

**ZeU Crypto Networks Inc.**

**Condensed Interim Financial Statements**

**Three Months Ended March 31, 2020**

**(Expressed in Canadian Dollars)**

## **NOTICE TO READER**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim 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 financial statements have been prepared by and are the responsibility of the management.

The Company's independent auditor has not performed a review of these 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 auditor.

MONTREAL, QUEBEC

June 11, 2020

**ZeU Crypto Networks Inc.**  
**Condensed Interim Statements of Financial Position**  
**(Unaudited – Prepared by Management)**  
As at

	<b>March 31, 2020</b>	December 31, 2019
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash	686	62,673
Prepaid	2,440	4,209
Digital currency (Note 5)	11,658,509	9,690,414
<b>Total current assets</b>	<b>11,661,635</b>	9,757,296
<b>Non-Current assets</b>		
Digital currency (Note 5)	10,201,195	12,659,900
<b>Total assets</b>	<b>21,862,830</b>	22,417,196
<b>Liabilities and Shareholders' Equity (Deficiency)</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Notes 8 and 13)	539,921	306,664
Loan from shareholder (Note 13)	346,507	346,507
Derivative liability (Notes 9 and 14)	78,719	78,719
Convertible debentures (Note 9)	3,703,470	3,579,727
	<b>4,668,617</b>	4,311,617
<b>Non-current liabilities</b>		
Long-term convertible debentures (Note 9)	3,822,585	3,706,193
<b>Total Liabilities</b>	<b>8,491,202</b>	8,017,810
<b>Shareholders' equity (deficiency)</b>		
Common shares (Note 10)	6,552,977	6,534,727
Contributed surplus (Note 9)	17,224,172	17,224,172
Deficit	(10,405,521)	(9,359,513)
<b>Total shareholders' equity</b>	<b>13,371,628</b>	14,399,386
<b>Total liabilities and shareholders' equity</b>	<b>21,862,830</b>	22,417,196

Subsequent events (Note 15)

*signed "Frank Dumas"*

Frank Dumas  
President and Chief Executive Officer

*signed "Mark Billings"*

Mark Billings  
Chief Financial Officer

The accompanying notes are an integral part of these condensed interim financial statements

---

**ZeU Crypto Networks Inc.****Condensed Interim Statements of Loss and Comprehensive Loss  
For the Three Months Ended March 31  
(Unaudited – Prepared by Management)**

---

	2020	2019
	\$	\$
<b>Revenue</b>		
Development services	85,000	-
	<b>85,000</b>	<b>-</b>
<b>Expenses</b>		
Accretion expense and interest expenses (Note 9)	282,106	179,871
Compensation expense (Note 9)	-	33,609
Consulting fees (Note 13)	21,730	6,560
Listing and filing fees	8,130	-
Management fees (Note 13)	85,807	66,875
Marketing and promotion	11,646	-
Office expenses	8,822	-
Professional fees	7,002	5,000
Research and development expense (Notes 6, 7 and 13)	236,294	89,717
Shareholders communication	6,284	52,897
	<b>(667,821)</b>	<b>(434,529)</b>
<b>Loss from operations</b>	<b>(582,821)</b>	<b>(434,529)</b>
Unrealized loss (gain) on digital currencies (Note 5)	(487,241)	47,209
Gain on payment with marketable digital currency (Note 5)	332	-
Gain on redemption of convertible debenture	23,722	-
<b>Loss and comprehensive loss for the period</b>	<b>(1,046,008)</b>	<b>(387,320)</b>
Loss per share – basic and diluted	<b>\$ (0.04)</b>	<b>\$ (0.22)</b>
Weighted average number of common shares outstanding – basic and diluted	24,450,484	20,000,000

---

The accompanying notes are an integral part of these condensed interim financial statements

**ZeU Crypto Networks Inc.**  
Condensed Interim Statements of Changes in Shareholders' Equity  
(Unaudited – Prepared by Management)

	Number of Common Shares	Common Shares \$	Contributed surplus \$	Equity (Deficit) \$	Total Shareholders' Equity \$
<b>Balance as at January 1, 2019</b>	<b>20,000,000</b>	<b>496,195</b>	<b>420,908</b>	<b>(4,412,060)</b>	<b>(3,494,957)</b>
Loss for the period	-	-	-	(387,320)	(387,320)
Balance as at March 31, 2019	20,000,000	496,195	420,908	(4,799,380)	(3,882,277)
<b>Balance as at January 1, 2020</b>	<b>24,443,772</b>	<b>6,534,727</b>	<b>17,224,172</b>	<b>(9,359,513)</b>	<b>14,399,386</b>
Shares issued on conversion of convertible debentures (Notes 9 and 10)	50,000	18,250	-	-	18,250
Loss for the period	-	-	-	(1,046,008)	(1,046,008)
<b>Balance as at March 31, 2020</b>	<b>24,493,772</b>	<b>6,552,977</b>	<b>17,224,172</b>	<b>(10,405,521)</b>	<b>13,371,628</b>

The accompanying notes are an integral part of these condensed interim financial statements

**ZeU Crypto Networks Inc.**  
**Condensed Interim Statements of Cash Flows**  
**For the Three Months Ended March 31**  
**(Unaudited – Prepared by Management)**

	2020	2019
	\$	\$
<b>Operating activities</b>		
Net loss and comprehensive loss for the period	(1,046,008)	(387,320)
Non-cash items		
Accretion and interest expenses on convertible debentures	282,106	179,871
Compensation expenses	-	33,609
Unrealized loss (gain) on digital assets	487,241	(47,209)
Gain on disposal of marketable digital currency	(332)	-
	<u>(276,993)</u>	<u>(221,049)</u>
Net changes in working capital items		
Prepaid expenses	1,769	(5,794)
Accounts payable and accrued liabilities	236,958	127,902
	<u>238,727</u>	<u>122,108</u>
<b>Net cash used in operating activities</b>	<u>(38,266)</u>	<u>(98,941)</u>
<b>Investing activity</b>		
Technologies acquisition (Note 6)	-	(180,000)
<b>Net cash provided in investing activity</b>	<u>-</u>	<u>(180,000)</u>
<b>Financing activities</b>		
Shares issued for convertible debentures (Notes 9 and 10)	18,250	-
Convertible debentures	(41,971)	82,045
Amounts advanced from related parties		138,092
<b>Net cash provided by (in) financing activities</b>	<u>(23,721)</u>	<u>220,137</u>
Increase (decrease) in cash	(61,987)	(58,804)
Cash, beginning	62,673	541,795
<b>Cash, ending</b>	<u>686</u>	<u>482,991</u>

