

VOGOGO INC.

Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2018
(expressed in Canadian dollars – unaudited)

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 consolidated interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited interim condensed 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 interim condensed 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.

VOGOGO INC.
Condensed Interim Consolidated Statements of Financial Position
(expressed in Canadian dollars – unaudited)

	Note	As at June 30, 2018	As at December 31, 2017
ASSETS			
Current assets			
Cash		\$ 5,435,959	\$ 12,796,056
Prepays		569,864	13,377
Sales tax receivable		1,336,784	26,886
Digital assets	5	2,611,975	—
Total current assets		9,954,582	12,836,319
Non-current assets			
Mining, infrastructure and office equipment	6	56,709,226	—
Total non-current assets		56,709,226	—
Total assets		\$ 66,663,808	\$ 12,836,319
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 3,797,059	\$ 224,823
Income taxes payable	8	16,083	—
Promissory note - current	7	5,187,585	—
Total current liabilities		9,000,727	224,823
Long-term liabilities			
Promissory note - long-term	7	4,270,774	—
Deferred tax liability	8	3,221,506	—
Convertible debenture	9	29,792,341	—
Total long-term liabilities		37,284,621	—
Total liabilities		46,285,348	224,823
Shareholders' equity			
Share capital	10	93,518,409	35,074,123
Warrants	11	1,591,021	2,449,333
Contributed surplus	11	8,130,853	6,058,639
Deficit		(82,861,823)	(30,970,599)
Total shareholders' equity		20,378,460	12,611,496
Total liabilities and shareholders' equity		\$ 66,663,808	\$ 12,836,319

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

VOGOGO INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three and six months ended June 30, 2018

(expressed in Canadian dollars – unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenue				
Digital assets mined (note 5)	\$ 2,709,176	\$ —	\$ 2,709,176	\$ —
Cost of revenue (note 15)	2,005,539	—	2,005,539	—
Net mining income	\$ 703,637	\$ —	\$ 703,637	\$ —
Expenses				
General and administrative (note 15)	594,631	90,022	794,198	716,150
Stock-based compensation	455,317	127,587	455,317	256,017
Impairment (note 6, 16)	50,958,891	—	50,958,891	—
Acquisition related costs (note 16)	333,561	—	333,561	—
	\$ 52,342,400	\$ 217,609	\$ 52,541,967	\$ 972,167
Operating income				
Fair value loss on re-measurement of digital assets (note 5)	(465,855)	—	(465,855)	—
Interest income	18,320	14,329	65,386	27,139
Interest expense	(125,623)	(1,395)	(125,623)	(3,167)
Foreign exchange loss	(135,514)	1,601	(135,792)	(3,591)
Net loss and comprehensive loss before income tax	\$ (52,347,435)	\$ (203,074)	\$ (52,500,214)	\$ (951,786)
Income taxes (note 8)	608,990	—	608,990	—
Net loss and comprehensive loss	\$ (51,738,445)	\$ (203,074)	\$ (51,891,224)	\$ (951,786)
Loss per share - basic and diluted	\$ (0.35)	\$ (0.00)	\$ (0.37)	\$ (0.01)
Weighted average number of shares outstanding - basic and diluted	148,661,675	72,495,137	140,909,806	72,495,137

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

VOGOGO INC.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the six months ended June 30, 2018 and 2017
(expressed in Canadian dollars – unaudited)

	Share Capital				Warrants	Contributed Surplus	Deficit	Total
	Common shares Number	Common shares Amount	Convertible preferred shares Number	Convertible preferred shares Amount				
Balance – December 31, 2016	72,495,137	\$ 31,222,125	—	\$ —	\$ 403,826	\$ 5,279,312	\$ (29,293,110)	\$ 7,612,153
Stock-based compensation (note 11)	—	—	—	—	—	256,017	—	256,017
Expiry of warrants	—	—	—	—	(17,942)	17,942	—	—
Net loss and comprehensive loss for the year	—	—	—	—	—	—	(951,786)	(951,786)
Balance – June 30, 2017	72,495,137	\$ 31,222,125	—	\$ —	\$ 385,884	\$ 5,553,271	\$ (30,244,896)	\$ 6,916,384
Balance – December 31, 2017	132,495,137	\$ 35,074,123	—	\$ —	\$ 2,449,333	\$ 6,058,639	\$ (30,970,599)	\$ 12,611,496
Issue of common shares in relation to exercised warrants (note 9, 11)	43,155,000	7,094,286	—	—	(1,484,136)	—	—	5,610,150
Issue of convertible preferred shares in connection with the Crypto 205 acquisition (note 16)	—	—	130,000,000	51,350,000	—	—	—	51,350,000
Equity component of convertible debenture (net of deferred tax) (note 9)	—	—	—	—	625,824	1,616,897	—	2,242,721
Stock-based compensation (note 11)	—	—	—	—	—	455,317	—	455,317
Net loss for the year	—	—	—	—	—	—	(51,891,224)	(51,891,224)
Balance – June 30, 2018	175,650,137	\$ 42,168,409	130,000,000	\$ 51,350,000	\$ 1,591,021	\$ 8,130,853	\$ (82,861,823)	\$ 20,378,460

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

VOGOGO INC.
Condensed Interim Consolidated Statements of Cash Flows
For the six months ended June 30, 2018 and 2017
(expressed in Canadian dollars – unaudited)

