HUT 8 MINING CORP.
(formerly Oriana Resources Corp.)

Consolidated Financial Statements
(In Canadian dollars)

Years ended December 31, 2018 and 2017

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hut 8 Mining Corp. (formerly Oriana Resources Corporation)

Opinion

We have audited the consolidated financial statements of Hut 8 Mining Corp. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2018 and the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which indicates that the Company incurred a net loss of $136,765,537 during the year ended December 31, 2018 and, as of that date, the Company's current liabilities exceeded its total assets by $18,303,392. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The financial statements of the Company for the period from incorporation (November 15, 2017) to December 31, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on February 27, 2018.

Other Information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partner on the audit resulting in this independent auditor's report is David Goertz.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

May 6, 2019

An independent firm associated with
Moore Stephens International Limited
MOORE STEPHENS

HUT 8 MINING CORP.

(In Canadian dollars)

Consolidated Statements of Financial Position as at December 31,

	2018	2017
Assets		
Current assets		
Cash	$ 3,556,560	$ 23,248,485
Deposits and prepaid expenses (Note 6)	79,901	3,600
Sales tax and other receivables	-	50,000
	3,636,461	23,302,085
Non-current assets		
Plant and equipment (Note 8)	58,127,009	21,195,842
Digital assets (Note 7)	15,408,189	1,078,760
Deposits and prepaid expenses (Note 6)	5,723,794	-
Total assets	**$ 82,895,453**	**$ 45,576,687**
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	$ 16,869,179	$ 5,665,363
Accrued liabilities	1,000,670	3,403,782
Loans payable (Note 9)	4,070,004	-
	21,939,853	9,069,145
Non-current liabilities		
Loans payable (Note 9)	28,296,238	-
	50,236,091	9,069,145
Shareholders' equity		
Share capital (Note 10)	162,733,360	35,676,182
Shares to be issued (Note 10)	1,167,386	-
Warrants (Note 10)	1,367,901	736,848
Contributed surplus (Note 10)	4,061,740	-
Accumulated earnings (deficit)	(136,671,025)	94,512
	32,659,362	36,507,542
Total liabilities and shareholders' equity	**$ 82,895,453**	**$ 45,576,687**

Reporting entity and going concern (Note 1)
Commitments (Note 15)
Subsequent event (Note 16)

Approved on behalf of the Board:

"Andrew Kiguel"	***"Bill Tai"***
Director & Chief Executive Officer	Director

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

HUT 8 MINING CORP.

(In Canadian dollars)

Consolidated Statements of Loss and Comprehensive Loss

	Year ended December 31, 2018	November 15, 2017 to December 31, 2017
Revenue		
Digial assets mined (Note 7)	$ 49,439,100	$ 1,123,216
Cost of revenue		
Site operating costs	(24,873,528)	(131,422)
Depreciation (Note 8)	(47,018,781)	(154,158)
Gross profit	(22,453,209)	837,636
Expenses		
Share based payments (Note 10)	(3,517,013)	-
Professional	(2,371,428)	(534,006)
General and office	(913,524)	(7,250)
Salary and benefits	(1,030,449)	(22,326)
Investor and public relations	(795,150)	(113,106)
Regulatory	(163,750)	-
Fair value loss on re-measurement of digital assets (Note 7)	(17,862,687)	(44,456)
	(26,654,001)	(721,144)
Operating income	**(49,107,210)**	**116,492**
Write-down (Note 8)	(85,404,592)	-
Listing and qualifying transaction (Note 5)	(1,151,401)	-
Other income (Note 7)	448,264	-
Foreign exchange loss	(678,495)	(4,220)
Finance expense	(904,511)	-
Finance income	32,408	-
Income tax expense (Note 14)	-	(17,760)
Net income (loss) and comprehensive income (loss)	**$ (136,765,537)**	**$ 94,512**
Income (loss) per share - basic and diluted	$ (2.43)	$ 0.00
Weighted average number of shares outstanding - basic and diluted	56,188,943	43,634,783

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

HUT 8 MINING CORP.

