

# CRYPTOLOGIC CORP. (formerly Vogogo Inc.)

Condensed Interim Consolidated Financial Statements  
For the three months ended March 31, 2020  
(expressed in Canadian dollars)

### **Notice of No Auditors Review of Interim Financial Statements**

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

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

	Note	<u>As at March 31,</u> <u>2020</u>	<u>As at December 31,</u> <u>2019</u>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 1,359,403	\$ 226,532
Prepaid expenses and deposits	4	131,234	126,545
Sales tax receivable		33,723	—
Assets classified as held for sale	6	13,358,200	14,895,004
<b>Total current assets</b>		<b>14,882,560</b>	<b>15,248,081</b>
<b>Non-current assets</b>			
Prepaid expenses and deposits	4	15,996	15,996
Right of use assets	7	245,823	263,810
Equipment	8	50,373	54,067
<b>Total non-current assets</b>		<b>312,192</b>	<b>333,873</b>
<b>Total assets</b>		<b>\$ 15,194,752</b>	<b>\$ 15,581,954</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	9	\$ 556,433	\$ 388,356
Current portion of lease obligation	10	107,294	104,585
Liabilities classified as held for sale	6	5,920,516	6,239,595
Convertible debenture	11	33,933,528	31,976,469
<b>Total current liabilities</b>		<b>40,517,771</b>	<b>38,709,005</b>
<b>Long-term liabilities</b>			
Lease obligation	10	110,562	138,674
<b>Total long-term liabilities</b>		<b>110,562</b>	<b>138,674</b>
<b>Total liabilities</b>		<b>40,628,333</b>	<b>38,847,679</b>
<b>Shareholders' deficiency</b>			
Share capital		79,675,709	79,675,709
Warrants	12	1,606,933	1,606,933
Contributed surplus	12	12,420,789	12,397,790
Deficit		(119,137,012)	(116,946,157)
<b>Total shareholders' deficiency</b>		<b>(25,433,581)</b>	<b>(23,265,725)</b>
<b>Total liabilities and shareholders' deficiency</b>		<b>\$ 15,194,752</b>	<b>\$ 15,581,954</b>

Nature of operations (note 1)  
Subsequent events (note 18)

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 condensed interim consolidated financial statements.*

**CRYPTOLOGIC CORP. (formerly Vogogo Inc.)**  
**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**  
**For the three months ended March 31, 2020**  
**(expressed in Canadian dollars – unaudited)**

	Note	Three Months Ended March 31,	
		2020	2019
<b>Expenses</b>			
General and administrative	15	\$ 653,023	\$ 532,764
Stock-based compensation	12	22,999	50,597
Acquisition related costs		95,868	75,203
		<b>771,890</b>	<b>658,564</b>
<b>Other income (loss)</b>			
Interest expense	10, 11	(1,964,103)	(2,372,040)
Unrealized fair value gain on derivative liability		—	13,479
Foreign exchange loss		(192)	(692)
<b>Net loss and comprehensive loss</b>			
<b>before income tax from continuing operations</b>		<b>(2,736,185)</b>	<b>(3,017,817)</b>
Income (loss) from discontinued operations	6	545,331	(106,540)
<b>Net loss and comprehensive loss for the year</b>		<b>\$ (2,190,854)</b>	<b>\$ (3,124,357)</b>
<b>Loss per share from continuing operations - basic and diluted</b>			
		\$ (0.22)	\$ (0.24)
<b>Loss per share - basic and diluted</b>			
		\$ (0.17)	\$ (0.25)
<b>Weighted average number of</b>			
<b>shares outstanding - basic and diluted</b>		<b>12,719,171</b>	<b>12,719,171</b>

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

**CRYPTOLOGIC CORP. (formerly Vogogo Inc.)**  
**Condensed Interim Consolidated Statements of Changes in Shareholders' Deficiency**  
**For the three months ended March 31, 2020**  
**(expressed in Canadian dollars – unaudited)**