	2018	2017
Cash flows from operating activities		
Net loss	\$ (51,891,224)	\$ (951,786)
Changes in non-cash operating items:		
Mining revenue	(2,709,176)	—
Income taxes	(608,990)	—
Depreciation	988,301	—
Impairment (note 6, 16)	50,958,891	—
Fair value loss on re-measurement of digital assets	466,142	—
Stock-based compensation	455,030	256,017
Interest income	(65,386)	—
Interest expense	78,852	—
Interest accretion (note 9)	46,771	—
	<u>(2,280,789)</u>	<u>(695,769)</u>
Changes in non-cash working capital		
Prepays	(504,278)	7,338
Sales tax receivable	(253,098)	9,606
Accounts payable and accrued liabilities	(2,605,255)	(260,039)
Net cash used in operating activities	<u>\$ (5,643,420)</u>	<u>\$ (938,864)</u>
Cash flows from financing activities		
Issuance of common shares in relation to exercised warrants	5,610,150	—
Proceeds from convertible debenture	32,859,709	—
Interest paid	(76,666)	—
Net cash provided by financing activities	<u>\$ 38,393,193</u>	<u>\$ —</u>
Cash flows from investing activities		
Additions of equipment (note 6)	(91,373)	—
Acquisition of subsidiaries	(41,000,000)	—
Interest earned on short term investment	65,386	—
Net cash used in investing activities	<u>\$ (41,025,987)</u>	<u>\$ —</u>
Change in cash during the period	(8,276,214)	(938,864)
Cash – beginning of year	13,712,173	7,908,963
Cash – end of period	<u>\$ 5,435,959</u>	<u>\$ 6,970,099</u>

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

VOGOGO INC.

Notes to Condensed Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2018

(expressed in Canadian dollars – unaudited)

1. NATURE OF OPERATIONS

Vogogo Inc. (the "Company" or "Vogogo") provided payment processing and related transaction risk services. During 2016, Vogogo discontinued its payment processing and related transaction risk services. On April 3, 2018 and June 29, 2018, the Company acquired 100% of the shares of two companies engaged in the business of mining for cryptocurrencies (note 16). Vogogo currently operates its cryptocurrency mining activities in Québec. This includes mining for cryptocurrencies for its own account and within mining pools. As it continues to embrace blockchain technology, Vogogo is exploring opportunities in all aspects of the cryptocurrency segment.

The head office is located at PO Box 34023 Westbrook PO, Calgary, Alberta, Canada, T3C 3W2.

The shares of Vogogo are traded on the Canadian Stock Exchange under the symbol VGO as of January 19, 2018.

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, 2017.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 28, 2018.

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.

Functional and presentation currency

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

Accounting for business combination

Business combinations are accounted for using the acquisition method. Under this method, the identifiable assets acquired, and liabilities assumed, including contingent liabilities, are recognized, regardless of whether they have been previously recognized in the acquiree's financial statements prior to the acquisition. On initial recognition, the assets and liabilities of the acquired entity are included in the consolidated statements of financial position at their respective fair values. Goodwill is recorded based on the excess of the fair value of the consideration transferred over the fair value of the Company's interest in the acquiree's net identifiable assets on the date of the acquisition. Any excess of the identifiable net assets over the consideration transferred is immediately recognized in net earnings.

The consideration transferred by the Company to acquire control of an entity is calculated as the sum of the acquisition-date fair values of the assets transferred, liabilities incurred, and equity interests issued by the Company, including the fair value of all the assets and liabilities resulting from a deferred payment arrangement. Acquisition related costs are expensed as incurred.

Consolidation

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

As of June 30, 2018, the Company had three wholly owned subsidiaries: (i) Vogogo Canada Inc, (ii) Crypto 205 Inc. ("Crypto 205"), and (iii) 9376-9974 Quebec Inc. ("828").

VOGOGO INC.**Notes to Condensed Interim Consolidated Financial Statements****As at and for the three and six months ended June 30, 2018****(expressed in Canadian dollars – unaudited)**

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.

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 impairment 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. At the period end, management concluded that none of the Company's non-financial assets were impaired.

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 the statement of operations. Non-monetary assets and liabilities that are measured at historical cost are translated using the exchange rate at the date of the transaction.

VOGOGO INC.

Notes to Condensed Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2018

(expressed in Canadian dollars – unaudited)

3. SIGNIFICANT JUDGEMENTS AND ESTIMATES (continued)

Fair value measurement of stock options and broker warrants

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 broker warrants, volatility and dividend yield, and making assumptions about them. The assumptions and models used for estimating fair value for stock options and broker warrants are disclosed in note 11.

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 (“CMC” or “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 corresponding to the different digital assets mined by the Company. The Company is relying on the data available at Coin Market Cap to be an accurate representation of the closing price for the different digital assets.

Useful life of mining equipment

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

Supporting infrastructure	5 years
Mining Servers	3 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 are 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.

VOGOGO INC.

Notes to Condensed Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2018

(expressed in Canadian dollars – unaudited)

4. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies in these condensed consolidated interim financial statements are the same as those applied in the Company's financial statements as at and for the year ended December 31, 2017.

The changes in accounting policies are also expected to be reflected in the Company's financial statements as at and for the year ending December 31, 2018.

Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the provision of services in the ordinary course of business. The Company derives its revenue through the receipt of digital assets in exchange for providing successful "mining" services to the blockchains corresponding to various digital assets. Mining is the process by which transactions are verified and added to a blockchain. A miner is only able to validate transactions when its computer equipment has solved a computationally difficult algorithm.