(In Canadian dollars)
Consolidated Statement of Cash Flows

	Year ended December 31, 2018	Period from November 15, 2017 to December 31, 2017
Cash provided by (used in):		
Operating activities:		
Net income (loss)	$ (136,765,537)	$ 94,512
Change in non-cash operating items:		
Digital assets mined	(49,439,100)	(1,123,216)
Other income	(448,264)	-
Depreciation	47,018,781	154,158
Write-down	85,404,592	-
Listing and qualifying transaction	1,151,401	-
Share based payments	3,517,013	-
Fair value loss on re-measurement of digital assets	17,862,687	44,456
Cash received from sale of bitcoin	11,168,400	-
Bitcoin paid for services	5,161,512	-
Net finance expense	174,172	-
Income tax expense	-	17,760
	(15,194,343)	(812,330)
Change in non-cash working capital:		
Sales tax and other receivables	50,000	(50,000)
Accounts payable and accrued liabilities	8,371,856	9,069,145
Net cash provided by (used in) operating activities	(6,772,487)	8,206,815
Investing activities		
Additions to plant and equipment	(84,363,382)	(8,774,392)
Deposits and prepaid expenses	(5,800,095)	(3,600)
Net cash used in investing activities	(90,163,477)	(8,777,992)
Financing activities		
Proceeds from issuance of common shares, net of issue costs	54,840,426	23,819,662
Finance draw from loan payable, net of issue costs	20,618,613	-
Cash received from exercise of warrants	1,785,000	-
Net cash provided by financing activities	77,244,039	23,819,662
Increase (decrease) in cash and cash equivalents	(19,691,925)	23,248,485
Cash and cash equivalents, beginning of year	23,248,485	-
Cash and cash equivalents, end of year	**$ 3,556,560**	**$ 23,248,485**

Significant non-cash transactions for the year ended December 31, 2018 included:

- recognition of the fair value of broker warrants of $1,367,901;
- purchase of plant and equipment with Hut 8’s common shares valued at $58,463,070; and
- purchase of plant and equipment with digital assets valued at $11,569,735.

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

HUT 8 MINING CORP.

(In Canadian dollars)
Consolidated Statement of Changes in Shareholders' Equity

	Share Capital							
	Number of shares	Dollar amount	Shares to be issued	Warrants	Contributed surplus	Accumulated deficit	Total
Balance, November 15, 2017	**-**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Issuance of shares on incorporation	4,000,000	200,000	-	-	-	-	200,000
Share split	36,000,000	-	-	-	-	-	-
Issuance of shares on private placement	15,200,000	38,000,000	-	-	-	-	38,000,000
Share issue costs, net of tax	-	(2,523,818)	-	736,848	-	-	(1,786,970)
Net income and comprehensive income	-	-	-	-	-	94,512	94,512
Balance, December 31, 2017	**55,200,000**	**$ 35,676,182**	**$ -**	**$ 736,848**	**$ -**	**$ 94,512**	**$ 36,507,542**
Shares issued for mining equipment	16,693,858	58,463,070	-	-	-	-	58,463,070
Shares issued on private placement	14,000,000	65,052,260	-	1,367,901	-	-	66,420,161
Shares issued for reverse takover (Note 5)	220,000	1,100,000	-	-	-	-	1,100,000
Shares to be issued	-	-	1,167,386	-	-	-	1,167,386
Buy back of shares	(1,600,000)	(80,000)	-	-	-	-	(80,000)
Exercise of warrants	714,000	2,521,848	-	(736,848)	-	-	1,785,000
Share based payments	-	-	-	-	3,517,013	-	3,517,013
Discount to Bitfury loan (Note 9)	-	-	-	-	544,727	-	544,727
Net loss and comprehensive loss	-	-	-	-	-	(136,765,537)	(136,765,537)
Balance, December 31, 2018	**85,227,858**	**$ 162,733,360**	**$ 1,167,386**	**$ 1,367,901**	**$ 4,061,740**	**$(136,671,025)**	**$ 32,659,362**

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

1. Reporting entity and going concern

(a) Reporting entity

Hut 8 Mining Corp. (the “Company” or “Hut 8” or “Pubco”) was incorporated under the laws of the Province of British Columbia on June 9, 2011. The registered office of the Company is located at Suite 1700 Park Place 666 Burrard Street, Vancouver BC, Canada, V6C 2X8 and the headquarter is located at 130 King St. W, Suite 1800, Toronto, ON, Canada, M5X 1E3. The Company’s common shares are listed under the symbol “HUT” on the TSX Venture Exchange and as “HUTMF” on the OTCQX Exchange. On March 2, 2018, the Company closed its qualifying transaction with Hut 8 Holdings Inc. (“Hut 8 Holdings”). The Company was a capital pool company prior to the transaction. The transaction was accounted for as a reverse acquisition (Note 5). As at December 31, 2018, Bitfury Holding BV (“Bitfury”) owned 45% of the Company’s common shares and is a controlling shareholder and related party of Hut 8. The Company is in the business of utilizing specialized equipment to solve complex computational problems to validate transactions on the bitcoin blockchain. The Company receives bitcoin in return for successful service.

