

CRYPTOLOGIC CORP. (formerly Vogogo Inc.)

Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2020
(expressed in Canadian dollars)

Notice of No Auditors Review of Interim Financial Statements

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

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

	Note	As at September 30, 2020	As at December 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents		\$ 6,319,667	\$ 226,532
Prepaid expenses and deposits	4	41,812	126,545
Marketable securities	6	1,384,323	—
Sales tax receivable		253,553	—
Assets classified as held for sale	7	—	14,895,004
Total current assets		7,999,355	15,248,081
Non-current assets			
Prepaid expenses and deposits	4	15,996	15,996
Right of use assets	8	245,823	263,810
Equipment	9	42,985	54,067
Total non-current assets		304,804	333,873
Total assets		\$ 8,304,159	\$ 15,581,954
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Current liabilities			
Accounts payable and accrued liabilities	10	\$ 98,860	\$ 388,356
Current portion of lease obligation	11	83,162	104,585
Liabilities classified as held for sale	7	—	6,239,595
Convertible debenture	12	—	31,976,469
Total current liabilities		182,022	38,709,005
Long-term liabilities			
Lease obligation	11	81,599	138,674
Total long-term liabilities		81,599	138,674
Total liabilities		263,621	38,847,679
Shareholders' equity (deficiency)			
Share capital		115,555,709	79,675,709
Warrants	13	—	1,606,933
Contributed surplus	13	14,073,720	12,397,790
Other comprehensive income		604,423	—
Deficit		(122,193,314)	(116,946,157)
Total shareholders' equity (deficiency)		8,040,538	(23,265,725)
Total liabilities and shareholders' equity (deficiency)		\$ 8,304,159	\$ 15,581,954

Nature of operations (note 1)
Subsequent events (note 19)

Approved on behalf of the Board:

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

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

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

CRYPTOLOGIC CORP. (formerly Vogogo Inc.)
Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the three and nine months ended September 30, 2020
(expressed in Canadian dollars – unaudited)

	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		2020	2019	2020	2019
Expenses					
General and administrative	16	1,414,415	664,488	\$ 2,741,916	\$ 1,763,700
Stock-based compensation	13	22,999	50,598	68,996	151,792
Acquisition related costs		—	241,704	292,402	337,612
		1,437,414	956,790	3,103,314	2,253,104
Other income (loss)					
Interest expense, net	11, 12	(4,904)	(1,701,779)	(3,921,769)	(5,025,223)
Unrealized fair value gain on derivative liability		—	—	—	49,120
Gain on sale of subsidiary	7	3,339,250	—	2,947,451	—
Foreign exchange loss		(20)	(148)	(212)	(14,924)
Net income (loss) before income tax from continuing operations		1,896,912	(2,658,717)	(4,077,844)	(7,244,131)
Income (loss) from discontinued operations	7	(1,788,459)	4,800,047	(1,169,312)	9,112,029
Net income (loss) for the period		\$ 108,453	\$ 2,141,330	\$ (5,247,156)	\$ 1,867,898
Other comprehensive income		(1,195,577)	—	604,423	—
Net income (loss) and comprehensive income (loss) for the period		\$ (1,087,124)	\$ 2,141,330	\$ (4,642,733)	\$ 1,867,898
Income (loss) per share from continuing operations - basic and diluted					
		\$ 0.04	\$ (0.21)	\$ (0.16)	\$ (0.57)
Income (loss) per share - basic and diluted		\$ 0.00	\$ 0.17	\$ (0.21)	\$ 0.15
Weighted average number of shares outstanding - basic and diluted					
		48,599,162	12,719,171	24,766,647	12,719,171

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

CRYPTOLOGIC CORP. (formerly Vogogo Inc.)
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
For the nine months ended September 30, 2020
(expressed in Canadian dollars – unaudited)

	Share Capital				Warrants	Contributed Surplus	Other Comprehensive Income	Deficit	Total
	Common shares Number	Common shares Amount	Common shares	Amount					
Balance – December 31, 2018	12,719,171	\$ 78,742,324	\$ 2,892,314	\$ 11,852,605	\$ —	\$ (105,223,558)	\$ (11,736,315)		
Expiry of warrants	—	385,840	(737,836)	—	—	—	(351,996)		
Stock-based compensation	—	—	—	151,792	—	—	151,792		
Net income and comprehensive income for the period	—	—	—	—	—	—	1,867,898		
Balance – September 30, 2019	12,719,171	\$ 79,128,164	\$ 2,154,478	\$ 12,004,397	\$ —	\$ (103,355,660)	\$ (10,068,621)		
Balance – December 31, 2019	12,719,171	\$ 79,675,709	\$ 1,606,933	\$ 12,397,790	\$ —	\$ (116,946,158)	\$ (23,265,726)		
Expiry of warrants	—	—	(1,606,933)	1,606,933	—	—	—		
Issuance of common shares in connection with conversion of Convertible Debenture	35,879,991	35,880,000	—	—	—	—	35,880,000		
Stock-based compensation	—	—	—	68,997	—	—	68,997		
Net income (loss) and comprehensive income (loss) for the period	—	—	—	—	604,423	(5,247,156)	(4,642,733)		
Balance – September 30, 2020	48,599,162	\$ 115,555,709	\$ —	\$ 14,073,720	\$ 604,423	\$ (122,193,314)	\$ 8,040,538		

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

CRYPTOLOGIC CORP. (formerly Vogogo Inc.)
Condensed Interim Consolidated Statements of Cash Flows
For the nine months ended September 30, 2020
(expressed in Canadian dollars – unaudited)

	Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities		
Net loss	\$ (5,247,156)	\$ 1,867,898
Changes in non-cash operating items:		
Mining revenue	(3,102,562)	(23,248,258)
Colocation revenue settled with digital assets	—	(231,724)
Depreciation	29,069	3,432,915
Fair gain on re-measurement of digital assets	(79,916)	(156,068)
Unrealized fair value gain on derivative liability	—	(49,120)
Loss (gain) on disposal of equipment	1,706,948	(1,472,831)
Goss on sale of subsidiary	(2,947,451)	—
Foreign exchange gain	211	244,775
Stock-based compensation	68,996	151,792
Interest expense, net	1,582,237	2,569,520
Interest accretion	2,523,531	3,024,575
	<u>(5,466,093)</u>	<u>(13,866,526)</u>
Changes in non-cash working capital		
Prepays	388,776	(288,595)
Sales tax receivable	1,460,667	(1,667,782)
Digital assets	3,308,798	25,539,898
Accounts payable and accrued liabilities	(510,027)	(787,380)
Security deposit	(318,050)	—
Net cash (used in) provided by operating activities	<u>(1,135,929)</u>	<u>8,929,615</u>
Cash flows from financing activities		
Interest paid	—	(1,380,000)
Repayment of lease obligations	(637,375)	(1,601,167)
Net cash used in financing activities	<u>(637,375)</u>	<u>(2,981,167)</u>
Cash flows from investing activities		
Proceeds from sale of subsidiary	1,734,315	—
Proceeds from sale of equipment	—	2,749,832
Proceeds from sale of marketable securities	5,559,349	—
Interest earned on cash equivalents	606	—
Loans advanced	—	(6,000,000)
Return of proceeds from sale of equipment	(79,686)	—
Net cash provided by (used in) investing activities	<u>7,214,584</u>	<u>(3,250,168)</u>
Change in cash during the period	5,441,280	2,698,280
Cash – beginning of year	878,387	1,166,077
Cash included in assets held for sale	—	(487,862)
Cash – end of period	<u>\$ 6,319,667</u>	<u>\$ 3,376,495</u>

Cash flows from discontinued operations (note 7)

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

CRYPTOLOGIC CORP. (formerly Vogogo Inc.)
Notes to Condensed Interim Consolidated Financial Statements
As at and for the three and nine months ended September 30, 2020
(expressed in Canadian dollars – unaudited)

1. NATURE OF OPERATIONS

Cryptologic Corp. (formerly Vogogo Inc.) (the "Company" or "Cryptologic"), had cryptocurrency mining activities in Québec.

The head office and registered record office is located at 300-5 Hazelton Ave., Toronto, Ontario, M5R 2E1.

On July 31, 2019, the Company changed its name change from Vogogo Inc. to Cryptologic Corp.

On August 3, 2019, the Company announced its intention to exit cryptocurrency mining industry. On April 8, 2020, the Company sold the shares of its wholly-owned subsidiary 9376-9974 Quebec Inc., ("9376"), which was engaged in cryptocurrency mining operations located in Lachute, Quebec. See note 7.

On June 30, 2020, the convertible debentures with a principal balance of \$34,500,000 and accrued interest of \$1,380,000 was converted into 35,879,991 shares of the Company.

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

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

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

These condensed interim consolidated financial statements have been prepared by management on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred ongoing losses and expects to incur further losses in the development of its business. At September 30, 2020, the Company had positive working capital of \$7,817,333 and has an accumulated deficit of \$122,193,314 since its inception. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing, to commence profitable operations in the future and to repay its liabilities arising from normal business operations as they become due. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The condensed interim consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

2. BASIS OF PREPARATION

Statement of compliance

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

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 27, 2020.

CRYPTOLOGIC CORP. (formerly Vogogo Inc.)
Notes to Condensed Interim Consolidated Financial Statements
As at and for the three and nine months ended September 30, 2020
(expressed in Canadian dollars – unaudited)

2. BASIS OF PREPARATION (continued)

Basis of presentation

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

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

Functional and presentation currency

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

Consolidation

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

As of September 30, 2020, the Company had four wholly owned subsidiaries: (i) Vogogo Canada Inc., (ii) Crypto 205 Inc. (“Crypto 205”), (iii) 2700313 Ontario Inc., and (iv) 2700311 Ontario Inc.

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

Effective January 1, 2019, the Company adopted IFRS 16. The standard supersedes IAS 17 Leases, International Financial Reporting Interpretations Committee (“IFRIC”) 4, Determining Whether An Arrangement Contains a Lease, and related interpretations. IFRS 16 requires the recognition of a right-of-use asset (“ROU asset”) and lease obligation on the statement of financial position for most leases, where the Company is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating or finance leases no longer exists, treating all leases as finance leases.

Initial adoption

The Company has elected to apply IFRS 16 using a modified retrospective approach which does not require the restatement of prior period financial information. Modified retrospective application recognizes the cumulative effect of IFRS 16 as an adjustment to the opening deficit at January 1, 2019 and applies the standard prospectively.

The following table shows the impact of the adoption of IFRS 16 on the Company’s statement of financial position, as at January 1, 2019.

Classification	Impact	Amount
ROU asset	Increase	\$ 7,050,416
Current portion of lease obligation	Increase	\$ (1,312,555)
Long-term portion of lease obligation	Increase	\$ (5,737,861)
		January 1, 2019
Minimum operating lease commitment at December 31, 2018	\$	9,100,238
Short-term leases not recognized under IFRS 16		—
Undiscounted lease payments		9,100,238
Effect of discounting using the incremental borrowing rate as at the date of initial application		(2,049,822)
Lease liabilities for leases classified as finance leases under IAS 17		7,050,416
Leases previously classified as finance leases under IAS 17		—
Total lease liability as at January 1, 2019	\$	7,050,416

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2. BASIS OF PREPARATION (continued)

At January 1, 2019, the Company applied the following optional exemptions permitted under the standard:

- Leases whose terms end within 12 months of initial adoption have been recognized as short-term leases.
- Certain leases having similar characteristics are measured on transition as a portfolio by applying a single discount rate.
- Initial measurements of the ROU assets have excluded initial direct costs where applicable.
- On transition to IFRS 16, the Company elected to measure the right-of-use assets at the amount equal to the lease liabilities. As at January 1, 2019, the Company recognized \$7,050,416 of right-of-use asset and lease liabilities, with a \$nil impact on deficit.

