

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*This Management's Discussion and Analysis (this "MD&A") provides a review of the results of operations, financial condition and cash flows for Cryptologic Corp. ("Cryptologic" or the "Company"), on a consolidated basis, for the three months and year ended December 31, 2020.*

*This document should be read in conjunction with the information contained in the Company's audited consolidated financial statements and related notes for the year ended December 31, 2020 (the "2020 Annual Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Unless otherwise indicated, all dollar ("\$") and "CAD" amounts and references in this MD&A are in Canadian dollars.*

*Unless otherwise stated, in preparing this MD&A the Company has taken into account information available to it up to the date of this MD&A, March 11, 2021, being the date the Company's board of directors (the "Board") approved this MD&A and the Q4 2020 Financial Statements. All quarterly information contained herein is unaudited. Additional information about the Company can be found in the Company's filings with securities regulatory authorities, which are available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).*

### **CAUTIONARY NOTE REGARDING FORWARD LOOKING INFORMATION**

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities legislation. Forward-looking information includes, but is not limited to, statements with respect to our objectives and the strategies to achieve these objectives, as well as information with respect to our beliefs, plans, expectations, anticipations, estimates and intentions. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that infer actions, events or results with terminology such as "may", "could", "would", "might", "will be taken", "occur" or "be achieved".

Forward-looking information is provided for the purposes of assisting the reader in understanding the Company and its business, operations, prospects and risks at a point in time in the context of historical and possible future developments and, therefore, the reader is cautioned that such information may not be appropriate for other purposes.

Forward-looking information is based upon numerous assumptions and is subject to a number of known and unknown risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. These risks and uncertainties include, but are not limited to, the risk factors that are discussed in greater detail under "Risk Factors and Uncertainties".

Although the forward-looking information contained herein is based upon what we believe are reasonable assumptions, readers are cautioned against placing undue reliance on this information since actual results may vary from the forward-looking information. Certain assumptions were made in preparing the forward-looking information concerning availability of capital resources, business performance, market conditions, and customer demand. Consequently, all of the forward-looking information contained herein is qualified by the foregoing cautionary statements, and there can be no guarantee that the results or developments that we anticipate will be realized or, even if substantially realized, that they will have the expected consequences or effects on our business, financial condition or results of operation. Unless otherwise noted or the context otherwise indicates, the forward-looking information contained herein is provided as of the date hereof, and we do not undertake to update or amend such forward-looking information whether as a result of new information, future events or otherwise, except as may be required by applicable law.

## **OVERVIEW AND SIGNIFICANT EVENTS**

### ***Historical Operations***

Cryptologic Corp. (formerly Vogogo Inc.) was created to become a specialized payment processing business with associated risk management capability. The Company spent several years developing and launching technologies that enabled secure and compliant online transaction processing for businesses.

During the first half of 2016, following a strategic review process announced by the Company, the Board decided to suspend payment-processing operations in order to preserve the Company's cash position. The Company advised its remaining clients that it would cease to process payments by September 30, 2016. Prior to making this determination, the Board reviewed strategic alternatives that focused on increasing shareholder value. Ultimately, the Board concluded that suspending all operations and seeking a suitable vend-in opportunity was in the best interests of the Company and its shareholders.

### ***Crypto 205 Acquisition***

On April 3, 2018, the Company acquired all of the issued and outstanding shares of Crypto 205 Inc. (the "205 Acquisition"). Crypto 205 Inc. ("Crypto 205") is now a wholly owned subsidiary of the Company that is engaged in the business of mining for cryptocurrencies for its own account and within mining pools. Pursuant to the 205 Acquisition, the Company acquired all of the issued and outstanding shares of Crypto 205 from its former shareholders in exchange for an aggregate of 4,333,333 non-voting, convertible series 1 preferred shares in the capital of the Company (the "Preferred Shares"), resulting in total consideration valued at \$28.92 million. In connection with the 205 Acquisition, the Company was also assigned a shareholder loan, which was settled in exchange for a cash payment of \$5 million to the former shareholders of Crypto 205.

The 205 Acquisition provided the Company with a state-of-the-art cryptocurrency mining facility with access to 6 MW of power, complete with 4,000 Antminer S9 cryptocurrency mining machines, 125 Antminer R4 cryptocurrency mining machines, and all HVAC and electrical infrastructure required to operate this cryptocurrency mining facility.

