CRYPTOLOGIC CORP. (formerly Vogogo Inc.)

Consolidated Financial Statements
For the year ended December 31, 2019
(expressed in Canadian dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Cryptologic Corp. (formerly Vogogo Inc.)

Opinion

We have audited the consolidated financial statements of Cryptologic Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which indicates the existence of a material uncertainty 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 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.

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

May 12, 2020

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

	Note	As at December 31, 2019	As at December 31, 2018
ASSETS			
Current assets			
Cash		$ 226,532	$ 1,166,077
Accounts receivable	6	—	834,716
Prepaid expenses and deposits	5	126,545	617,349
Sales tax receivable		—	255,161
Digital assets	6	—	1,562,290
Assets classified as held for sale	8	14,895,004	—
Total current assets		**15,248,081**	**4,435,593**
Non-current assets			
Prepaid expenses and deposits	5	15,996	931,259
Right of use assets	9	263,810	—
Equipment	10	54,067	12,606,845
Total non-current assets		**333,873**	**13,538,104**
Total assets		**$ 15,581,954**	**$ 17,973,697**
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current liabilities			
Accounts payable and accrued liabilities	6, 11	$ 388,356	$ 2,150,409
Derivative liability	13	—	49,120
Current portion of lease obligation	12	104,585	—
Liabilities classified as held for sale	8	6,239,595	—
Convertible debenture	13	31,976,469	—
Total current liabilities		**38,709,005**	**2,199,529**
Long-term liabilities			
Lease obligation	12	138,674	—
Convertible debenture	13	—	27,510,483
Total long-term liabilities		**138,674**	**27,510,483**
Total liabilities		**38,847,679**	**29,710,012**
Shareholders' deficiency			
Share capital	14	79,675,709	78,742,324
Warrants	15	1,606,933	2,892,314
Contributed surplus	15	12,397,790	11,852,605
Deficit		(116,946,157)	(105,223,558)
Total shareholders' deficiency		**(23,265,725)**	**(11,736,315)**
Total liabilities and shareholders' deficiency		**$ 15,581,954**	**$ 17,973,697**

Nature of operations (note 1)
Subsequent events (note 26)

Approved on behalf of the Board:

/s/ Dale Johnson
Dale Johnson, Director and
Chairman of the Board

/s/ John Kennedy Fitzgerald .
John Kennedy Fitzgerald, Director and
Chief Executive Officer

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

CRYPTOLOGIC CORP. (formerly Vogogo Inc.)
Consolidated Statements of Loss and Comprehensive Loss
For the year ended December 31, 2019
(expressed in Canadian dollars)

		Year Ended December 31,	
	Note	**2019**	**2018**
Expenses			
General and administrative	19	$ 2,339,506	$ 2,716,195
Stock-based compensation	15	193,189	3,087,170
Acquisition related costs		749,752	414,779
		3,282,447	**6,218,144**
Other income (loss)			
Interest income	7	297,486	65,386
Interest expense	12, 13	(7,261,290)	(4,275,329)
Allowance for loss on loan	7	(6,547,486)	—
Unrealized fair value gain on derivative liability	13	49,120	732,807
Allowance for sales tax receivable	24	(202,802)	(241,554)
Foreign exchange (loss) gain		(14,872)	904
Net loss and comprehensive loss before income tax from continuing operations		**(16,962,291)**	**(9,935,930)**
Income tax recovery from continuing operations	20	—	1,595,489
Discontinued operations	8	5,239,692	(65,912,518)
Net loss and comprehensive loss for the year		**$ (11,722,599)**	**$ (74,252,959)**
Loss per share from continuing operations - basic and diluted		$ (1.33)	$ (1.59)
Loss per share - basic and diluted		$ (0.92)	$ (14.13)
Weighted average number of shares outstanding - basic and diluted		**12,719,171**	**5,254,599**

