Taal Distributed Information Technologies Inc.
(formerly Squire Mining Ltd.)

Consolidated Financial Statements

For the year ended December 31, 2019 and the fourteen months ended December 31, 2018

(Stated in Canadian Dollars)

MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of
Taal Distributed Information Technologies Inc.

Opinion

We have audited the consolidated financial statements of Taal Distributed Information Technologies Inc. and Subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2019, and the related consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

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

Basis for Opinion

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

Other Matter

The consolidated financial statements of the Company as of and for the fourteen month period ended December 31, 2018, were audited by another auditor who expressed an unmodified opinion on those statements on April 30, 2019.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is John J. Hughes.

Marcum LLP

Marcum LLP

New York, NY
May 26, 2020

TAAL Distributed Information Technologies Inc.
(formerly Squire Mining Ltd.)
Consolidated Statements of Financial Position
(Stated in Canadian dollars)

	December 31, 2019	December 31, 2018 (Note 2(c))
ASSETS		
Current assets		
Cash and cash equivalents (Note 3)	$ 15,622,778	$ 19,244,095
Accounts receivable (Note 6)	2,219,781	6,760
Other receivable	314,085	51,445
Receivable for terminated acquisition (Note 20)	22,097,527	-
Digital assets (Note 7)	49,401	-
Marketable securities (Note 22)	-	211,700
Prepaid expenses and other current assets (Note 8)	3,884,539	26,770
Total current assets	44,188,111	19,540,770
Investments in joint ventures (Note 9)	-	2,434,769
Equipment, net (Note 10)	21,405	-
Intangible assets, net (Note 11)	2,566,912	-
Total assets	$ 46,776,428	$ 21,975,539
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (Note 12)	$ 4,606,134	$ 86,764
Payables for terminated acquisition (Note 20)	17,514,618	-
Promissory note payable, net (Note 9)	19,350	-
Total current liabilities	22,140,102	86,764
SHAREHOLDERS' EQUITY		
Share capital (Note 14)	31,882,205	30,568,172
Contributed surplus	15,528,237	1,589,717
Accumulated other comprehensive loss	(112,717)	-
Accumulated deficit	(22,690,186)	(10,269,114)
Shareholders' equity attributable to owners of the Company	24,607,539	21,888,775
Non-controlling-interest (Note 18)	28,787	-
Total shareholders' equity	24,636,326	21,888,775
Total liabilities and shareholders' equity	$ 46,776,428	$ 21,975,539

Subsequent events (Note 28)

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

Approved on behalf of the Board:

"Stefan Matthews" — *Chairman of the board*

"Michael Cella" — *Director*

TAAL Distributed Information Technologies Inc.
(formerly Squire Mining Ltd.)
Consolidated Statements of Loss and Comprehensive Loss
For the year ended December 31, 2019 and the fourteen months ended December 31, 2018
(Stated in Canadian Dollar)

	2019	2018 (Note 2(c))
Revenues		
Digital assets mined (Note 7)	$ 15,489,528	$ -
Fleet management services	1,087,893	-
Software licensing	568,383	-
Total revenues	**17,145,804**	-
Costs of revenues		
Site operating costs	(11,741,450)	-
Depreciation and amortization (Notes 10 and 11)	(7,156,429)	-
Total costs of revenues	**(18,897,879)**	
Loss before value adjustments	**(1,752,075)**	-
Revaluation of digital assets (Note 7)	(10,070)	-
Gain on sale of digital assets (Note 7)	1,293,017	-
Loss	**(469,128)**	-
Operating expenses		
Office and administration	(510,403)	(223,200)
Regulatory	(37,776)	(65,762)
Investor relations	(61,733)	(682,086)
Management fees, salaries and wages (Note 17)	(1,232,360)	(1,432,158)
Professional fees	(1,645,906)	(837,091)
Share-based payments (Notes 14 and 17)	(438,755)	(1,493,333)
(Loss) gain on foreign exchange	(302,298)	15,712
Impairment of equipment (Note 10)	(5,840,057)	-
Travel and entertainment	(325,616)	(314,686)
Total operating expenses	(10,394,904)	(5,032,604)
Loss from operations	**(10,864,032)**	**(5,032,604)**

TAAL Distributed Information Technologies Inc.
(formerly Squire Mining Ltd.)
Consolidated Statements of Loss and Comprehensive Loss
For the year ended December 31, 2019 and the fourteen months ended December 31, 2018, continued
(Stated in Canadian Dollar)

		2019		2018 (Note 2(c))
Other income (expense):				
Share of loss on joint ventures (Note 9)		(127,253)		(4,261,405)
Loss on acquisition of joint venture (Note 9)		(1,733,870)		-
Gain on sale of marketable securities (Note 22)		80,500		-
Unrealized loss on marketable securities (Note 22)		-		(43,800)
Project investigation costs (Note 25)		-		(157,962)
Loss on sale of exploration and evaluation assets (Note 24)		-		(133,378)
Interest income		252,337		74,399
Write-off of license (Note 23)		-		(225,000)
Net loss	**$**	**(12,392,318)**	**$**	**(9,779,750)**
Other comprehensive loss				
Foreign currency translation adjustment		(112,717)		-
Total comprehensive loss	**$**	**(12,505,035)**	**$**	**(9,779,750)**
Net (loss) income attributable to:				
Owners of the Company		(12,421,072)		(9,779,750)
Non-controlling interests		28,754		-
Net loss	**$**	**(12,392,318)**	**$**	**(9,779,750)**
Comprehensive (loss) income attributable to:				
Owners of the Company		(12,533,789)		**(9,779,750)**
Non-controlling interests		28,754		-
Total comprehensive loss	**$**	**(12,505,035)**	**$**	**(9,779,750)**
Basic and diluted net loss per common share	$	(0.98)	$	(1.41)
Weighted average number of common shares outstanding		12,603,709		6,944,948

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

TAAL Distributed Information Technologies Inc.
(formerly Squire Mining Ltd.)
Consolidated Statements of Cash Flows
For the year ended December 31, 2019 and the fourteen months ended December 31, 2018
(Stated in Canadian Dollar)

	2019	2018 (Note 2(c))
Cash flows from operating activities		
Net loss	$ (12,392,318)	$ (9,779,750)
Changes in non-cash operating activities:		
Share-based payments	438,755	1,493,333
Share of loss on joint ventures	127,253	4,261,405
Digital assets mined	(15,489,528)	-
Revaluation of digital assets	10,070	-
Gain on sale of digital assets	(1,293,017)	-
Loss on investment in joint ventures	1,733,870	-
Depreciation and amortization	7,156,429	-
Unrealized loss on marketable securities	-	43,800
Gain on sale of marketable securities	(80,500)	-
Unrealized foreign exchange	(74,371)	-
Impairment of equipment	5,840,057	-
Loss on sale of exploration and evaluation assets	-	133,378
Write-off of license	-	225,000
Changes in working capital items related to:		
Digital assets	15,504,371	-
Accounts receivable	(2,677,068)	(51,202)
Other receivable	(262,640)	-
Prepaid expenses	(2,242,805)	(23,620)
Accounts payable and accrued liabilities	4,093,152	(20,874)
Net cash provided (used) by (in) operating activities	391,710	(3,718,530)

TAAL Distributed Information Technologies Inc.
(formerly Squire Mining Ltd.)
Consolidated Statements of Cash Flows
For the year ended December 31, 2019 and the fourteen months ended December 31, 2018, continued
(Stated in Canadian Dollar)

	2019	2018 (Note 2(c))
Cash flows from investing activities		
Purchase of license	-	(225,000)
Purchase of marketable securities	-	(255,500)
Sale of marketable securities	292,200	-
Investment in joint venture	-	(6,696,174)
Repayment from joint venture	667,400	-
Acquisition of intangible assets	(892,455)	-
Purchase of equipment	(576,238)	-
Proceeds from sale exploration and evaluation assets	-	10
Receivable related to terminated acquisition	(22,097,527)	-
Payable related to terminated acquisition	17,514,618	-
Exploration and evaluation costs	-	(54,735)
Net cash used in investing activities	(5,092,002)	(7,231,399)
Cash flows from financing activities		
Common shares issued for cash	-	28,930,895
Options exercised	57,220	524,740
Warrants exercised	1,151,466	205,333
Net cash provided by financing activities	1,208,686	29,660,968
Effects of foreign exchange on cash	(129,711)	-
(Decrease) increase in cash and cash equivalents	(3,621,317)	18,711,039
Cash and cash equivalents, beginning of period	19,244,095	533,056
Cash and cash equivalents, end of period	$ 15,622,788	$ 19,244,095

See Note 19 for supplemental non-cash cashflow information.