(a) Going concern

These consolidated financial statements have been prepared assuming the Company will continue as a going concern, notwithstanding that the Company has a working capital deficiency. As at December 31, 2018, the Company has a working capital deficiency of $18,303,392 and shareholders' equity of $32,659,362. Subsequent to December 31, 2018, the Company converted $5,576,150 of accounts payable and accrued liabilities owed to Bitfury to Hut 8 common shares. During the year ended December 31, 2018, the Company had a net loss of $136,765,537, primarily due to the write-off of $85,404,592, and negative cash flow from operations of $6,772,487, which does not include the bitcoin mined which had not been sold.

The Company’s ability to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business is dependent upon maintaining sustained profitability and maintaining the Company’s loans in good standing. There are various risks and uncertainties affecting the Company’s operations including, but not limited to, the viability of the economics of bitcoin mining, the liquidity of bitcoin, the Company’s ability to maintain its security of its digital assets and execute its business plan. The Company’s strategy to mitigate these risks and uncertainties is to execute a business plan aimed at continued security, operational efficiency, revenue growth, improving overall mining profit, managing operating expenses and working capital requirements, and securing additional financing, as needed, through one or more of loans and equity investments. Failure to implement the Company’s business plan could have a material adverse effect on the Company’s financial condition and/or financial performance. Accordingly, there are material risks and uncertainties that cast significant doubt about the Company’s ability to continue as a going concern.

These consolidated financial statements do not include any adjustments or disclosures that would be required if assets are not realized and liabilities and commitments are not settled in the normal course of operations. If the Company is unable to continue as a going concern, then the carrying value of certain assets and liabilities would require revaluation to a liquidation basis, which could differ materially from the values presented in the consolidated financial statements.

2. Statement of compliance and basis of presentation

(b) Statement of compliance

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

The Company is in the business of digital currencies, many aspects of which are not specifically addressed by current IFRS guidance. The Company is required to make judgments as to the application of IFRS and the selection of its accounting policies. The Company has disclosed its presentation, recognition and derecognition, and measurement of digital currencies, and the recognition of revenue as well as significant assumptions and judgments, however, if specific guidance is enacted by the IASB in the future, the impact may result in changes to the Company's earnings and financial position as presented.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 6, 2019.

(c) Basis of presentation

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

(d) Functional and presentation currency

Items included in the consolidated financial statements of the Company and its wholly owned subsidiaries are measured using the currency of the primary economic environment in which the entity operates. These consolidated financial statements have been prepared in Canadian dollars, which is the Company's functional and presentation currency.

(e) Consolidation

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

The Company incorporated Hut 8 Asset Management Inc. on November 1, 2018 for the Company's digital currency trading operations based in Bridgetown, Barbados.

As of December 31, 2018, the Company had two wholly owned subsidiaries: Hut 8 Holdings Inc. and Hut 8 Asset Management Inc.

3. Significant accounting policies, judgements, and estimates

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts; 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.

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

(i) Functional currency

The functional currency of the Company has been assessed by management based on consideration of the currency and economic factors that mainly influence the Company's digital currencies, production and operating costs, financing and related transactions. Specifically, the Company considers the currencies in which digital currencies are most commonly denominated and the currencies in which expenses are settled, by each entity, as well as the currency in which each entity receives or raises financing. Changes to these factors may have an impact on the judgment applied in the determination of the Company's functional currency.

3. Significant accounting policies, judgements, and estimates (continued)

(ii) 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 our 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 our 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.

(iii) Impairment of non-financial assets

Impairment exists when the carrying value of an asset 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. See Note 8 for the discussion regarding impairment of the Company’s non-financial assets.

(iv) 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.

3. Significant accounting policies, judgements, and estimates (continued)

(v) Fair value measurement of stock options and broker warrants

The Company measures the cost of equity-settled transaction 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 10.

(vi) Revenue recognition

The Company recognizes revenue from the provision of transaction verification services within the bitcoin blockchain, and as consideration for these services, the Company receives bitcoin. Revenue is measured based on the fair value of the bitcoin received. The fair value is determined using the closing bitcoin price each day per www.coinmarketcap.com ("Coinmarketcap"). The Company is relying on the data available at Coinmarketcap to be an accurate representation of the closing price for the digital assets.

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

(vii) Fair value of digital assets

Digital assets, consisting solely of bitcoin, are measured at fair value using the quoted price on Coinmarketcap. Management considers this fair value to be a level two 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 bitcoin is valued based on the closing price obtained from Coinmarketcap at the reporting period corresponding to the digital assets mined by the Company.

The Company's determination to classify its holding of bitcoin as current assets is based on management's assessment that its bitcoin held can be considered to be a commodity and the availability of liquid markets to which the Company may sell a portion or all of its holdings.

(viii) 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.

(ix) Share issue costs

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

3. Significant accounting policies, judgements, and estimates (continued)

(x) 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, measured at the date the entity obtains the goods or the counterparty renders the service.

The Company issued broker warrants as part of 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.