	Share Capital		Warrants	Contributed Surplus	Deficit	Total
	Common shares Number	Common shares Amount				
<b>Balance – December 31, 2018</b>	<b>12,719,171</b>	<b>\$ 78,742,324</b>	<b>\$ 2,892,314</b>	<b>\$ 11,852,605</b>	<b>\$ (105,223,558)</b>	<b>\$ (11,736,315)</b>
Expiry of warrants	—	385,840	(385,840)	—	—	—
Stock-based compensation	—	—	—	50,598	—	<b>50,598</b>
Net loss and comprehensive loss for the year	—	—	—	—	(3,124,358)	<b>(3,124,358)</b>
<b>Balance – March 31, 2019</b>	<b>12,719,171</b>	<b>\$ 79,128,164</b>	<b>\$ 2,506,474</b>	<b>\$ 11,903,203</b>	<b>\$ (108,347,916)</b>	<b>\$ (14,810,075)</b>
<b>Balance – December 31, 2019</b>	<b>12,719,171</b>	<b>\$ 79,675,709</b>	<b>\$ 1,606,933</b>	<b>\$ 12,397,790</b>	<b>\$ (116,946,158)</b>	<b>\$ (23,265,726)</b>
Stock-based compensation	—	—	—	22,999	—	<b>22,999</b>
Net loss and comprehensive loss for the year	—	—	—	—	(2,190,854)	<b>(2,190,854)</b>
<b>Balance – March 31, 2020</b>	<b>12,719,171</b>	<b>\$ 79,675,709</b>	<b>\$ 1,606,933</b>	<b>\$ 12,420,789</b>	<b>\$ (119,137,012)</b>	<b>\$ (25,433,581)</b>

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

**CRYPTOLOGIC CORP. (formerly Vogogo Inc.)**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**For the three months ended March 31, 2020**  
**(expressed in Canadian dollars – unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (2,190,854)	\$ (3,124,357)
Changes in non-cash operating items:		
Mining revenue	(2,887,449)	(5,339,210)
Depreciation	32,763	1,356,904
Fair gain on re-measurement of digital assets	(33,154)	(46,070)
Unrealized fair value gain on derivative liability	—	(13,479)
Loss on disposal of equipment	79,686	—
Foreign exchange gain	191	37,937
Stock-based compensation	22,999	50,597
Interest expense	858,626	898,397
Interest accretion	1,267,059	1,672,188
	<u>(2,850,133)</u>	<u>(4,507,093)</u>
Changes in non-cash working capital		
Prepays	295,071	169,833
Sales tax receivable	1,634,186	(532,117)
Digital assets	2,598,403	5,678,534
Accounts payable and accrued liabilities	21,814	(520,347)
Security deposit	21,546	—
<b>Net cash provided by operating activities</b>	<b><u>1,720,887</u></b>	<b><u>288,810</u></b>
<b>Cash flows from financing activities</b>		
Repayment of lease obligations	(399,570)	(521,951)
<b>Net cash used in financing activities</b>	<b><u>(399,570)</u></b>	<b><u>(521,951)</u></b>
<b>Cash flows from investing activities</b>		
Return of proceeds from sale of equipment	(79,686)	—
<b>Net cash used in investing activities</b>	<b><u>(79,686)</u></b>	<b><u>—</u></b>
Change in cash during the period	1,241,631	(233,141)
Cash – beginning of year	878,387	1,166,077
Cash included in assets held for sale	(760,615)	—
<b>Cash – end of period</b>	<b><u>\$ 1,359,403</u></b>	<b><u>\$ 932,936</u></b>

Cash flows from discontinued operations (note 6)

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

**CRYPTOLOGIC CORP. (formerly Vogogo Inc.)**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**As at and for the three months ended March 31, 2020**  
**(expressed in Canadian dollars – unaudited)**

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## **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 18.

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

These condensed interim consolidated financial statements have been prepared by management on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred ongoing losses and expects to incur further losses in the development of its business. At March 31, 2020, the Company had negative working capital of \$25,635,211 and has an accumulated deficit of \$119,137,012 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 condensed interim consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

## **2. BASIS OF PREPARATION**

### **Statement of compliance**

These condensed interim consolidated financial statements have been prepared in accordance and compliance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed interim consolidated financial statements do not include all the information and disclosures required in the Company's annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2019.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 29, 2020.

### **Basis of presentation**

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

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 these financial statements have been retroactively restated to reflect the consolidation.

### **Functional and presentation currency**

These condensed interim consolidated financial statements have been prepared in Canadian dollars ("CAD"), which is the Company's functional and presentation currency.