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

TAAL Distributed Information Technologies Inc.
(formerly Squire Mining Ltd.)
Consolidated Statements of Changes in Shareholders' Equity
For the year ended December 31, 2019 and the fourteen months ended December 31, 2018
(Stated in Canadian dollars)

	Number of common shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Accumulated deficit	Non-controlling interests	Total
Balance, November 1, 2017	2,892,117	$ 903,738	$ 99,850	$ -	$ (489,364)	$ -	$ 514,224
Share issuances	8,705,783	29,401,625	-		-	-	29,401,625
Share issuance costs	163,207	(807,947)	337,217	-	-	-	(470,730)
Exercise of options	327,744	865,423	(340,683)	-	-	-	524,740
Exercise of warrants	256,667	205,333	-	-	-	-	205,333
Share-based payments	-	-	1,493,333	-	-	-	1,493,333
Net loss	-	-	-	-	(9,779,750)	-	(9,779,750)
Balance, December 31, 2018 (Note 2(c))	12,345,518	$ 30,568,172	$ 1,589,717	$ -	$ (10,269,114)	$ -	$ 21,888,775
Exercise of options	38,147	95,367	(38,147)	-	-	-	57,220
Exercise of warrants	1,439,333	1,218,666	(67,200)	-	-	-	1,151,466
Share-based payments	-	-	438,755	-	-	-	438,755
Foreign currency translation adjustment	-	-	-	(112,717)	-	-	(112,717)
Share settled instrument for asset acquisition	-	-	13,605,112	-	-	-	13,605,112
Acquisition of joint venture	-	-	-	-	-	33	33
Net loss	-	-	-	-	(12,421,072)	28,754	(12,392,318)
Balance, December 31, 2019	**13,822,998**	**$ 31,882,205**	**$15,528,237**	**$ (112,717)**	**$ (22,690,186)**	**$ 28,787**	**$ 24,636,326**

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

1. Nature of operations

Taal Distributed Information Technologies Inc. (formerly Squire Mining Ltd.) (the "Company") is a reporting issuer in the Canadian provinces of British Columbia, Alberta and Ontario whose common shares are listed for trading on the Canadian Securities Exchange ("CSE") under the symbol "TAAL". The Company was incorporated under the Business Corporations Act (British Columbia) on March 23, 2011. On January 13, 2015 the Company changed its name from 0906251 B.C. Ltd. to Squire Mining Ltd. On December 11, 2019 the Company changed its name to TAAL Distributed Information Technologies Inc. The address of the Company's registered and records office is Suite 1800 – 510 West Georgia Street, Vancouver, BC, V6B0M3. From its incorporation to 2018, the Company was engaged primarily in the exploration of mineral resource properties. In August 2018, the Company completed a change of business and is now in the business of operating and managing blockchain infrastructure to solve complex computation problems to validate transactions on various blockchains.

2. Statement of compliance and basis of presentation

(a) Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The Company's business involves blockchain technology and digital assets, many aspects of which are not specifically addressed by the current IFRS guidance. The Company is required to make significant judgements in applying IFRS and its selection of accounting policies. The Company has disclosed its presentation, recognition and derecognition, and measurements of its digital assets elsewhere in these consolidated financial statement footnotes, including policies associated with the recognition of revenue as well as any significant assumption and judgements made by management. If specific guidance is enacted by the IASB in the future, the impact may result in changes to the Company's results from operations and financial position as presented.

The consolidated financial statements were authorized for issue by the Board of Directors on May 26, 2020.

(b) Consolidation

These consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries. All intercompany transactions, balances, revenues and expenses are eliminated on consolidation. The results of the operations related to certain subsidiaries acquired during the period are included from the date of acquisition (Note 5). Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Company. As at December 31, 2019, the Company had five wholly owned subsidiaries and one majority owned subsidiary.

2. Statement of compliance and basis of presentation, continued

Company Name	Country of Operation	Ownership Interest	Functional Currency
Arasystems Technology Corp.	Canada	100%	Canadian dollar ("CAD")
Aracore Systems Technology Corp.	Canada	75%	Canadian dollar ("CAD")
Freschette Limited	Antigua and Barbuda	100%	U.S. Dollar ("USD")
Freschette (Kazakhstan) LLP	Republic of Kazakhstan	100%	U.S. Dollar ("USD")
Taal Technologies SEZC	Cayman Islands	100%	U.S. Dollar ("USD")
Taal Trading SEZC	Cayman Islands	100%	U.S. Dollar ("USD")

Any reference to "the Company" throughout these consolidated financial statements refers to the Company and its subsidiaries.

(c) Fiscal year-end

During the prior year, the Company changed its fiscal year end from October 31 to December 31. The comparative period in these consolidated financial statements is for the 14-month period ended December 31, 2018 and as a result, are not directly comparable to amounts for the year ended December 31, 2019.

(d) Basis of measurement

These consolidated financial statements have been prepared in Canadian dollars on a historical cost basis, except for certain financial assets and liabilities which are measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether the price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at measurement date.

Fair value measurements are classified using the fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist.

2. Statement of compliance and basis of presentation, continued

(e) Liquidity

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to discharge its obligations and realize its assets in the normal course of operations for the foreseeable future. The Company incurred a net loss of $12,392,318 and received $391,710 of cash flows from its operating activities for the year ended December 31, 2019. In March 2020, the World Health Organisation declared a global pandemic related to the virus known as COVID-19. The expected impact on global commerce are anticipated to be far reaching. To date there have been significant stock market declines and the movement of people and goods has become restricted. Management is actively monitoring the situation and is taking appropriate steps as needed to ensure minimal disruption to the Company's operations.

Management believes that has sufficient resources to sustain operations for a period of at least twelve months from the date these consolidated financial statements were issued when considering the Company's working capital position at December 31, 2019, projected operating expenditures and cash burn, and subsequent conversion of the convertible debenture (See note 28) into common shares. Various risks and uncertainties may affect the Company's operations including, but not limited to, the viability of the economics of digital asset mining, liquidity of digital assets, and the Company's ability to execute its business plan. The Company's plan to mitigate these risks involves operational efficiency, revenue growth through its various streams, increasing mining profits, further reducing operational expense, and securing additional financing as required. Management also notes that COVID-19 presents risks and uncertainties that could affect the Company's operations. If the Company were required to obtain additional debt or equity financing, no assurance can be provided that such financing could be received on favorable terms, or at all.

These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

3. Significant accounting policies

Digital assets

Management has elected to apply the IFRIC guidance, whereby the entity may act as a broker-trader of digital assets who under IAS 2 paragraph 3(b), measure their inventories at fair value less cost to sell.

Digital assets, considered a level 2 financial instrument, are initially recognized on the consolidated statements of financial position at fair value, which is determined using the closing price on the date of receipt, and subsequently remeasured at each reporting date to fair value. Management applies average costing to calculate gains and losses on digital assets. Unrealized gains and losses, as well as realized gains or losses on the sales of digital assets to cash are included in the profit and loss in accordance with the Company's treatment of its digital assets as an actively traded commodity.

The Company's determination to classify its digital assets as current assets on its consolidated statement of financial position is based on (a) management's internal decision to sell its digital assets for cash almost immediately after they have been earned and (b) management's assessment that its digital assets have available liquid markets to which the Company may sell such assets at any given time.

3. Significant accounting policies, continued

Asset acquisitions

At the time of acquisition, the Company determines whether what is acquired meets the definition of a business, in which case, the transaction is considered a business combination, and otherwise it is recorded as an asset acquisition. The Company also considers the option to identify concentration of fair value in an acquisition; identifying whether substantially all of the fair value of gross assets acquired is concentrated in a single identifiable asset or group.

For an asset acquisition, the cost is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase and acquisition related costs are capitalized. No goodwill is recorded and no deferred tax asset or liability arising from the assets acquired or liabilities assumed are recognized upon the acquisition of the assets.

For a business combination, assets and liabilities assumed are generally measured at their acquisition-date fair values.

Intangible assets

Intangible assets acquired are measured on initial recognition at cost. Following the initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses (if any). Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization expense of intangible assets with finite lives is included within the cost of revenue category, consistent with the nature of the intangible assets.