The significant non-cash transactions during the period ended March 31, 2020 and 2019 presented include:

	2020	2019
	\$	\$
Shares issued for convertible debentures	18,250	-
Payments with digital currency	332	-

The accompanying notes are an integral part of these condensed interim financial statements

---

# **ZeU Crypto Networks Inc.**

## **Notes to the Condensed Interim Financial Statements**

**March 31, 2020 and 2019**  
**(Unaudited – Prepared by Management)**

---

### **1. Corporate Information and Going Concern of Operations**

ZeU Crypto Networks Inc. (“the Company”) was incorporated under the Canada Business Corporations Act on January 4, 2018. The address of the Company’s corporate office and principal place of business is 230 Rue Notre-Dame West, Montreal, H2Y 1T3, Canada. The Company was a wholly owned subsidiary of St-Georges Eco-Mining Corp. (“St-Georges”) until it was spun out on December 24, 2019.

The principal activities of the Company are block-chain technology development.

In May 2018, St-Georges signed an Arrangement Agreement (“Arrangement”) providing for the spin-out of the Company with the intent of listing the Company on the Canadian Securities Exchange (“CSE”).

On December 24, 2019, the CSE accepted the listing of the common shares of the Company, and the Company started trading on the CSE on December 30, 2019 under the symbol “ZEU”. As a result of the Arrangement, effective December 24, 2019, the Company ceased to be a wholly-owned subsidiary of St-Georges. The Company distributed 11,098,074 shares of the 20,000,000 shares held by St-Georges to the St-Georges’ shareholders pursuant to the Arrangement. As at December 31, 2019, St-Georges retained 8,750,175 common shares of the Company. As at March 31, 2020 and December 31, 2019, the Company is holding 151,751 shares to be distributed to certain St-Georges’ shareholders at a later date.

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and discharge of liabilities in the normal course of business. Since inception the Company has incurred losses and has not generated any revenues. As at March 31, 2020, the Company has an accumulated deficit of \$10,405,521. As such, the Company’s ability to continue as a going concern depends on its ability to successfully raise additional capital and financing. If additional capital and financing is not raised, the going concern basis may not be appropriate with the result that the Company may have to realize its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts different from those stated in the financial statements. No adjustments for such circumstances have been made in these financial statements. These conditions, indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

### **2. Basis of Presentation**

#### **Statement of Compliance**

These condensed interim financial statements of the Company for the period ended March 31, 2020 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

These financial statements follow the same accounting policies and methods of application as our most recent annual financial statements, save for the adoption of IFRS 16 for the 2019 fiscal year starting on January 1, 2019. The adoption of these IFRS and their impact on these financial statements are covered in Note 3. Accordingly, they should be read in conjunction with the annual financial statements for the year ended December 31, 2019, which have been prepared in accordance with IFRS as issued by the IASB.

The financial statements of the Company were authorized for issue by the Board of Directors on June 11, 2020.

---

# **ZeU Crypto Networks Inc.**

## **Notes to the Condensed Interim Financial Statements**

March 31, 2020 and 2019  
(Unaudited – Prepared by Management)

---

### **2. Basis of Presentation (continued)**

#### **Basis of Measurement**

The financial statements have been prepared on an historical cost basis except for certain assets and liabilities measured at fair value as required or permitted under IFRS. These financial statements are presented in Canadian dollars unless otherwise noted.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

### **3. Summary of Significant Accounting Policies**

The accounting policies are set out below.

#### **Functional currency**

The functional currency of the Company has been assessed by management based on consideration of the currency and economic factors that mainly influence the Company's production and operating costs, financing and related transactions. Changes to these factors may have an impact on the judgment applied in the determination of the Company's functional currency. The functional and presentation currency of the Company is the Canadian Dollar.

#### **Classification of digital currencies**

The Company has determined that digital currencies are intangible assets. The Company has classified digital currencies as current assets, if based on management's assessment its digital currencies held are considered to be commodities, there is a liquid market in which the Company may sell a portion of its holdings and if the Company is able to sell a portion of its digital currencies in the near future to generate a profit from price fluctuations. Digital currencies not classified as current assets are classified as long-term assets.

Digital currencies are initially recorded on the statements of financial position at their cost or fair value on the date acquired and are re-measured at each reporting date. Revaluation losses, as well as realised gains or losses on the sale of digital currencies are included in the statement of loss and comprehensive loss. Unrealized revaluation gains, above the initial fair value of the digital currencies, are included in other comprehensive income.

There is currently no specific definitive guidance in IFRS or alternative accounting frameworks for the accounting for the mining and strategic selling of digital currencies and management has exercised significant judgement in determining the appropriate accounting treatment for the recognition of income from digital currencies.

#### **Financial Instruments**

##### *Classification*

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics.



---

**ZeU Crypto Networks Inc.**  
**Notes to the Condensed Interim Financial Statements**  
March 31, 2020 and 2019  
(Unaudited – Prepared by Management)

---

**3. Summary of Significant Accounting Policies (continued)**

**Financial Instruments (continued)**

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

Cash, account payable, loan from shareholders and convertible debenture are classified as amortized cost. Derivative liabilities are classified as FVTPL.

*Measurement*

Financial assets at FVTOCI

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of loss and comprehensive loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive loss.