Revenue is recognized according to the five-step model in IFRS 15, Revenue from Contracts with Customers. Digital assets mining is the ordinary business activity of the Company, and the consideration received meets the definition of revenue as income arising in the course of the Company's ordinary activities. The Company has determined that the substance of its mining activities is a service provision under the scope of IFRS 15 notwithstanding the lack of a formal contractual arrangement under which it provides such services as the services are provided through the blockchain protocol. Also, there is no collaboration arrangement within the blockchain, and the Company's rights and obligations are implied by the customary business practices prevalent within the industry.

Revenue is recognized by the Company when payment, in the form of digital assets, is received for successful mining services rendered. Revenue earned from digital assets mining activities is recognized at the fair value of the digital assets received as consideration on the date of actual receipt. Fair value is measured using the closing price on Coin Market Cap on the date of receipt. Revenue is recognized daily at the Canadian dollar value for the digital assets mined. During the three and six months ended June 30, 2018, the Company recognized \$2,709,176 in revenue from Bitcoin mining.

The amended standard was adopted on January 1, 2018 and did not have an impact on the condensed consolidated interim financial statements.

Digital assets

Digital assets are generated from the Company's mining service activities. The Company classifies and measures digital assets at fair value and realized and unrealized gains and losses are recorded through profit and loss.

The Company obtains the equivalency rate of tradable digital assets to USD from Coin Market Cap, a source that aggregates data from multiple exchanges and applies a methodology to determine the best quoted USD price on the date the digital assets were generated. The Company converts the price from USD to CAD based on the closing exchange rate on the date of asset generation. Subsequent to initial recognition, digital assets are remeasured at each reporting period. The resulting gain or loss from subsequent remeasurement is recognized in the statement of comprehensive income (loss) as a fair value remeasurement of digital assets. The equivalency rate obtained from Coin Market Cap represents a generally well recognized quoted price for tradeable digital assets, and this information and all related databases are accessible to the Company.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property and equipment and any expenditure required to make the property and equipment ready for use. Repairs and maintenance are charged against income as incurred. Expenditures that extend the estimated life of an asset are capitalized.

Depreciation is provided annually on property and equipment at rates designed to charge the cost of the assets over their estimated useful lives, as follows:

Supporting infrastructure	5 years	straight-line
Mining Servers	3 years	straight-line

The asset's residual values, useful lives and methods of depreciation are reviewed at each fiscal year end and adjusted prospectively, if appropriate. Depreciation of mining equipment is recognized in cost of revenue on the consolidated statement of income and comprehensive income.

VOGOGO INC.

Notes to Condensed Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2018

(expressed in Canadian dollars – unaudited)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Refer to note 3 for a discussion of the estimation uncertainty in respect of the determination of the appropriate method of depreciation the underlying useful life and the estimation of residual values in respect of mining equipment.

Certain items of property and equipment may be acquired in exchange for digital assets. The cost of such items is measured at fair value and the consideration is settled by providing an equivalent amount of digital assets at the date of acquisition. Such transactions do not require the use of cash or cash equivalents and are excluded from the statement of cash flows.

Financial instruments

Assets and liabilities carried at fair value must be classified using a three-level hierarchy that reflects the significance and transparency of the inputs used in making the fair value measurements.

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs that are not based on observable market data (unobservable data).

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

Financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset, with impairment losses recognized in net income (loss) and comprehensive income (loss).

The Company designates its cash and cash equivalents as fair value through income and accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost using the effective interest rate method.

IFRS 9 – Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9, Financial Instruments, including the classification and measurement of financial assets and the expected loss impairment model. The amendments to IFRS 9 were effective for annual periods on or after January 1, 2018 and are applied retrospectively. The adoption of this standard had no material impact on these condensed interim financial statements.

Financial assets

The Company classifies its financial assets into one of several categories, depending on the purpose for which the asset was acquired. The categories and the accounting policy for each category are as follows.

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing them in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statements of income.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statements of income.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in other comprehensive income. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized in profit or loss.

VOGOGO INC.

Notes to Condensed Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2018

(expressed in Canadian dollars – unaudited)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

All financial assets except for those at fair value through profit or loss are subject to review for impairment at the end of each reporting period. Financial assets are impaired when there is any objective evidence that the cash flows related to a financial asset or group of financial assets have been negatively impacted. Different criteria to determine impairment are applied for each of the aforementioned categories of financial assets.

The Company classifies its financial assets as follows:

- Cash at fair value through profit and loss; and
- Accounts receivable as loans and receivables

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives or liabilities acquired or incurred principally for the purpose of being sold or repurchased in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statements of income.

Other financial liabilities – This category includes long-term debt, amounts due to related parties and accounts payables and accrued liabilities, all of which are recognized at amortized cost.

The Company classifies its financial liabilities as follows:

- Accounts payable and accrued liabilities and promissory notes as other financial liabilities.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include: significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or the likelihood that the borrower will enter bankruptcy or financial reorganization.

Loss per share

The calculation of loss per common share is based on the reported net loss divided by the weighted average number of shares outstanding during the period. Diluted loss per share is calculated on the treasury stock basis. Where potentially dilutive equity instruments are anti-dilutive, basic and diluted earnings per share are the same.

Share issue costs

Costs incurred for the issue of common shares are deducted from share capital.

Share-based transactions

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted on the date the entity obtains the goods or the counterparty renders the service.

Broker Warrants

The Company issued broker warrants as part of a brokered private placement offering for common shares. Broker warrants are measured at fair value at the date of the offering and accounted for as a separate component of shareholders' equity. When the broker warrants are exercised, the proceeds received together with the related amount allocated as a separate component of shareholders' equity are allocated to capital stock. If the broker warrants expire unexercised, the related amount separately allocated to shareholders' equity is allocated to contributed surplus.