The following are used in the calculation of amortization

Asset class	Amortization years
Software licenses	5
Domain names	15

Residual values and useful lives of intangible assets are reviewed at each reporting date or whenever changes in circumstances occur. In addition, intangible assets are subject to impairment testing as described in Note 3(e) below. When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in operations.

Equipment

Equipment acquired by the Company is initially recognized at its acquisition cost, including any costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by the Company’s management. Equipment is subsequently measured at cost less accumulated depreciation and any impairment charges.

3. Significant accounting policies, continued

The cost of servicing and repairs are recognized in the consolidated statements of loss and comprehensive loss as an operating expense, as incurred. Subsequent costs are capitalized if it is probable that the future economic benefit associated with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognized in the consolidated statements of loss and comprehensive loss as an expense, as incurred.

Depreciation commences when equipment is considered available for use. Depreciation is recognized in earnings or loss over the estimated useful lives of each part of an item of equipment and is in line with the pattern of use of the future economic benefits. Depreciation is computed on a straight-line basis and adjusted for any impairment and disposal charges.

The following rates are used in the calculation of depreciation and amortization:

Asset class	Amortization years
Hashing rigs	2
Infrastructure	2-3

An item of equipment and any significant parts initially recognized is derecognized upon disposal or when no future economic benefits are expected from the continued use of the asset. Any gain or loss arising on the disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statements of loss and comprehensive loss.

Depreciation methods, useful lives and residual values are reassessed each reporting date and any changes arising from the assessment are applied prospectively.

Impairment of non-financial assets

The Company's tangible and intangible assets are reviewed for indications of impairment at each financial position date. If indications of impairment exist, an asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in the consolidated statements of loss and comprehensive loss when incurred. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

3. Significant accounting policies, continued

Functional currency translation

In the Company's financial statements, all assets, liabilities and results from operations of subsidiaries with a functional currency other than the Canadian dollar are translated into Canadian dollars upon consolidation.

On consolidation, assets and liabilities have been translated into Canadian dollars at the closing rate at the reporting date. Income and expenses have been translated into Canadian dollars at the average rate over the reporting period. Exchange differences are included in accumulated other comprehensive loss and recorded as foreign currency translation adjustments. On disposal of a foreign operation, the related foreign currency translation adjustments are reclassified to profit or loss and are recognized as part of the gain or loss on disposal.

Revenue from contracts with customers

During the year ended December 31, 2019, the Company had three revenue generating streams – digital asset mining, software licensing services to third party and fleet management services.

The Company recognizes revenue from the provision of transaction verification services within various SHA-256 blockchains, and as consideration for these services, the Company receives digital assets. Revenue is measured based on the fair value of the digital asset received.

There is currently no specific definitive guidance in IFRS or alternative accounting frameworks for the accounting for the production and mining of digital assets and management has exercised significant judgement in determining the appropriate accounting treatment for the recognition of revenue. In the event authoritative guidance is enacted by the IASB, the Company may be required to change its policies which could result in a change in the Company's financial position and earnings.

The Company measures revenue at the fair value of the consideration received, which is the market value of the digital assets (refer to Digital Asset Note 3 (a)).

The Company generates revenue by licensing its software to third party and revenue is charged monthly as a percentage of digital assets generated by its cloud computing and pool management software. The services are delivered as the third party utilizes the Company's software to process transactions on the blockchains.

The Company generates revenue from managing third party hashing rigs and revenue is charged per active rig under management during the period. The Company's management team utilizes its knowledge of this business and monitors and maintains fleets on behalf of the third parties to ensure they are operating effectively and efficiently. The Company currently manages a fleet for one group and also licenses its software to the same group, which is controlled by the Debenture Holder.

Investment in joint arrangements

Investments in joint arrangements are accounted for using proportionate consolidation when the arrangement is considered to be a joint operation, and by use of the equity method in circumstances where the arrangement is considered to be a joint venture for accounting purposes.

Under proportionate consolidation, each party accounts for its proportionate share of an arrangement's assets, liabilities and operations statement items on a line for line basis within its own financial statements.

3. Significant accounting policies, continued

The equity method involves recording the initial investment at cost and subsequently adjusting the carrying value of the investment for the Company's proportionate share of the profit and loss, other comprehensive income and loss and any other changes in a joint venture's net assets, such as further investments and dividends.

The Company's proportionate share of a joint venture's profit or loss and other comprehensive income or loss is based on the most recent financial statements of that joint venture. Adjustments are made to align any inconsistencies between the Company's accounting policies and those of the joint venture before applying the equity method. Adjustments are also made to account for any depreciable assets based on their fair values at the acquisition date of the investment and for any impairment losses recognized by the joint venture.

Taxes

Income tax expense is comprised of current and deferred tax. Current and deferred income tax is recognized in the consolidated statements of loss and comprehensive loss except to the extent that it relates to a business combination or items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income.

Current income taxes are the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized in respect of all qualifying temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Deferred income tax assets and liabilities are presented as non-current

Reclassification of prior year balances

The Company may reclassify comparative balances for disclosure purposes as the Company's operations change and current year balances require additional detail within the consolidated financial statements and the accompanying notes. Such reclassifications do not result in a change to the prior year financial position or results from operations.

Cash and cash equivalents

Cash and cash equivalents consist of fiat currency and highly liquid investments with original maturities of three months or less and are readily convertible to known amounts of cash, subject to an insignificant risk of change in value. As at December 31, 2019 the Company's cash and cash equivalents consisted of cash of $12,672,778 and demand deposit accounts of $2,950,000. As at December 31, 2018 the Company had cash of $15,214,895 and demand deposit accounts of $4,029,200.

3. Significant accounting policies, continued

Trade and other receivables

Trade receivables are financial assets recognized initially at fair value and management reviews balances at each reporting date for any indicators of impairment and allowance required on existing balances.

Costs of revenues

Costs of revenues include direct costs to generate the revenue earned by the Company. The amounts include the cost of inputs and depreciation directly consumed to generate the revenue.

Basic and diluted loss per share

Basic loss per share for a given period is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method. Diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

Share capital

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, and share warrants are classified as equity instruments.

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as deductions, net of tax, from the proceeds.

Share-based payments

Equity-settled share-based payments for directors, officers and employees are measured at fair value at the date of grant and recorded as compensation expense in the consolidated financial statements. The fair value determined at the grant date of the equity-settled share-based payments is expensed using the graded vesting method over the vesting period based on the Company's estimate of shares that will eventually vest. 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.

Compensation expense on share purchase options granted to non-employees is measured at the earlier of the completion of performance and the date the options are vested using the fair value method and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received.

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 Black-Scholes valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations

3. Significant accounting policies, continued

All equity-settled share-based payments are reflected in contributed surplus until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital along with any consideration paid. If the options expire unexercised, the amount recorded remains in contributed surplus.

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.

Share-based payments for an asset acquisition

The Company acquired a group of assets that do not compromise a business by issuing a financial instrument. The identification of such financial instruments are within the scope of IFRS 2 – share based payments requires significant judgement given that it is based on the interpretation of the substance of the contractual arrangement. IFRS 2 applies to transactions where either the entity or the counterparty has a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments. While the cash payments may not be based on the price of the equity instruments, this would not prevent the instrument from being in the scope of IFRS 2. This standard will impact how the instruments are classified and measured both on initial recognition and subsequent measurement. The consideration paid will include future issuance of common shares related to a convertible note. The equity settled share-based payment transactions are measured at the fair value of the goods received.

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 Companies digital assets, production and operating costs, financing, and related transactions. Specifically, the Company considers the currencies in which digital assets are most commonly denominated and the currencies in which expenses are settled, by each entity, as well as the currency in which each entity receives or raises financing. Changes to these factors may have an impact on the judgement applied in the determination of the Company's functional currency.

Financial instruments

On November 1, 2017, the Company adopted IFRS 9 – Financial Instruments ("IFRS 9") which replaced IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected loss' impairment model. IFRS 9 also includes significant changes to hedge accounting. The Company adopted the standard retrospectively. IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities. The following accounting policies with respect to financial instruments reflect the adoption of IFRS 9.

Financial instruments are recognized on the date on which the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the rights to receive cash flow from assets have expired or have been transferred and the Company has transferred all the risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled, or expires. All financial instruments are initially recognized at fair value and measurement in subsequent periods is dependent upon the classification of the financial instrument.