On transition to IFRS 16 under the modified retrospective approach, lease payments are discounted using the Company's incremental borrowing rate as of January 1, 2019. The Company used an incremental borrowing rate of 12% to measure the present value of the future lease payments on January 1, 2019.

Ongoing recognition and measurement

On the date that the leased asset becomes available for use, the Company recognized a ROU asset and a corresponding lease obligation. Interest expense associated with the lease obligation is charged to profit or loss over the lease period with a corresponding increase to the lease obligation. The lease obligation is reduced as payments are made against the principal portion of the lease. The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

ROU assets and lease obligations are initially measured on a present value basis. Lease obligations are measured at the net present value of the lease payments which may include: fixed lease payments, variable lease payments that are based on an index or a rate, amounts expected to be payable under residual value guarantees and payments exercised at an extension or a termination option if the Company is reasonably certain to exercise either of those options. ROU assets are measured at cost, which is comprised of the amount of the initial measurement of the lease obligation, less any incentives received, plus any lease payments made at, or before, the commencement date and initial direct costs and asset restoration costs, if any. The rate implicit in the lease is used to determine the present value of the liability and ROU asset arising from a lease, unless this rate is not readily determinable, in which case the Company's incremental borrowing rate is used.

3. SIGNIFICANT JUDGEMENTS AND ESTIMATES

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

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

Non-current assets held for sale

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

3. SIGNIFICANT JUDGEMENTS AND ESTIMATES

Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. The Company has not recognized the value of any deferred tax assets in its statements of financial position.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained based on its technical merits. The Company measures and records the tax benefits from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company's estimated liabilities related to these matters are adjusted in the period in which the uncertain tax position is effectively settled, the statute of limitations for examination expires or when additional information becomes available. The Company's liability for unrecognized tax benefits requires the use of assumptions and significant judgment to estimate the exposures associated with its various filing positions. Although the Company believes that the judgments and estimates made are reasonable, actual results could differ and resulting adjustments could materially affect its effective income tax rate and income tax provision.

The Company has earned Bitcoin from the commercial activity of Bitcoin mining. The Company has followed the published Canada Revenue Agency ("CRA") view that Bitcoin is a commodity and inventory of the business, the value of which is included in the calculation of taxable income from the business. Bitcoin is valued in accordance with Section 10 of the Income Tax Act. Revenue from Bitcoin mining is included in taxable income when the Bitcoin earned is sold or exchanged for cash or another asset. There is uncertainty regarding the taxation of cryptocurrency and the CRA may assess the Company differently from the position adopted. This could result in additional current taxes payable with equal offset to deferred tax expense.

Impairment of non-financial assets

Assets are deemed to be impaired when the carrying value exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. These calculations are based on available data, other observable inputs and projections of cash flows, all of which are subject to estimates and assumptions. Recoverable amounts are also sensitive to assumptions about the future usefulness of in-process development and the related marketing rights.

Foreign currency translation

Within each entity, transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at that date. Foreign exchange differences arising on translation are recognized in profit or loss. Non-monetary assets and liabilities that are measured at historical cost are translated using the exchange rate at the date of the transaction.

Fair value measurement of equity instruments

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the stock options and warrants, volatility and dividend yield, and making assumptions about them. The assumptions and models used for estimating fair value for stock options and warrants are disclosed in note 12.

Accounting for digital assets

At present, there is limited guidance in IFRS on the recognition and measurement of digital assets. Noted below are the key policies used to account for these assets.

Fair value of digital assets

Digital assets are measured at fair value using the quoted price on www.coinmarketcap.com ("Coin Market Cap"). Management considers this fair value to be a Level 2 input under IFRS 13 Fair Value Measurement fair value hierarchy as the price on this source represents an average of quoted prices on multiple digital currency exchanges. The digital assets are valued based on the closing price obtained from Coin Market Cap at the reporting period. The Company is relying on the data available at Coin Market Cap to be an accurate representation of the closing price for the different digital assets.

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3. SIGNIFICANT JUDGEMENTS AND ESTIMATES (continued)

Useful life of mining equipment

Management is depreciating mining equipment using a straight-line basis, with a useful life of:

Mining equipment	3 years
Supporting infrastructure	5 years

The mining equipment is used to generate digital assets. The rate at which the Company generates digital assets and, therefore, consumes the economic benefits of its mining equipment is influenced by a number of factors including the following:

- The complexity of the mining process, which is driven by the algorithms contained within the digital assets open source software;
- The general availability of appropriate computer processing capacity on a global basis; and,
- Technological obsolescence resulting from rapid development in the mining machines, such that more recently developed hardware generally increases processing capacity, which usually renders new machines more economically efficient to operate, resulting in lower costs of operations. Further, the newer machines may be made available at a lower cost of purchase.

Based on the Company's and the industry's short life cycles to date, there is limited market data available. Furthermore, the data available also includes data derived from the use of economic modeling to forecast future digital assets and the assumptions included in such forecasts, including the digital asset's price and network difficulty, and derived from management's assumptions that are inherently judgmental. Based on current data available, management has determined that the straight-line method of amortization over three years best reflects the current expected useful life of mining equipment. Management will review this estimate at each reporting date and will revise such estimates as and when data becomes available. The mining equipment has been assumed to have no residual value at the end of its useful life. Management will review the appropriateness of its assumption of nil residual value at each reporting date.