### **Consolidation**

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

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.

**CRYPTOLOGIC CORP. (formerly Vogogo Inc.)**  
**Notes to Condensed Interim Consolidated Financial Statements**  
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**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.

<b>Classification</b>	<b>Impact</b>	<b>Amount</b>
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)

	<b>January 1, 2019</b>	
<b>Minimum operating lease commitment at December 31, 2018</b>	<b>\$</b>	<b>9,100,238</b>
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		—
<b>Total lease liability as at January 1, 2019</b>	<b>\$</b>	<b>7,050,416</b>

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.



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**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 condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

The following are the estimates and assumptions that have been made in applying the Company's accounting policies that have the most significant effect on the amounts in the condensed interim consolidated financial statements.

**Non-current assets held for sale**

Non-current assets that are expected to be recovered primarily through 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 12.

#### **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](http://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.

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**As at and for the three months ended March 31, 2020**  
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**4. PREPAID EXPENSES AND DEPOSITS**

The Company's prepaid expenses comprise the following:

	<u>As at March 31,</u> <u>2020</u>	<u>As at December 31,</u> <u>2019</u>
Prepaid expenses	131,234	126,545
Vendor deposits	15,996	15,996
<b>Prepaid expenses and deposits</b>	<b><u>147,230</u></b>	<b><u>142,541</u></b>
Current	131,234	126,545
Long-term	<u>15,996</u>	<u>15,996</u>

Included in the long-term portion of prepaid expenses and deposits as at March 31, 2020, are security deposits for rent of \$15,996 (December 31 – \$15,996) that have been classified as long-term.

**5. DIGITAL ASSETS**

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

	<u>Amount</u>	<u>Units</u>
<b>Balance as at December 31, 2018</b>	<b>\$ 1,562,290</b>	<b>305.98</b>
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)
<b>Balance as at December 31, 2019</b>	<b>\$ —</b>	<b>—</b>
Mined additions	2,887,449	257.58
Coins sold	(2,598,403)	(222.00)
Fair value gain on re-measurement of coin	33,154	—
Reclassified to assets held for sale (note 8)	(322,200)	(35.58)
<b>Balance as at March 31, 2020</b>	<b><u>\$ —</u></b>	<b><u>—</u></b>

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.

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**As at and for the three months ended March 31, 2020**  
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**6. 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 three months ended March 31, 2020 and 2019, and for the assets and liabilities classified as held for sale at March 31, 2020, and December 31, 2019:

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Revenue</b>		
Digital assets mined	\$ 2,887,449	\$ 5,339,210
Colocation revenue	892,791	—
<b>Cost of revenue</b>		
Site operating costs	(3,054,454)	(3,920,810)
Depreciation	—	(1,335,222)
<b>Net mining income</b>	<b>725,786</b>	<b>83,178</b>
<b>Expenses</b>		
Fair value gain on re-measurement of digital assets	(33,154)	(46,070)
	<b>(33,154)</b>	<b>(46,070)</b>
<b>Other income (loss)</b>		
Loss on sale of equipment	(79,686)	—
Sales tax recovered	27,657	—
Interest expense	(161,580)	(198,545)
Foreign exchange loss	—	(37,243)
<b>Net income (loss) from discontinued operations</b>	<b>545,331</b>	<b>(106,540)</b>

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
Net cash provided by operating activities	\$ 2,318,625	\$ 1,107,300
Net cash used in financing activities	\$ (2,130,179)	\$ (1,368,984)
Net cash used in investing activities	\$ (79,686)	\$ —

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

The following is a summary of assets and liabilities classified as held for sale at March 31, 2020, and December 31, 2019:

	<u>As at March 31,</u> <u>2020</u>	<u>As at December 31,</u> <u>2019</u>
Cash	\$ 760,615	\$ 651,855
Prepaid expenses and deposits	1,014,245	1,314,005
Sales tax receivable	440,662	2,108,571
Digital assets	448,520	126,415
Equipment	5,493,621	5,493,621
ROU Asset	5,200,537	5,200,537
<b>Assets classified as held for sale</b>	<b><u>\$ 13,358,200</u></b>	<b><u>\$ 14,895,004</u></b>