### ***AIF and Short Form Prospectus***

On May 15, 2018, the Company filed its Annual Information Form ("AIF") and a preliminary short form prospectus, and on May 16, 2018, the Company filed an amended and restated preliminary short form prospectus for the offering of convertible debenture units (see below). Both documents are available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

### ***Convertible Debenture***

On June 21, 2018, the Company issued 34,500 debenture units (the "Units") for proceeds of \$34,500,000. Each Unit was comprised of \$1,000 principal amount of senior unsecured extendible non-redeemable convertible debentures ("Convertible Debentures") and 33 warrants ("Warrants"). Each unit entitled 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 bore interest at 8% per annum, payable semi-annually, were unsecured and matured in 24 months. The fair value of the Convertible Debentures was recorded at \$25,543,181, discounted at 20%, and was net of transaction costs. The accretion expense for the year ended December 31, 2020, was \$1,010,141 (December 31, 2019 – \$4,465,986). Interest expense incurred for the year ended December 31, 2020 was \$552,000 (December 31, 2019 – \$2,760,000). Interest paid for the years ended December 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 was priced at \$1,000 per unit and was 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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- 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 were 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) equaled or exceeded \$27.00, the Company could force conversion at \$15.00, upon giving Convertible Debenture holders 30 days advance written notice (a "Forced Conversion"). If Convertible Debentures were subject to a forced conversion in the 12 month period following the closing date, holders of Convertible Debentures would 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 have been an aggregate of 15 trading days on which the daily volume-weighted average trading price of the common shares on the CSE equaled or exceeded \$33, the Company could issue a notice of acceleration (an "Acceleration Notice") and, thereafter, the Warrants would expire on a Business Day specified in the Acceleration Notice, which date was not be less than 20 days after the date of the Acceleration Notice.

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

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.

On June 30, 2020, the convertible debentures with a principal balance of \$34,500,000 and accrued interest of \$1,380,000 were converted into 35,879,991 shares of the Company. The fair value of the shares was \$10,763,997 as determined by the market price on June 30, 2020, of \$0.30. This resulted in a gain on settlement of convertible debentures of \$25,116,003 being booked to the consolidated statements of income (loss) and comprehensive income (loss). At a special meeting of holders of 8% extendible convertible unsecured debentures held in Toronto on March 13, 2020, the Company received approval of an extraordinary resolution to amend the terms of the debenture indenture between the Company and AST Trust Company (Canada) (the "Trustee") dated June 21, 2018. The Company and the Trustee entered into a supplemental indenture on March 13, 2020, effecting the amendments set out in the extraordinary resolution.

At a special meeting of holders of 8% extendible convertible unsecured debentures held in Toronto on March 13, 2020, the Company received approval of an extraordinary resolution to amend the terms of the debenture indenture between the Company and AST Trust Company (Canada) (the "Trustee") dated June 21, 2018. The Company and the Trustee entered into a supplemental indenture on March 13, 2020, effecting the amendments set out in the extraordinary resolution. In accordance with the debenture indenture, as amended by the supplemental indenture, the Corporation could force the conversion of the entire principal amount of the debentures and all accrued but unpaid interest at the conversion price ("Conversion Price") at any time, upon giving debenture holders 10 days' advance written notice. The modification of the conversion price and the ability for the Company to force conversion of the Convertible Debentures resulted in an extinguishment of the Convertible Debentures. On extinguishment, the fair value of the Convertible Debentures and accrued interest was determined to be \$8,763,000 as determined by the market price of the Company's shares. On the extinguishment date, the Company determined that the Convertible Debentures met equity classification and recorded the fair value of \$8,763,000 in contributed surplus. The carrying value of the Convertible Debentures and accrued interest on the date of extinguishment was \$33,538,610 which resulted in a gain

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on extinguishment of the Convertible Debentures of \$24,775,610 recorded in the consolidated statements of income (loss) and comprehensive income (loss).

On June 30, 2020, the Company forced conversion of the Convertible Debentures into 35,880,000 common shares of the Company and the value of \$8,763,000 was reallocated from contributed surplus to share capital.

During the year ended December 31, 2020, a total of 1,150,000 warrants expired. On the expiry of 1,150,000 warrants, the value of \$1,606,933 originally allocated to warrants was reallocated to contributed surplus.

***9376-9974 Quebec Inc. Acquisition***

On June 29, 2018, the Company acquired all of the issued and outstanding shares of 9376-9974 Quebec Inc. (the "828 Acquisition"). 9376-9974 Quebec Inc. ("828") is now a wholly owned subsidiary of the Company that is engaged in the business of mining for cryptocurrencies for its own account and within mining pools. Pursuant to the 828 Acquisition, the Company acquired all of the issued and outstanding shares of 828 from its former shareholders for \$46 million, which was settled by \$36 million in cash and \$10 million in the form of a promissory note (the "Promissory Note").

The 828 Acquisition provided the company with a state-of-the-art cryptocurrency mining facility, including 14,000 Antminer S9 cryptocurrency mining machines and all necessary corresponding HVAC and electrical infrastructure. The Company was able to negotiate with 828 L.P. 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 supports the operations of an additional 4,000 cryptocurrency mining machines at the facility.

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.

***Colocation agreement***

On July 5, 2018, the Company announced that it had entered into a co-location agreement with a third-party cryptocurrency customer to host approximately 4,000 miners, requiring 6 MW of electrical power.