Impairment of financial assets at amortized costs

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

---

**ZeU Crypto Networks Inc.**  
**Notes to the Condensed Interim Financial Statements**  
March 31, 2020 and 2019  
(Unaudited – Prepared by Management)

---

**3. Summary of Significant Accounting Policies (continued)**

**Financial Instruments (continued)**

*Derecognition*

Financial assets

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. Gains and losses on derecognition are generally recognized in the statements of loss and comprehensive loss.

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

*Other financial liabilities*

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise of trade payables and accrued liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding. This category includes accounts payable, due to St-Georges and convertible debentures.

*Derecognition of financial liabilities*

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired.

**Intangible assets**

Intangible assets consist of digital currencies. Since there is an active market for the digital currencies, the Company initially records digital currencies at their cost or fair value on the date of acquisition and revalues the digital currencies at each reporting period at their then fair value under IAS 38. Under the revaluation model, intangible assets are measured at cost or fair value on initial recognition and subsequently remeasured at fair value at each reporting date. Unrealized revaluation increases above the initial cost or fair value are recognized in other comprehensive income and accumulated in contributed surplus within equity. Revaluation losses, as well as realised gains or losses on the sale of digital currencies are included in the statement of loss and comprehensive loss.

---

**ZeU Crypto Networks Inc.**  
**Notes to the Condensed Interim Financial Statements**  
March 31, 2020 and 2019  
(Unaudited – Prepared by Management)

---

**3. Summary of Significant Accounting Policies (continued)**

**Research and development**

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in the loss in the period in which the expenditure is incurred.

Subsequent to initial recognition, internally-generated intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

At March 31, 2020 and December 31, 2019, the Company had not recognized any internally-generated intangible assets and had recorded all amounts incurred as research costs.

**Convertible debentures**

Convertible debentures issued for cash are recorded at amortized cost and accounted for as a hybrid financial instrument with separate debt and derivative liability components. The derivative liability is recorded at fair value and deducted from the face value of the debt to arrive at the liability component which will be accreted to face value over the life of the debenture. The derivative liability is remeasured at fair value at each period subsequent to initial recognition. Convertible debentures issued in consideration for goods and services are accounted as share-base payments. At inception the fair value of the debt component is first estimated and the residual value is allocated to the contributed surplus. The carrying value of the convertible debenture is carried at amortized cost and will be accreted to face value over the life of the debenture.

**Income Taxes**

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

---

**ZeU Crypto Networks Inc.**  
**Notes to the Condensed Interim Financial Statements**  
March 31, 2020 and 2019  
(Unaudited – Prepared by Management)

---

**3. Summary of Significant Accounting Policies (continued)**

**Income Taxes (continued)**

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting year, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

**Share Capital**

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, preferred shares, share warrants are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are recorded in equity as a deduction, net of tax, from the proceeds.

**Share-based Payments**

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in comprehensive loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss. Options or warrants granted related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model.

All equity-settled share-based payments are reflected in reserves until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid.

---

**ZeU Crypto Networks Inc.**  
**Notes to the Condensed Interim Financial Statements**  
March 31, 2020 and 2019  
(Unaudited – Prepared by Management)

---

**3. Summary of Significant Accounting Policies (continued)**

**Share-based Payments (continued)**

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

**Loss per Share**

The basic loss per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant year.

The diluted earnings per common share is computed by dividing the net income applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

**Accounting standards issued and adopted**

Effective January 1, 2019 the Company adopted IFRS 16 – Leases which replaces IAS 17 Leases. The standard introduces a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset and a lease liability. IFRS 16 substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. The adoption of IFRS 16 had no impact on the financial statements as the Company had no leases as at January 1, 2019 or December 31, 2019.

**4. Critical Accounting Judgments and Estimates**

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive loss in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

---

**ZeU Crypto Networks Inc.**  
**Notes to the Condensed Interim Financial Statements**  
March 31, 2020 and 2019  
(Unaudited – Prepared by Management)

---

**4. Critical Accounting Judgments and Estimates (continued)**

**Judgments**

*Income Taxes*

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped.

*Going Concern*

Management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. The factors considered by management are disclosed in Note 1.

**Estimates**

*Digital currencies – valuation*

Many digital currencies are traded in active markets and are valued based upon quoted prices (less costs to sell), a portion of such digital currencies may not be actively traded and are valued based upon quoted prices for similar assets or based upon unobservable inputs. These valuations require the Company to make significant estimates and assumptions. Digital currencies are generally considered to be commodities or similar to commodities and are treated as intangible assets for financial reporting purposes. Unrealized and realised gain and losses on digital currencies are recorded in the statement of loss and comprehensive loss while unrealized gains above the initial cost or fair value of the digital currencies are recorded in comprehensive loss.

*Share-based Payment Transactions*

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them.

**ZeU Crypto Networks Inc.**  
**Notes to the Condensed Interim Financial Statements**  
 March 31, 2020 and 2019  
 (Unaudited – Prepared by Management)

**5. Intangible assets**

Intangible assets consist of digital currencies. Digital currencies are typically part of a decentralized system of recording transactions and issuance of new units and rely on cryptography to secure its transactions, to control the creation of additional units, and to verify the transfer of assets.

*Ether Coins*

In July 2018, the Company received 3,936 Ether coins in consideration for the issuance of \$3,708,692 convertible debentures (Note 9). The continuity of Ether coins is as follows:

	Number of Ether Coins	Ether Coins \$
Digital currency received on issuance of convertible debentures	3,936	3,708,692
Loss on revaluation adjustment	-	(3,003,302)
Balance December 31, 2018	3,936	705,390
Sale of digital currency	(2,958)	(840,830)
Payments made with digital currency	(958)	(254,056)
Gain on revaluation adjustment	-	392,865
Balance December 31, 2019	20	3,369
Payments made with digital currency	(20)	(3,369)
Balance March 31, 2020	-	-

During the year ended December 31, 2019, the Company sold 2,858 Ether coins for proceeds totalling \$745,046 (fair value of \$802,860), and recorded a loss on sale of \$57,814. The Company transferred 100 Ether coins at a value of \$23,660 (fair value of \$37,970) to a debenture holder related to the repurchase of debentures and recorded a loss on sale of \$14,310.