4. PREPAID EXPENSES AND DEPOSITS

The Company's prepaid expenses comprise the following:

	<u>As at September 30,</u> <u>2020</u>	<u>As at December 31,</u> <u>2019</u>
Prepaid expenses	15,996	126,545
Vendor deposits	41,812	15,996
Prepaid expenses and deposits	<u>57,808</u>	<u>142,541</u>
Current	41,812	126,545
Long-term	<u>15,996</u>	<u>15,996</u>

Included in the long-term portion of prepaid expenses and deposits as at September 30, 2020, are security deposits for rent of \$15,996 (December 31 – \$15,996) that have been classified as long-term.

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5. DIGITAL ASSETS

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

	Amount	Units
Balance as at December 31, 2018	\$ 1,562,290	305.98
Mined additions	26,420,383	2,952.65
Equipment sale settled in coin	247,071	20.36
Colocation fees settled in coin	747,062	68.68
Coins sold	(28,845,476)	(3,326.00)
Coins transferred to settle accounts payable	(39,794)	(8.14)
Fair value gain on re-measurement of coin	34,879	—
Reclassified to assets held for sale (note 7)	(126,415)	(13.53)
Balance as at December 31, 2019	\$ —	—
Opening coins on hand	126,415	13.53
Mined additions	3,102,562	278.92
Coins sold	(3,308,893)	(292.44)
Fair value gain on re-measurement of coin	79,916	—
Balance as at September 30, 2020	\$ —	—

On April 30, 2019, the Company acquired 6,598 Antminer S9 cryptocurrency mining machines as a result of the termination of the colocation agreement. As consideration for the early termination of the colocation agreement, in addition to the Company receiving the miners, the Company retained the security deposit received pursuant to the colocation agreement, and the Bitcoins mined by the colocation customer during the period the termination agreement was negotiated. The termination agreement represents settlement of all obligations under the colocation agreement. The Company assumed the customer's assets in exchange for termination of the agreement and settlement of accounts receivable, which was the net balance of \$834,716 and the \$815,548 of coins mined on behalf of the customer up to April 30, 2019.

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

6. MARKETABLE SECURITIES

On April 8, 2020, the Company received 15,000,000 common shares of HIVE Blockchain Technologies Ltd. ("Hive") at \$0.20 per share as partial consideration for the sale of its subsidiary 9376-9974 Quebec Inc. (note 7).

The following table reflects the movement in marketable securities as at September 30, 2020:

	As at September 30, 2020
Balance January 1, 2020	\$ —
Hive consideration shares received	3,000,000
Proceeds from disposition	(5,559,349)
Realized gain	3,339,249
Unrealized fair value gain	604,423
Balance at September 30, 2020	\$ 1,384,323

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7. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

The following is a summary of the financial performance and cash flow information for the nine months ended September 30, 2020 and 2019:

	Nine Months Ended September 30,	
	2020	2019
Revenue		
Digital assets mined	\$ 3,102,562	\$ 23,248,258
Colocation revenue	1,717,114	306,212
Cost of revenue		
Site operating costs	(4,205,614)	(12,515,177)
Depreciation	—	(3,367,872)
Net mining income	614,062	7,671,421
Expenses		
Fair value gain on re-measurement of digital assets	(79,916)	(156,068)
	(79,916)	(156,068)
Other income (loss)		
Loss on sale of equipment	(1,706,948)	1,472,831
Sales tax recovered	27,657	610,432
Interest expense	(183,999)	(568,872)
Foreign exchange loss	—	(229,851)
Net income (loss) from discontinued operations	(1,169,312)	9,112,029

	Nine Months Ended September 30,	
	2020	2019
Net cash provided by operating activities	\$ 2,210,651	\$ 11,138,855
Net cash used in financing activities	\$ (2,766,493)	\$ (14,525,192)
Net cash (used in) provided by investing activities	\$ (79,686)	\$ 2,749,832

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

The following is a summary of assets and liabilities classified as held for sale at September 30, 2020, and December 31, 2019:

	<u>As at September 30,</u> <u>2020</u>	<u>As at December 31,</u> <u>2019</u>
Cash	\$ —	\$ 651,855
Prepaid expenses and deposits	—	1,314,005
Sales tax receivable	—	2,108,571
Digital assets	—	126,415
Equipment	—	5,493,621
ROU Asset	—	5,200,537
Assets classified as held for sale	\$ —	\$ 14,895,004

	<u>As at September 30,</u>	<u>As at December 31,</u>
Accounts payable and accrued liabilities	\$ —	\$ (466,713)
Customer deposits	—	(318,050)
Lease obligation	—	(5,454,832)
Liabilities classified as held for sale	\$ —	\$ (6,239,595)

On April 8, 2020, the Company sold the shares of its wholly-owned subsidiary 9376-9974 Quebec Inc. Hive. As consideration, Hive issued 15,000,000 of its common shares (“Hive Shares”) at \$0.20 per share for \$3,000,000 of consideration and paid \$1,956,231 in cash. Thirty days after closing of the transaction, the Company settled \$221,916 in working capital adjustment to Hive for net cash proceeds of \$1,734,315.