	<u>As at March 31,</u>	<u>As at December 31,</u>
Accounts payable and accrued liabilities	\$ (331,630)	\$ (466,713)
Customer deposits	(339,596)	(318,050)
Lease obligation	(5,249,290)	(5,454,832)
<b>Liabilities classified as held for sale</b>	<b><u>\$ (5,920,516)</u></b>	<b><u>\$ (6,239,595)</u></b>

**7. RIGHT OF USE ASSETS**

	<u>Buildings</u>	<u>Total</u>
<b>Balance as at January 1, 2019</b>	\$ 7,050,416	\$ 7,050,416
Depreciation	(1,586,069)	(1,586,069)
Reclassified to assets held for sale (note 6)	(5,200,537)	(5,200,537)
<b>Balance as at December 31, 2019</b>	<b>263,810</b>	<b>263,810</b>
Depreciation	(17,987)	(17,987)
<b>Balance as at March 31, 2020</b>	<b><u>\$ 245,823</u></b>	<b><u>\$ 245,823</u></b>

During the three months ended March 31, 2020, \$nil (December 31, 2019 - \$1,514,121) of depreciation was charged as a cost of revenue to mining operations, which has been reclassified on the condensed interim consolidated statements of loss and comprehensive loss to discontinued operations.

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**8. EQUIPMENT**

<b>COST</b>	<b>Mining equipment</b>	<b>Infrastructure</b>	<b>Office equipment</b>	<b>Total</b>
<b>Balance as at December 31, 2019</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 73,883</b>	<b>\$ 73,883</b>
<b>Balance as at March 31, 2020</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 73,883</b>	<b>\$ 73,883</b>

**ACCUMULATED AMORTIZATION**

<b>Balance as at December 31, 2019</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 19,815</b>	<b>\$ 19,815</b>
Amortization	—	—	3,695	3,695
<b>Balance as at March 31, 2020</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 23,510</b>	<b>\$ 23,510</b>

<b>COST</b>	<b>Mining equipment</b>	<b>Infrastructure</b>	<b>Office equipment</b>	<b>Total</b>
<b>Balance as at December 31, 2018</b>	<b>\$ 23,970,090</b>	<b>\$ 17,839,676</b>	<b>\$ 73,883</b>	<b>\$ 41,883,649</b>
Disposal	(14,547,762)	—	—	(14,547,762)
Reclassification to assets held for sale (note 6)	(9,422,328)	(17,839,676)	—	(27,262,004)
<b>Balance as at December 31, 2019</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 73,883</b>	<b>\$ 73,883</b>

**ACCUMULATED AMORTIZATION**

<b>Balance as at December 31, 2018</b>	<b>\$ 18,383,691</b>	<b>\$ 10,888,074</b>	<b>\$ 5,039</b>	<b>\$ 29,276,804</b>
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 6)	(8,680,926)	(13,087,457)	—	(21,768,383)
<b>Balance as at December 31, 2019</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 19,816</b>	<b>\$ 19,816</b>

<b>At December 31, 2019</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 54,067</b>	<b>\$ 54,067</b>
<b>At March 31, 2020</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 50,373</b>	<b>\$ 50,373</b>

During the three months ended March 31, 2020, \$nil (2019 – \$956,691) of depreciation was charged as a cost of revenue to mining operations that has been reclassified on the condensed interim consolidated statements of loss and comprehensive loss to discontinued operations.

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**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<u>As at March 31,</u> <u>2020</u>	<u>As at December 31,</u> <u>2019</u>
Trade accounts payable	556,433	388,356
<b>Accounts payable and accrued liabilities</b>	<b><u>556,433</u></b>	<b><u>388,356</u></b>

**10. LEASE OBLIGATION**

The following table details the movement in the Company's lease obligations for the three months ended March 31, 2020:

	<b>Lease obligations</b>	
<b>Balance as at January 1, 2019</b>	\$	7,050,416
Interest		775,416
Repayments		(2,127,741)
Reclassified to assets held for sale (note 6)		(5,454,832)
<b>Balance as at December 31, 2019</b>		<b>243,259</b>
Interest		168,626
Repayments		(399,570)
Reclassified to assets held for sale (note 6)		205,541
<b>Balance as at March 31, 2020</b>	<b>\$</b>	<b><u>217,856</u></b>
Current portion		107,294
Long-term portion		110,562