VOGOGO INC.

Notes to Condensed Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2018

(expressed in Canadian dollars – unaudited)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

Vogogo is in the business of mining for digital assets in a commercial manner. The income from the business is included in determining taxable income for the period. Revenue from digital assets mining is included in taxable income when the digital assets earned are sold or exchanged for cash or another asset. The digital assets held at period end is treated as a commodity and valued pursuant to section 10 of the Income Tax Act.

Income tax expense consists of current and deferred tax expenses. Current and deferred taxes are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or other comprehensive income.

Current income tax

Current income tax is measured as the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted at the reporting date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right to offset.

Accounting policies not yet adopted

The following new standards, amendments to standards and interpretations have been issued but are not yet effective for the period ended December 31, 2017 and accordingly, have not been applied in preparing these condensed interim consolidated financial statements:

IFRS 16, Leases

IFRS 16 was issued in January 2016 and requires lessees to recognize assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases.

The new standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted, provided the new revenue standard, IFRS 15, has been applied, or is applied at the same date as IFRS 16. The Company is in the process of assessing the impact of this standard on the Company's consolidated financial statements.

VOGOGO INC.

Notes to Condensed Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2018

(expressed in Canadian dollars – unaudited)

5. DIGITAL ASSETS

Digital assets consist of Bitcoin coins. Below is a continuity of digital assets mined, acquired through purchase, settled and revalued during the year.

	\$	Units
Closing balance as at December 31, 2017	\$ —	—
Coins acquired on acquisition (note 16)	368,654	40.03
Mined additions	2,709,176	269.70
Losses in fair value through profit & loss	(465,855)	—
Closing balance as at June 30, 2018	\$ 2,611,975	309.73

6. EQUIPMENT

COST	Mining equipment	Infrastructure	Office	Total
Balance December 31, 2017	\$ —	\$ —	\$ —	\$ —
Additions from acquisition (note 16)	41,097,497	17,649,856	—	58,747,353
Additions	—	87,132	4,241	91,373
Impairment (note 16)	(1,141,198)	—	—	(1,141,198)
Balance June 30, 2018	\$ 39,956,299	\$ 17,736,988	\$ 4,241	\$ 57,697,527

ACCUMULATED AMORTIZATION

Balance December 31, 2017	\$ —	\$ —	\$ —	\$ —
Amortization	825,379	162,922	—	988,301
Balance June 30, 2018	\$ 825,379	\$ 162,922	\$ —	\$ 988,301

Net carrying amount

At December 31, 2017	\$ —	\$ —	\$ —	\$ —
At June 30, 2018	\$ 39,130,920	\$ 17,574,065	\$ 4,241	\$ 56,709,226

During the three and six months ended June 30, 2018, \$988,301 of depreciation was charged as a cost of revenue.

The Company recognized impairment losses related to the acquisition of mining equipment (see note 16 below) of \$1.14 million (December 31, 2017 – \$nil). During the six months ended June 30, 2018, the Company determined that the recoverable amount of mining equipment acquired in the acquisition of Crypto 205 was less than the depreciated replacement cost of the equipment at the time of acquisition. The company impaired the mining equipment to its fair value based on the depreciated replacement cost of miners at the time.

On June 30, only 10,500 of the 14,000 miners acquired in the 828 Acquisition were installed and active. As a result, the Company did not amortize the costs of the un-installed and inactive mining equipment.

VOGOGO INC.

Notes to Condensed Interim Consolidated Financial Statements

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(expressed in Canadian dollars – unaudited)

7. PROMISSORY NOTE

The following table summarizes the liabilities of the Company under its promissory note:

	June 30, 2018		December 31, 2017	
	Minimum payments	Present value of minimum payment	Minimum payments	Present value of minimum payment
Less than one year	\$ 5,800,000	\$ 5,187,585	\$ —	\$ —
Later than one year but not later than five years	5,400,000	4,270,774	—	—
Less: Discount	(1,741,641)	—	—	—
Present value of minimum payments	\$ 9,458,359	\$ 9,458,359	\$ —	\$ —
Current		\$ 5,187,585		\$ —
Long-term		\$ 4,270,774		\$ —

On June 29th, the Company entered into a two-year secured promissory note with the vendor of 9376-9974 Quebec Inc. (note 16) for \$10 million. The note bears interest at 8% with interest payments due monthly on the 25th of each month. Principal repayments of \$5 million are due on the one-year anniversary date of the note and at the date of maturity. The note is secured by the physical assets of the 9376-9974 Quebec Inc. The company used a discount rate of 12% in deriving the present value of the promissory note.

Interest expense related to notes payable and included in interest expense for the current period is \$nil (2017 – \$nil).