3. Significant accounting policies, continued

Financial assets

The Company classifies its financial assets in the following categories: fair value through profit or loss, or amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss ("FVTPL") are initially recognized at fair value with changes in fair value recorded in profit or loss. The Company's marketable securities are recorded at FVTPL.

Amortized cost

Financial assets are classified at amortized cost if both of the following criteria are met and the financial assets are not classified or designated as at fair value through profit and loss: 1) the Company's objective for these financial assets is to collect their contractual cash flows and 2) the asset's contractual cash flows represent 'solely payments of principal and interest'. The Company's cash and cash equivalents, and receivables are recorded at amortized cost as they meet the required criteria.

Financial liabilities

Financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

Financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable and accrued liabilities.

Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs in making the measurements. The levels of the fair value hierarchy are defined as follows.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 – Inputs for the asset or liability that are not based on observable market data.

New and amended standards adopted by the Company

IFRS 16 - Leases

The Company has adopted IFRS 16 on January 1, 2019 and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. There was no material impact as a result of the Company's adoption of IFRS 16 and therefore, there were no reclassifications or adjustments arising from the new leasing rules recognised in the opening balance sheet on January 1, 2019.

3. Significant accounting policies, continued

The Company has applied the following practical expedient permitted by IFRS 16: IFRS 16 C10 states a lessee may elect not to apply the requirements in paragraph C8 to leases for which the lease term ends within 12 months of the date of initial application. The Company has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered before the transition date the Company relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an arrangement contains a Lease.

The Company has a services contract with a third party to host and maintain its fleet of hashing rigs. The Company concluded it does not qualify as a lease due the agreement including hosting space, power, support services and security. In this case the majority of the contract cost is related to power consumption, the Company has no control over the space and the contract can be terminated with 60-day notice. Payments associated with this agreement are expensed as incurred. The Company leases an office on a month-to-month basis. The Company does not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. Payments associated with these leases are recognized as the expenses are incurred.

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

• the supplier has a substantive substitution right;
• the Company has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
• the Company has the right to direct the use of the asset. The Company has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

New accounting standards issued but not yet effective

IFRS 9 and IFRS 7 – Financial instruments and disclosure

In September 2019, the IASB issued amendments to IFRS 9 and IFRS 7, which concludes phase 1 of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate.

The amendments include a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or hedging instrument. Application of the reliefs is mandatory. The first three reliefs provide for the assessment of whether a forecast transaction (or component thereof) is highly probable; assessing when to reclassify the amount in the cash flow hedge reserve to profit and loss; the assessment of the economic relationship between the hedged item and the hedging instrument.

The amendments to IFRS 7 and 9 are effective for the annual reporting periods beginning after December 31, 2019 and apply prospectively. This will not have a material impact to the Company upon adoption.

3. Significant accounting policies, continued

Amendments to IFRS 3 *Business Combinations*

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations*. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. The amendments to IFRS 3 are effective for annual reporting periods beginning on or after December 31, 2019 and apply prospectively. Earlier application is permitted and the Company has elected to early adopt.

4. Significant accounting judgements and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods, if the review affects both current and future periods. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The significant judgements and estimates made by management in applying accounting policies primarily relate to the following, as applicable, and further details of assumptions made are disclosed in individual notes through the consolidated financial statements.

Useful life and depreciation of hashing rigs

Management is depreciating hashing rigs over two years on a straight-line basis. The hashing rig is used to calculate algorithms on the blockchain and generate rewards. The rate at which the Company generates digital assets and, therefore, consumes the economic benefits of its hashing rigs is influenced by several factors including the following:

- the complexity of the blockchain transaction 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 technological obsolescence reflecting rapid development in the hashing rigs such that more recently developed hardware is more economically efficient to run in terms of digital assets transaction processed as a function of operating costs.

- primarily power costs (i.e., the speed of hashing rigs) evolution in the industry is such that newer hashing rig models generally have faster and more efficient hashing capacity combined with lower operating costs through lower overall power consumption.

- based on the Company’s, and the industry’s short life cycle to date, management is limited by the market data available. Furthermore, the data available also includes data derived from the use of economic modelling to forecast future digital assets and the assumptions included in such forecasts, including digital assets’ price and network difficulty, are derived.

4. Significant accounting judgements and estimates, continued

- from management's assumptions which are inherently judgmental. Based on current data available, management has determined that the straight-line method of depreciation over two years best reflects the current expected useful life of hashing rigs. Management will review this estimate at each reporting date and will revise such estimates as and when data becomes available. The hashing rigs have been assumed to have no residual value at the end of their useful life. Management will review the appropriateness of its assumption of no residual value at each reporting date.

- management also assesses whether there are any indicators of impairment of hashing rigs at the end of each reporting period and if any such indication exists, the Company will estimate the recoverable amount of its hashing rigs.

Controlled entities and joint arrangements

The Company was party to certain arrangements over which it does not have control. Judgment is required in determining whether joint control over these arrangements exists and, if so, which parties have joint control and whether each arrangement is a joint venture or a joint operation. In assessing whether the Company has joint control, it analyses the activities of each arrangement and determine which activities most significantly affect the returns of the arrangement over its life. These activities are determined to be the relevant activities of the arrangement. If unanimous consent is required over the decisions about the relevant activities, the parties whose consent is required would have joint control over the arrangement. The judgments around which activities are considered the relevant activities of the arrangement are subject to analysis by each of the parties to the arrangement and may be interpreted differently. When performing the assessment, the Company generally considers decisions about activities such as managing the asset while it is being designed, developed and constructed, during its operating life and during the closure period. It may also consider other activities including the approval of budgets, expansion and disposition of assets, financing, significant operating and capital expenditures, appointment of key management personnel, representation on the board of directors and other items. When circumstances or contractual terms change, the Company reassesses the control group and the relevant activities of the arrangement.

If joint control over the arrangement exists, an assessment of whether the arrangement is a joint venture or joint operation is required. This assessment is based on whether the Company separately has rights to the assets and obligations of the arrangement, which would suggest a joint operation, or whether in fact it has rights to the net assets of the arrangement, suggesting that the arrangement is a joint venture. In making this determination, we review the legal form of the arrangement, the terms of the contractual arrangement and other facts and circumstances. In a situation where the legal form and the terms of the contractual arrangement do not give the Company rights to the individual assets and liabilities of an arrangement, an assessment of other facts and circumstances is required, including whether the activities of the arrangement are primarily designed for the provision of output to the parties and whether the parties are substantially the only source of cash flows contributing to the arrangement. The consideration of other facts and circumstances may result in the conclusion that a joint arrangement is a joint operation. This conclusion requires judgments that are specific to each arrangement.

During the year ended December 31, 2019 and the fourteen-month period ended December 31, 2018, the Company made specific judgements involving these matters in respect to the following transactions;

4. Significant accounting judgements and estimates, continued

Accounting for 75% interest in Aracore Technology Corp. ("Aracore")

Prior to acquisition of control (see Note 9) based on an assessment of relevant facts and circumstances, primarily the requirement for unanimous agreement on management decisions relating to the development and operation of the arrangement, the Company concluded that Aracore Technology Corp. was a jointly controlled entity. Although the Company had a 75% interest in Aracore, it did not have control over the relevant activities of Aracore. Any major business decision required unanimous board approval. The Company's interest was further considered to be a joint venture rather than a joint operation, as the form of the investment in a separate legal entity is, on balance, more relevant than any other facts and circumstances which could be suggestive of a joint operation.

Accounting for 75% interest in Arasystems Technology Corp. ("Arasystems")

Prior to 100% acquisition of Arasystems (see Note 9), although the Company had a 75% interest in Arasystems, it did not have control over the relevant activities of Arasystems. Any major business decision required unanimous shareholder approval, and therefore the Company has concluded that Arasystems was also a jointly control entity. The Company's interest is further considered to be a joint venture rather than a joint operation, as the form of the investment in a separate legal entity is, on balance, more relevant than any other facts and circumstances which could be suggestive of a joint operation.

Share-based payments

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. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 14

Fair value measurement of financial instrument

The Company measures certain financial instruments based on current prices. If the market for financial instruments is not active, fair value is established by using valuation techniques which can include reference to other instruments, discounted cash flow analysis, and various pricing models refined to reflect the instruments specific circumstances.