(xi) Useful life of mining equipment

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

Seacan containers and supporting infrastructure	4 years
Mining servers	2 years

The mining equipment is used to generate bitcoin. The rate at which the Company generates digital assets and, therefore, consumes the economic benefits of its mining equipment are influenced by several factors including, but not limited to, the following:

- The complexity of the mining process which is driven by the algorithms contained within the digital assets open source software; and
- Technological obsolescence reflecting rapid development in the mining machines such that more recently developed hardware is more economically efficient to run in terms of digital assets mined as a function of operating costs, primarily power costs (ie., the speed of mining machines evolution in the industry) is such that later mining machine models generally have faster processing capacity combined with lower operating costs and a lower cost of purchase.

Based on the Company and the industry's limited history to date, management is limited by the market data available. Furthermore, the data available also includes data derived from the use of economic modelling to forecast future digital assets and the assumptions included in such forecasts, including digital asset's price and network difficulty, and derived from management's assumptions which are inherently judgmental. Based on current data available, management has determined that the straight-line method of amortization best reflects the current expected useful life of mining equipment. Management will review their estimates at each reporting date and will revise such estimates as and when data become available. Management will review the appropriateness of its assumption related to residual value at each reporting date.

3. Significant accounting policies, judgements, and estimates (continued)

(xii) Financial instruments

Financial instruments are accounted for in accordance with IFRS 9, “Financial Instruments: Classification and Measurement”. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income (“FVOCI”); or (iii) fair value through profit or loss (“FVTPL”). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed.

All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income. The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Cash is measured at FVTPL.

Impairment of financial assets

IFRS 9 uses the expected credit loss (“ECL”) model. The credit loss model groups receivables based on similar credit risk characteristics and days past due in order to estimate bad debts. The ECL model applies to the Company’s receivables.

An ‘expected credit loss’ impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset’s original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3. Significant accounting policies, judgements, and estimates (continued)

(xii) Financial instruments (continued)

Financial liabilities

Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable and loans payable are classified under other financial liabilities and carried on the statement of financial position at amortized cost.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

The Company retrospectively adopted IFRS 9 on January 1, 2018. Due to the short-term and/or liquid nature of its financial assets and financial liabilities, the adoption had no impact on the amounts recognized in the Company's consolidated financial statements for the year-ended December 31, 2018.

4. New standards and interpretations

The following new standards, amendments to standards and interpretations have been issued but are not yet effective for the year ended December 31, 2018 and accordingly, have not been applied in preparing these 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 changed to the existing accounting in IAS 17 Leases. The new standards 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.

5. Reverse acquisition

On March 2, 2018, the Company completed its qualifying transaction (the "Qualifying Transaction") with Hut 8 Holdings. Pursuant to the Qualifying Transaction the following occurred:

(i) The Company completed a consolidation of its common shares immediately prior to the completion of the Debt Conversion and the Amalgamation (as defined below), of its then issued and outstanding 9,500,000 common shares on the basis of one new Pubco share for every 52.7777 existing Pubco shares;

(ii) The Company effected a conversion of $200,000 of debt owing by Pubco into 40,000 Pubco common shares, based on a conversion price of $5.00 per Pubco share (the "Debt Conversion");

(iii) The Company acquired all of the issued and outstanding common shares of a private corporation incorporated under the Business Corporations Act (British Columbia) (the "BCBCA"), Hut 8 Mining Corp. (the "Hut 8 PrivateCo"), from the shareholders of Hut 8 PrivateCo in exchange for an aggregate of 82,160,000 Pubco shares;

(iv) Hut 8 PrivateCo and 1149835 B.C. Ltd., a wholly-owned subsidiary of the Company amalgamated under the BCBCA (the "Amalgamation") and continued as one corporation, Hut 8 Holdings ("Amalco"), which is a wholly-owned subsidiary of the Company. The Company changed its name to "Hut 8 Mining Corp.".

The Qualifying Transaction has been accounted for as a reverse acquisition that does not constitute a business combination. For accounting purposes, the legal subsidiary, Hut 8 Holdings, has been treated as the acquirer and Hut 8 Mining Corp., the legal parent, has been treated as the acquiree. For accounting purposes, these consolidated financial statements reflect a continuation of the financial position, operating results and cash flows of the Company's legal subsidiary, Hut 8 Holdings.