8. INCOME TAXES

Details of income tax expense (recovery) was as follows:

	Six Months Ended June 30,	
	2018	2017
Current income tax expense	\$ 16,083	\$ —
Deferred income tax recovery	(625,073)	—
Income tax recovery	\$ (608,990)	\$ —

The reconciliation of the combined Canadian federal and provisional statutory income tax rate of 26.5% (2017 – 26.5%) to the effective tax rate is as follows:

	Six Months Ended June 30,	
	2018	2017
Loss before income taxes	\$ (52,500,214)	\$ (951,786)
Statutory tax rate	26.5%	26.5%
Statutory income tax recovery	(13,912,557)	(252,223)
Non deductible expenses	12,791,966	68,969
Financing fee recognized in convertible debenture	(548,531)	—
Change in unrecognized deferred tax assets	1,060,132	183,254
Income tax expense	\$ (608,990)	\$ —

VOGOGO INC.**Notes to Condensed Interim Consolidated Financial Statements****As at and for the three and six months ended June 30, 2018****(expressed in Canadian dollars – unaudited)****8. INCOME TAXES (continued)**

The following table summarizes the movement of deferred tax liabilities:

	Opening Balance January 1, 2018	Recognized in loss	Recognized in equity	Acquired in business combination	Total
Convertible debenture	\$ —	\$ —	\$ 598,031	\$ —	\$ 598,031
Mining, infrastructure and office equipment	—	—	—	3,248,548	3,248,548
Tax losses	—	(625,073)	—	—	(625,073)
Total deferred tax liability	\$ —	\$ (625,073)	\$ 598,031	\$ 3,248,548	\$ 3,221,506

9. CONVERTIBLE DEBENTURE

On June 21, 2018, the Company completed an underwritten prospectus financing (the "**Offering**") of debenture units (the "**Units**") for gross proceeds of \$34.5 million. Including the exercise in full of the over-allotment option, a total of 34,500 Units at a price of \$1,000 per Unit (the "**Issue Price**") were issued by the Company. Each Unit is comprised of \$1,000 principal amount of senior unsecured extendible non-redeemable convertible debentures ("**Convertible Debentures**") and 1,000 warrants ("**Warrants**") of the Company. Each Unit entitles the holder to a conversion rate of 2,000 common shares of the Company ("**Shares**") per \$1,000 principal amount of Convertible Debentures at a value of \$0.50 per Share and 1,000 Warrants exercisable for 1,000 Shares at a price of \$0.70 per Share.

The Convertible Debentures bear interest at 8% per annum, payable semi-annually and mature within 24 months. The fair value of the Convertible Debentures was recorded at \$29,745,570, discounted at a market interest rate of 12% and is net of debt issue costs. The accretion expense calculated using the effective interest method for the six months ended June 30, 2018 was \$46,771. Interest expense paid for the six months ended June 30, 2018 for Convertible Debentures was \$76,666.

The residual value of the conversion feature was estimated at \$2,214,930, net of issue costs using relative fair value allocation.

On closing, the Company paid the agent: (i) a commission of \$1.38 million representing 4% of the gross proceeds of the Offering; (ii) agent expenses and legal fees of \$260,291 and (iii) 1,380,000 broker warrant units. The broker warrants were measured based on the fair value of the equity instruments granted, as the fair value of services cannot be reliably measured. The estimated fair value of \$625,824 was based on the following assumptions: Special warrant price – \$0.45; Annualized volatility – 100%; Risk-free interest rate – 1.82%; Dividend yield – 0%; and Expected life – 2 years. Each broker warrant unit is exercisable into one common share and one warrant at an exercise price of \$0.50 per share, expiring two years from the date of issuance. In addition, the Company incurred legal fees and advisory expenses as part of the wider prospectus financing of \$273,385 that was included in accounts payable at June 30, 2018.

If there are an aggregate of 15 days on which the daily volume-weighted average trading price of the Common Shares on the CSE (or such other Canadian stock exchange on which the Common Shares may trade) equals or exceeds \$0.90, the Company may force conversion at \$0.50, upon giving Convertible Debenture holders 30 days advance written notice (a "Forced Conversion"). If Convertible Debentures are subject to a Forced Conversion in the 12 month period following the closing date, holders of Convertible Debentures will receive an interest payment in cash on such Convertible Debentures equal to any accrued and unpaid interest up to the date of conversion and additional interest for the period from the date of conversion to the date that is 12 months following the closing date.

VOGOGO INC.**Notes to Condensed Interim Consolidated Financial Statements****As at and for the three and six months ended June 30, 2018****(expressed in Canadian dollars – unaudited)****9. CONVERTIBLE DEBENTURE (continued)**

Should there be an aggregate of 15 trading days on which the daily volume-weighted average trading price of the Common Shares on the CSE (or such other Canadian stock exchange on which the Common Shares may trade) equals or exceeds \$1.10 the Company may issue a notice of acceleration (an “Acceleration Notice”) and, thereafter, the Warrants will expire on a Business Day specified in the Acceleration Notice, which date shall not be less than 20 days after the date of the Acceleration Notice.

	June 21, 2018
Face Value	\$ 34,500,000
Fair Value of Liability component of Convertible Debenture	(29,745,570)
Fair Value of Equity component of Convertible Debenture	(2,214,930)
Transaction costs	\$ 2,539,500

The following table reflects movements recognized during the six months ended June 30, 2018:

	Liability component of Convertible Debenture	Equity component of Convertible Debenture
Opening balance (net of transaction costs)	\$ 29,745,570	\$ 2,214,930
Accretion of liability component of Convertible Debenture (effective interest rate of 16.35%)	46,771	—
Balance - June 30, 2018	\$ 29,792,341	\$ 2,214,930

10. SHARE CAPITAL

The Company has authorized share capital of an unlimited number of common shares.