On April 30, 2019, the Company announced that a subsidiary of the company, 9376-9974 Quebec Inc., had acquired 6,598 Antminer S9 cryptocurrency mining machines as a result of the termination of the colocation agreement. As consideration for the early termination of the colocation agreement, in addition to the Company receiving the miners, the Company retained the security deposit it was paid pursuant to the colocation agreement, and the Bitcoin mined by the miners during the period the termination agreement was negotiated. The termination agreement represents settlement of all obligations under the colocation agreement. The Company assumed the customer's assets in exchange for termination of the contract and a receivable of \$834,716 less the \$815,548 of coins mined on behalf of the customer at April 30, 2019.

***Settlement of Promissory Note***

On November 5, 2018, the Company announced that it had entered into a settlement and release agreement (the "Settlement Agreement") with the vendor of the 828 Acquisition, which included the conversion of \$7.5 million of debt owed to 828 L.P. into common shares of the Company.

Under the terms of the Settlement Agreement, the Company (i) issued 2,500,000 common shares (post-consolidation) of the Company valued at \$7.5 million to 828 L.P. based on a price of \$3.00 per common share, and (ii) made a cash payment to 828 L.P. of \$2.5 million, in exchange for the cancellation of the Promissory Note in the amount of \$10 million.

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***Impairment of mining equipment, infrastructure and goodwill***

The Company recognized impairment losses related to the mining equipment for the year ended December 31, 2019, 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 further impaired the mining equipment and mining infrastructure to its recoverable amount (see notes 10 of the Q4 2020 Financial Statements).

***Share consolidation***

Effective February 14, 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. All references to share, per share amounts, warrants and options in this MD&A have been retroactively restated to reflect the consolidation.

The approximately 381.6 million Common Shares of the Company were reduced to approximately 12.7 million Common Shares, as approved by shareholders at the Company's annual and special meeting held on December 14, 2018. No fractional shares were issued and any fractions of a share were rounded down to the nearest whole number of Common Shares. The exercise or conversion price and the number of common shares issuable under any of the Company's outstanding convertible securities were proportionately adjusted upon consolidation. Loss per share has been adjusted to reflect the share consolidation.

***Corporate name change***

On July 31, 2019, the Company changed its name change from Vogogo Inc. to Cryptologic Corp. The common shares trade on the CSE under the symbol "CRY".

***Proposed Acquisition of Canadian Assets of Wayland Group***

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 operated 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 was 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 granted second-lien security over the assets to be purchased by Cryptologic, which was 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 expired 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 was to become due and payable at the end of the term, provided, for clarity, that if the acquisition closed prior to such time, the Bridge Loan would constitute an additional assumed liability by the Company. Interest on the Bridge Loan was charged at a rate of 13% per annum. However, if Wayland entered 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 increased 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 provided for additional loan tranches up to an overall aggregate cap of \$25,000,000. The Amended Bridge Loan also provided 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 extended 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* ("CCAA"). The initial order provided 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

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that the Company would recover the balance of the loan and decided to provide for an allowance equal to the amount of the loan.

During the year ended December 31, 2019, the Company recorded interest income of \$297,486 and an allowance for loss on loan of \$6,547,486.

***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 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 effects that these events will have are highly uncertain and as such, the Company cannot determine the corresponding financial impact at this time.

***Sale of 9376-9974 Quebec Inc. to HIVE***

On April 8, 2020, the Company sold all of 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. Thirty days after closing of the transaction, the Company settled \$221,916 in working capital adjustment to Hive for net cash proceeds of \$1,734,315.

***Crypto 205 shut down and staff terminations***

On August 7, 2020, the Company announced that, in order to conserve its cash while it considers acquisition opportunities or other strategic transactions, the Company (i) terminated the lease of its wholly-owned subsidiary, Crypto 205 Inc., at its cryptocurrency mining facility in Pointe-Claire, Quebec, effective July 31, 2020, and (ii) terminated the employment contracts of all of its employees, including Chief Executive Officer, John Kennedy FitzGerald, Chief Financial Officer, Joshua Lebovic and Chief Operating Officer, Paul Leggett, effective July 31, 2020.

Mr. Fitzgerald and Mr. Lebovic will provide ongoing services to the Company, as Chief Executive Officer and Chief Financial Officer respectively, pursuant to part-time consulting arrangements.

***Stock Option Grant***

On October 21, 2020, the Company announced that its Board of Directors had approved the grant of stock options for a total of 4,600,000 common shares of the Company to officers and directors of the Company. Each of these stock options has an exercise price of CDN \$0.27 and will expire on October 20, 2025. These stock options will also vest over a period of 12 months following the grant date and are governed by the terms and conditions of the Company's stock option plan.