(In Canadian dollars)

5. Reverse acquisition (continued)

The fair value of the consideration is as follows:	
220,000 common shares at a price of $5.00 per share	$ 1,100,000
Net assets acquired:	
Accounts receivable	4,167
Accounts payable and accrued liabilities	(55,568)
Listing and qualifying transaction	1,151,401
Value attributed to Hut 8 shares issued	**$ 1,100,000**

6. Deposits and prepaid expenses

		December 31, 2018
Current		
Prepaid insurance	$	71,901
Miscelaneous deposits		8,000
Total current deposits and prepaids expenses	**$**	**79,901**
Non-current		
Deposits under Electricity Supply Agreement (Note 15)	$	5,342,594
Land lease deposit (Note 15)		381,200
Total non-current deposits and prepaids expenses	**$**	**5,723,794**

(In Canadian dollars)

7. Digital assets

Digital assets solely consist of bitcoin. Below is the bitcoin mined and transacted.

	Dollars	Bitcoin
Opening balance, November 15, 2017	**$ -**	**-**
Bitcoin received for share subscription(i)	12,575,608	556
Bitcoin used to purchase plant and equipment	(12,575,608)	(556)
Bitcoin mined	1,123,216	62
Fair value loss on re-measurement of digital assets (ii)	(44,456)	-
Balance, December 31, 2017	**1,078,760**	**62**
Bitcoin received through share subscriptions	11,569,735	1,077
Bitcoin used to purchase plant and equipment	(12,935,071)	(1,342)
Bitcoin mined	49,439,100	5,592
Bitcoin recovered(iii)	448,264	32
Bitcoin paid for services(iv)	(5,161,512)	(667)
Bitcoin traded for cash	(11,168,400)	(1,719)
Fair value loss on re-measurement of digital assets(v)	(17,862,687)	-
Balance, December 31, 2018	**$ 15,408,189**	**3,035**

(i) On December 20, 2017, an officer of Bitfury invested approximately 165.8 bitcoin at a value of $3,750,000 for 1,500,000 shares of the Company

(ii) Included in the fair value loss on re-measurement of digital assets is a gain on revaluation of bitcoin in the amount of $1,336,517, offset by an equivalent realized loss on the settlement, in bitcoin, of an amount owing to Bitfury.

(iii) Hut 8 entered an agreement with Bitfury whereas Hut 8 experienced electricity outages for its BlockBoxes and a settlement was reached to compensate Hut 8 for the lost revenue. This was a one-time settlement with Bitfury during the early stages of Hut 8's operations. 32.3 bitcoin in compensation was transferred in January 2018 related to this.

(iv) Primarily includes services paid to Bitfury for the maintenance and operation of Hut 8's on site operations. During the year ended December 31, 2018, the Company undertook a review of transfers made to counterparties. It was determined that a transfer of bitcoins was not recoverable. As such, the transfer was deemed to exceed its recoverable amount and an asset impairment of $699,120 was recognized as a result of this excess amount.

(v) Digital assets held are re-valued each reporting date based on the fair market value of the price of bitcoin on the reporting date. As at December 31, 2018, the price of bitcoin was $5,078 (US$3,743) which resulted in a fair value loss on re-measurement of $17,862,687.

(In Canadian dollars)

8. Plant and equipment

	Infrastructure	Mining servers	**Total**
Cost			
As at November 15, 2017	$ -	$ -	**$ -**
Additions(i)	5,033,000	16,317,000	**21,350,000**
As at December 31, 2017	5,033,000	16,317,000	**21,350,000**
Additions(i)	56,427,119	111,346,467	**167,773,586**
Impairment(ii)	(3,560,072)	(80,263,565)	**(83,823,637)**
As at December 31, 2018	$ 57,900,047	$ 47,399,902	**$ 105,299,949**
Accumulated Depreciation			
As at November 15, 2017	$ -	$ -	**$ -**
Depreciation	31,222	122,936	**154,158**
As at December 31, 2017	31,222	122,936	**154,158**
Depreciation	8,712,587	38,306,194	**47,018,781**
As at December 31, 2018	$ 8,743,809	$ 38,429,130	**$ 47,172,939**
Net Book Value December 31, 2017	**$ 5,001,778**	**$ 16,194,064**	**$ 21,195,842**
Net Book Value December 31, 2018	**$ 49,156,238**	**$ 8,970,771**	**$ 58,127,009**

Plant and equipment is made up of specialized equipment to mine bitcoin.

(i) The Company acquired mining equipment from Bitfury paid in cash, equity, and bitcoin, which was measured at fair value.

(ii) Management assessed the indicators of possible impairment to bitcoin mining equipment, as at December 31, 2018, and determined that impairment indicators exist. Due to the decline in the market value of servers, weakening prices of bitcoin and volatility in network difficulty levels during the year, an impairment analysis was completed. Management has determined the recoverable amount as the Fair Value for the Drumheller facility and Value in Use ("VIU") for the Medicine Hat facility. The significant assumptions in determining VIU included the following:

- Bitcoin price - $5,224 (US$3,829)
- Network difficulty - 5,619 billion
- Discount rate - 25%

For the purpose of the Fair Value and VIU calculation, management assumed no changes in bitcoin price or network difficulty.