During the six months ended June 30, 2018:

- the Company issued 43,155,000 common shares for cash consideration of \$5,610,150 as a result of the exercise of warrants. Initially the 43,155,000 warrants were valued at \$1,484,136 using the Black-Scholes valuation model. On the exercise of the warrants, the value originally allocated to reserves was reallocated to the common shares.
- the Company issued 130,000,001 non-voting, convertible series 1 preferred shares to the shareholders of Crypto 205 for cash consideration of \$51.35 million which was used to finance the Crypto 205 Acquisition. The terms of the Preferred Shares provide, among other things, that they: (i) are non-voting; (ii) are convertible into common shares of Vogogo on a one for one basis, subject to customary adjustments; (iii) are eligible to participate in dividends if and when declared on the Common Shares; (iv) have priority rights on liquidation; and (v) are subject to a restriction that no holder of the Preferred Shares may convert into a number of Common Shares that would result in such holder beneficially owning greater than 9.9% of the outstanding Common Shares of the Company.

During the six months ended June 30, 2017 there were nil transactions affecting share capital.

VOGOGO INC.

Notes to Condensed Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2018

(expressed in Canadian dollars – unaudited)

11. CONTRIBUTED SURPLUS AND WARRANTS

	As at June 30, 2018		As at December 31, 2017	
	Contributed surplus	Warrants	Contributed surplus	Warrants
Beginning balance	\$ 6,058,639	\$ 2,449,333	\$ 5,279,312	\$ 403,826
Stock-based compensation	455,317	—	761,384	—
Issuance of warrants	—	—	—	2,063,450
Expiry of warrants	—	—	17,943	(17,943)
Exercised warrants	—	(1,484,136)	—	—
Equity portion of convertible debenture	2,214,928	625,824	—	—
Deferred tax on equity component of convertible debenture	(598,031)	—	—	—
Ending balance	\$ 8,130,853	\$ 1,591,021	\$ 6,058,639	\$ 2,449,333

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 five years from the date of grant. On November 21, 2017, the Board of Directors authorized and approved the immediate vesting of all outstanding options. As such, any unamortized expense relating to these options was recognized during the year ended December 31, 2017.

During the six months ended June 30, 2018, the Board of Directors agreed to issue stock options under the Company's Plan to various contractors, key management, and employees. The options granted to key management and employees shall vest and become exercisable at 33.33% over a three-year period. A certain contractor received immediate vesting of their grant while another contractors' options will vest 25% quarterly over one year. All options expire five years from the date of their grant.

A summary of the Plan transactions for the six months ended June 30, 2018 and year ended December 31, 2017 are as follows:

	As at June 30, 2018		As at December 31, 2017	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Beginning balance	5,890,000	\$ 0.23	6,060,000	\$ 0.24
Transactions during the year:				
Granted	12,595,951	0.40	60,000	0.38
Cancelled	—	—	(230,000)	0.42
Ending balance	18,485,951	\$ 0.35	5,890,000	\$ 0.23

The following provides a summary of options outstanding and exercisable as at June 30, 2018:

Number of Options Outstanding	Exercise Price \$	Expiry Date	Number of Options Exercisable	Exercise Price \$
60,000	\$ 0.33	April 28, 2019	60,000	\$ 0.33
180,000	0.75	September 11, 2019	180,000	0.75
10,000	1.09	August 28, 2020	10,000	1.09
250,000	1.20	September 20, 2020	250,000	1.20
30,000	0.60	February 17, 2021	30,000	0.60
5,300,000	0.16	November 4, 2021	5,300,000	0.16
60,000	0.38	November 7, 2022	60,000	0.38
6,595,951	0.35	April 4, 2023	586,488	0.35
6,000,000	0.46	May 7, 2023	—	0.46
18,485,951	\$ 0.35		6,476,488	\$ 0.24

VOGOGO INC.

Notes to Condensed Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2018

(expressed in Canadian dollars – unaudited)

11. CONTRIBUTED SURPLUS AND WARRANTS (continued)

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

	For the six months ended June 30, 2018		For the year ended December 31, 2017	
Expected volatility	100%		123%	
Expected life	3.5 years		5 years	
Expected forfeiture rate	0%		0%	
Risk-free interest rate	1.91% - 2.01%		1.61%	
Dividend yield	0%		0%	
Weighted average share price	\$	0.40	\$	0.38
Weighted average fair value of options at grant date	\$	0.24	\$	0.31

The Company recorded stock-based compensation expense for options of \$455,317 (2017 – \$256,017) with an offsetting increase to contributed surplus in respect of the stock options granted during the six months ended June 30, 2018. No stock options were exercised during the six months ended June 30, 2018 or 2017, and as a result \$nil was transferred to share capital from contributed surplus. The weighted average remaining life of the options is 4.3 years.

Warrants

A summary of warrant transactions for the six months ended June 30, 2018 and year ended December 31, 2017 is as follows:

	As at June 30, 2018		As at December 31, 2017	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Beginning balance	60,910,000	\$ 0.13	1,054,231	\$ 0.36
Transactions during the year:				
Expired	—	—	(144,231)	0.52
Issued	2,760,000	0.50	60,000,000	0.13
Exercised	(43,155,000)	0.13	—	—
Ending balance	20,515,000	\$ 0.19	60,910,000	\$ 0.13

The following provides a summary of warrants outstanding as at June 30, 2018:

Expiry date	Number of warrants outstanding	Strike price \$
February 11, 2019	910,000	\$ 0.33
October 31, 2019	16,845,000	0.13
June 21, 2020	2,760,000	0.50
	20,515,000	

VOGOGO INC.**Notes to Condensed Interim Consolidated Financial Statements****As at and for the three and six months ended June 30, 2018****(expressed in Canadian dollars – unaudited)****11. 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 six months ended June 30, 2018	For the year ended December 31, 2017
Expected volatility	100%	134%
Expected life	2 years	2 years
Expected forfeiture rate	0%	0%
Risk-free interest rate	1.82%	1.39%
Dividend yield	0%	0%
Weighted average share price	\$ 0.50	\$ 0.13
Weighted average fair value of warrants at grant date	\$ 0.23	\$ 0.07

During the six months ended June 30, 2018, 1,380,000 broker warrants units convertible to 2,760,000 common shares were issued in connection with the prospectus financing with an allocated fair value of \$625,824. The warrants had an exercise price of \$0.50 per common share. The warrants may be exercised during a period of two years from the date of issuance.