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**SUBSEQUENT EVENTS**

***Proposed transaction***

On January 28, 2021, the Company announced that it had entered into a binding share purchase agreement with Greenland Resources Inc. (the "Seller") on January 27, 2021 to acquire 100% of the outstanding shares of the Seller's wholly-owned subsidiary, Copenhagen Minerals Inc. ("Copenhagen"), which owns a 100% interest in a mineral exploration license known as the Storø Gold Project, located in Greenland (the "Proposed Acquisition"). Consideration for the Proposed Acquisition is expected to be satisfied through the payment of C\$250,000 cash and the issuance to the Seller of 37,600,000 common shares of the Company at a deemed issue price of \$0.24 per share (the "Consideration Shares"), subject to all necessary regulatory and securityholder approvals. It is expected that Copenhagen shareholders will hold 43.6% of the shares of the Company following closing of the Proposed Acquisition, with shareholders of the Company holding the remaining 56.4%. Completion of the Proposed Acquisition is subject to customary conditions, including receipt of applicable securityholder approvals by the Company and Seller and all necessary regulatory approvals, including the approval of the Canadian Securities Exchange (the "CSE"). Closing of the Proposed Acquisition is expected to occur following satisfaction or waiver of all closing conditions, including receipt of applicable shareholder approval and approval of the CSE, which is expected during Q2 2021.

**SELECTED FINANCIAL INFORMATION**

Selected financial information of the Company for the three month and years ended December 31, 2020 and 2019, is set forth below.

	<u>Three Months Ended December 31,</u>		<u>Year Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net income (loss) and comprehensive income (loss) from continuing operations	\$ 524,421	\$ (9,718,160)	\$ 23,563,577	\$ (16,962,291)
Net income (loss) and comprehensive income (loss)	132,509	(13,590,497)	22,002,353	(11,722,599)
Total assets	8,106,844	15,581,954	8,106,844	15,581,954
Total liabilities	298,957	38,847,679	298,957	38,847,679
Basic and diluted net income (loss) and comprehensive income (loss) per common share from continuing operations	\$ 0.02	\$ (0.76)	\$ 0.77	\$ (1.33)
Basic and diluted net income (loss) and comprehensive income (loss) per common share	\$ 0.00	\$ (1.07)	\$ 0.72	\$ (0.92)

**DISCUSSION OF OPERATIONS**

***Comparison of the Three Months Ended December 31, 2020 and 2019***

	<u>Three Months Ended December 31,</u>			
	<u>2020</u>	<u>2019</u>	<u>Variance</u>	<u>% Change</u>
General and administrative	262,741	575,806	(313,065)	(54.4%)
Acquisition related costs	27,388	412,140	(384,752)	(93.4%)
Interest expense, net	5,314	1,938,581	(1,933,267)	(99.7%)
Allowance for loss on loan	—	6,547,486	(6,547,486)	(100.0%)
Gain on sale of marketable securities	967,208	—	967,208	100.0%

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**General and administrative**

General and administrative expenses decreased from \$0.58 million for the three months ended December 31, 2019 to \$0.26 million for the three months ended December 31, 2020, a decrease of 54.4%. The decrease as compared to the prior year period was primarily the result of (i) a decrease in salaries as a result of the termination of staff in Q3 2020, (ii) a decrease in travel and entertainment as a result of travel restrictions from the COVID-19 pandemic, and, (iii) a decrease in legal and professional fees. These decrease in costs were partially offset by an increase in consulting fees related to the agreement of the Company's CEO and CFO.

**Acquisition related costs**

Acquisition related costs decreased from \$0.41 million for the three months ended December 31, 2019 to \$0.03 million for the three months ended December 31, 2020, a decrease of 93.4%. During the three months ended December 31, 2019, the Company incurred certain one-time costs for legal and professional fees directly related to acquisition activity in connection with the proposed Wayland transaction as well as the sale of 9376 to HIVE. During the three months ended December 31, 2020, the Company incurred certain one-time costs directly related to the Proposed Acquisition of Copenhagen Minerals.

**Interest expense**

During the three months ended December 31, 2020, the Company incurred interest expense of \$0.005 million compared to interest expense of \$1.94 million for the prior year period, resulting in a variance of \$1.94 million and a decrease of 100%. During the three months ended December 31, 2020, interest expense relates to interest accretion related to the Company's lease liability. During the three months ended December 31, 2019, interest expense relates to (i) interest expense on the Convertible Debentures, (ii) interest accretion on the fair value adjustment of Convertible Debentures, and (iii) interest accretion related to the Company's lease liability. The Convertible debentures were settled in June of 2020.

**Allowance for loss on loan**

As at 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 of \$6.55 million, representing the entire balance of the loan including accrued interest.

**Gain on sale of marketable securities**

During the three months ended December 31, 2020, the Company liquidated its remaining balance of 3,899,500 common shares of Hive for total gross proceeds of \$1.75 million resulting in a gain of \$0.97 million. As the sale of 9376 to Hive took place in April of 2020 and the Company had no other marketable securities, there is no gain or loss in the comparative period 2019.

