**$ 6,951,602**	**$ 68,844**	**$ 12,606,845**
At June 30, 2019	**$ 4,450,253**	**$ 6,176,189**	**$ 61,455**	**$ 10,687,897**

During the six months ended June 30, 2019, $1,911,559 (2018 - $988,301) of depreciation was charged as a cost of revenue.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at June 30, 2019	As at December 31, 2018
Trade accounts payable	673,474	1,204,966
Accrued liabilities	79,389	365,660
Bitcoin owed to colocation customer (note 6)	—	579,783
Accounts payable and accrued liabilities	**752,863**	**2,150,409**

(expressed in Canadian dollars – unaudited)

10. LEASE OBLIGATION

The following table details the movement in the Company's lease obligations for the six months ended June 30, 2019:

		Lease obligations
Balance as at January 1, 2019	$	7,050,416
Interest		407,293
Repayments		(1,050,272)
Balance as at June 30, 2019	**$**	**6,407,437**
Current portion		1,387,016
Long-term portion		5,020,421

The following table details the undiscounted cash flows and contractual maturities of the Company's lease obligations, as at June 30, 2019:

		Within one year		Later than one year but not later than 5 years		More than 5 years
Lease obligations	$	2,087,970	$	5,968,283	$	—

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 66 common shares per $1,000 principal amount of Convertible Debentures at a value of $15.00 per share and 33 warrants exercisable for 33 shares at a price of $21.00 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 six months ended June 30, 2019 was $2,079,184 (December 31, 2018 - $1,967,302). Interest expense incurred for the six months ended June 30, 2019 was $1,380,000 (December 31, 2018 – $1,487,333). Interest paid for the six months ended June 30, 2019 was $1,380,000 (for the year ended December 31, 2018 – $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 and the following assumptions: Market price - $13.50; 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 and the following assumptions: Market price - $13.50; Annualized volatility – 130%; Risk-free interest rate – 1.82%; Dividend yield – 0%; and Expected life – 2 years.

On June 21, 2019, the Broker Warrant Units expired resulting in the Company revaluing the derivative relating to the option to purchase the debentures to the estimated fair value of $49,120 and subsequently extinguished the liability and recorded a gain. The Company reversed the fair value of the Broker Warrant Units recorded in Warrants on the Statement of Financial Position of $351,996 against the convertible debenture. The following assumptions were used to estimate the fair value of the derivative warrant liability at June 21, 2018: Market price – $2.00; Annualized volatility – 130%; Risk-free interest rate – 1.82%; Dividend yield – 0%; and Expected life – 1 year.

(expressed in Canadian dollars – unaudited)

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 $27.00, the Company may force conversion at $15.00, 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 $33.00 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 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	(572,577)	5,909,220
Total	**$ 34,500,000**	**$ (3,047,598)**	**$ 31,452,402**

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 six months ended June 30, 2019:

	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**	**$ 1,958,929**	**$ 2,706,796**
Accretion of liability component of Convertible Debenture (effective interest rate of 25%)	3,891,712	—	—
Expiry of broker warrants	351,996	(351,996)	—
Balance - June 30, 2019	**$ 29,786,889**	**$ 1,606,933**	**$ 2,706,796**

12. SHARE CAPITAL

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

During the six months ended June 30, 2019, the Company cancelled 910,000 warrants due to expiration. As a result, the Company reversed the initial entry for the fair value of $385,840 originally offset against share capital.

(expressed in Canadian dollars – unaudited)

13. CONTRIBUTED SURPLUS AND WARRANTS

	As at June 30, 2019		As at December 31, 2018	
	Contributed surplus	Warrants	Contributed surplus	Warrants
Beginning balance	**$ 11,852,605**	**$ 2,892,314**	**$ 6,058,639**	**$ 2,449,333**
Stock-based compensation	101,195	—	3,087,170	—
Expiry of warrants	—	(737,836)	—	—
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	**$ 11,953,800**	**$ 2,154,478**	**$ 11,852,605**	**$ 2,892,314**

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.

During the three months ended June 30, 2019, the Company did not issue any stock options.

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 (616,198 post-consolidation) (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 (216,667 options post-consolidation) options to the CEO of the Company.

A summary of the Plan transactions for the six months ended June 30, 2019, are as follows:

	As at June 30, 2019		As at December 31, 2018	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Beginning balance	216,667	$ 1.95	196,333	$ 6.90
Granted	—	—	636,532	8.70
Cancelled	—	—	(616,198)	(10.50)
Ending balance	**216,667**	**$ 1.95**	**216,667**	**$ 1.95**

The following provides a summary of options outstanding and exercisable as at June 30, 2019:

Number of Options Outstanding	Exercise Price $	Expiry Date	Number of Options Exercisable	Exercise Price $
216,667	$ 1.95	December 13, 2023	—	$ 1.95
216,667	**$ 1.95**		**—**	**$ 1.95**

(expressed in Canadian dollars – unaudited)

13. CONTRIBUTED SURPLUS AND WARRANTS (continued)

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
Expected volatility		130%
Expected life		3.5 years
Expected forfeiture rate		0%
Risk-free interest rate		2.03%
Dividend yield		0%
Weighted average share price	$	2.10
Weighted average fair value of options at grant date	$	1.50

The Company recorded stock-based compensation expense for options of $101,194 (2018 – $455,317) with an offsetting increase to contributed surplus in respect of the stock options granted during the six months ended June 30, 2019. No stock options were exercised during the six months ended June 30, 2019 or 2018, and as a result $nil was transferred to share capital from contributed surplus. The weighted average remaining life of the options is 4.46 years.