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

CRYPTOLOGIC CORP. (formerly Vogogo Inc.)
Consolidated Statements of Changes in Shareholders' Deficiency
For the year ended December 31, 2019
(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, 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	1,469,333	7,246,348	—	—	(1,515,948)	—	—	**5,730,400**
Issue of convertible preferred shares in connection with the Crypto 205 acquisition	—	—	4,333,333	28,921,853	—	—	—	**28,921,853**
Conversion of preferred shares to common	4,333,333	28,921,853	(4,333,333)	(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	2,500,000	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	**12,719,171**	**$ 78,742,324**	**—**	**$ —**	**$ 2,892,314**	**$ 11,852,605**	**$ (105,223,558)**	**$ (11,736,315)**
Expiry of warrants	—	933,385	—	—	(1,285,381)	351,996		**—**
Stock-based compensation	—	—	—	—	—	193,189	—	**193,189**
Net loss and comprehensive loss for the year	—	—	—	—	—	—	(11,722,599)	**(11,722,599)**
Balance – December 31, 2019	**12,719,171**	**$ 79,675,709**	**—**	**$ —**	**$ 1,606,933**	**$ 12,397,790**	**$ (116,946,157)**	**$ (23,265,725)**

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

CRYPTOLOGIC CORP. (formerly Vogogo Inc.)
Consolidated Statements of Cash Flows
For the year ended December 31, 2019
(expressed in Canadian dollars)

	Year Ended December 31,	
	2019	**2018**
Cash flows from operating activities		
Net loss	$ (11,722,599)	$ (74,252,959)
Changes in non-cash operating items:		
Mining revenue	(26,420,383)	(15,758,349)
Colocation revenue settled with digital assets	(679,952)	—
Income taxes	—	(3,304,681)
Depreciation	3,833,127	6,861,239
Impairment	3,288,026	65,458,793
Allowance for loss on loan	6,547,486	—
Fair value (gain) loss on re-measurement of digital assets	(34,821)	2,748,829
Unrealized fair value gain on derivative liability	(49,120)	(732,807)
Gain on disposal of equipment	(1,473,369)	—
Foreign exchange gain	244,725	(347,263)
Stock-based compensation	193,189	3,087,170
Interest income	(297,486)	(65,386)
Interest expense	3,535,415	1,766,386
Interest accretion	4,465,986	2,508,943
	(18,569,776)	(12,030,085)
Changes in non-cash working capital		
Accounts receivable	—	(834,716)
Prepaids	92,063	(1,483,022)
Sales tax receivable	(1,881,205)	828,525
Digital assets	28,845,476	12,450,931
Accounts payable and accrued liabilities	(704,929)	(4,624,480)
Security deposit	318,050	—
Net cash provided by (used in) operating activities	**8,099,679**	**(5,692,847)**
Cash flows from financing activities		
Proceeds from exercise of warrants	—	5,730,400
Proceeds from issuance of convertible debenture	—	32,859,709
Settlement of promissory note	—	(2,500,000)
Interest paid	(2,760,000)	(1,766,386)
Repayment of lease obligations	(2,127,741)	—
Net cash (used in) provided by financing activities	**(4,887,741)**	**34,323,723**
Cash flows from investing activities		
Purchase of equipment	—	(242,358)
Proceeds from sale of equipment	2,750,372	—
Loans advanced	(6,250,000)	—
Acquisition of subsidiaries, net of cash acquired	—	(40,083,883)
Interest earned on short term investment	—	65,386
Net cash used in investing activities	**(3,499,628)**	**(40,260,855)**
Change in cash during the year	(287,690)	(11,629,979)
Cash – beginning of year	1,166,077	12,796,056
Cash included in assets held for sale	(651,855)	—
Cash – end of year	**$ 226,532**	**$ 1,166,077**

Cash flows from discontinued operations (note 8)
Supplemental disclosure with respect to cash flows (note 25)

The accompanying notes form an integral part of these 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 July 31, 2019, the Company changed its name change from Vogogo Inc. to Cryptologic Corp.

On August 3, 2019, the Company announced its intention to exit cryptocurrency mining industry. Subsequent to December 31, 2019, the Company closed the sale of its wholly-owned subsidiary, 9376-9974 Quebec Inc. ("9376"), which is engaged in cryptocurrency mining operations located in Lachute, Quebec. See note 26.

The common shares trade on the Canadian Stock Exchange ("CSE") under the symbol "CRY".