The following table shows the gain on sale of the subsidiary:

Consideration received:	
Cash	1,734,315
Marketable securities	3,000,000
Total disposal consideration	4,734,315
Carrying amount of net assets sold	(5,126,114)
Gain on sale of marketable securities	3,339,250
Gain on sale of subsidiary	\$ 2,947,451

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

The carrying amounts of assets and liabilities as at the date of the sale, April 8, 2020, were:

	<u>As at April 8,</u> <u>2020</u>	<u>As at December 31,</u> <u>2019</u>
Cash	\$ —	\$ 250,983
Prepaid expenses and deposits	1,009,962	1,029,404
Sales tax receivable	394,350	1,906,186
Digital assets	—	126,320
Equipment	4,000,000	4,000,000
ROU Asset	4,607,194	4,607,194
Total assets	\$ 10,011,506	\$ 11,920,087
	<u>As at April 8,</u>	<u>As at December 31,</u>
Accounts payable and accrued liabilities	\$ (246,297)	\$ (151,025)
Lease obligation	(4,639,094)	(4,827,492)
Total liabilities	\$ (4,885,391)	\$ (4,978,517)
Net assets	5,126,114	6,941,570

8. RIGHT OF USE ASSETS

	<u>Buildings</u>	<u>Total</u>
Balance as at January 1, 2019	\$ 7,050,416	\$ 7,050,416
Depreciation	(1,586,069)	(1,586,069)
Reclassified to assets held for sale (note 7)	(5,200,537)	(5,200,537)
Balance as at December 31, 2019	263,810	263,810
Depreciation	(17,987)	(17,987)
Balance as at September 30, 2020	\$ 245,823	\$ 245,823

During the nine months ended September 30, 2020, \$nil (December 31, 2019 - \$1,514,121) of depreciation was charged as a cost of revenue to mining operations, which has been reclassified on the condensed interim consolidated statements of income (loss) and comprehensive income (loss) to discontinued operations.

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9. EQUIPMENT

COST	Mining equipment	Infrastructure	Office equipment	Total
Balance as at December 31, 2019	\$ —	\$ —	\$ 73,883	\$ 73,883
Balance as at September 30, 2020	\$ —	\$ —	\$ 73,883	\$ 73,883

ACCUMULATED AMORTIZATION

Balance as at December 31, 2019	\$ —	\$ —	\$ 19,815	\$ 19,815
Amortization	—	—	11,083	11,083
Balance as at September 30, 2020	\$ —	\$ —	\$ 30,898	\$ 30,898

COST	Mining equipment	Infrastructure	Office equipment	Total
Balance as at December 31, 2018	\$ 23,970,090	\$ 17,839,676	\$ 73,883	\$ 41,883,649
Disposal	(14,547,762)	—	—	(14,547,762)
Reclassification to assets held for sale (note 7)	(9,422,328)	(17,839,676)	—	(27,262,004)
Balance as at December 31, 2019	\$ —	\$ —	\$ 73,883	\$ 73,883

ACCUMULATED AMORTIZATION

Balance as at December 31, 2018	\$ 18,383,691	\$ 10,888,074	\$ 5,039	\$ 29,276,804
Amortization	1,327,632	904,649	14,777	2,247,058
Disposal	(13,023,688)	—	—	(13,023,688)
Impairment	1,993,291	1,294,734	—	3,288,025
Reclassification to assets held for sale (note 7)	(8,680,926)	(13,087,457)	—	(21,768,383)
Balance as at December 31, 2019	\$ —	\$ —	\$ 19,816	\$ 19,816

At December 31, 2019	\$ —	\$ —	\$ 54,067	\$ 54,067
At September 30, 2020	\$ —	\$ —	\$ 42,985	\$ 42,985

During the nine months ended September 30, 2020, \$nil (2019 – \$2,232,280) of depreciation was charged as a cost of revenue to mining operations that has been reclassified on the condensed interim consolidated statements of income (loss) and comprehensive income (loss) to discontinued operations.

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10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>As at September 30,</u> 2020	<u>As at December 31,</u> 2019
Trade accounts payable	98,860	388,356
Accounts payable and accrued liabilities	<u>98,860</u>	<u>388,356</u>

11. LEASE OBLIGATION

The following table details the movement in the Company's lease obligations for the nine months ended September 30, 2020:

	Lease obligations	
Balance as at January 1, 2019	\$	7,050,416
Interest		775,416
Repayments		(2,127,741)
Reclassified to assets held for sale (note 7)		(5,454,832)
Balance as at December 31, 2019		<u>243,259</u>
Interest		18,844
Repayments		(97,342)
Balance as at September 30, 2020	\$	<u>164,761</u>
Current portion		83,162
Long-term portion		81,599

The following table details the undiscounted cash flows and contractual maturities of the Company's lease obligations, as at September 30, 2020:

	<u>Within one</u> <u>year</u>	<u>Later than one year</u> <u>but not later than</u> <u>5 years</u>	<u>More than</u> <u>5 years</u>
Lease obligations	\$ <u>127,970</u>	\$ <u>53,321</u>	\$ <u>—</u>

12. CONVERTIBLE DEBENTURE

On June 21, 2018, the Company issued 34,500 debenture units (the "Units") for proceeds of \$34,500,000. Each Unit was comprised of \$1,000 principal amount of senior unsecured extendible non-redeemable convertible debentures ("Convertible Debentures") and 33 warrants ("Warrants"). Each unit entitled the holder to a conversion rate of 66 common shares per \$1,000 principal of Convertible Debentures at a value of \$15 per share and Warrants exercisable for 33 shares at a price of \$21 per share.

The Convertible Debentures bore interest at 8% per annum, payable semi-annually, were unsecured and matured in 24 months. The fair value of the Convertible Debentures was recorded at \$25,543,181, discounted at 20%, and was net of transaction costs. The accretion expense for the nine months ended September 30, 2020, was \$2,523,531 (December 31, 2019 – \$4,465,986). Interest expense incurred for the nine months ended September 30, 2020 was \$1,380,000 (December 31, 2019 – \$2,760,000). Interest paid for the nine months ended September 30, 2020 was \$nil (for the year ended December 31, 2019 – \$2,760,000).

The residual value of the warrants and the equity conversion feature was estimated at \$1,606,934 and \$4,302,285.