**Discontinued Operations**

	Three Months Ended December 31,			
	2020	2019	Variance	% Change
Revenue	—	3,710,263	(3,710,263)	(100.0%)
Cost of revenue	—	4,002,625	(4,002,625)	(100.0%)
Fair value gain on re-measurement of digital assets	—	(121,247)	121,247	(100.0%)
Impairment	—	3,288,025	(3,288,025)	(100.0%)



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**Revenue**

During the three months ended December 31, 2020, the Company earned \$nil in revenue from the mining of Bitcoin and \$nil from colocation hosting services as compared to \$3.17 million and \$0.54 million respectively in the prior year period, representing a decrease of 100%. The decrease in Bitcoins mined and mining revenue results from the sale of 9376-9974 Quebec Inc. to Hive during the second quarter of 2020 and the shutdown of the Crypto 205 colocation mining facility in Q3 of 2020.

**Cost of revenue**

Cost of revenue is comprised of site operating costs and depreciation. Site operating costs include electricity costs, salaries, and general facility operating costs. The cost of revenue decreased from \$4.0 million to \$nil, a decrease of 100%. The decrease in costs is related to the sale of 9376-9974 Quebec Inc. to Hive during the second quarter of 2020 as well as the shutdown of the Crypto 205 facility during Q3 2020. Further, in classifying the cryptocurrency mining assets as held for sale pursuant to management's decision to exit the cryptocurrency mining industry, the Company stopped recording depreciation expense for its assets.

**Fair value loss on re-measurement of digital assets**

Fair value loss on re-measurement of digital assets represents the unrealized loss on adjusting the value of the digital assets on hand to the market value on the reporting date and the realized loss on the sale of Bitcoin previously recorded at its mined value. During the three months ended December 31, 2020, the company did not mine or sell any Bitcoin, nor did it have any Bitcoin on hand. As at December 31, 2019, the price of Bitcoin was \$9,343 (US\$7,193) compared to the average price of Bitcoin for the period of \$10,559 (US\$8,001).

**Impairment**

The Company recognized impairment losses related to the mining equipment of \$3.29 million for the three months ended December 31, 2019. As at December 31, 2020, the Company no longer had cryptocurrency mining assets on its books as a result of the sale of 9376 and the shutdown of Crypto 205. 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 (see note 10 of the Q4 2020 Financial Statements).

**Comparison of the Year Ended December 31, 2020 and 2019**

	Year Ended December 31,			
	2020	2019	Variance	% Change
General and administrative	3,004,657	2,339,506	665,151	28.4%
Acquisition related costs	319,790	749,752	(429,962)	(57.3%)
Interest expense, net	1,585,693	6,963,804	(5,378,111)	(77.2%)
Allowance for loss on loan	—	6,547,486	(6,547,486)	(100.0%)
Gain on settlement of convertible debenture	24,775,610	—	24,775,610	100.0%
Gain on sale of marketable securities	4,306,458	—	4,306,458	100.0%

**General and administrative**

General and administrative expenses increased from \$2.34 million for the year ended December 31, 2019 to \$3.00 million for the year ended December 31, 2020, an increase of 28.4%. The increase as compared to the prior year period was primarily the result of (i) severance payments made to certain officers and employees of the Company, and (ii) increase in consulting fees related to the agreements with the Company's CEO and CFO. The increase in costs were partially offset by a reduction in travel and entertainment costs as compared to the prior year period.

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**Acquisition related costs**

Acquisition related costs decreased from \$0.75 million for the year ended December 31, 2019 to \$0.32 million for the year ended December 31, 2020, a decrease of 57.3%. During the year ended December 31, 2020, the Company incurred certain one-time costs for legal and professional fees directly related to (i) acquisition activity in connection with the proposed Wayland transaction, (ii) the sale of 9376-9974 Quebec Inc. to Hive, and (iii) costs directly related to the Proposed Acquisition of Copenhagen Minerals. During the year ended December 31, 2019, the Company incurred certain one-time costs for legal and professional fees directly related to acquisition activity in connection with the Wayland transaction as well as due diligence into another potential acquisition.

**Interest expense**

During the year ended December 31, 2020, the Company incurred interest expense of \$1.59 million compared to interest expense of \$6.96 million for the prior year period, resulting in a variance of \$5.38 million and a decrease of 77.2%. During the year ended December 31, 2020, interest expense relates to (i) interest expense on the Convertible Debentures, (ii) interest accretion on the fair value adjustment of Convertible Debentures, and (iii) interest accretion related to the Company's lease liability. During the year ended December 31, 2019, interest expense relates to (i) interest expense on the Convertible Debentures, (ii) interest accretion on the fair value adjustment of Convertible Debentures, and (iii) interest accretion related to the Company's lease liability.

**Allowance for loss on loan**

As at 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 of \$6.55 million, representing the entire balance of the loan including accrued interest.