During the year ended December 31, 2019, the Company made payments of \$246,484 for director fees, director travel reimbursements and prepaid expense reimbursement to directors with 922 Ether coins (fair value of \$240,575), and paid \$13,582 with 36 Ether coins (fair value of \$13,481) for office expenses and research and development expenses. The Company recorded a gain on the payments of \$6,010.

As at December 31, 2019, the Company held 20 (December 31, 2018 – 3,936) ether coins with fair value of \$3,369 which was below the original cost of the coins and accordingly all fair value changes have been recorded in the statement of loss and comprehensive loss.

During the period ended March 31, 2020, the Company made payments of \$3,701 for director fees to director with 20 Ether coins (fair value of \$3,369). The Company recorded a gain on the payments of \$332.

As at March 31, 2020, the Company held nil (December 31, 2019 – 20) ether coins with fair value of \$nil (December 31, 2019 - \$3,369).

---

# ZeU Crypto Networks Inc.

## Notes to the Condensed Interim Financial Statements

March 31, 2020 and 2019

(Unaudited – Prepared by Management)

---

### 5. Intangible assets (continued)

#### *Kamari Coins*

In November 2019, the Company received 24,000,000 Kamari coins in consideration for the issuance of \$7,834,000 in convertible debentures (Note 9). On the date of issuance, the Kamari coins' fair value was \$24,268,723. The continuity of Kamari coins is as follows:

	Number of Kamari Coins	Kamari Coins \$
Digital currency received on issuance of convertible debentures	24,000,000	24,268,723
Revaluation adjustment	-	(1,921,778)
Balance December 31, 2019	24,000,000	22,346,945
Revaluation adjustment		(487,241)
Balance March 31, 2020	24,000,000	21,859,704

As at December 31, 2019, the Company held 24,000,000 Kamari coins with a fair value of \$22,346,945 which was below the original cost of the coins and accordingly all fair value changes in the amount of \$1,921,778 related to the impairment loss have been recorded in the statement of loss and comprehensive loss.

The 24,000,000 Kamari coins received in consideration for the convertible debenture are subject to the following voluntary transfer restrictions without the prior written consent of Kamari: (i) in any one-month period, transfer, directly or indirectly, is limited to 1/30th of the total number of Kamari forming the consideration; and (ii) on any given day, any sale on an exchange is limited to 5% of the total volume of Kamari traded. As of March 31, 2020, 3,200,000 (December 31, 2019 – 800,000) Kamari were available for disposal or transfer.

As at March 31, 2020, 12,800,000 Kamari coins totaling \$11,658,509 (December 31, 2019, 10,400,000 Kamari coins totaling \$9,687,045, and 20 Ether coins totaling \$3,369) will be available for disposal or transfer within the next twelve months. The total of \$11,658,509 (December 31, 2019 - \$9,690,414) was classified as current asset. The remaining coins were classified as long-term asset.

### 6. Blockchain and commitments

On January 14, 2018, St-Georges assigned its blockchain and smart contract technology license agreement with Qingdao Tiande Technologies Limited ("Tiande") and cash of \$496,195 to the Company in consideration of 20,000,000 common shares (Note 10) and the assumption of the royalty obligations.

Under the terms of the License, Tiande has granted the Company an exclusive license to use Tiande's proprietary technologies, patents and know-how to develop and commercialize novel mineral commodity production chain control, tracking and trading exchanges. In consideration for the rights granted under the License, the Company shall pay to Tiande a royalty of 8% of the gross revenues derived from the Licensee.

On January 14, 2018, the Company entered into a non-binding letter of intent ("LOI") to acquire all of the Blockchain and Smart Contract Technologies assets of Tiande. Pursuant to the terms of the LOI, the proposed consideration for the Transaction is an aggregate amount of CND\$150 million payable through the issuance of 150,000,000 common shares and 75,000,000 share purchase warrants in the capital of the Company. Each warrant will entitle the holder to acquire one share at a price of CND\$1.00 for a period of three years following the date the Company completes a transaction pursuant to which its common shares will either be listed on a recognized stock exchange in North America, or will be exchanged for common shares of a reporting issuer listed on a recognized stock exchange in North America.



---

# ZeU Crypto Networks Inc.

## Notes to the Condensed Interim Financial Statements

March 31, 2020 and 2019  
(Unaudited – Prepared by Management)

---

### 6. Blockchain and commitments (continued)

On February 8, 2018, the LOI amended the general terms of the LOI, which referred to Qingdao Tiande Technologies Limited instead of Qingdao.

On February 23, 2018, the Company entered into a definitive asset purchase agreement with Qingdao Tiande Technologies Limited and Beijing Tiande Technologies Limited with the intervention of Guiyan Tiande Technologies Limited to purchase all intellectual property for consideration of up to 75,000,000 common shares through the issuance of 65,000,000 common shares and 75,000,000 common share purchase warrants on the closing date. An additional 10,000,000 common shares will be issued upon satisfaction of milestone conditions. Closing of the transaction was subject to the Company completing a total financing of up to \$30,000,000 in convertible debentures.

On August 13, 2018, the Company received a termination notice, which was accompanied by a request to negotiate a new agreement. The revised financial demands by Tiande rendered the transaction not commercially viable for the Company. The Company is consulting with its legal advisors to seek full reimbursement and compensation of its expenses paid under the transaction.

On December 21, 2018, the Company entered into an agreement with Prego International Group AS (“Prego”) to develop and integrate certain proprietary technologies in a Global Multi Payment and E-Money Services Platform (“Services”).