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, 2019, the Company had negative working capital of $23,460,924 and has an accumulated deficit of $116,946,157 since its inception. The convertible debenture with a principal balance of $34,500,000 matures on June 21, 2020. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing, to commence profitable operations in the future and to 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") and interpretation issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 12, 2020.

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.

Effective February 14, 2019, the Company consolidated its common shares on the basis of one new common share for every thirty old common shares issues and outstanding at that time. All references to share, per share amounts, warrants and options in theses financial statements have been retroactively restated to reflect the consolidation.

Functional and presentation currency

These consolidated financial statements have been prepared in Canadian dollars ("CAD"), 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, 2019, the Company had five wholly owned subsidiaries: (i) Vogogo Canada Inc., (ii) Crypto 205 Inc. ("Crypto 205"), (iii) 9376-9974 Quebec Inc. ("828"), (iv) 2700311 Ontario Inc., and (v) 2700313 Ontario Inc.

(expressed in Canadian dollars)

2. BASIS OF PREPARATION (continued)

Adoption of IFRS 16, Leases and resulting changes to lease accounting policy

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 Company is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating or finance leases no longer exists, treating all leases as finance leases.

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.

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)

		January 1, 2019
Minimum operating lease commitment at December 31, 2018	**$**	**9,100,238**
Short-term leases not recognized under IFRS 16		—
Undiscounted lease payments		9,100,238
Effect of discounting using the incremental borrowing rate as at the date of initial application		(2,049,822)
Lease liabilities for leases classified as finance leases under IAS 17		7,050,416
Leases previously classified as finance leases under IAS 17		—
Total lease liability as at January 1, 2019	**$**	**7,050,416**

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.
- On transition to IFRS 16, the Company elected to measure the right-of-use assets at the amount equal to the lease liabilities. As at January 1, 2019, the Company recognized $7,050,416 of right-of-use asset and lease liabilities, with a $nil impact on deficit.

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 a ROU asset and a corresponding lease obligation. Interest expense associated with the lease obligation is charged to profit or 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.

2. BASIS OF PREPARATION (continued)

ROU assets and lease obligations are initially measured on a present value basis. Lease obligations are measured 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, amounts expected to be payable under residual value guarantees and payments exercised at an extension or a termination option if the Company is reasonably certain to exercise either of those options. ROU assets are measured 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, or 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.

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.

Non-current assets held for sale

Non-current assets that are expected to be recovered primarily though sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are re-measured at net book value less impairment loss. Assets held for sale are measured at the lower of their carrying amounts or their fair value less costs to sell and are no longer depreciated. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

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.

3. SIGNIFICANT JUDGEMENTS AND ESTIMATES (continued)

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 profit or loss. 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 equity instruments

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 stock options and 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 15.

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.

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, 2019, the Company recognized $26,420,383 (2018 - $15,758,349) in revenue from discontinued Bitcoin mining operations.

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 customer's cryptocurrency mining equipment. Colocation revenue is recognized in profit or loss based on the consumption of electricity on a monthly basis.

Digital assets

Digital assets are generated from the Company's mining activities, which meet the definition of intangible assets in IAS 38 Intangible Assets as they are identifiable non-monetary assets without physical substance. They are initially recorded at cost and the revaluation method is used to measure the digital assets subsequently. Where digital assets are recognized as revenue, the fair value of the Bitcoin received is considered to be the cost of the digital assets. Under the revaluation method, increases in fair value are recorded in other comprehensive income, while decreases are recorded in profit or loss. The Company revalues its digital asset at the end of each of its three interim financial reporting periods and at its annual financial reporting period end date. There is no recycling of gains from other comprehensive income to profit or loss. However, to the extent that an increase in fair value reverses a previous decrease in fair value that has been recorded in profit or loss, that increase is recorded in profit or loss. Decreases in fair value that reverse gains previously recorded in other comprehensive income are recorded in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company obtains the equivalency rate of tradable digital assets to United States Dollars ("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. 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.

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 that 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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

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.