**Gain on extinguishment of convertible debentures**

On June 30, 2020, the Company forced conversion of the Convertible Debentures into 35,879,991 common shares of the Company and the value of \$8,763,000 was allocated to share capital as determined by the market price of the Company's shares. The carrying value of the Convertible Debentures and accrued interest on the date of extinguishment was \$33,538,610 which resulted in a gain on extinguishment of the Convertible Debentures of \$24,775,610. There was nil conversion or settlement of convertible debentures in the prior year period.

**Gain on sale of marketable securities**

During the year ended December 31, 2020, the Company liquidated its balance of 15,000,000 common shares of Hive for total gross proceeds of \$7.31 million resulting in a gain of \$4.31 million. As the sale of 9376 to Hive took place in April of 2020 and the Company had no other marketable securities, there is no gain or loss in the comparative period of 2019.

**Discontinued operations**

	Year Ended December 31,			
	2020	2019	Variance	% Change
Revenue	4,819,676	27,264,733	(22,445,057)	(82.3%)
Cost of revenue	4,205,727	19,885,674	(15,679,947)	(78.9%)
Fair value gain on re-measurement of digital assets	79,916	34,821	45,095	129.5%
Impairment	—	3,288,025	(3,288,025)	(100.0%)

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**Revenue**

During the year ended December 31, 2020, the Company earned \$3.1 million in revenue from the mining of Bitcoin and \$1.72 million from colocation hosting services as compared to \$26.42 million and \$0.84 million respectively in the prior year period representing a total decrease of 82.3%. The decrease in Bitcoins mined and overall revenue results from (i) the sale of 9376-9974 Quebec Inc. to Hive during the period, and (ii) increased network difficulty due to increased network hashrate and a corresponding decrease in coin production per miner.

**Cost of revenue**

Cost of revenue is comprised of site operating costs and depreciation. Site operating costs include electricity costs, salaries, and general facility operating costs. The cost of revenue decreased from \$19.89 million to \$4.21 million, a decrease of 78.9%. The decrease in cost of revenue is related to the sale of the sale of 9376-9974 Quebec Inc. to Hive during the year. Further, in classifying the cryptocurrency mining assets as held for sale pursuant to management's decision to exit the cryptocurrency mining industry, the Company stopped recording depreciation expense for these assets.

**Fair value gain on re-measurement of digital assets**

Fair value gain on re-measurement of digital assets represents the unrealized gain on adjusting the value of the digital assets on hand to the market value on the reporting date and the realized gain on the sale of Bitcoin previously recorded at its mined value. As at December 31, 2019, the price of Bitcoin was \$9,343 (US\$7,193) compared to the average price of Bitcoin for the period of \$9,881 (US\$7,454).

**Impairment**

The Company recognized impairment losses related to the mining equipment of \$3.29 million for the year ended December 31, 2019. As at December 31, 2020, the Company no longer had cryptocurrency mining assets on its books as a result of the sale of 9376 and the shut down of Crypto 205. 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 (see note 10 of the Q4 2020 Financial Statements).

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**SUMMARY OF QUARTERLY RESULTS**

The following financial data for each of the eight most recently completed quarters has been prepared in accordance with IFRS.

	<b>For the three months ended (unaudited)</b>			
	<b>March 31, 2019</b>	<b>June 30, 2019</b>	<b>September 30, 2019</b>	<b>December 31, 2019</b>
Net loss and comprehensive loss from continuing operations	(3,017,817)	(1,567,595)	(2,658,717)	(9,718,162)
Net income (loss) and comprehensive income (loss)	(3,124,357)	2,850,926	2,141,330	(13,590,497)
Total assets	23,425,111	24,686,641	28,472,513	15,581,954
Total liabilities	38,235,186	36,947,189	38,541,134	38,847,679
Basic and diluted loss and comprehensive loss per common share from continuing operations	\$ (0.24)	\$ (0.12)	\$ (0.21)	\$ (0.73)
Basic and diluted income (loss) and comprehensive income (loss) per common share	\$ (0.25)	\$ 0.22	\$ 0.17	\$ (0.85)

	<b>For the three months ended (unaudited)</b>			
	<b>March 31, 2020</b>	<b>June 30, 2020</b>	<b>September 30, 2020</b>	<b>December 31, 2020</b>
Net income (loss) and comprehensive income (loss) from continuing operations	(2,736,185)	23,878,429	1,896,912	524,421
Net income (loss) and comprehensive income (loss) for the period	(2,190,854)	23,952,245	108,453	132,509
Total assets	15,194,752	10,837,605	8,304,159	8,106,844
Total liabilities	40,628,333	1,732,942	263,621	298,957
Basic and diluted income (loss) and comprehensive income (loss) per common share from continuing operations	\$ (0.22)	\$ 1.88	\$ 0.04	\$ 0.01
Basic and diluted income (loss) and comprehensive income (loss) per common share	\$ (0.17)	\$ 1.88	\$ —	\$ 0.00

**LIQUIDITY AND CAPITAL RESOURCES**

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 year ended December 31, 2019.