On closing, the Company paid the agent: (i) a commission of \$1,380,000 representing 4% of the gross proceeds; (ii) agent expenses and legal fees of \$260,291 and (iii) 1,380 broker warrant units ("Broker Warrant Units"). Each Broker Warrant Unit was priced at \$1,000 per unit and was exercisable into a Unit. The estimated fair value of the Broker Warrants on issuance was \$1,133,923, which was based on the fair value of the underlying conversion rights as follows:

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12. CONVERTIBLE DEBENTURE (continued)

- The Warrants per Unit were determined to be valued at \$351,996 using the Black-Scholes pricing model and the following assumptions: Market price - \$13.50; Annualized volatility – 130%; Risk-free interest rate – 1.82%; Dividend yield – 0%; and Expected life – 2 years. This amount was treated as equity.
- The option to purchase the debentures was determined to be a derivative liability. The fair value at initial recognition was determined to be \$781,927 based on the resulting option to convert into 66 common shares. The fair value was determined using the Black-Scholes pricing model and the following assumptions: Market price - \$13.50; Annualized volatility – 130%; Risk-free interest rate – 1.82%; Dividend yield – 0%; and Expected life – 2 years.

On June 21, 2019, the Broker Warrant Units expired resulting in the Company revaluing the derivative relating to the option to purchase the debentures to the estimated fair value of \$nil from \$49,120 and recorded a gain. The Company reversed the fair value of the Broker Warrant Units recorded in the warrant component of the convertible debentures of \$351,996.

If there were an aggregate of 15 days on which the daily volume-weighted average trading price of the common shares on the CSE (or such other exchange on which the common shares may trade) equaled or exceeded \$27.00, the Company could force conversion at \$15.00, upon giving Convertible Debenture holders 30 days advance written notice (a “Forced Conversion”). If Convertible Debentures were subject to a forced conversion in the 12 month period following the closing date, holders of Convertible Debentures would receive an interest payment in cash on such Convertible Debentures equal to any accrued and unpaid interest up to the date of conversion and additional interest for the period from the date of conversion to the date that is 12 months following the closing date of June 21, 2018.

Should there have been an aggregate of 15 trading days on which the daily volume-weighted average trading price of the common shares on the CSE equaled or exceeded \$33, the Company could issue a notice of acceleration (an “Acceleration Notice”) and, thereafter, the Warrants would expire on a Business Day specified in the Acceleration Notice, which date was not be less than 20 days after the date of the Acceleration Notice.

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

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

The recognition of the equity component resulted in a deferred tax liability of \$1,595,489, which was offset by the recognition of a corresponding deferred tax asset relating to the Company’s non-capital losses.

On June 30, 2020, the convertible debentures with a principal balance of \$34,500,000 and accrued interest of \$1,380,000 were converted into 35,879,991 shares of the Company. At a special meeting of holders of 8% extendible convertible unsecured debentures held in Toronto on March 13, 2020, the Company received approval of an extraordinary resolution to amend the terms of the debenture indenture between the Company and AST Trust Company (Canada) (the “Trustee”) dated June 21, 2018. The Company and the Trustee entered into a supplemental indenture on March 13, 2020, effecting the amendments set out in the extraordinary resolution.

In accordance with the debenture indenture, as amended by the supplemental indenture, the Corporation could force the conversion of the entire principal amount of the debentures and all accrued but unpaid interest at the Conversion Price at any time, upon giving debenture holders 10 days’ advance written notice. The Conversion was effective on June 30, 2020, the maturity date of the debentures. No fractional Common Shares were issued and any fractions of a Common Share were rounded down to the nearest whole number of Common Shares.

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12. CONVERTIBLE DEBENTURE (continued)

The following table reflects movements of each component of Convertible Debentures:

	Liability component of Convertible Debenture	Warrants component of Convertible Debenture	Equity component of Convertible Debenture
Balance - December 31, 2018	\$ 27,510,483	\$ 1,958,929	\$ 2,706,796
Accretion of liability component of Convertible Debenture (effective interest rate of 25%)	4,465,986	—	—
Expiry of broker warrants	—	(351,996)	351,996
Balance - December 31, 2019	31,976,469	1,606,933	3,058,792
Accretion of liability component of Convertible Debenture (effective interest rate of 25%)	3,903,531	—	—
Converted to common shares	(35,880,000)	—	—
Expiry of warrants	—	(1,606,933)	1,606,933
Balance - September 30, 2020	\$ —	\$ —	\$ 4,665,725

13. CONTRIBUTED SURPLUS AND WARRANTS

	As at September 30, 2020		As at December 31, 2019	
	Contributed surplus	Warrants	Contributed surplus	Warrants
Beginning balance	\$ 12,397,790	\$ 1,606,933	\$ 11,852,605	\$ 2,892,314
Stock-based compensation	68,997	—	193,189	—
Expiry of warrants	1,606,933	(1,606,933)	351,996	(1,285,381)
Ending balance	\$ 14,073,720	\$ —	\$ 12,397,790	\$ 1,606,933

Stock options

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

During the nine months ended September 30, 2020, the Company did not grant any stock options.

A summary of the stock option transactions are as follows:

	As at September 30, 2020	
	Number of options	Weighted average exercise price \$
Beginning balance	216,667	\$ 1.95
Granted	—	—
Cancelled	—	—
Ending balance	216,667	\$ 1.95

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13. CONTRIBUTED SURPLUS AND WARRANTS (continued)

The following provides a summary of options outstanding and exercisable as at September 30, 2020:

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

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

	For the year ended December 31, 2018
Expected volatility	130%
Expected life	3.5 years
Expected forfeiture rate	0%
Risk-free interest rate	2.03%
Dividend yield	0%
Weighted average share price	\$ 1.95
Weighted average fair value of options at grant date	\$ 1.50

The Company recorded stock-based compensation expense for the nine months ended September 30, 2020, for options of \$68,997 (2019 – \$151,792) with an offsetting increase to contributed surplus in respect of the stock options granted. No stock options were exercised during the nine months ended September 30, 2020 or 2019, and as a result \$nil was transferred to share capital from contributed surplus. The weighted average remaining life of the options is 3.20 years.