Warrants

A summary of warrant transactions for the six months ended June 30, 2019 and the year ended December 31, 2018, are as follows:

	As at June 30, 2019			As at December 31, 2018		
	Number of warrants		Weighted average exercise price $	Number of warrants		Weighted average exercise price $
Beginning balance	1,711,046	$	16.20	2,030,333	$	3.90
Expired	(30,379)		(11.40)	—		—
Issued	—		—	1,150,046		22.20
Exercised	—		—	(1,469,333)		3.90
Ending balance	**1,680,667**	**$**	**15.60**	**1,711,046**	**$**	**16.20**

The following provides a summary of warrants outstanding as at June 30, 2019:

Expiry date	Number of warrants outstanding		Exercise price
October 31, 2019	530,667	$	3.90
June 21, 2020	1,150,000	$	21.00
	1,680,667		

(expressed in Canadian dollars – unaudited)

13. CONTRIBUTED SURPLUS AND WARRANTS (continued)

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
Expected volatility		130%
Expected life		2 years
Expected forfeiture rate		0%
Risk-free interest rate		1.82%
Dividend yield		0%
Weighted average share price	$	—
Weighted average fair value of warrants at grant date	$	6.69

During the six months ended June 30, 2019, a total of 30,333 warrants and 1,380 Broker Warrant Units expired. On the expiry of 30,333 warrants, the value of $385,840 originally allocated to reserves was reallocated to share capital. On the expiry of 1,380 Broker Warrant Units, the value of $351,996 originally allocated to reserves was reallocated to convertible debenture liability.

During the six months ended June 30, 2018, 1,380 Broker Warrants Units were issued in connection with the prospectus financing with an allocated fair value of $625,824. The warrants had an exercise price of $0.50 per common share (pre-consolidation).

During the six months ended June 30, 2018, the Company received $5,610,150 for the exercise of 43,155,000 warrants (pre-consolidation). On the exercise of 43,150,000 warrants (pre-consolidation), the value of $1,484,136 originally allocated to reserves was reallocated to the share capital

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, 1,150,000 warrants convertible to 1,150,000 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 $21.00 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 (pre-consolidation) with a value of $1,515,948 which was originally allocated to reserves was reallocated to the share capital.

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.

14. FAIR VALUE DISCLOSURE AND CAPITAL MANAGEMENT(continued)

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. 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 is the functional currency of the Company.

The table below indicates the foreign currencies to which the Company has exposure at June 30, 2019 in Canadian dollar terms:

	USD
Cash	$ 543

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	$ 54

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 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 June 30, 2019, 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 be $59,228.

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.

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, with the exception of the lease obligation liability, 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 and manages liabilities and expenses, to mitigate concentration risk.

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 – unaudited)

16. 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Cost of revenue - Mining				
Electricity	$ 3,720,827	$ 771,091	$ 7,146,807	$ 771,091
Facility costs	641,845	130,255	1,092,854	130,255
Contractor fees	48,879	115,892	92,700	115,892
	$ 4,411,551	**$ 1,017,238**	**$ 8,332,361**	**$ 1,017,238**
General and administrative				
Office and administrative	$ 74,039	$ 15,109	$ 140,683	$ 21,777
Legal and Professional fees	81,421	260,552	112,915	368,636
Consulting fees	8,850	20,373	22,124	49,873
Travel and entertainment	61,390	66,641	123,393	79,690
Depreciation	21,681	—	43,362	—
Salaries	319,068	231,956	656,735	274,222
	$ 566,449	**$ 594,631**	**$ 1,099,212**	**$ 794,198**

17. 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 condensed interim 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.

(expressed in Canadian dollars – unaudited)

17. BUSINESS COMBINATIONS (continued)

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.

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.

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 condensed interim 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, the Company 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. The Company acquired additional HVAC and electrical equipment, which, now supports cryptocurrency mining for an additional 4,000 mining machines at the facility.

(expressed in Canadian dollars – unaudited)

17. BUSINESS COMBINATIONS (continued)

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.

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.

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.

18. 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 six months ended June 30, 2019 and 2018 included the following:

		2019		**2018**
Salaries and director remuneration	$	415,800	$	245,189
Stock-based compensation expense - directors and officers		101,194		303,477
	$	**516,994**	**$**	**548,666**

As at June 30, 2019, included in accounts payable and accrued liabilities was $63,113 (2018 – $220,435) of payments owed to key management personnel. As at June 30, 2019, $7,389 (2018 – $72,617) of the amount included in accounts payable and accrued liabilities relate to salaries payable which will be settled through the transfer of bitcoin.

19. SUBSEQUENT EVENT

Proposed Acquisition of Canadian Assets of Wayland Group

On August 3, 2019, the Company announced that it has entered into a non-binding letter of intent with Wayland Group (CSE:WAYL) ("Wayland"), a vertically integrated cultivator and processor of cannabis, with production facilities in Langton, Ontario (the "Facilities") where it operates a cannabis cultivation, extraction, formulation and distribution business under federal licenses from the Government of Canada, relating to a proposed acquisition of Wayland's Canadian business, including its Langton, Ontario production facilities, and the assumption of liabilities related to Wayland's Canadian business. Wayland has agreed to a binding exclusivity period until November 7, 2019, or such later date as each of Wayland and Cryptologic mutually agree, during which time the parties will endeavor to negotiate and enter into a binding definitive agreement in connection with the proposed acquisition.

In connection with the proposed transaction, the Company has committed to provide Wayland with a $5,000,000 subordinated bridge loan (the "Bridge Loan"), which shall not be subject to completion of the transaction and will be advanced by the Company prior to the entering into of a definitive agreement in connection with the acquisition transaction. In connection with the Bridge Loan, Wayland shall grant second-lien security over the assets to be purchased by Cryptologic, which will be subordinate to Wayland's existing secured convertible debentures in accordance with their terms. The Bridge Loan advanced on August 9, 2019.