Liquidity

The assumption that the Company is a going-concern and will continue its operations for the foreseeable future is a judgement, as in the decision to formally disclose material uncertainties in the connection. The relevant factors considered by management are disclosed in Note 2.

(Stated in Canadian dollars)

4. Significant accounting judgements and estimates, continued

Impairment

Judgement is required in assessing whether certain factors would be considered an indicator of impairment. Management consider both internal and external information to determine whether there is an indicator of impairment present and, accordingly, whether impairment testing is required. The information we consider in assessing whether there is an indicator of impairment includes but is not limited to, market transactions for similar assets, bitcoin prices, interest rates, market capitalization and operating results. As a December 31, 2019, as a result of decreased bitcoin prices and the upcoming reward havening, management reviewed the Company's transaction processing fleet for impairment under the requirements of IAS 36, Impairment of Assets and accordingly, performed an impairment test (See note 10).

When impairment testing is required, discounted cash flow models are used to determine the recoverable amount of respective assets. These models are prepared internally or with assistance from third-party advisors when required. When market transactions for comparable assets are available, these are considered in determining the recoverable amount of assets. Significant assumptions used in preparing discounted cash flow models include digital asset pricing, volatility, network variables, operating costs, capital expenditure, and discount rates. These inputs are based on management's best estimates of what an independent market participant would consider appropriate. Change in these inputs may alter the results of impairment testing, the amount of the impairment charges recorded in the consolidated statements of loss and comprehensive loss and the resulting carrying value of the assets.

5. Asset acquisition

On May 1, 2019, the Company acquired Freschette Limited ("Freschette"), which owned a fleet of hashing rigs in the Republic of Kazakhstan, through the issuance of a convertible debenture (see Note 13). Management acquired these assets in line with the change of business to pursue additional revenue streams.

The aggregate consideration for Freschette was $14,175,421, which consisted of $13,605,112 associated with the equity settled instrument (see Note 13) and other transaction expenses of $570,309. The Freschette acquisition was treated as an asset acquisition for accounting purposes due to the concentration of value in a single asset class. The Company became owners of 20,500 hashing rigs and prepaid contract services. The fair value of amounts recorded as assets on the date of the acquisition are as follows:

Assets acquired		
Equipment	$	12,559,115
Receivable		1,342
Prepaid expenses		1,614,964
	$	14,175,421

6. Accounts receivable

Accounts receivable at December 31, 2019 and 2018, consisted of the following and are due from the normal course of business.

		December 31, 2019		December 31, 2018
Trade amounts receivable	$	2,219,781	$	6,760

(Stated in Canadian dollars)

6. Accounts receivable, continued

As at December 31, 2019 all of the trade amounts receivable were due from a single customer. Management expects this balance to be collectable in full and therefore, no allowance for doubtful accounts cash considered necessary.

7. Digital assets

Below are the digital assets received and transacted:

Balance, December 31, 2018	$ -
Digital assets mined	15,489,528
Digital assets received for accounts receivable	465,389
Digital assets traded for fiat currency	(15,504,371)
Digital assets used to repay vendor payables	(1,679,347)
Revaluation of digital assets (i)	(10,070)
Gain on sale of digital assets	1,293,017
Foreign exchange translation	(4,745)
Balance, December 31, 2019	$ 49,401

(i) Digital assets held are considered Level 2 financial instruments and re-valued mark-to-market each reporting period on the fair value price of digital assets as of the reporting date.

8. Prepaid expenses and other current assets

	December 31, 2019	December 31, 2018
Trade prepaid	$ 106,646	$ 26,770
Other assets	57,812	-
Equipment upgrade purchase prepayment	2,189,114	-
Prepayments to service providers	1,530,967	-
	$ 3,884,539	$ 26,770

9. Investments in joint ventures

On June 6, 2018, the Company entered into a shareholders' agreement and formed an incorporated joint venture, Aracore, to undertake the design, development, and manufacture of application specific integrated circuits (ASIC) chips for blockchain transaction processing for bitcoin and other digital assets.

The Company initially was granted a 66 2/3% interest in Aracore and, after providing 100% of the initial funding of Aracore in the amount of US$3,000,000, its ownership percentage increased to 75%. During the fourteen month period ended December 31, 2018, the Company advanced $6,435,846 to this joint venture, with the carrying amount of the Company's investment offset by the Company's proportionate share of the $4,066,301 loss incurred by Aracore during 2018. The residual investment in the accounts of the Company is therefore substantially representative of the carried interest, in Aracore, of the minority venture. During the year ended December 31, 2019, Aracore repaid $667,400 to the Company, with the carrying amount of the Company's investment offset by the Company's proportionate share of the $127,253 loss incurred by Aracore during the period. The minority venture is also entitled to a royalty on gross revenues generated from the sale of ASIC chips by Aracore equal to 1.5% until the Company has recovered 100% of its capital contributions in Aracore and 2.5% thereafter.

9. Investments in joint ventures, continued

On August 15, 2019, in accordance with the joint venture agreement, the joint venture was terminated. Although the Company had a 75% interest in Aracore prior to termination, it did not have control over the relevant activities of Aracore. At the date of termination, the Company assumed effective control and Aracore was consolidated with a 25% non-controlling interest partner. The Company accounted for the transaction as an asset acquisition. As such, the assets acquired, predominantly of cash, were recognized at cost based on their relative fair values. The Company had a loss on acquisition of Aracore of $1,649,509 that was recorded in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019.

On August 14, 2018, the Company entered into a shareholders' agreement and formed a second incorporated joint venture, Arasystems, to manage the development, manufacturing and assembly of the Company's blockchain transaction processing systems. At December 31, 2018, the Company owned a 75% interest in Arasystems. During the period ended December 31, 2018, the Company provided 100% of the funding of Arasystems, in the amount of $260,328, with the Company's investment offset by its proportionate share of the $195,104 loss incurred by Arasystems during 2018. The residual investment in the accounts of the Company is therefore substantially representative of the carried interest, in Arasystems, of the minority venturer. The Company concluded that the investment in Arasystems is a joint venture.

By an agreement dated January 12, 2019, the Company acquired the remaining 25% interest in the Arasystems joint venture from Future Farm Development Ltd for consideration of:

- $1 in cash, and
- A conditional promissory note in the amount of $80,000 reflecting the costs and expenses incurred by Future Farm Development Ltd in connection with its involvement with Arasystems.

The Company accounted for the transaction as an asset acquisition. As such, the assets acquired were recognized at cost based on their relative fair values. The Company uses Level 3 inputs for its valuation methodology for the promissory note as its fair value was determined by using a probability weighted average model based on various possible outcomes. The fair value of the promissory note is estimated at $19,350. The Company determined that the estimated fair values of the net assets acquired are minimal. Thus, a loss of $84,361 was recorded in the statement of loss and comprehensive loss for the year ended December 31, 2019.

(Stated in Canadian dollars)

10. Equipment

	Estimated useful life	December 31, 2019	December 31, 2018
Infrastructure	2-3 years	$ 29,737	$ -
Hashing rigs (i)	2 years	12,559,115	-
		$ 12,588,852	$ -
Less: Impairment charges (ii)		5,840,057	-
Less: Accumulated depreciation and amortization		6,727,390	-
Total equipment, net		$ 21,405	$ -

(i) See Note 5 as it pertains to as the addition to the hashing rigs relates to the Freschette acquisition.

(ii) Management assessed the indicators of possible impairment to digital asset transaction processing equipment, as at December 31, 2019, and determined that impairment indicators existed. Due to the decline in the market value of rigs, weakening prices of digital assets and volatility with the blockchain network difficulties during the year, an impairment analysis was completed and determined that an impairment existed.

11. Intangible assets

	Estimated useful life	December 31, 2019	December 31, 2018
Software license	5 years	$ 2,860,258	$ -
Domain names	15 years	135,693	-
		$ 2,995,951	$ -
Less: Accumulated depreciation and amortization		429,039	-
		$ 2,566,912	$ -

12. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consisted of the following:

	December 31, 2019	December 31, 2018
Trade accounts payable	$ 3,018,037	$ 86,764
Accrued liabilities	1,588,097	-
	$ 4,606,134	$ 86,764

13. Convertible debenture

On May 1, 2019, the Company completed the Freschette asset acquisition (see Note 5) by way of issuance of a convertible debenture with a principal amount of $24,148,077 to seller of Freschette, Calvin Ayre (the "Debenture Holder"). The convertible debenture is unsecured, accrues interest at 15% per annum, and matures on May 1, 2020. The instrument becomes convertible in whole or part at any time after nine months of the issuance date at the option of the holder into common shares at $4.50 per a fixed number of non-voting common shares, subject to certain adjustments. If a notice of conversion has not been received prior to March 27, 2020, the control and ability to convert the note reverts to the Company and, at the Company's option, the Company may satisfy, on the maturity date, all or any portion of the instrument by delivering the holder that number of common shares pursuant to a formula based on its then current trading price and subject to a floor of $3.00 per share. At no time during the life of the convertible debenture does the holder have the right to require the Company to make a cash repayment.