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

	<b>Within one year</b>	<b>Later than one year but not later than 5 years</b>	<b>More than 5 years</b>
Lease obligations	\$ <u>127,970</u>	\$ <u>117,306</u>	\$ <u>—</u>

**11. CONVERTIBLE DEBENTURE**

On June 21, 2018, the Company issued 34,500 debenture units (the "Units") for proceeds of \$34,500,000. Each Unit is comprised of \$1,000 principal amount of senior unsecured extendible non-redeemable convertible debentures ("Convertible Debentures") and 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 three months ended March 31, 2020, was \$1,267,059 (December 31, 2019 - \$4,465,986). Interest expense incurred for the three months ended March 31, 2020, was \$690,000 (December 31, 2019 - \$2,760,000). Interest paid for the three months ended March 31, 2020 was \$nil (for the year ended December 31, 2019 - \$2,760,000).

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:

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**11. CONVERTIBLE DEBENTURE (continued)**

- 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.
- 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 exchange on which the common shares may trade) equals or exceeds \$27.00, the Company may force conversion at \$15.00, upon giving Convertible Debenture holders 30 days advance written notice (a “Forced Conversion”). If Convertible Debentures are subject to a forced conversion in the 12 month period following the closing date, holders of Convertible Debentures will receive an interest payment in cash on such Convertible Debentures equal to any accrued and unpaid interest up to the date of conversion and additional interest for the period from the date of conversion to the date that is 12 months following the closing date of June 21, 2018.

Should there be an aggregate of 15 trading days on which the daily volume-weighted average trading price of the common shares on the CSE equals or exceeds \$33, 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.

	<b>Proceeds</b>	<b>Transaction costs</b>	<b>Net</b>
Liability component	\$ 28,018,203	\$ (2,475,021)	\$ 25,543,182
Equity component	6,481,797	(572,577)	5,909,220
<b>Total</b>	<b>\$ 34,500,000</b>	<b>\$ (3,047,598)</b>	<b>\$ 31,452,402</b>

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 of each component of Convertible Debentures:

	<b>Liability component of Convertible Debenture</b>	<b>Warrants component of Convertible Debenture</b>	<b>Equity component of Convertible Debenture</b>
<b>Balance - December 31, 2018</b>	<b>\$ 27,510,483</b>	<b>\$ 1,958,929</b>	<b>\$ 2,706,796</b>
Accretion of liability component of Convertible Debenture (effective interest rate of 25%)	4,465,986	—	—
Expiry of broker warrants	—	(351,996)	351,996
<b>Balance - December 31, 2019</b>	<b>31,976,469</b>	<b>1,958,929</b>	<b>2,706,796</b>
Accretion of liability component of Convertible Debenture (effective interest rate of 25%)	1,957,059	—	—
<b>Balance - March 31, 2020</b>	<b>\$ 33,933,528</b>	<b>\$ 1,958,929</b>	<b>\$ 2,706,796</b>



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**12. CONTRIBUTED SURPLUS AND WARRANTS**

	As at March 31, 2020		As at December 31, 2019	
	Contributed surplus	Warrants	Contributed surplus	Warrants
<b>Beginning balance</b>	<b>\$ 12,397,790</b>	<b>\$ 1,606,933</b>	<b>\$ 11,852,605</b>	<b>\$ 2,892,314</b>
Stock-based compensation	22,999	—	193,189	—
Expiry of warrants	—	—	351,996	(1,285,381)
<b>Ending balance</b>	<b>\$ 12,420,789</b>	<b>\$ 1,606,933</b>	<b>\$ 12,397,790</b>	<b>\$ 1,606,933</b>

**Stock options**

The Company has a stock option plan ("the Plan") under which the Board of Directors may grant to directors, officers, employees and technical consultants to the Company non-transferable options to purchase common shares, exercisable for a period of up to 5 years from the date of grant.

During the three months ended March 31, 2020, the Company did not grant any stock options.