(expressed in Canadian dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

5. PREPAID EXPENSES AND DEPOSITS

The Company's prepaid expenses comprise the following:

	As at December 31, 2019	As at December 31, 2018
Prepaid expenses	126,545	617,349
Vendor deposits	15,996	931,259
Prepaid expenses and deposits	**142,541**	**1,548,608**
Current	126,545	617,349
Long-term	15,996	931,259

Included in the long-term portion of prepaid expenses and deposits as at December 31, 2019, are security deposits for rent of $15,996 (December 31 – $145,343) and for electricity costs of $nil (December 31, 2018 – $785,916) that have been classified as long-term.

6. DIGITAL ASSETS

Digital assets consist of Bitcoins. Below is a summary of changes in digital assets during the period.

		Amount	Units
Balance as at December 31, 2017	$	—	—
Coins acquired on acquisition (note 21)		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)
Fair value loss on re-measurement of coin		(2,748,829)	—
Balance as at December 31, 2018	$	**1,562,290**	**305.98**
Mined additions		26,420,383	2,952.65
Equipment sale settled in coin		247,071	20.36
Colocation fees settled in coin		747,062	68.68
Coins sold		(28,845,476)	(3,326.00)
Coins transferred to settle accounts payable		(39,794)	(8.14)
Fair value gain on re-measurement of coin		34,879	—
Reclassified to assets held for sale (note 8)		(126,415)	(13.53)
Balance as at December 31, 2019	$	—	—

6. DIGITAL ASSETS (continued)

During the year ended December 31, 2018, the Company's colocation customer became delinquent in settling its obligations. As a result, the Company directed the miners of the colocation customer to wallets controlled by the Company as collateral for settlement of the balance receivable from the customer. As of December 31, 2018, the balance receivable from the customer was $834,716 and the balance payable to the customer was $579,783.

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 received pursuant to the colocation agreement, and the Bitcoins mined by the colocation customer 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 agreement and settlement of accounts receivable, which was the net balance of $834,716 and the $815,548 of coins mined on behalf of the customer up to April 30, 2019.

During the year ended December 31, 2019, the Company sold certain crypto currency mining equipment and entered into short term colocation contracts with various third-party equipment purchasers. Certain of these customers settled their purchases and colocation fees in digital assets paid to the Company.

7. LOAN RECEIVABLE

On August 3, 2019, the Company entered into a non-binding letter of intent with Wayland Group ("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 the Facilities, and the assumption of liabilities related to Wayland's Canadian business.

In connection with the proposed transaction, the Company committed to provide Wayland with a $5,000,000 subordinated bridge loan (the "Bridge Loan"), which is not subject to completion of the transaction and was advanced by the Company prior to entering into a definitive agreement in connection with the proposed transaction. In connection with the Bridge Loan, Wayland grants the second-lien security over the assets to be purchased by Cryptologic, which is subordinate to Wayland's existing secured convertible debentures in accordance with their terms. The Bridge Loan was advanced on August 9, 2019. The Bridge Loan expires on the earlier of: (a) the date that is one (1) year from the date of the Bridge Loan, and (b) closing of the Wayland acquisition. The principal amount of the Bridge Loan and all accrued and unpaid interest, will become due and payable at the end of the term, provided, for clarity, that if the acquisition closes prior to such time, the Bridge Loan will constitute an additional assumed liability by the Company. Interest on the Bridge Loan is charged at a rate of 13% per annum. However, if Wayland enters into an alternative transaction after the expiry of the Company's exclusivity period on November 7, 2019 and prior to the expiry of the term of the Bridge Loan, then the rate of interest increases to 25% per annum.

On September 17, 2019, the Company and Wayland entered into an amended and restated loan agreement under which the Company advanced an additional $1,000,000 to Wayland (the "Amended Bridge Loan"). The terms of the Amended Bridge Loan provide for additional loan tranches up to an overall aggregate cap of $25,000,000. The Amended Bridge Loan also provides for a non-completion fee in the amount of 5% of the deemed aggregate value of the proposed transaction, up to a maximum non-completion fee of $11,500,000. The Amended Bridge Loan extends the exclusivity period to December 16, 2019.