Due to the Company's conclusion that the acquisition of Freschette constituted an acquisition of assets, the Company determined that convertible debenture was in the scope of IFRS 2: Share-based Payments for an Asset Acquisition. The Company measured the equity settled instrument at the fair value of the assets acquired which was determined to be $13,605,112.

There was no contingent consideration associated with the debenture.

14. Share capital

a) Authorized:

Unlimited common shares without par value.
Unlimited non-voting participating shares without par value.

b) Issued: As of December 31, 2019, 13,822,998 (December 31, 2018: 12,345,517) common shares were issued and outstanding. On December 9, 2019, the Company completed a 10:1 share consolidation of all its issued and outstanding common shares. All share and per share information included in these consolidated financial statements reflect the 10:1 share consolidation.

During the year ended December 31, 2019, 1,477,480 (2018: 584,411) shares were issued for the exercise of options and warrants. For the year ended December 31, 2019, the total cash proceeds of $1,208,686 (2018: $730,073) has been received.

On May 9, 2018, the Company completed the first tranche of a non-brokered private placement, issuing 800,000 units at a price of $2.50 per unit for gross proceeds of $2,000,000. Each unit was comprised of one common share and one-half (1/2) of a share purchase warrant, with each whole warrant entitling the holder to purchase an additional common share at $5.00 for a period of two years from issuance.

On May 16, 2018, the Company closed the second tranche of a non-brokered private placement, issuing an additional 143,000 units with the same composition as those issued pursuant to the May 9, 2018 tranche for gross proceeds of $357,500.

An additional 374,450 units with the same composition as those issued pursuant to the May 9, 2018 and May 16, 2018 tranches for gross proceeds of $936,125. The Company paid $180,600 cash, 11,582 agent units with the same composition as the private placement units and issued 83,822 agent warrants, exercisable on the same terms as the private placement warrants, as finder's fees in connection with the

May 9, May 16, and May 29, 2018 private placement tranches. The Company determined the fair value of the agent warrants to be $174,392 based on the Black-Scholes option pricing model.

(Stated in Canadian dollars)

14. Share capital, continued

On August 10, 2018, the Company completed a private placement of 6,375,000 units at $4.00 per unit for gross proceeds of $25,500,000. Each unit consists of one common share and one-half (1/2) of a transferable share purchase warrant to purchase one additional common share at $8.00 until August 10, 2020. The Company also paid finder's fees in connection therewith of 95,625 agent units with the same composition as the private placement. The Company determined the fair value of the agent unit shares to be $382,500 and the fair value of the agent unit warrants to be $95,625 based on the Black-Scholes option pricing model.

During the fourteen months ended December 31, 2018, 327,744 shares were issued for the exercise of options, and 256,667 shares were issued for the exercise of warrants.

c) Stock options

The Company has a stock option plan whereby share purchase options are granted in accordance with the policies of regulatory authorities at an exercise price equal to the market price of the Company's shares on the date of the grant and, unless otherwise stated, vest on the grant date and with a term not to exceed five years. Under the plan, the board of directors may grant up to 10% of the issued number of shares outstanding as at the date of the share purchase option grant.

A summary of the Company's share purchase options outstanding at December 31, 2019 and December 31, 2018 and changes are presented below:

	Options		Weighted Average Exercise Price
Outstanding and exercisable at October 31, 2017	97,500	$	1.20
Cancelled	(212,500)	$	3.00
Granted	903,333	$	2.80
Exercised	(327,744)	$	1.60
Outstanding and exercisable at December 31, 2018	460,589	$	3.30
Expired	(312,443)	$	3.29
Granted	300,000	$	2.89
Exercised	(38,147)	$	1.50
Outstanding at December 31, 2019	410,000	$	3.13

As of December 31, 2019, the Company had 305,000 exercisable options with a weighted average exercise price of $2.95 and a remaining average life of 1.86 years. The weighted average share price at date of exercise for exercised options was $2.94 for the year-ended December 31, 2019 and $3.38 for the fourteen months ended December 31, 2018.

(Stated in Canadian dollars)

14. Share capital, continued

As at December 31, 2019, share purchase options outstanding, detailed below, have a weighted average remaining contractual life of 3.20 years (December 31, 2018: 0.59 years).

Expiry date		Exercise price	Outstanding	
January 12, 2020	$	1.50	20,000	*
January 21, 2020	$	2.80	20,000	*
August 10, 2020	$	4.00	30,000	
September 7, 2020	$	7.70	20,000	
December 11, 2020	$	2.80	20,000	
January 21, 2021	$	2.45	30,000	
July 23, 2020	$	3.65	5,000	
August 30, 2020	$	3.65	20,000	
September 12, 2021	$	3.65	20,000	
December 9, 2022	$	1.10	75,000	
September 12, 2024	$	3.65	140,000	
October 1, 2024	$	3.65	10,000	
			410,000	

* Subsequent to December 31, 2019, 40,000 share purchase options expired (see Note 28).

The fair value of the options granted was estimated using the Black-Scholes option pricing model with the following estimated assumptions during the year ended December 31, 2019:

Risk-free interest rate	1.93%
Expected dividend rate	0%
Expected volatility	160.45%
Expected life of options	2 years

The weighted average fair value of options granted for the year-ended December 31, 2019: $2.38

The Company utilized assumptions in the estimation of fair value of stock-based compensation for the fourteen months ended December 31, 2018, as follows:

Risk free rate	1.80%-2.04%
Dividend rate	0%
Expected volatility	118%-158%
Expected life of options	1-2 years

The weighted average fair value of options granted for December 31, 2018: $1.85

(Stated in Canadian dollars)

14. Share capital, continued

d) Warrants:

Agent's warrants:

A reconciliation of agent's warrants outstanding at as at December 31, 2019 and 2018 is presented below:

	Agent's warrants	Weighted average exercise price
Outstanding, at October 31, 2017	40,250	$ 0.80
Issued	193,425	$ 4.53
Outstanding, at December 31, 2018	233,675	$ 3.88
Exercised	(56,000)	$ 0.80
Expired	(40,250)	$ 0.80
Outstanding and exercisable, at December 31, 2019	137,425	$ 6.04

As at December 31, 2019, agent's warrants outstanding, detailed below, have a weighted average remaining contractual life of 0.46 (December 31, 2018: 1.22) years:

Expiry Date	Exercise Price	Outstanding
May 16, 2020	$ 5.00	65,450
May 29, 2020	$ 5.00	24,162
August 10, 2020	$ 8.00	47,813
		137,425

(Stated in Canadian dollars)

14. Share capital, continued

Share purchase warrants:

	Share Purchase Warrants	Weighted Average Exercise Price
Outstanding and exercisable at October 31, 2017	636,667	$ 0.80
Issued	4,859,558	$ 6.10
Exercised	(256,667)	$ 0.80
Outstanding and exercisable at December 31, 2018	5,239,558	$ 5.70
Exercised	(1,383,333)	$ 0.80
Expired	(10,000)	$ 0.80
Outstanding and exercisable at December 31, 2019	3,846,225	$ 7.49

As at December 31, 2019, share purchase warrants outstanding, detailed below, have a weighted average remaining contractual life of 0.57 (December 31, 2018: 1.22) years:

Expiry Date	Exercise Price	Outstanding
May 16, 2020	$ 5.00	471,500
May 29, 2020	$ 5.00	187,225
August 10, 2020	$ 8.00	3,187,500
		3,846,225

15. Financial instruments and risk management

The Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies, and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these consolidated financial statements.

a) Foreign currency risk:

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and other foreign currencies will affect the Company's operations and financial results. The Company settles its revenue and incurs expenses in US dollars and therefore the fluctuation in foreign currencies in relation to the Canadian dollar will consequently impact the profitability of the Company and may also affect the value of the Company's assets and liabilities and the amount of equity. The only foreign currency the Company holds are US Dollars and a 10% decline against the Canadian Dollar would negatively impact the Company by approximately $915,000.

b) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not exposed to significant interest rate risk relating to its convertible debenture and accounts payable. The interest rate on the convertible debt is fixed and the accounts payable are not subject to any interest. Interest rate risk is limited to potential decreases on the interest rate offered on cash held with chartered Canadian financial institutions. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash is limited because of the short-term nature of the investments.

c) Price risk:

Price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices, other than those arising from interest rate risk and foreign currency risk. The Company is not exposed to any significant price risks with respect to its financial instruments.

d) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consists primarily of cash and cash equivalents, trade and other receivables. Cash and cash equivalents are maintained with highly rated financial institutions and may be redeemed upon demand. The company is exposed to a significant concentration of credit risk with respect to its trade accounts receivable balance because of its dependence on one customer (see Note 6). All accounts receivable balances are expected to be settled in full when due and because of the nature of the counterparty.