Under the agreement, the Company and Prego will share equally the costs of the Services as follows:

- Phase 1 –preface: Innovation lab: US\$675,000, including the setup cost and license fees of the full platform;
- Phase 2 –pilot operational: US\$750,000, including full system integration with “POC” testing and user testing with stress test of the platform in 60 days with a complete report; and
- Phase 3-project launched and running (upscale/internationalization), including a full platform, service ready to go, for implementation in multiple global markets.

The Company is waiting upon Prego’s financing initiatives before moving into the phases.

On February 4, 2019, the Company executed an asset purchase agreement with VN3T Technologies Inc. and its subsidiaries, collectively “VN3T”, an arm’s length party to acquire the key IP of VN3T’s decentralized data market place platform and secured development services.

Under the agreement, the Company paid \$150,000 to VN3T for the IP by the issuance of a debenture of the Company maturing 2 years from its issuance and convertible into common shares of the Company at a price equal to the 5-day volume weighted average price (“VWAP”) of the shares on the CSE, subject to a minimum of \$1.85. The Company agreed to retain the services of the VN3T for a gross amount of \$60,000 to assist with the development of certain aspects of the IP.

Under the agreement, VN3T also granted the Company an exclusive option to acquire the additional assets for purchase price of \$25,000, which would be satisfied by the issuance of a \$25,000 debenture under the same terms and conditions. As at March 31, 2020, \$220,000 was expensed in research and development as the technological feasibility has not yet been achieved (Note 7).

On March 8, 2019, the Company agreed to provide its patent pending Blockchain Random Number Generator and other related blockchain technologies to St. James House PLC (“St. James”), a UK licensed gaming operator, by the way of joint-venture for the establishment of a blockchain lottery. The agreement calls for the establishment of a new lottery joint-venture with its main license in Malta. The Lottery Joint-Venture (“Lottery JV”) will combine St. James’ expertise in regulated lottery management and administration with the Company’s innovative blockchain based technology. St. James’ who will act as the lottery operator and hold a 45% equity interest in the Lottery JV, and the Company will hold 19.9%, St-Georges will hold 19.9% and the balance with independent investors.

---

# **ZeU Crypto Networks Inc.**

## **Notes to the Condensed Interim Financial Statements**

**March 31, 2020 and 2019**  
**(Unaudited – Prepared by Management)**

---

### **6. Blockchain and commitments (continued)**

All technology operating costs of the Lottery JV will be met by the Company, and in return the Company will charge a service fee that will not exceed 90% of the revenues from the Lottery JV. Profits generated by the Lottery JV will be distributed as a dividend to the shareholders.

Additional consideration, in excess of the 19.9% of the net profits that the Company will receive and the revenues generated for the technology usage, the Company will receive from St. James' new UK subsidiary, LottoCo, 100,000 non-voting, zero-coupon redeemable preferred shares with a par value of 2 pence (the "Preferred Shares"). The Preferred Shares will be redeemable in 21 years with the redemption price to be fixed within 3 months after the issuance of the audited financial statements of the Lottery JV for the second year of operations and will be based on an independent valuation report. At the discretion of the Company, the Preferred Shares may be exchanged on the basis of one Preferred Share for two ordinary shares of 1 pence each in St. James ("Ordinary Shares"), with notice to be given one day before the Preferred Shares are due to be redeemed in 21 years, i.e. a maximum of 200,000 Ordinary Shares may be issued.

On August 2, 2019, the Company and St. James House executed a long form agreement for the creation of a Maltese Joint-Venture corporation that will manage the operation of a blockchain-based lottery operated by St. James and developed and maintained by the Company. As at March 31, 2020, the Lottery JV remains inactive and did not incur any expenses or make any payments, but is expected to commence in the Summer of 2020.

On May 28, 2019, the Company signed a binding term sheet with Star Epigone Capital Ltd. ("Star Epigone") of the British Virgin Islands to provide a license for the Company's Random Number Generator to be used by Star Epigone in its online gaming product offering. The final agreement is subject to regulatory approval.

On May 27, 2019, the Company entered into a binding term sheet to acquire 2,100,000 first rank preferred shares, non-voting, of vSekur Network Ltd. ("vSekur"). The shares have a redemption value of \$1.00 and bear a 6% annual interest. The preferred shares can be converted into common shares of vSekur at the current value of \$1 each, or at the last equity raise price. The Company will have the right to maintain its equity position with a right of first refusal in all future financing efforts of vSekur. If converted into common shares, this would represent more than 21% of vSekur's outstanding common shares. The binding term sheet also states that the Company will enter into an exclusive partnership agreement in order to provide cybersecurity solution services in the blockchain market. The Company plans to subcontract the security component of its healthcare data SaaS solution representing an initial estimate of approximately \$1,500,000 over the next two years. The Company and vSekur estimate the initial 6 months design costs to be a minimum of \$120,000 to which the Company will contribute \$60,000. The Company will contribute an additional \$640,000 in the following 2 years. As at March 31, 2020, the Company has expensed \$280,000 (December 31, 2019 - \$280,000) for this project (Note 7).

Under the agreement the Company will issue to vSekur 215,325 convertible debenture units with a minimum floor conversion of \$3.25 per unit for a one-year period. As at March 31, 2020, this transaction is being renegotiated.

On November 5, 2019, the Company has also executed a joint venture agreement with Kamari Limited ("Kamari") of Malta for the joint development and deployment of lotteries and gaming offering in Africa ("JV Co.").

Under the terms of the JV Co., both parties agreed to invest up to Euro 50,000, the Company agreed among other things, to grant JV Co. a non-exclusive licence to its technologies in exchange for a 30% interest in JV Co., and Kamari agreed to provide JV Co. with support in accessing online lottery markets exchange for a 70% interest in JV Co. As at March 31, 2020, the JV Co. remains inactive and did not incur any expenses or make any payments.