On December 2, 2019, Wayland was granted an order from the Ontario Superior Court of Justice under the *Companies' Creditors Arrangement Act* (the "**CCAA**"). The initial order provides for, among other things, a stay of proceedings in favour of the Wayland Group and certain of its affiliates, and the appointment of PricewaterhouseCoopers Inc. as monitor of the Wayland Group. On December 31, 2019, after review of the market conditions in the Cannabis industry and the developments with Wayland, management concluded that it was unlikely that the Company would recover the balance of the loan and decided to provide for an allowance equal to the estimated recoverable amount of the loan.

(expressed in Canadian dollars)

7. LOAN RECEIVABLE (continued)

During the year ended December 31, 2019, the Company recorded interest income of $297,486.

		As at December 31, 2019
Principal advanced	$	6,250,000
Interest earned		297,486
Allowance for loan to Wayland Group		(6,547,486)
Balance as at December 31, 2019	**$**	**—**

8. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

The Company evaluated the cryptocurrency mining business and decided to divest of its crypto assets. The decision led to the classification of the crypto-mining related assets and liabilities as held for sale.

The following is a summary of the financial performance and cash flow information for the years ended December 31, 2019, and 2018, of the assets and liabilities classified as held for sale at December 31, 2019:

	Year Ended December 31,			
		2019		2018
Revenue				
Digital assets mined	$	26,420,383	$	15,758,349
Colocation revenue		844,350		2,320,656
Cost of revenue				
Site operating costs		(16,139,272)		(10,171,502)
Depreciation		(3,746,402)		(6,856,200)
Net mining income		**7,379,059**		**1,051,303**
Expenses				
General and administrative		—		43,302
Fair value loss (gain) on re-measurement of digital assets		(34,821)		2,748,829
Impairment		3,288,025		65,458,793
		3,253,204		**68,250,924**
Other income (loss)				
Gain on sale of equipment		1,473,369		—
Sales tax recovered (allowance)		610,432		(625,641)
Interest expense		(740,112)		—
Foreign exchange (loss) gain		(229,852)		203,551
Net income (loss) from discontinued operations before tax		**5,239,692**		**(67,621,711)**
Income taxes		—		1,709,193
Net income (loss) from discontinued operations	**$**	**5,239,692**	**$**	**(65,912,518)**

	Year Ended December 31,			
		2019		2018
Net cash provided by (used in) operating activities	$	11,479,245	$	(2,465,265)
Net cash used in (provided by) financing activities	$	(14,702,129)	$	7,841,990
Net cash provided by (used in) investing activities	$	2,750,372	$	(4,252,358)

(expressed in Canadian dollars)

8. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (continued)

The following is a summary of assets and liabilities classified as held for sale at December 31, 2019:

		TOTAL
Cash	$	651,855
Prepaid expenses and deposits		1,314,005
Sales tax receivable		2,108,571
Digital assets		126,415
Equipment		5,493,621
ROU Asset		5,200,537
Assets classified as held for sale	**$**	**14,895,004**

		TOTAL
Accounts payable and accrued liabilities	$	(466,713)
Customer deposits		(318,050)
Lease obligation		(5,454,832)
Liabilities classified as held for sale	**$**	**(6,239,595)**

9. RIGHT OF USE ASSETS

		Buildings		Total
Balance as at January 1, 2019	$	7,050,416	$	7,050,416
Depreciation		(1,586,069)		(1,586,069)
Reclassified to assets held for sale (note 8)		(5,200,537)		(5,200,537)
Balance as at December 31, 2019	**$**	**263,810**	**$**	**263,810**

During the year ended December 31, 2019, $1,514,121 (2018 - $nil) of depreciation was charged as a cost of revenue to mining operations, which has been reclassified on the consolidated statements of loss and comprehensive loss to discontinued operations.