The Company's maximum exposure to credit risk at the end of any period is equal to the carrying amount of these financial assets as recorded in the consolidated statements of financial position.

15. Financial instruments and risk management, continued

e) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the Company's cash flow projections. If future cash flows are fairly uncertain, liquidity risk increases. The Company manages liquidity risk through the management of its capital structure. The Company ensures that there is sufficient capital in order to meet short-term operating requirements, after taking into account the Company's holdings of cash and cash equivalents. The Company's cash and cash equivalents are held in corporate bank accounts available on demand.

f) Halving risk

In May 2020, the bitcoin mining reward halved to 6.25 bitcoin per block mined, or approximately 900 bitcoin per day in aggregate. At the reward level of 6.25 coins, this halving may have a potential adverse impact on the Company's profitability. It is unlikely that the network difficulty rate and price would remain at current levels when the bitcoin rewards per block are halved, given the historical data on bitcoin prices and network difficulty rate after a halving effect. The Company believes that the halving of the block mining rewards will be offset by other market fundamentals including network difficulty rate and price of bitcoin which may offset the impact of halving sufficiently for the Company to maintain its profitability. Management notes there is a risk the halving will have adverse impacts on the profitability of blockchain mining and render the Company unprofitable.

g) Risk of not realizing the benefits of forks

Although no group or individual controls the source code to a blockchain network, if enough participants in the network representing a significant majority of the Hash rate were to agree on certain modifications, those changes could be implemented and the blockchain network would then be subject to those new protocols and modified software. If, however, less than a significant majority consent by downloading the altered software or upgrading and implementing the changes to the software, then, two networks will emerge: one represented by the pre-modification source code, and the other a new network using the modified source code. This division is described as a "fork" in the network, so-called because the modification will result in two incompatible "prongs."

The Company may not be able to realize the economic benefit of a fork, either immediately or ever, which could adversely affect its value. If the Company holds a digital asset that splits into two assets, industry standards would dictate that the Company would be expected to hold an equivalent amount of the old and new assets following the fork. However, the Company may not be able, or it may not be practical, to secure or realize the economic benefit of the new asset for various reasons, such as risks related to custody of new assets or the holdings in the old assets, or that the costs of taking possession and/or maintaining ownership of the new digital asset exceed the benefits of owning it. Additionally, laws, regulation or other factors may prevent us from benefitting from the new asset even if there is a safe and practical way to custody and secure the new asset.

(Stated in Canadian dollars)

15. Financial instruments and risk management, continued

Determination of fair value:

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The financial position carrying amounts for cash and cash equivalents, amounts receivable, accounts payable, promissory note payable and accrued liabilities approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

16. Management of capital risk

The Company manages its cash and cash equivalents, and common shares as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its businesses and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and adjusts it considering changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

17. Related party transactions

Key management personnel of the Company are current members of the Board of Directors, as well as senior management, including the Chief Executive Officer and the Chief Financial Officer. Key management personnel compensation includes:

	December 31, 2019	December 31, 2018
Management fees, salaries and wages	$ 879,080	$ 1,069,064
Professional fees	-	76,304
Share based payments	387,755	725,000
	$ 1,266,835	$ 1,870,368

These transactions are in the normal course of operations and were measured by amounts agreed upon by the transacting parties.

(Stated in Canadian dollars)

17. Related party transactions, continued

During the year ended December 31, 2019, the Company was charged $325,584 in software consulting services to nChain Limited ("nChain") in connection with the further development of the Company's proprietary cloud computing management and pooling software. Stefan Matthews, Chairman of the Board, is also the Chairman of nChain Group Holdings Ltd., an affiliate of nChain.

18. Non-controlling interest

January 1, 2019	$ -
Acquisition of joint venture	33
Net income attributable to non-controlling interest	28,754
December 31, 2019	$ 28,787

On August 15, 2019, in accordance with the joint venture agreement, the Aracore joint venture was terminated (see Note 9) and a change of control occurred, resulting in Aracore being consolidated with a 25% non-controlling interest. $33 represents the minority interests initial investment in the common shares of Aracore.

19. Supplemental cash flow information

Non-cash transactions included in the working capital items consist of the following:

	December 31, 2019	December 31, 2018
Digital assets received for accounts receivable	$ (465,389)	$ -
Digital assets used to repay vendor payables	1,679,347	-

Non-cash investing and financing transactions consist of the following:

	December 31, 2019	December 31, 2018
Acquisition of intangible assets included in accounts payable and accrued liabilities	$ 1,969,114	$ -
Issuance of equity settled instrument in connection with asset acquisition	13,605,112	-
Issuance of promissory note payable in joint venture acquisition	19,350	-
Acquisition of joint venture	33	-
Acquisition of domain name included in accounts payable	136,451	-

(Stated in Canadian dollars)

20. Amounts related to terminated acquisition

Receivable related to terminated acquisition

	December 31, 2019	December 31, 2018
Shipping expenses	$ 3,092,882	$ -
Prepayments to service providers	19,004,645	-
	$ 22,097,527	$ -

Payable related to terminated acquisition

	December 31, 2019	December 31, 2018
Payables due to Debenture Holder	$ 17,514,618	$ -
	$ 17,514,618	$ -

On November 30, 2018, as updated on March 25, 2019, the Company entered into a non-binding letter of intent and exclusivity agreement with Bigfoot Holdings Group Ltd. (“CoinGeek”) to purchase cloud computing assets owned by CoinGeek and certain of its affiliates representing approximately 3,000 pethash/s (PH/s) of computing power and other blockchain related assets, for total consideration to be determined by negotiation between the parties and paid in common shares of the Company based on a price of $0.45 per share (the “CoinGeek Transaction”).

On May 28, 2019, as updated on July 30, 2019, in connection with the CoinGeek Transaction, the Company entered into a letter agreement with the Debenture Holder (see Note 13), Cunning Hams Limited (“Cunning Hams”) and Tansley Equipment Limited (“Tansley”) to directly or indirectly purchase all of the issued and outstanding shares of four corporations, consisting of Cunning Hams, Tansley, Woodland Technology Group Inc. (“Woodland” and, together with Tansley and Cunning Hams, the “Group”) and Laser Lollypop Limited (the "Letter Agreement Transaction").

On June 4, 2019, based on the Letter Agreement Transaction, the Company entered into a binding letter of intent with Core Scientific, Inc. (the “Core LOI”) to relocate 41,166 blockchain hashing rigs to Core Scientific’s facility in the United States. Additionally, on July 9, 2019 the Company entered into a memorandum of understanding (the "MOU") with the Debenture Holder and certain of his affiliates and Freschette pursuant to which Freschette agreed to act as agent for Cunning Hams and other affiliates of the Debenture Holder with respect to entering into and completing a hosting agreement with local hosting provider and to provide prepayments for the buildout of suitable facilities in the Republic of Kazakhstan for hosting the equipment of Cunning Hams and other affiliates of the Debenture Holder in that jurisdiction.

On August 29, 2019, the Company entered into a share purchase agreement, which terminated and replaced the Letter Agreement Transaction, with the Debenture Holder and the Group to purchase all of the issued and outstanding shares of the Group. The Group owned and operated a fleet of blockchain hashing rigs in Canada, the United States and China, representing approximately 2,892 petahash per second of computing power. As consideration, the Company agreed to (i) issue 800,000 common shares in the capital of the Company, (ii) issue 8,270,000 non-voting participating shares, a new class of shares to be created in the capital of the Company, and (iii) enter into a profit-sharing agreement with the respect to the assets of the Group.