During the six months ended June 30, 2018, the Company received \$5,610,150 for the exercise of 43,155,000 warrants. On the exercise of 43,150,000 warrants, the value of \$1,484,136 originally allocated to reserves was reallocated to the share capital.

Convertible Debenture

During the six months ended June 30, 2018, the Company entered into a Convertible Debenture for \$34.5 million (note 9). The residual value of the conversion feature was estimated at \$2,214,930, net of issue costs using relative fair value allocation. Deferred tax liability of \$598,031 was netted against the residual value for a net adjustment to contributed surplus of \$1,616,897.

12. FAIR VALUE DISCLOSURE AND CAPITAL MANAGEMENT**Fair value hierarchy**

Digital assets recorded at fair value 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 their fair value because of the relatively short periods to maturity of these instruments and their low credit risk.

VOGOGO INC.**Notes to Condensed Interim Consolidated Financial Statements****As at and for the three and six months ended June 30, 2018****(expressed in Canadian dollars – unaudited)****12. FAIR VALUE DISCLOSURE AND CAPITAL MANAGEMENT (continued)**

The Company's financial instruments have been classified as follows:

	As at June 30, 2018			
	Fair value & carrying value	Level 1	Level 2	Level 3
Cash	5,435,959	5,435,959	—	—
Total financial assets	\$ 5,435,959	\$ 5,435,959	\$ —	\$ —

	As at December 31, 2017			
	Fair value & carrying value	Level 1	Level 2	Level 3
Cash	12,796,056	12,796,056	—	—
Total financial assets	\$ 12,796,056	\$ 12,796,056	\$ —	\$ —

Digital assets and risk management

Digital assets are measured using level 2 fair values, determined by taking the rate from Coin Market Cap.

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.

13. CAPITAL MANAGEMENT

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of equity comprised of issued share capital, warrants, and stock options. The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the period ended December 31, 2017.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to various risks including market risk, liquidity risk, and other risks related to its current concentration in a single asset, Bitcoin. Investing in Bitcoin is highly speculative and volatile. The investment objective of the Company is to track the market price of Bitcoin, less the Company's liabilities and expenses, by investing the assets of the Company in Bitcoin and, in the future, other cryptocurrencies. As Bitcoin and other cryptocurrency prices rise, the Company should achieve those gains. However, there can be no assurance that the Company matches the gains in 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.

VOGOGO INC.**Notes to Condensed Interim Consolidated Financial Statements****As at and for the three and six months ended June 30, 2018****(expressed in Canadian dollars – unaudited)****14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

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 represents the functional currency of the Company.

The table below indicates the foreign currencies to which the Company has significant exposure at June 30, 2018 in Canadian dollar terms:

	USD	
Cash	\$	72,630
Digital assets	\$	2,611,975
Accounts payable and accrued liabilities	\$	(2,563,906)

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)	
CAD	\$	12,070

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 the 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 June 30, 2018, 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 amount to \$261,198.

Credit risk

Credit risk is the risk that the counterparty to the 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 Bitcoins 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.

VOGOGO INC.**Notes to Condensed Interim Consolidated Financial Statements****As at and for the three and six months ended June 30, 2018****(expressed in Canadian dollars – unaudited)****14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)***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 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, less the Company's liabilities and expenses, by investing in the assets of the company in Bitcoin. The only investments of the Company will be direct investments in Bitcoin.

Security risk

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

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

Bitcoin network risk

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

15. EXPENSES CLASSIFIED BY NATURE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Cost of revenue				
Electricity	\$ 771,091	\$ —	\$ 771,091	\$ —
Depreciation	988,301	—	988,301	—
Facility costs	130,255	—	130,255	—
Contractor fees	115,892	—	115,892	—
	<u>\$ 2,005,539</u>	<u>\$ —</u>	<u>\$ 2,005,539</u>	<u>\$ —</u>
General and administrative				
Office and administrative	\$ 15,109	\$ 10,638	\$ 21,777	\$ 21,647
Legal and Professional fees	260,552	13,648	368,636	553,191
Consulting fees	20,373	20,000	49,873	41,975
Travel and entertainment	66,641	3,330	79,690	14,680
Salaries	231,956	42,406	274,222	84,657
	<u>\$ 594,631</u>	<u>\$ 90,022</u>	<u>\$ 794,198</u>	<u>\$ 716,150</u>

VOGOGO INC.**Notes to Condensed Interim Consolidated Financial Statements****As at and for the three and six months ended June 30, 2018****(expressed in Canadian dollars – unaudited)****16. BUSINESS COMBINATIONS****Crypto 205 Inc.**

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, which was 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 on acquisition \$
Fair value of consideration provided	51,350,000
Cash	916,117
Prepays	52,209
Sales tax receivable	1,054,527
Digital assets	368,654
Subscription receivable	2,272
Mining equipment and infrastructure	13,288,994
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	4,753,813
Goodwill	46,596,187
Impairment allocation	
Goodwill	46,596,187
Mining equipment	1,141,198
	47,737,385

The Company issued 130,000,001 non-voting, convertible series 1 preferred shares to the shareholders of Crypto 205 for consideration of \$51.35 million to finance the Crypto 205 Acquisition. The Company conducted a valuation of the net assets acquired and determined that an impairment of the purchase price was required. It was determined that in order to carry the assets at their fair value, an impairment of \$47,737,385 would be recorded.