---

**ZeU Crypto Networks Inc.**  
**Notes to the Condensed Interim Financial Statements**  
March 31, 2020 and 2019  
(Unaudited – Prepared by Management)

---

**6. Blockchain and commitments (continued)**

On January 31, 2020, the Company entered into a binding term sheet with Dalgo Inc., a New York AI Specialist & Data Trading Exchange Developer. Dalgo Inc. will be integrated in the stage 2 development of the MulaMail data trading platform and in the SaaS Patient HealthCare data auction module development. Dalgo Inc. will integrate the Company's encryption technology into its own suite of solutions and will allocate resources to allow it to participate in the 2020 cycle of the US Federal Procurement Process including but not limited, to the DoD Procurement Cycle.

The Company will subscribe to 10% of the outstanding common shares of Dalgo Inc. by issuing a CAD \$300,000, three-year, 10% convertible debenture with a conversion floor price of CAD\$1.00. The interest and capital can be repaid in shares at the discretion of the Company. The securities issued will be under a regulatory hold period. The Company will incur development costs for the healthcare data SaaS in the amount of \$150,000 over a period of 12 months

The Company developed Derivative Marketplace with its blockchain marketplace platform for Borealis Derivatives DEX ehf ("Borealis"), which is a Decentralized, Distributed, Digital Derivative marketplace. The pseudo-coding phase of the Marketplace's platform has been initiated with the initial effort focused on the asset-spent back-stopped token. The Company monitored and learned from the HODLdex initiative, allowing for important paradigm changes in the conception of the marketplace. The roll-out of the marketplace commodity token should occur in the late summer. During the period ended March 31, 2020, the Company recorded revenue of \$85,000 on the development of Borealis Derivative Marketplace.

**7. Research and development expenses**

During the period ended March 31, 2020, the Company incurred expenditures of \$236,294 (2019 - \$89,717) related to the development of the blockchain technology. Since the technological feasibility has not been yet achieved, all these expenditures were expensed in the statement of loss and comprehensive loss. Future expenditure on the development of the technology may meet the guidelines and could be capitalized at that time.

**8. Accounts payable and accrued liabilities**

	March 31, 2020	December 31, 2019
Accounts payable (Note 13)	\$ 450,476	\$ 231,218
Accrued liabilities	89,445	75,446
	<u>539,921</u>	<u>306,664</u>

---

**ZeU Crypto Networks Inc.**  
**Notes to the Condensed Interim Financial Statements**  
March 31, 2020 and 2019  
(Unaudited – Prepared by Management)

---

**9. Convertible Debentures**

**2018 Convertible Debentures**

On July 5, 2018, the Company closed an initial tranche of its 10% unsecured convertible debentures offering for an aggregate principal amount of \$4,783,692 of which \$3,708,692 was issued in consideration of digital currencies delivered to the Company, \$550,000 was issued pursuant to signing bonus's where the management and consulting services will be earned over a period of four years and \$525,000 were issued for cash consideration. Each convertible debenture issued had a maturity date of July 5, 2020 and can be convertible into common shares of the Company at the greater of \$1.00 or the price listed for each common share on an exchange. As the conversion price is variable, the Company accounted for the convertible debentures issued for cash, based on IAS 32, as a hybrid financial instrument with separate debt and derivative liability components. The derivative liability is recorded at fair value and deducted from the face value of the debt to arrive at the liability component which is recorded at amortised cost and will be accreted to face value over the life of the convertible note. The derivative liability component is remeasured at fair value at each period subsequent to initial recognition. The fair value of the derivative liability as at December 31, 2019 was estimated to be \$78,719 (2018- \$58,083). The convertible debentures of \$4,258,692 issued for the digital currencies and the signing bonuses were accounted as share-base payments in accordance with IFRS 2. The fair value of the debt component of these convertible debentures at inception was determined to be \$3,837,784, based on the estimated interest rate of 17% on the liability component, and the residual value of \$420,908 was recorded in the contributed surplus.

The terms of the signing bonus state that the employees must remain employees for a period of four years. If the employee resigns prior to the end of that period, they will be required to reimburse a pro rata portion of the signing bonus to the Company. Accordingly, these convertible debentures were recognized to the extent that they vested and the compensation expenses for the year ended December 31, 2019 of \$482,568 (2018 - \$68,750) was recorded in the statement of loss.

On September 10, 2019, the Company redeemed \$23,660 convertible debentures with 100 Ether coins (Note 5).

On November 25, 2019, the \$550,000 signing bonus together with \$76,549 of accrued interest was converted into 626,549 common shares (Note 10).

On December 30, 2019, the Company converted \$1,191,209, representing 25% of the principal amount together with accrued interest of the outstanding 10% debentures into 1,191,209 common shares of the Company at a price of \$1 per share upon the listing of the shares on the CSE (Liquidity Event) (Note 10).

The carrying value of the convertible debentures, including accrued interest, as at December 31, 2019 was \$3,579,727 (2018 - \$4,179,325) and the accretion and interest expense recognized during the year ended December 31, 2019 was \$727,277 (2018 - \$353,053). The Company recognized \$20,635 as loss on fair market value change in the derivative liability for the year ended December 31, 2019 (2018 - \$ Nil).

During the period ended March 31, 2020, the accretion and interest expense recognized was \$123,743 (2019 - \$179,871).

---

**ZeU Crypto Networks Inc.**  
**Notes to the Condensed Interim Financial Statements**  
March 31, 2020 and 2019  
(Unaudited – Prepared by Management)

---

**9. Convertible Debentures (continued)**

**2019 Convertible Debentures**

On February 4, 2019, under the agreement with VN3T, the Company issued a debenture in the amount of \$150,000 to VN3T in consideration for acquired research and development technology. The debenture matures in 2 years from its issuance and is convertible into common shares of the Company at a price equal to the 5-day VWAP of the Company's shares on the CSE, subject to a minimum of \$1.85. The convertible debenture was accounted as share-based payment in accordance with IFRS 2 as the consideration received was in the form of goods and services. The fair value of the debt component at inception was determined to be \$107,137, based on an interest rate of 17%, and the residual value of \$42,863 was recorded in contributed surplus. The carrying value of the convertible debentures, including accrued interest, as at December 31, 2019 was \$124,699 and the accretion and interest expense recognized during the year ended December 31, 2019 was \$17,561.