(Stated in Canadian dollars)

20. Amounts related to terminated acquisition, continued

On November 8, 2019, the Company agreed to terminate the share purchase agreement dated August 29, 2019 between the Company, the Debenture Holder and the Group. The Company entered into a termination agreement pursuant to which the Debenture Holder agreed to reimburse all costs expended by the Company in connection with the Core LOI and the MOU (the "Returned Funds"), and the Company agreed to assign the hosting agreement entered into in respect to the MOU to the debenture holder or his designates. In connection to Termination Acquisition the Company paid $22,097,527 related to shipping expenses and prepayments to service providers and received $17,514,618 in reimbursements related to these payments during the year. Subsequent to December 31, 2019, the Company received the final payment of the Returned Funds in the amount of $4,582,909.

The Company will continue to recognize hosting prepayments as an asset and the received Returned Funds related to unassigned hosting agreements in the amount of $17,514,618 as a liability until such time as the hosting agreement is assigned to the Debenture Holder or his designates. Following an assignment of the agreement, the asset and the liability will be eliminated.

21. Operating Segments

As a result of the asset acquisition (see Note 5) on May 1, 2019, the Company has only one operating segment: mining of digital assets on various blockchains and providing services to third parties related to this operation. Certain geographical information has been provided as follows:

Revenue

	Canada	Kazakhstan	Cayman Island	Total
Digital assets mined	$ -	$ -	$ 15,489,528	$ 15,489,528
Fleet management services	-	-	1,087,893	1,087,893
Software licensing	568,383	-	-	568,383
	$ 568,383	**$ -**	**$ 16,577,421**	**$ 17,145,804**

Assets

	Canada	Kazakhstan	Cayman Island	Total
Equipment	$ 14,946	$ -	$ 6,459	$ 21,405
Intangible assets	2,430,638	-	136,274	2,566,912
	$ 2,445,584	**$ -**	**$ 142,733**	**$ 2,588,317**

22. Marketable securities

Marketable securities are classified as FVTPL financial assets and, accordingly, changes in their fair values are reported in operations on a quarterly basis.

Marketable securities were comprised of 730,000 common shares of Universal mCloud Corp., a public company trading on the TSX Venture Exchange. The adjustment to fair market value at the end of the period resulted in an unrealized loss of $43,800 for the fourteen months ended December 31, 2018.

During the year ended December 31, 2019 all the marketable securities were sold for the total proceeds of $292,200 and the Company realized a gain on sale of $80,500.

(Stated in Canadian dollars)

23. License

By an agreement dated December 12, 2017, as amended January 29, 2018, the Company purchased an 18% interest in an exclusive eight-year license (the "License") to commercially exploit a patented communications technology designed to create autonomous communication networks without the need to connect to the internet, cellular or other communications infrastructure. The License relates solely to commercial applications for the mining resource industry worldwide. In consideration, the Company paid $225,000 cash to the seller, who itself acquired the License from its original owner in February 2017.

As at December 31, 2018, the Company had no future plans for the use of the License and has therefore written-off the cost of $225,000 during the fourteen months ended December 31, 2018.

24. Exploration and evaluation assets

During the fourteen months ended December 31, 2018 the Company sold all of its interest in exploration and evaluation assets for nominal consideration and recorded the loss on sale of $133,378. However, if the purchaser or other third party to whom the purchaser sells, assigns, transfers or otherwise disposes, directly or indirectly, all or any part of the Star Property completes, within 10 years following the agreement date, a listing of its shares by way of initial public offering, reverse takeover or otherwise on a recognized stock exchange or quotation system, the Company shall also receive $150,000 worth of shares of the purchaser or the third party purchaser.

25. Project investigation costs

Project investigation costs included in the consolidated statements of loss and comprehensive loss are related to investigation and due diligence of potential business acquisitions and consist of the following:

	December 31, 2019	December 31, 2018
Consulting fees	$ -	$ 157,962

(Stated in Canadian dollars)

26. Income taxes

The provision for income taxes reported differs from the amounts computed by applying statutory Canadian federal and provincial tax rates to the loss before tax due to the following:

	December 31, 2019	December 31, 2018
Loss for the year before income taxes	$ (12,392,318)	$ (9,779,750)
Statutory tax rate	27%	27%
Recovery of income taxes computed at statutory rates	(3,346,000)	(2,641,000)
Share based payments	118,000	403,000
Non-deductible expenditures	(122,000)	1,134,000
Differing effective tax rate on loss in foreign jurisdiction	1,910,000	-
Unrecognized deferred tax assets	3,203,000	1,104,000
Impact of foreign exchange and other	(1,763,000)	-
Total income tax (expense) recovery	$ -	$ -

The Company has the following deductible temporary differences for which no deferred tax assets have been recognized:

	December 31, 2019	expiry dates	December 31, 2018
Non-capital losses	$ 15,162,000	2029-2039	$ 4,191,000
Convertible debenture	-	no expiry	-
Financing fees	588,000	2040 - 2042	407,000
Intangible assets	655,000	no expiry	-
Other	298,000	no expiry	177,000
Total	$ 16,703,000		$ 4,775,000

At December 31, 2019, the Company has non-capital loss carry forwards in Canada aggregating $15,162,000 (December 31, 2018: $4,191,000), which expire over the period between 2029 and 2039, available to offset future taxable income in Canada.

Tax attributes are subject to review, and potential adjustment, by competent authority.

27. Economic Dependence

The Company generated revenues from the following customer as fleet management and software licensing revenue:

	For the year ended December 31, 2019		For the fourteen months December 31, 2018
Customer A	$ 1,656,276	9.7%	$ -

28. Subsequent events

The Company has evaluated all events that occurred after the balance sheet date through the date when the consolidated financial statements were issued.

On January 24, 2020 the Company entered into an agreement with a manufacturer to purchase computer components to upgrade the efficiency and performance of its fleet of hashing rigs operating in the Republic of Kazakhstan. The total value of the assets was approximately $2,190,000 and was paid in cash.

On February 19, 2020, the Company entered into an asset purchase agreement with the debenture holder to acquire over 50,000 non-operational hashing rigs for the aggregate purchase price of $5,328,345 to be satisfied by issuing to the debenture holder that number of non-voting participating shares in the capital of the Company that is equal to the total purchase price divided by the volume weighted average price of the common shares in the Company trading on the Canadian Stock Exchange over the ten trading days preceding the closing date. The transaction was closed on March 9, 2020 and 2,279,215 non-voting participating shares of the Company were issued to the parties at a price of $2.41 per share. The non-voting participating shares held by the Debenture holder will be subject to an exchange agreement providing that at any time the Debenture Holder's holdings of common shares falls below 40% of the issued and outstanding common shares of the Company, that number of NVPS that brings his holdings of common shares to 45% will be exchanged until such time that the Debenture Holder holds no more NVPS available for exchange.

On March 10, 2020, the Company issued 60 days notice of termination of the hosting agreement dated June 24, 2019 between its subsidiary, Freschette, and its hosting services provider located in the Republic of Kazakhstan, BNKA Energy, LLP. Hosting services provide by BNKA, Energy LLP. were terminated effective May 9, 2020.

On March 27, 2020, the Company issued the notice to the Debenture Holder that it would exercise its conversion option to settle its convertible debenture to the debenture holder (see Note 13) with common shares of the Company on May 1, 2020. In accordance with the agreement, the Company issued 9,256,763 shares at the floor of $3.00 per common share. Upon transfer of the shares, the holder of the debenture will be considered a related party of TAAL Distributed Information Technologies Inc.

On April 20, 2020, the Company entered into a licensing agreement with nChain Group Holdings Ltd. ("nChain Group") for ten years to use elements of its intellectual property patent portfolio. Pursuant to the IP Licensing Agreement, the Company will pay nChain Group approximately $1.30 million in licensing fees over the first year of the agreement, with approximately $0.26 million due within 30 days of the signing and the remaining $1.04 million due by December 31, 2020.

Subsequent to December 31, 2019, 40,000 share purchase options expired, 10,000 share purchase options at exercise price of $2.30 were granted to an employee of the company and 120,000 and 20,000 share purchase options at $2.12 and $1.82 exercise price respectively were granted to an officer of the Company.

Subsequent to December 31, 2019, a new Chief Executive Officer, Chief Financial Officer and Chief Operating Officer were appointed to the Company.