There were additional impairment charges related to sales tax paid of $881,835 for purchases BlockBoxes in Canada, that were considered not likely to be collected and $699,120 impairment per Note 7.

9. Loan payable

		2018		2017
Galaxy	$	20,700,957	$	-
Bitfury		11,665,285		-
		32,366,242		-
Current portion	**$**	**4,070,004**	**$**	**-**
Non-current portion	**$**	**28,296,238**	**$**	**-**

Galaxy loan - As at December 31, 2018, the Company has a loan payable, net of transaction costs, of $14,974,491 (US$11,037,698) to Galaxy, a related party (Note 11). The loan is secured by the assets of Hut 8 and matures on March 10, 2021 when US$16,000,000 will be due to Galaxy. The loan payable is denominated in US dollars and bears interest at a rate equal to LIBOR + 10% per annum. The cash received from the loan was $19,628,691 (US$15,194,570) and a foreign exchange loss was recognized for $989,922. In consideration for the loan payable, the Company issued 2,222,222 bonus warrants with an exercise price of $4.50 to Galaxy with a Nil fair value. The loan agreement includes a process where expenses in the ordinary course of business are paid based on a monthly budget approved by Galaxy. The loan has two covenants requiring the Company to have a minimum US$2,250,000 cash balance and from June 28, 2019 through and including August 30, 2019 the Company to maintain a loan to bitcoin value of 100%. From August 31, 2019 through and including October 30, 2019, the loan to bitcoin value decreases to 85% and from October 31, 2019 and thereafter the loan to bitcoin value remains at 75%. The interest expense for the year ended December 31, 2018 was $912,550 (US$692,842) which has been recognized as finance expense.

Bitfury loan - As at December 31, 2018, the Company has a loan payable, net of transaction costs, of $12,210,012 (US$9,000,000) to Bitfury, a related party (Note 11). The loan is carried at amortized cost based on an 18% market interest rate causing the carrying value to be lower than the original principal value with a difference of $544,727 at inception which was recognized as a related party contribution in contributed surplus. The loan payable is unsecured and bears interest at 12% per annum. This loan is split into a $8,140,008 (US$6,000,000) portion which will be repaid in $339,167 (US$250,000) installments every month for 24 months. The remaining principal of $4,070,004 (US$3,000,000) will become due at the earlier of January 1, 2021 or the date that the principal for the Galaxy loan has been fully repaid. All interest accrued during the first 24 months of this loan will become due on January 1, 2021 and all interest accrued after this date will be due on a monthly basis thereafter.

(In Canadian dollars)

10. Equity

(a) Common shares

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

On December 12, 2017, the Company completed a 10 to 1 share split. All numbers presented below are reflective of the share split.

	Number of shares		Amount
Shares issued on incorporation[i]	40,000,000	$	200,000
Shares issued on private placement[ii]	15,200,000		38,000,000
Share issue costs – cash[ii]	-		(1,804,730)
Shares issue costs - broker warrants[ii]	-		(736,848)
Deferred tax recoverable	-		17,760
Balance, December 31, 2017	**55,200,000**		**35,676,182**
Shares issued for mining equipment[iii]	16,693,858		58,463,070
Shares issued on private placement[iv]	14,000,000		70,000,000
Share issue costs – cash[iv]	-		(3,579,839)
Shares issue costs - broker warrants[iv]	-		(1,367,901)
Shares to be issued[v]	-		1,167,386
Buyback of shares[vi]	(1,600,000)		(80,000)
Shares issued for reverse acquisition (Note 5)	220,000		1,100,000
Shares issued on exercise of warrants[vii]	714,000		2,521,848
Balance, December 31, 2018	**85,227,858**	**$**	**163,900,746**

(i) On incorporation (November 15, 2017), 4,000,000 shares were issued at $0.05 per share for proceeds of $200,000. As a result of a 10 to 1 share split on December 12, 2017, the interim Chief Executive Officer subscribed for 5,600,000 shares, a director subscribed for 5,600,000 shares, and Bitfury, a controlling shareholder, subscribed for 23,200,000 shares.

(ii) On December 20, 2017, the Company completed a brokered financing for gross proceeds of $19,000,000 through the issuance of 7,600,000 common shares at a price of $2.50 per share, and a non-brokered financing for gross proceeds of $19,000,000 through the issuance of 7,600,000 common shares at a price of $2.50 per share. The Company paid a commission to the underwriters of 6% of the proceeds and a 2% advisory fee totaling to $1,804,730. As part of this financing, $12,575,608 of Bitcoin was received as consideration for common share subscription, with the balance paid in cash.