(expressed in Canadian dollars)

10. 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**
Disposal	(14,547,762)	—	—	(14,547,762)
Reclassification to assets held for sale (note 8)	(9,422,328)	(17,839,676)	—	(27,262,004)
Balance as at December 31, 2019	**$ —**	**$ —**	**$ 73,883**	**$ 73,883**

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	1,327,632	904,649	14,777	2,247,058
Disposal	(13,023,688)	—	—	(13,023,688)
Impairment	1,993,291	1,294,734	—	3,288,025
Reclassification to assets held for sale (note 8)	(8,680,926)	(13,087,457)	—	(21,768,383)
Balance as at December 31, 2019	**$ —**	**$ —**	**$ 19,816**	**$ 19,816**

COST	Mining equipment	Infrastructure	Office equipment	Total
Balance as at December 31, 2017	**$ —**	**$ —**	**$ —**	**$ —**
Additions from acquisition (note 21)	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 21)	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 December 31, 2019	**$ —**	**$ —**	**$ 54,067**	**$ 54,067**

During the year ended December 31, 2019, $2,232,281 (2018 - $6,856,200) of depreciation was charged as a cost of revenue to mining operations that has been reclassified on the consolidated statements of loss and comprehensive loss to discontinued operations.

The Company recognized impairment losses related to the mining equipment of $1,993,291 (December 31, 2018 – $13,480,788) and mining infrastructure of $1,294,734 (December 31, 2018 – $8,934,777). As at December 31, 2019, the Company determined that the recoverable amount of mining equipment and mining infrastructure was less than the previously impaired value. The Company impaired the mining equipment and mining infrastructure to its recoverable amount.

(expressed in Canadian dollars)

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at December 31, 2019	As at December 31, 2018
Trade accounts payable	388,356	1,204,966
Accrued liabilities	—	365,660
Bitcoin owed to colocation customer (note 6)	—	579,783
Accounts payable and accrued liabilities	**388,356**	**2,150,409**

12. LEASE OBLIGATION

The following table details the movement in the Company's lease obligations for the year ended December 31, 2019:

		Lease obligations
Balance as at January 1, 2019	$	7,050,416
Interest		775,416
Repayments		(2,127,741)
Reclassified to assets held for sale (note 8)		(5,454,832)
Balance as at December 31, 2019	**$**	**243,259**
Current portion		104,585
Long-term portion		138,674

The following table details the undiscounted cash flows and contractual maturities of the Company's lease obligations, as at December 31, 2019:

		Within one year		Later than one year but not later than 5 years		More than 5 years
Lease obligations	$	127,970	$	149,298	$	—

13. 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 33 warrants ("Warrants"). Each unit entitles the holder to a conversion rate of 66 common shares per $1,000 principal of Convertible Debentures at a value of $15 per share and Warrants exercisable for 33 shares at a price of $21 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, 2019 was $4,465,986 (December 31, 2018 - $1,967,302). Interest expense incurred for the year ended December 31, 2019 was $2,760,000 (December 31, 2018 – $1,487,333). Interest paid for the year ended December 31, 2019 was $2,760,000 (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 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.

(expressed in Canadian dollars)

13. CONVERTIBLE DEBENTURE (continued)

- 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 66 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 $nil from $49,120 and recorded a gain. The Company reversed the fair value of the Broker Warrant Units recorded in the warrant component of the convertible debentures of $351,996.

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 CSE 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, 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 amortizes 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 pf each component of Convertible Debentures:

	Liability component of Convertible Debenture	Warrants component of Convertible Debenture	Equity component of Convertible Debenture
Balance at initial recognition (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%)	1,967,302	—	—
Balance - December 31, 2018	**27,510,483**	**1,958,929**	**2,706,796**
Accretion of liability component of Convertible Debenture (effective interest rate of 25%)	4,465,986	—	—
Expiry of broker warrants	—	(351,996)	351,996
Balance - December 31, 2019	**$ 31,976,469**	**$ 1,606,933**	**$ 3,058,792**

(expressed in Canadian dollars)

14. SHARE CAPITAL

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

During the year ended December 31, 2019:

- the Company consolidated its common shares on the basis of one new common share for every thirty old common shares issued and outstanding at that time (see note 2).
- a total of 561,000 warrants expired. As a result, the Company reversed the fair value of $933,385 to share capital.