**Contractual obligations**

The following is a summary of the Company's contractual obligations at December 31, 2020:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Lease liability	127,970	127,970	—	—	—
<b>Total</b>	<b>\$ 127,970</b>	<b>\$ 127,970</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

<sup>1</sup>Includes principal and interest.

**Financial instruments and risk management**

The Company is exposed to various risks including market risk, liquidity risk.

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 at December 31, 2020, the Company is not exposed to any interest rate risk.

**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, 2020 in Canadian dollar terms:

	USD
Cash	\$ 603

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	\$ 60

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***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. Cash is managed through the use of a major bank which is a high credit quality financial institution as determined by rating agencies.

***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 has cash and cash equivalents of \$7,677,172 and has positive working capital of \$7,581,751 in order to manage its liquidity risk. All of the Company's liabilities are due within the next two years.

**CASH FLOWS BY ACTIVITY**

***Comparison of the Three Months Ended December 31, 2020 and 2019***

The table below outlines a summary of cash inflows and outflows by activity for the three months ended December 31, 2020 and 2019.

	<b>Three Months Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Net cash used in operating activities	\$ (361,728)	\$ (829,936)
Net cash used in financing activities	\$ (33,284)	\$ (1,906,574)
Net cash provided by (used in) investing activities	\$ 1,752,517	\$ (249,460)

**Cash used in Operating Activities**

The Company's cash outflows from operating activities primarily relate to loss from operations and the settlement of accrued operating costs incurred in the previous quarters, including the settlement of accrued legal and professional fees.

The Company used cash from operating activities for the three months ended December 31, 2019. The Company's cash outflows from operating activities relate to (i) cash outflows related to mining costs incurred in the period and (ii) uncollected sales tax receivable partially offset by the sale of Bitcoin in the period.

**Cash used in Financing Activities**

During the three months ended December 31, 2020, the Company's cash outflows from financing activities related to cash paid on the settlement of lease liability. During the three months ended December 31, 2019, the Company's cash outflows from financing activities related to (i) interest paid on the convertible debenture, and (ii) cash paid on the settlement of lease liability.

**Cash (used in) provided by Investing Activities**

During the three months ended December 31, 2020, the Company's cash inflows in investing activities related to cash proceeds from the sale of Hive shares received in connection with the sale of 9376 to Hive. During the three months ended December 31, 2019, the Company's cash outflows in investing activities related to the loan advanced to the Wayland Group.

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***Comparison of the Year Ended December 31, 2020 and 2019***

The table below outlines a summary of cash inflows and outflows by activity for the year ended December 31, 2020 and 2019.

	Year Ended December 31,	
	2020	2019
Net cash (used in) provided by operating activities	\$ (1,497,657)	\$ 8,099,679
Net cash used in financing activities	\$ (670,659)	\$ (4,887,741)
Net cash provided by (used in) investing activities	\$ 8,967,101	\$ (3,499,628)

**Cash (used in) provided by Operating Activities**

The Company generated cash outflows from operating activities for the year ended December 31, 2020. The Company's cash outflows from operating activities primarily relate to (i) severance paid to outgoing officers and employees, (ii) settlement of accrued legal and professional fees, and (iii) operating loss from mining and colocation services offset by the collections of sales tax receivable incurred and uncollected as of the year ended December 31, 2019.

The Company generated cash inflows from operating activities for the year ended December 31, 2019. The Company's cash inflows from operating activities resulted from the sale of Bitcoin in the period, partially offset by (i) cash outflows related to mining costs incurred in the period, (ii) uncollected sales tax receivable, and (iii) settlement of payables primarily related to legal and professional fees accumulated in prior quarters.

**Cash (used in) provided by Financing Activities**

During the year ended December 31, 2020, the Company's cash outflows from financing activities related to cash paid on the settlement of lease liability. During the year ended December 31, 2019, the Company's cash outflows from financing activities related to interest paid on the Convertible Debentures and cash paid on the settlement of lease liability.

**Cash provided by (used in) Investing Activities**

During the year ended December 31, 2019, the Company's cash inflows from investing activities primarily related to (i) cash proceeds received on the sale of 9376 to Hive, and (ii) cash proceeds from the sale of Hive shares received in connection with the sale of 9376 to Hive. During the year ended December 31, 2019, the Company's cash outflows in investing activities relate to the loan to the Wayland Group offset by the proceeds from the sale of certain cryptocurrency mining equipment.

## **SIGNIFICANT JUDGMENTS 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 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.

### **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.



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**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 14.

**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.

**Leases**

In determining lease terms, the Company used its judgment to determine that the extension options were not significant. Furthermore, the Company does not believe the interest rate implicit in its leases can be readily determined. It therefore used its judgment to determine the incremental borrowing rate and use it as the discount rate to establish its lease liability.