The agent received 714,000 warrants with an exercise price of $2.50 per common shre expiring on December 20, 2019. The warrants have been valued at $736,848, using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.43%
Dividend Yield	n/a
Volatility factor	75%
Expected life	2 years

(In Canadian dollars)

10. Equity (continued)

(a) Common shares (continued)

(iii) The Company issued $58,463,070 in common shares as payment for mining equipment during the year ended December 31, 2018.

(iv) On February 7, 2018, the Company completed a brokered financing for gross proceeds of $45,000,000 and issued 9,000,000 common shares, and a non-brokered financing for gross proceeds of $25,000,000 through the issuance of 5,000,000 common shares at a price of $5.00 per share (the "Financing"). In connection with the Financing, the Company paid a commission to the underwriters of 6% of the proceeds and a 2% advisory fee. Total cash issue costs (including the commission and advisory fee) amounted to $3,579,839. Related to this Financing, $11,569,735 of bitcoin was received as consideration for common share subscriptions, with the balance paid in cash.

In connection with the Financing, the agent received 660,000 warrants with an exercise price of $5.00 per common share expiring on February 7, 2020. The warrants have been valued at $1,367,901, using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.75%
Dividend Yield	nil
Volatility factor	75%
Expected life	2 years

(v) As part of the Company's purchase of 12 upgraded BlockBoxes from Bitfury in Drumheller, US$2 million of the purchase price was issued in equity at a share price of $3.15 for an issuance of 838,511 common shares. The purchase was closed on December 31, 2018 and the process to issue the common shares had begun; however, the share issuance was not finalized until the first quarter of 2019. The share issuance was measured at fair value using the share price of $1.39 and $1,167,386 was recognized as shares to be issued as at December 31, 2018.

(vi) The Company re-purchased 1,600,000 previously issued shares at a price of $0.05 from founders of the Company.

(vii) The Company issued 714,000 common shares upon the exercise of 714,000 warrants for cash proceeds of $1,785,000. The warrants were valued at $736,848.

As of December 31, 2018, the Company has 24,794,297 shares in escrow (2017 – Nil).

Following the Qualifying Transaction, 49,465,453 commons shares held by directors, officers and securityholders in excess of 20% of the outstanding Resulting Issuer Common Shares were subject to voluntary escrow/pooling agreement. Pursuant to the escrow/pooling agreements, the 49,465,453 common shares will be released as follows: 25% on closing of the qualifying transaction (March 5, 2018); and 25% will be released 6, 12 and 18 months thereafter.

(In Canadian dollars)

10. Equity (continued)

(b) Warrants

The warrant activity is as follows:

	Grant date	Number of warrants	Value
Balance, November 15, 2017		**-**	**$ -**
Broker warrants	12/20/2017	714,000	736,848
Balance, December 31, 2017		**714,000**	**736,848**
Broker warrants	2/7/2018	660,000	1,367,901
Warrants exercised		(714,000)	(736,848)
Galaxy warrants	9/10/2018	2,222,222	-
Balance, December 31, 2018		**2,882,222**	**$ 1,367,901**

The warrants issued and outstanding as at December 31, 2018 are as follows:

Exercise price	Number	Weighted average remaining contractual life (months)	Expiry date
$ 4.50	2,222,222	57	9/10/2023
5.00	660,000	13	2/7/2020
$ 4.61	2,882,222	47	

(c) Incentive plan

On March 5, 2018, the Company adopted a Long-Term Incentive Plan (“LTIP”) under which it is authorized to grant stock options, restricted share units and deferred share units (“Awards”) to officers, directors, employees, and consultants enabling them to acquire common shares of the Company. The maximum number of common shares reserved for issuance of Awards that may be granted under the plan is 10% of the issued and outstanding common shares of the Company.

(In Canadian dollars)

10. Equity (continued)

(c) Incentive plan (continued)

Stock options

The stock option activity is as follows:

	Number of options		Weighted average exercise price
Balance, November 15, 2017	-	$	-
Balance, December 31, 2017	-		-
Granted	965,000		4.63
Options outstanding, December 31, 2018	**965,000**	**$**	**4.63**
Options exercisable, December 31, 2018	**99,167**	**$**	**5.00**

As at December 31, 2018 the Company had the following stock options outstanding:

	Exercise price	Number of options outstanding	Number of options exercisable		Weighted average exercise price	Weighted average remaining life (months)
$	3.00	180,000	-	$	3.00	57
	5.00	785,000	99,167		5.00	48
$	4.63	965,000	99,167	$	5.00	49

During the year ended December 31, 2018, the Company recorded $1,225,345 (2017 – $Nil), as share based payments related to stock options. The compensation expense was based on the fair value of each stock option on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

		Year ended December 31, 2018
Expected life (years)		4.96
Expected volatility		109.36%
Dividend rate		0.00%
Risk-free interest rate		2.20%
Weighted average fair value per option granted	$	3.08

Restricted Share Units ("RSUs")

On April 2, 2018, the Company granted 1,515,152 RSUs to the Chief Executive Officer ("CEO"). The RSUs vest in three equal tranches, with a tranche vesting on the first, second and third anniversaries of the date of grant. Each RSU shall be settled by the issuance of one common share issued from treasury. During the year ended December 31, 2018, the Company recognized a total of $2,291,668 (2017 – $Nil), as share based payments related to RSUs.