During the year ended December 31, 2018:

- the Company issued 1,469,333 common shares for $5,730,400 on exercise of warrants. The fair value of the warrants totaling $1,515,948 was reallocated from reserves to share capital.
- the Company issued 4,333,333 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 the Company 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 858,809 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 entered into a settlement and release agreement (the “Settlement Agreement”) for the promissory note. Under the terms of the Settlement Agreement, the Company issued 2,500,000 common shares with a fair value of $7,500,000 in exchange for the cancellation of the promissory note (note 21).
- On December 31, 2018, the Company converted a total of 3,474,525 Preferred Shares with a recorded value of $23,189,929, representing all of the outstanding preferred shares, to common shares.

15. CONTRIBUTED SURPLUS AND WARRANTS

	As at December 31, 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	193,189	—	3,087,170	—
Expiry of warrants	351,996	(1,285,381)	—	—
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	**$ 12,397,790**	**$ 1,606,933**	**$ 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 year ended December 31, 2019, the Company did not grant any stock options.

(expressed in Canadian dollars)

15. CONTRIBUTED SURPLUS AND WARRANTS (continued)

During the year ended December 31, 2018, the Board of Directors granted 636,532 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 616,198 stock options (the "Cancelled Options") previously held by certain officers, directors, employees and consultants of the Company. The Cancelled Options represented 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 216,667 options to the CEO of the Company.

A summary of the stock option transactions are as follows:

	As at December 31, 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 December 31, 2019:

Number of Options Outstanding	Exercise Price $	Expiry Date	Number of Options Exercisable	Exercise Price $
216,667	$ 1.95	December 13, 2023	72,222	$ 1.95
216,667	**$ 1.95**		**72,222**	**$ 1.95**

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	$ 1.95
Weighted average fair value of options at grant date	$ 1.50

The Company recorded stock-based compensation expense for options of $193,189 (2018 – $3,087,170) with an offsetting increase to contributed surplus in respect of the stock options granted during the year ended December 31, 2019. No stock options were exercised during the year ended December 31, 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 3.95 years.

(expressed in Canadian dollars)

15. CONTRIBUTED SURPLUS AND WARRANTS (continued)

Warrants

A summary of warrant transactions is as follows:

	As at December 31, 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	(561,046)	(6.68)	—	—
Issued	—	—	1,150,046	22.20
Exercised	—	—	(1,469,333)	3.90
Ending balance	**1,150,000**	**$ 21.00**	**1,711,046**	**$ 16.20**

The following provides a summary of warrants outstanding as at December 31, 2019:

Expiry date	Number of warrants outstanding	Exercise price
June 21, 2020	1,150,000	$ 21.00
	1,150,000	

During the year ended December 31, 2019, a total of 561,000 warrants and 46 Broker Warrant Units expired. On the expiry of 561,000 warrants, the value of $933,385 originally allocated to reserves was reallocated to share capital. On the expiry of 46 Broker Warrant Units, the value of $351,996 originally allocated to warrants was reallocated to contributed surplus.

During the year ended December 31, 2018, 46 Broker Warrants Units were issued in connection with the prospectus financing with an allocated fair value of $351,996 (note 13). 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 1,469,333 warrants with a value of $1,515,948 which was originally allocated to reserves and was reallocated to share capital.

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	$ 22.20
Weighted average fair value of warrants at grant date	$ 6.60

15. 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 13). 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.

16. FAIR VALUE DISCLOSURE AND CAPITAL MANAGEMENT

Fair value measurements 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 the corresponding fair values because of the relatively short periods to maturity of these instruments and the 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 13.

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.

17. 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, 2019.

18. 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 has been 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 prices of 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 December 31, 2019 in Canadian dollar terms:

	USD
Cash	$ 1,631

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	$ 163

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 December 31, 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 $12,642.

(expressed in Canadian dollars)

18. 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.

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 Bitcoin 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. The convertible debenture with a principal balance of $34,500,000 matures on June 21, 2020.

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.