During the period ended March 31, 2020, the accretion and interest expense recognized was \$5,375 (2019 - \$nil).

On February 25, 2019, the Company retained the services of Cassiopeia Services Ltd. ("CSL"), a UK based communication and investors awareness firm specialized in blockchain technology. The Company issued a debenture in the amount of \$50,000 to CSL which is convertible at the greater of \$1.00 per share or the price listed for each common share on an exchange for a period of 2 years. The convertible debenture was accounted as share-based payment in accordance with IFRS 2. The fair value of the debt component at inception was determined to be \$35,713, based on an interest rate of 17%, and the residual value of \$14,287 was recorded in contributed surplus. The carrying value of the convertible debentures, including accrued interest as at December 31, 2019 was \$41,164 and the accretion and interest expense recognized during the year ended December 31, 2019 was \$5,452.

On February 11, 2020, the \$50,000 convertible debenture was converted into 50,000 common shares of the Company at a deemed price of \$1.00 per share (Note 10).

On November 13, 2019, the Company completed a 12% unsecured convertible debenture financing in the principal amount of \$7,834,000, and in consideration the Company received digital currency, consisting of 24,000,000 Kamari ("KAM"), (Note 5). Each convertible debenture may be converted into common shares of the Company at a price equal to the greater of (i)\$1.50, and (ii) if the date of any conversion occurs after the Company completes a transaction ("Liquidity Event") pursuant to which it will become a "reporting issuer" under applicable Canadian securities laws, the 10-day volume-weighted average trading price of the shares of the Company, immediately prior to the applicable conversion date. The debenture issued pursuant to the offering will have a maturity date of May 12, 2022. The KAM are subject to voluntary transfer restrictions (Note 5). This convertible debenture was accounted as share-base payment in accordance with IFRS 2 as the Company received intangible assets. The fair value of the digital currencies received in consideration for the convertible debentures with the principal amount of \$7,834,000 was \$24,268,723. The excess value of \$16,434,723 was recorded in contributed surplus at inception. The fair value of the liability component at inception was determined to be \$6,925,051, based on an interest rate of 17%, and the residual value of \$908,949 was recorded in contributed surplus. The carrying value of the convertible debentures, including accrued interest as at December 31, 2019 was \$3,540,330 and the accretion and interest expense recognized during the year ended December 31, 2019 was \$155,609.

Upon the occurrence of a Liquidity Event, the Company will be entitled to require the holders of the convertible debentures to convert up to 50% of the principal amount outstanding, together with any accrued and unpaid interest owing thereon, into share of the Company at the conversion price.

On December 30, 2019, the Company converted \$3,963,445, representing 50% of the principal amount together with accrued interest on the outstanding 12% debentures into 2,642,297 common shares of the Company at a deemed price of \$1.50 per share (Note 10).

During the period ended March 31, 2020, the accretion and interest expense recognized was \$152,181 (2019 - \$nil).

---

# **ZeU Crypto Networks Inc.**

## **Notes to the Condensed Interim Financial Statements**

March 31, 2020 and 2019

(Unaudited – Prepared by Management)

---

### **10. Share Capital**

#### **Common Shares – authorised**

The Company is authorized to issue an unlimited number of common shares, voting, participating and with no par value. The share capital of the Company consists only of fully paid common shares.

#### **Common Shares –issued**

##### **2018 Transactions**

On January 14, 2018, the Company issued 20,000,000 common shares to St-Georges for the license assignment agreement together with cash of \$496,165, which includes share issue costs of \$238 (Note 6). The fair value of the shares of \$496,433 was determined based on the cash advanced by the shareholder to develop the blockchain technology as the assignment agreement was deemed to have a nominal value.

##### **2019 Transactions**

On November 25, 2019, the Company issued 626,549 common shares upon the conversion of \$550,000 convertible debentures and \$76,549 accrued interest into common shares of the Company (Note 9).

On November 25, 2019, the Company settled \$135,468 of accounts payable and accrued liabilities through the issuance of 135,468 common shares of the Company.

On December 30, 2019, the Company converted \$1,191,209, representing 25% of the principal amount together with accrued interest related to the outstanding 10% debentures, into 1,191,209 common shares of the Company at a deemed price of \$1 per share upon the listing of the shares on the CSE (Note 9)

On December 30, 2019, the Company converted \$3,963,445, representing 50% of the principal amount together with accrued interest of the outstanding 12% debentures into 2,642,297 common shares of the Company at a price of \$1.50 per share upon the listing for trading of the shares on the CSE.

##### **2020 Transactions**

On February 11, 2020, the Company issued 50,000 common shares to Cassiopeia Services Ltd. on the conversion of \$50,000 debentures at a price of \$1 per share (Note 9).

#### **Escrow shares**

The Company has 11,161,150 (December 31, 2019 - 11,161,150) escrow shares as at March 31, 2020 that will be release as following:

- 10% to be released on the date of listing (released 1,240,128 on December 30, 2019);
- 1/6 of the remaining will be released 6 months following the date of listing;
- 1/5 of the remaining will be released 12 months following the date of listing;
- 1/4 of the remaining will be released 18 months following the date of listing;
- 1/3 of the remaining will be released 24 months following the date of listing;
- 1/2 of the remaining will be released 30 months following the date of listing;
- the remaining will be released 36 months following the date of listing;

---

**ZeU Crypto Networks Inc.**  
**Notes to the Condensed Interim Financial Statements**  
March 31, 2020 and 2019  
(Unaudited – Prepared by Management)

---

**11. Financial Risk Management and Financial Instruments**

**Financial Risk**

The primary goals of the Company's financial risk management are to ensure that the outcomes of activities involving elements of risk are consistent with the Company's objectives and risk tolerance, and to maintain an appropriate risk/reward balance while protecting the Company's balance sheet from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through aligning risk appetite with business strategy, diversifying risk, pricing appropriately for risk, mitigating risks through preventive controls and transferring risk to third parties.