In measuring the fair value of the mining equipment, 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.

If the acquisition had occurred on January 1, 2018, Crypto 205 would have contributed \$6.43 million and \$0.93 million to consolidated revenues and net earnings, respectively. As at June 30, 2018, Crypto 205 has contributed \$2.65 million and \$nil to consolidated revenues and net loss of the Company, respectively.

Acquisition-related costs directly related to the Crypto 205 acquisition were \$91,420 and were expensed in net loss during the six months ended June 30, 2018.

As of June 30, 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.

VOGOGO INC.**Notes to Condensed Interim Consolidated Financial Statements****As at and for the three and six months ended June 30, 2018****(expressed in Canadian dollars – unaudited)****16. BUSINESS COMBINATIONS (continued)****9376-9974 Quebec Inc.**

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

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

	Fair value on acquisition \$
Mining equipment and infrastructure	45,458,359
Goodwill	3,221,506
Deferred tax liability	(3,221,506)
Total Consideration	45,458,359
Cash consideration	36,000,000
Fair value of promissory note	9,458,359
Total Consideration	45,458,359

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, Vogogo 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. Vogogo acquired additional HVAC and electrical equipment, which, once installed and placed into service, will support cryptocurrency mining for an additional 4,000 mining machines at the facility, either mining for its own account or on a co-location basis for other miners.

As of the closing, approximately 10,500 mining machines were fully operational, with installation of the remaining mining machines continuing and expected to be completed in the third quarter. Concurrent with closing, the Company entered into a lease agreement for the facility, which will have access to 30 megawatts of power for cryptocurrency mining, of which approximately 27 megawatts are used for mining and the balance for supporting HVAC and electrical systems. Vogogo also received confirmation from the Vendor that Hydro-Québec has confirmed the electricity required to operate the 828 assets forms part of the 120 MW block of electricity previously allocated and approved for blockchain use in the Province of Quebec.

If the acquisition had occurred on January 1, 2018, 828 would have contributed \$60,000 and \$33,500 to consolidated revenues and net earnings, respectively. Since the date of acquisition, 828 has contributed \$60,000 and \$33,500 to consolidated revenues and net earnings, respectively.

Acquisition-related costs directly related to the 828 Acquisition were \$242,141 and were expensed in net loss during the six months ended June 30, 2018.

The 828 Acquisition includes a two-year secured promissory note in favor of the vendor of 9376-9974 Quebec Inc. for \$10 million. The note bears interest at 8% per annum with interest payments due monthly on the 25th of each month. Principal repayments of \$5 million are due on the one-year anniversary date of the note and at maturity. The note is secured by the physical assets of the 9376-9974 Quebec Inc. The Company used a discount rate of 12% in deriving the present value of the promissory note (see note 9).

The Company acquired net assets with a fair value of \$45.46 million, which was equal to the consideration paid. The business combination resulted in a deferred tax liability in the amount of \$3.22 million directly related to the fair value adjustment of the mining equipment and infrastructure acquired. The impact of this deferred tax liability generated Goodwill on the acquisition. The Company conducted a preliminary valuation of the net assets acquired and determined that an impairment of the purchase price was required. It was determined that in order to carry the assets at their fair value, an impairment to Goodwill acquired for \$3.22 million related to the deferred tax liability would be recorded.

As of June 30, 2018, the allocation of the purchase consideration is based on preliminary estimates related to the fair value of the assets acquired and has not been finalized.

VOGOGO INC.**Notes to Condensed Interim Consolidated Financial Statements****As at and for the three and six months ended June 30, 2018****(expressed in Canadian dollars – unaudited)****17. RELATED PARTY TRANSACTIONS**

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

The compensation of such key management for the six months ended June 30, 2018 and 2017 included the following:

	2018	2017
Salaries and director remuneration	\$ 245,189	\$ 79,896
Stock-based compensation expense - directors and officers	303,477	220,833
	<u>\$ 548,666</u>	<u>\$ 300,729</u>

As at June 30, 2018, included in accounts payable and accrued liabilities was \$220,435 (December 31, 2017 – \$69,751) of payments owed to key management personnel. As at June 30, 2018, \$72,617 of the amount included in accounts payable and accrued liabilities relate to salaries payable, which will be settled through the transfer of Bitcoin.

18. COMMITMENTS

At June 30, 2018, the Company's future minimum lease payments under non-cancellable operating leases aggregate to \$9.56 million and are payable as follows:

	Within one year	Later than one year but not later than 5 years	More than 5 years
Rent	\$ 1,847,500	\$ 7,715,000	\$ —
Total	<u>\$ 1,847,500</u>	<u>\$ 7,715,000</u>	<u>\$ —</u>

Included in prepaid expenses as at June 30, 2018, are security deposits for rent of \$129,347 and security deposits for electricity costs of \$284,600 (December 31, 2017 – \$nil).

19. SEGMENT INFORMATION

The Company operates in one industry and geographic segment; the Bitcoin mining industry with all current mining activities conducted in Canada.