A summary of the stock option transactions are as follows:

	As at March 31, 2020	
	Number of options	Weighted average exercise price \$
Beginning balance	216,667	\$ 1.95
Granted	—	—
Cancelled	—	—
<b>Ending balance</b>	<b>216,667</b>	<b>\$ 1.95</b>

The following provides a summary of options outstanding and exercisable as at March 31, 2020:

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
<b>216,667</b>	<b>\$ 1.95</b>		<b>72,222</b>	<b>\$ 1.95</b>

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**12. CONTRIBUTED SURPLUS AND WARRANTS (continued)**

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

	<b>For the year ended December 31, 2018</b>
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 the three months ended March 31, 2020, for options of \$22,999 (2019 – \$50,597) with an offsetting increase to contributed surplus in respect of the stock options granted. No stock options were exercised during the three months ended March 31, 2020 or 2019, and as a result \$nil was transferred to share capital from contributed surplus. The weighted average remaining life of the options is 3.70 years.

**Warrants**

A summary of warrant transactions is as follows:

	<b>As at March 31, 2020</b>		<b>As at December 31, 2019</b>	
	<b>Number of warrants</b>	<b>Weighted average exercise price \$</b>	<b>Number of warrants</b>	<b>Weighted average exercise price \$</b>
Beginning balance	1,150,000	\$ 21.00	1,711,046	\$ 16.20
Expired	—	—	(561,046)	(6.68)
Issued	—	—	—	—
Exercised	—	—	—	—
<b>Ending balance</b>	<b>1,150,000</b>	<b>\$ 21.00</b>	<b>1,150,000</b>	<b>\$ 21.00</b>

The following provides a summary of warrants outstanding as at March 31, 2020:

<b>Expiry date</b>	<b>Number of warrants outstanding</b>	<b>Exercise price</b>
June 21, 2020	1,150,000	\$ 21.00
	<b>1,150,000</b>	

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.

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**12. CONTRIBUTED SURPLUS AND WARRANTS (continued)**

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

	<b>For the year ended December 31, 2018</b>
Expected volatility	130%
Expected life	2 years
Expected forfeiture rate	0%
Risk-free interest rate	1.82%
Dividend yield	0%
Weighted average share price	\$ —
Weighted average fair value of warrants at grant date	\$ 6.60

**Convertible Debenture**

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

**13. 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 11.

**Digital assets and risk management**

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

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

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**14. 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	\$ 1,421

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	\$ 142

***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 March 31, 2020, 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 \$32,220.

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**14. 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.

**15. 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:

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>General and administrative</b>		
Office and administrative	\$ 81,667	\$ 66,644
Legal and Professional fees	65,195	31,494
Consulting fees	—	13,274
Travel and entertainment	75,560	62,003
Depreciation	21,681	21,681
Salaries	408,920	337,668
	<b>\$ 653,023</b>	<b>\$ 532,764</b>

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**16. BUSINESS COMBINATIONS**

**Crypto 205**

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

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

<b>Fair value of consideration</b>	<b>\$ 28,921,853</b>
Cash	916,117
Prepays	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)
<b>Total acquisition date fair value of assets acquired, and liabilities assumed</b>	<b>3,612,615</b>
<b>Goodwill</b>	<b>25,309,238</b>
<b>Impairment allocation</b>	
Goodwill	25,309,238
Equipment	8,024,170
	<b>\$ 33,333,408</b>

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.

**CRYPTOLOGIC CORP. (formerly Vogogo Inc.)**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**As at and for the three months ended March 31, 2020**  
**(expressed in Canadian dollars – unaudited)**

**16. 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 condensed interim consolidated statement of loss from the date of acquisition, which was June 29, 2018.

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

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

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.

**16. BUSINESS COMBINATIONS (continued)**

**CRYPTOLOGIC CORP. (formerly Vogogo Inc.)**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**As at and for the three months ended March 31, 2020**  
**(expressed in Canadian dollars – unaudited)**

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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.

**17. 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 three months ended March 31, 2020 and 2019 included the following:

	<b>2020</b>	<b>2019</b>
Salaries and director remuneration	\$ 261,061	\$ 207,900
Stock-based compensation expense - directors and officers	29,285	50,597
	<b><u>\$ 290,346</u></b>	<b><u>\$ 258,497</u></b>

As at March 31, 2020, included in accounts payable and accrued liabilities was \$29,285 (2019 – \$50,597) of payments owed to key management personnel.

**18. 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.