19. 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,	
	2019	**2018**
General and administrative		
Office and administrative	$ 315,821	$ 260,344
Legal and Professional fees	418,215	900,753
Consulting fees	22,124	378,499
Travel and entertainment	208,929	229,262
Depreciation	86,725	5,039
Salaries	1,287,692	942,298
	$ 2,339,506	**$ 2,716,195**

(expressed in Canadian dollars)

20. INCOME TAXES

Details of income tax recovery was as follows:

	Year Ended December 31, 2019	Year Ended December 31, 2018
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% (2018 – 26.5%) to the effective tax rate is as follows:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Loss before income taxes	**$ (16,962,291)**	**$ (77,557,640)**
Statutory tax rate	26.5%	26.5%
Statutory income tax recovery	(4,495,007)	(20,552,775)
Non-deductible expenses	224,787	1,777,617
Temporary differences	2,572,819	(641,178)
Change in unrecognized deferred tax assets	1,697,401	16,111,655
Income tax recovery	**$ —**	**$ (3,304,681)**

The following table summarizes the movement of deferred tax liabilities:

	Deferred Tax Liabilities
At January 1, 2018	$ —
Convertible debenture	1,595,489
Mining, infrastructure and office equipment	1,709,193
Impairment	(1,709,193)
Tax losses	(1,595,489)
At December 31, 2018 and 2019	$ —

* During the year ended December 31, 2018, the Company recognized a deferred tax liability of $1,595,489 in connection with issuance of convertible debentures. On December 31, 2018, the Company recognized a tax loss of an equivalent amount and offset against the deferred tax liability.

** During the year ended December 31, 2018, the Company recognized deferred tax liabilities of $1,709,193 on the acquisition of Crypto 205 and 9376-9974 Quebec Inc. On December 31, 2018, the Company recognized impairment of $65,458,793 relating to these entities which resulted in an income tax recovery of $1,709,193 and a reversal of the deferred tax liabilities.

As at December 31, 2019, the Company has non-capital loss carry forwards of approximately $45,105,000 (2018 - $34,310,000). The non-capital loss carry forwards expire at various dates from 2031 to 2039.

(expressed in Canadian dollars)

21. 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 4,333,333 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 with 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 the 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.

(expressed in Canadian dollars)

21. 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, 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.

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.

On November 5, 2018, the Company announced that it had entered into a settlement and release for the promissory note. Under the terms of the agreement, the Company issued 4,333,333 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.

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.

(expressed in Canadian dollars)

21. BUSINESS COMBINATIONS (continued)

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

22. 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, 2019 and 2018 included the following:

	2019	2018
Salaries and director remuneration	$ 828,625	$ 700,089
Stock-based compensation expense - directors and officers	193,189	2,471,087
	$ 1,021,814	**$ 3,171,176**

As at December 31, 2019, included in accounts payable and accrued liabilities was $30,194 (2018 – $107,256) of payments owed to key management personnel. As at December 31, 2019, $nil (2018 – $39,794) of the amount included in accounts payable and accrued liabilities relate to salaries payable, which were settled through the transfer of Bitcoin.

23. COMMITMENTS

At December 31, 2019, the Company's future minimum lease payments under non-cancellable operating leases aggregate to $0.28 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	$ 127,970	$ 149,298	$ —

24. ALLOWANCE ON SALES TAX RECEIVABLE

At December 31, 2019, the Company recorded an allowance of $202,802 (2018 - $241,554) for sales tax receivable.

25. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the year ended December 31, 2019 include:

- sale of equipment settled in Bitcoins of $247,071; and
- settlement of accounts payable in Bitcoins of $39,794.

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

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

26. SUBSEQUENT EVENTS

COVID-19

The recent outbreak of the coronavirus, also known as "COVID-19," has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures may have an adverse impact on global economic conditions as well as on the Company's business activities. The extent to which the coronavirus may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. The effect that these events will have on the price of Bitcoin, the ability for the Company to raise capital and the supply of upgraded equipment are highly uncertain and as such, the Company cannot determine the corresponding financial impacts at this time.

SALE OF 9376-9974 QUEBEC INC. TO HIVE

On April 8, 2020, the Company sold the shares of its wholly-owned subsidiary 9376-9974 Quebec Inc. to HIVE Blockchain Technologies Ltd. ("Hive").

As consideration, Hive issued 15,000,000 of its common shares ("Hive Shares") and paid $1,956,231 in cash. In addition, Hive has agreed to invest $3,000,000 in 9376-9974 Quebec Inc.