For every lease, management makes a judgment to determine the appropriate lease term. Management considers all relevant facts and circumstances that create an economic incentive for the Company to exercise a renewal option or not to exercise a termination option, including, for example, investments in extensive leasehold improvements. The periods covered by the renewal options are included in the lease term only if management is reasonably certain it will renew the lease.

Management considers reasonable certainty to be a high threshold. Changes in the economic environment can have an impact on management’s lease term assessments, and any changes in the estimates that management makes for lease terms could have a significant impact on the Company’s consolidated statement of financial position and consolidated statement of profit or loss.

**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

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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.

## **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.

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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, 2020, the Company recognized \$3,102,562 (2019 - \$26,420,383) in revenue from discontinued Bitcoin mining operations.

**Colocation services**

The Company earned 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.

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.

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***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.

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.

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.

### **Leases**

The Company leases property. As is permitted under IFRS 16, the Company elected to expense its short-term leases (term of 12 months or less) and leases of low-value assets, such as computer equipment, on a straight-line basis over the lease term.

For its other contracts, the Company assesses whether its new or amended contracts contain a lease.

A lease represents the right to control the use of an identified asset for a period of time in exchange for consideration. To determine whether a contract conveys the right to control the use of an identified asset, the Company assesses the following:

- Is the identified asset directly or indirectly specified in the contract, or does it represent substantially all of the capacity of an asset that is physically distinct?
- Does the right of use cover substantially all of the economic benefits from use of the identified asset for a period of time?
- Does the Company have the right to direct the use of the identified asset? In cases where the use is predetermined, does the Company operate the asset or did the Company design the asset in a way that predetermines how and for what purpose the asset will be used?

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When a lease is identified, the Company allocates the consideration in the contract to each of the lease components, separately from the non-lease components, on the basis of their relative stand-alone price. However, as is permitted under IFRS 16, the Company elected to account for all contracts of land and buildings it occupies as leases.

A right-of-use asset (a "lease asset") and a lease liability are recognized in the statement of financial position at the lease commencement date.

***Lease asset***

A lease asset is initially recognized at cost, which comprises the amount of the initial measurement of the lease liability, adjusted for any lease payments made or any lease incentives received at or before the commencement date, plus any initial direct costs incurred by the Company and an estimate of costs to be incurred in dismantling, removing or restoring the asset or site, as required by the terms and conditions of the lease.

The lease asset is subsequently depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the lease asset or the end of the lease term. The useful life of a lease asset is measured on the same basis as the Company's other property, plant and equipment.

The Company presents its leased property in Note 9.

***Lease liability***

A lease liability is initially measured at the present value of the lease payments that are not paid at that date using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company uses its incremental borrowing rate, which is generally the case. The lease payments comprise the following: fixed payments; variable lease payments that depend on an index or a rate, using the index or rate as at the commencement date; an estimate of the amounts to be payable under residual value guarantees; as well as amounts the Company is reasonably certain to pay as the exercise price of a purchase or extension option, or as a penalty to exercise a termination option.

The lease liability is subsequently remeasured at amortized cost using the effective interest method.

When there is a change in lease payments resulting from a change in an index or a rate or a change in an estimated amount, the amount of such an adjustment is offset in the unamortized cost of the lease asset or reported in the consolidated statement of profit or loss when the lease asset is fully impaired.

The Company presents its lease liabilities (see note 12) and the interest on its lease liabilities (calculated at the effective interest rate) with its interest expenses in the consolidated statement of profit or loss.

**RELATED PARTY TRANSACTIONS**

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

The compensation of such key management for the year ended December 31, 2020 and 2019 included the following:

	<u>2020</u>	<u>2019</u>
Salaries, severance and director remuneration	\$ 1,691,233	\$ 828,625
Stock-based compensation expense - directors and officers	308,259	193,189
	<u>\$ 1,999,492</u>	<u>\$ 1,021,814</u>

As at December 31, 2020, included in accounts payable and accrued liabilities was \$858 (2019 – \$30,194) of payments owed to key management personnel.

### **OFF BALANCE SHEET ARRANGEMENTS**

As at December 31, 2020, the Company had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

### **OUTSTANDING SHARE DATA**

The Company is authorized to issue an unlimited number of preferred shares without nominal or par value and an unlimited number of common shares. The table below lists the securities outstanding:

	<b>As at March 11, 2021</b>
Common shares	48,599,162
Stock options	4,816,667
<b>Total Common Shares on a fully-diluted basis</b>	<b>53,415,829</b>

### **RISK FACTORS AND UNCERTAINTIES**

The business of the Company contains significant risk. Certain risk factors are similar across the industry while others are specific to the Company. For a discussion of these risk factors, please refer to the Company's management's discussion and analysis for the year ended December 31, 2018, including under "Risk Factors and Uncertainties" therein, as well as the Company's prospectus filed on June 14, 2018, which is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).