Warrants

A summary of warrant transactions is as follows:

	As at September 30, 2020		As at December 31, 2019	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Beginning balance	1,150,000	\$ 21.00	1,711,046	\$ 16.20
Expired	(1,150,000)	(21.00)	(561,046)	(6.68)
Issued	—	—	—	—
Exercised	—	—	—	—
Ending balance	—	\$ —	1,150,000	\$ 21.00

During the nine months ended September 30, 2020, a total of 1,150,000 warrants expired. On the expiry of 1,150,000 warrants, the value of \$1,606,933 originally allocated to warrants was reallocated to contributed surplus.

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

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13. CONTRIBUTED SURPLUS AND WARRANTS (continued)

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

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

Convertible Debenture

During the year ended December 31, 2018, the Company entered into a Convertible Debenture for \$34.5 million (note 12). The residual value of the warrants and equity conversion feature was estimated at \$5,909,219, net of issue costs using relative fair value allocation. Deferred tax liability of \$1,595,489 on the warrant and equity component of the Convertible Debenture was recorded to contributed surplus.

14. FAIR VALUE DISCLOSURE AND CAPITAL MANAGEMENT

Fair value measurements are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The hierarchy is summarized as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly from observable market data; and

Level 3: Inputs that are not based on observable market data.

The Company determined that the carrying values of its short-term financial assets and liabilities approximate the corresponding fair values because of the relatively short periods to maturity of these instruments and the low credit risk.

The carrying value of the Company's convertible debentures approximates fair value as the liability component was discounted using an estimated market rate.

The Company's cash is measured at fair value using level 1 inputs.

The Company's derivative liabilities are measured at fair value using level 3 inputs. The assumptions are disclosed in note 11.

Digital assets and risk management

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

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

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15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to various risks including market risk, liquidity risk, and other risks related to its current concentration in a single asset, Bitcoin. Investing in Bitcoin is highly speculative and volatile. The investment objective of the Company has been to track the market price of Bitcoin, less the Company's liabilities and expenses, by investing the assets of the Company in Bitcoin. As Bitcoin prices rise, the Company should achieve those gains. However, there can be no assurance that the Company matches the gains in prices of Bitcoin and other cryptocurrencies. The company does not employ leverage as part of its investment strategy.

To the extent private keys for Bitcoin addresses are lost, destroyed or otherwise compromised and no backup of the private keys are accessible, the Company may be unable to access the Bitcoin held in the associated address and the private key will not be capable of being restored by the Bitcoin network. The processes by which Bitcoin transactions are settled are dependent on the Bitcoin peer-to-peer network, and as such, the Company is subject to operational risk. A risk also exists with respect to previously unknown technical vulnerabilities, which may adversely affect the value of Bitcoin.

The nature and extent of the financial instruments outstanding at the reporting date, and the risk management policies employed by the Company, are discussed below.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will impact the cash flows of the Company. As all of the Company's financial debts are based on fixed interest rates, the impact of a change in interest rates will not impact the Company's income or cash flows.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than Canadian dollars, which is the functional currency of the Company.

The table below indicates the foreign currencies to which the Company has exposure at September 30, 2020 in Canadian dollar terms:

	USD	
Cash	\$	656

The table below details the effect on earnings before tax of a 10% strengthening or weakening of the CAD exchange rate at the balance sheet date for balance sheet items denominated in USD:

Currency	10% Strengthening (weakening)	
USD	\$	66

Price risk

Price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk).

The net asset value of the Company relates directly to the value of Bitcoin held by the Company, and fluctuations in the price of Bitcoin could materially and adversely affect an investment in the shares of the Company. The price of Bitcoin has a limited history. During such history, Bitcoin prices have been volatile and subject to influence by many factors including the levels of liquidity. If Bitcoin markets continue to experience significant price fluctuations, the Company may experience corresponding losses or gains. Several factors may affect the price of Bitcoin, including but not limited to, global Bitcoin supply and demand, and competition from other forms of digital currency or payment services.

At September 30, 2020, had the market price of the Company's holdings of Bitcoin increased or decreased by 10% with all other variables held constant, the corresponding asset value increase or decrease respectively would be \$nil.

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15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company.

There is currently no central or major depository for the custody of Bitcoin. There is a risk that some or all of the Company's Bitcoin could be lost or stolen. The Company does not have insurance protection on its Bitcoin, which exposes the Company and its shareholders to the risk of loss of the Bitcoin. Further, Bitcoin transactions are irrevocable and stolen or incorrectly transferred Bitcoin may be irretrievable. As a result, any incorrectly executed Bitcoin transactions could adversely affect an investment in the Company.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash that is generated from financing activities and through the sale of digital assets. The value of digital assets is subject to changes in market value of the underlying digital currency, which can fluctuate materially over time. All of the Company's liabilities, with the exception of the lease obligation liability, are due within the next two years.

Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. Currently, the Company has its investment highly concentrated in a single asset, Bitcoin. The Company tracks the market price of Bitcoin and manages liabilities and expenses to mitigate concentration risk.

Security risk

Bitcoins are controllable only by the possessor of both the unique public key and private key relating to the local or online digital wallet in which the Bitcoins are held. The Bitcoin network requires a public key relating to a digital wallet to be published when used in a spending transaction and, if keys are lost or destroyed, this could prevent trading of the corresponding Bitcoins.

Security breaches, computer malware and computer hacking attacks have been a prevalent concern in the Bitcoin exchange market since the launch of the Bitcoin network. Any security breach caused by hacking could cause loss of Bitcoin investments.

Bitcoin network risk

The open-source structure of the Bitcoin network protocol means that the core developers of the Bitcoin network and other contributors are generally not directly compensated for their contributions in maintaining and developing the Bitcoin network protocol. A failure to properly monitor and upgrade the Bitcoin network protocol could damage the Bitcoin network.