The Company's exposure to potential loss from financial instruments is primarily due to various market risks, including interest rate, liquidity and credit risk.

*Market Risk*

Market risk is the risk of loss arising from adverse changes to market rates and prices, such as interest rates, equity market fluctuations, foreign currency exchanges rates, and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded.

Below is a discussion of the Company's primary market risk exposures and how those exposures are currently managed.

*Liquidity Risk*

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash flow commitments associated with financial instruments. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. To manage cash flow requirements, the Company may have to issue additional common shares or conclude private placements.

As at March 31, 2020, the Company has accounts payable and accrued liabilities of \$539,921 (December 31, 2019 - \$306,664), \$3,703,470 (December 31, 2019 - \$3,579,727) in debentures due within 12 months, and has cash of \$686 (December 31, 2019 - \$62,673), and has digital currencies, current portion, of \$11,658,509 (December 31, 2019 - \$9,690,414) to meet its current obligations.

*Credit Risk*

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments that potentially subject the Company to credit risk consist primarily of cash. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada. This amount best represents the Company's maximum exposure to any potential credit risk. The risk is assessed as low.

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's convertible debentures have fixed interest rates and accordingly are not subject to cash flow interest rate risk due to changes in the market rate of interest. The Company does not use financial derivatives to reduce its exposure to risk. The management of the Company considers its interest rate risk to be minimal.

---

**ZeU Crypto Networks Inc.**  
**Notes to the Condensed Interim Financial Statements**  
March 31, 2020 and 2019  
(Unaudited – Prepared by Management)

---

**11. Financial Risk Management and Financial Instruments (continued)**

*Fair Value Measurement*

Fair value is the amount at which a financial instrument could be exchanged between willing parties, based on current markets for instruments with the same risk, principal and remaining maturity. Fair value estimates are based on present value and other valuation techniques using rates that reflect those that the Company could currently obtain, on the market, for financial instruments with similar terms, conditions and maturities. The carrying amount and fair value of financial instruments, with the exception of the derivative liability, are considered to be a reasonable approximation of fair value because of their short-term maturities.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Derivative liability is measured using level 3 inputs. The fair value was estimated using Black-Scholes Option Pricing Model (effective interest rate of 17%, volatility 108%, risk free interest rate of 1.69% and 0% dividend yield).

**12. Capital Management**

Capital is comprised of the Company's shareholders' equity and any debt that it may issue. As at March 31, 2020, the Company's shareholders' equity was \$13,371,628 (December 31, 2019 – \$14,399,386). The Company's objectives when managing capital are to maintain financial strength and to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term.

Protecting the ability to pay current and future liabilities includes maintaining capital above minimum regulatory levels, current financial strength rating requirements and internally determined capital guidelines and calculated risk management levels. To meet these objectives, management monitors the Company's capital requirements against unrestricted net working capital and assesses additional capital requirements on specific business opportunities on a case-by-case basis.

The capital for expansion is mostly from proceeds from the issuance of common shares and the conversion of convertible debentures. The net proceeds raised will only be sufficient for a certain amount of development work on its projects, and for working capital purposes. Additional funds will be required to finance the Company's corporate objectives. The Company is not currently exposed to any externally imposed capital requirements.



---

# **ZeU Crypto Networks Inc.**

## **Notes to the Condensed Interim Financial Statements**

March 31, 2020 and 2019

(Unaudited – Prepared by Management)

---

### **13. Related Party Transactions**

#### **a) Related party transactions**

During the period, the Company incurred transactions with related parties including a company controlled by its Chief Architect, Chief Technology Officer, and Chief Executive Officer. During the period ended March 31, 2020, the Company incurred consulting fees of \$120,088 (2019 - \$89,717) which were expensed as research and development costs, management fees of \$85,807 (2019 - \$66,875), and consulting fees of \$nil (2019 - \$6,560).

During the year ended December 31, 2018, related parties received signing bonuses in the form of convertible debentures for \$400,000 which are being recognised over the vesting period of 4 years (Note 9). On November 25, 2019, all of the signing bonus of \$400,000 convertible debentures and accrued interest of \$55,672 were converted into 455,672 common shares at a price of \$1 per share. The signing bonuses totaling \$454,521 provided to the management of the company were recorded as compensation expense.

#### **b) Due to Related Parties**

At March 31, 2020, included in accounts payable is \$256,209 (December 31, 2019- \$115,587) owing to directors. These amounts are non-interest bearing, unsecured and have no fixed terms of repayment.

As at March 31, 2020, the Company owes \$346,507 (December 31, 2019 - \$ 346,507) to a shareholder of the Company. These amounts are non-interest bearing, unsecured and have no fixed terms of repayment. During the period ended March 31, 2020, the shareholder advanced \$nil (December 31, 2019 - \$122,911) to the Company.

### **14. Reclassification of comparative numbers**

In the prior year convertible debentures were issued to third parties and the Company received proceeds in the form of goods and services. On initial recognition because these convertible debentures were convertible at a variable price, the fair value of the liability and the fair value of the derivative component was determined and each component was recorded as a liability on the statement of financial position. However, because the proceeds from the issuance of the convertible debentures were in the form of goods and services the transactions are considered to be share based payments and the fair value of the derivative component, being the face value of the debenture less the fair value of the liability component, is to be recorded as contributed surplus within equity. Accordingly, the derivative liability in the amount of \$420,908 has been reclassified from liabilities to contributed surplus in the comparative financial statements at the year ended December 31, 2019. There is no impact to the statement of loss and comprehensive loss as a result of this reclassification.

### **15. Subsequent Events**

- The Company proposes to change its name to ZeU Technologies Inc. to reflect its activities better. This proposed name change will be submitted to a vote of the shareholders at its annual assembly expected sometime in July 2020.
- Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operations in future periods.