16. EXPENSES CLASSIFIED BY NATURE

Expenses are classified by function on the statement of income and comprehensive income and are comprised of general and administrative. Below is a breakdown of what is included within general and administrative expenses:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
General and administrative				
Office and administrative	\$ 182,017	\$ 79,310	\$ 354,027	\$ 219,993
Legal and Professional fees	48,502	196,552	370,595	309,467
Consulting fees	103,600	—	103,600	22,124
Travel and entertainment	—	49,262	76,727	172,655
Depreciation	3,694	21,681	29,069	65,043
Salaries	1,076,602	317,683	1,807,898	974,418
	\$ 1,414,415	\$ 664,488	\$ 2,741,916	\$ 1,763,700

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17. BUSINESS COMBINATIONS

Crypto 205

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

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

Fair value of consideration	\$ 28,921,853
Cash	916,117
Prepays	52,209
Sales tax receivable	1,054,527
Digital assets	368,654
Subscription receivable	2,272
Equipment	12,147,796
Accounts payable and accrued liabilities	(5,901,918)
Shareholder loan	(5,000,000)
Deferred income tax liability	(27,042)
Total acquisition date fair value of assets acquired, and liabilities assumed	3,612,615
Goodwill	25,309,238
Impairment allocation	
Goodwill	25,309,238
Equipment	8,024,170
	\$ 33,333,408

The Company issued 4,333,333 non-voting, convertible series 1 preferred shares to the shareholders of Crypto 205 for consideration of \$28,921,853 to finance the Crypto 205 Acquisition. The fair value of the consideration was determined using a put option valuation discount on the preferred shares.

In measuring the fair value of the purchase price, the Company applied a discount for lack of marketability to reflect the restriction period on the preferred shares. Given that the preferred shares were convertible into common shares on a one-for-one basis, the quantum of the discount for lack of marketability was based on the theoretical price for a put option on the Company's shares using the Black-Scholes model with the following assumptions: Market price - \$0.36; Annualized volatility - 130%; Risk-free interest rate - 1.12%; Dividend yield - 0%; and Expected life - 1 year.

In measuring the fair value of the mining equipment at the date of acquisition, the Company used the replacement method. The replacement value of the mining equipment was estimated based on recent open market transaction data involving the acquisition of Bitmain Antminer S9 mining machines observed prior to the acquisition date. Observed values from the transaction data were then adjusted for accumulated depreciation/functional obsolescence. The mining equipment was estimated to have an average useful life of three years. An allowance for accumulated depreciation was deducted based on the estimated age of the mining equipment at the date of acquisition.

Acquisition-related costs directly related to the Crypto 205 acquisition were \$99,820 and were expensed in net loss during the year ended December 31, 2018.

As at December 31, 2018, the Company conducted a valuation of the mining assets, infrastructure and goodwill and determined that an impairment was required. It was determined that in order to carry the assets at their fair value, an impairment of \$33,333,408 was recorded.

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

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17. BUSINESS COMBINATIONS (continued)

9376-9974 Quebec Inc.

The acquisition of 100% of the shares of 9376-9974 Quebec Inc. (the “828 Acquisition”) has been accounted for as a business combination and the results of operations are included in the condensed interim consolidated statement of loss from the date of acquisition, which was June 29, 2018.

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

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

The 828 Acquisition provided the company with a state-of-the-art cryptocurrency mining facility, including 14,000 Antminer S9 cryptocurrency mining machines and full HVAC and electrical infrastructure. In addition to the 14,000 Antminer S9 cryptocurrency mining machines, and supporting infrastructure, the Company was also able to negotiate with 828 L.P. (the “Vendor”) for the inclusion of certain additional supporting infrastructure beyond what is required to operate the 14,000 mining machines, at no additional cost to the Company. The Company acquired additional HVAC and electrical equipment, which now supports cryptocurrency mining for an additional 4,000 mining machines at the facility.

In measuring the fair value of the mining equipment at the date of acquisition, the Company employed the depreciated replacement cost methodology. The replacement value of the mining equipment was estimated based on recent open market transaction data involving the acquisition of Bitmain Antminer S9 mining machines observed prior to the acquisition date. Observed values from the transaction data were then adjusted for accumulated depreciation/functional obsolescence. The mining equipment was estimated to have an average useful life of three years (if acquired in new condition); an allowance for accumulated depreciation was deducted based on the estimated age of the mining equipment at the date of acquisition.

Acquisition-related costs directly related to the 828 Acquisition were \$296,952 and were expensed in net loss during the year ended December 31, 2018.

The Company acquired net assets with a fair value of \$27,724,368, resulting in goodwill of \$17,733,991. The business combination resulted in a deferred tax liability in the amount of \$1,682,151 directly related to the fair value adjustment of the mining infrastructure acquired.

On November 5, 2018, the Company announced that it had entered into a settlement and release for the promissory note. Under the terms of the agreement, the Company issued 4,333,333 common shares with a fair value of \$7,500,000 and made a cash payment of \$2,500,000 in exchange for the cancellation of the promissory note.

As at December 31, 2018, the Company conducted a valuation of the mining assets, infrastructure and goodwill and determined that an impairment was required. It was determined that in order to carry the assets at their fair value, an impairment of \$32,125,385 was recorded.

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17. BUSINESS COMBINATIONS (continued)

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

18. RELATED PARTY TRANSACTIONS

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

The compensation of such key management for the nine months ended September 30, 2020 and 2019 included the following:

	2020	2019
Salaries, severance and director remuneration	\$ 1,284,061	\$ 623,700
Stock-based compensation expense - directors and officers	68,997	151,792
	<u>\$ 1,353,058</u>	<u>\$ 775,492</u>

As at September 30, 2020, included in accounts payable and accrued liabilities was \$nil (2019 – \$85,909) of payments owed to key management personnel.

19. SUBSEQUENT EVENTS

Stock Option Grant

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