(In Canadian dollars)

11. Related party agreements and transactions

Related party transactions

Key management includes members of the Board of Directors and its corporate officers. The aggregate value of transactions relating to key management personnel and entities over which they have control or significant influence were as follows:

		Year ended December 31, 2018
Salary, fees, and other short-term benefits	$	1,110,440
Share based payments		3,321,441
	$	4,431,881

During the year ended December 31, 2018, $24,000 was charged by CFO Advantage Inc., a Company controlled by the former Chief Financial Officer of the Company, for consulting fees.

During the year ended December 31, 2018, $75,000 was charged by a director of the Company for consulting fees in consideration of this director's involvement with various pre-listing and corporate governance-related matters and was reimbursed for $13,627 of out of pocket expenses.

During the year ended December 31, 2018, the Company was charged $146,044 (2017 - $105,239) by a firm controlled by a former officer and a former director of the Company. These expenses were primarily for travel costs related to fundraising, meetings with strategic partners, and organizing the Company.

See Note 10 for related party transactions with respect to share issuances.

A Director of the Company is also a controlling shareholder of Galaxy, resulting in the Company and Galaxy to be related party entities. During the year ended December 31, 2018, the Company sold 1,345 bitcoin for approximately $8,068,270 with Galaxy. See Note 9 for the amounts owing to Galaxy.

During the year ended December 31, 2018, the Company acquired mining equipment from Bitfury, a controlling shareholder of the Company, with a total cost of $168,712,484 (2017 - $21,350,000) paid by common shares, bitcoin, and cash. During the year ended December 31, 2018, the Company was charged $13,368,890 (2017 - $370,370) in site operating costs. As at December 31, 2018, $15,163,527 (December 31, 2017 - $4,905,813) was owed to Bitfury, which have been included in accounts payable and accrued liabilities. Of the outstanding accounts payable at December 31, 2018, $5,576,150 was converted to common shares of the Company on March 27, 2019.

11. Related party agreements and transactions (continued)

Significant agreements with related parties

On November 29, 2017, the Company entered into a Master Data Centre Purchase Agreement (the "Purchase Agreement") with Bitfury. The Purchase Agreement governs the terms and conditions for the purchase from Bitfury of certain equipment (the "Data Centres") used for the purpose of running diverse cryptographic hash functions in connection with the mining of cryptocurrency. The Purchase Agreement is for a term of five years, with two successive renewal terms of one year each.

Concurrent with the Purchase Agreement, on November 29, 2017, the Company entered into a Master Service Agreement (the "MSA") with Bitfury. In accordance with the MSA, Bitfury shall provide the management, maintenance, support, logistics and operational services required to run the Data Centres. The MSA is for a term of five years, with two successive renewal terms of one year each.

12. 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 and reserves. 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 issuances 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.

(In Canadian dollars)

13. Financial Instruments

The Company's risk exposures and the impact on the Company's financial instruments are summarized below.

(a) Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and deposits and prepaid expenses. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions.

Hut 8 does not self-custody its bitcoin. Instead, Hut 8 uses the services of Xapo Gmbh ("Xapo"). Xapo provides bitcoin management, storage, and related services out of Switzerland and is approved by FINMA, a Swiss financial regulator, to operate on the bitcoin management, storage, and related services out of Switzerland. Xapo is regulated under the oversight of the Association for Financial Quality Assurance and is audited on a quarterly basis. In 2018, Xapo obtained SOC I and II, Type I certifications. The carrying amount of financial assets represents the maximum credit exposure.

(b) Interest rate risk

The Company is exposed to interest rate risk through its loan payable with Galaxy (Note 9). The loan payable bears interest at a rate equal to LIBOR + 10%.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due included by not limited to the June 28, 2019 loan to bitcoin value covenant of 100% for the Galaxy loan (Note 9). The Company currently settles its financial obligations out of cash and cash equivalents and digital assets. The Company has a planning and budgeting process to help determine the funds required to support the Company's normal spending requirements on an ongoing basis and its expansionary plans.

As at December 31, 2018 the contractual maturities of financial liabilities, including estimated interest payments are as follows:

	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years	5+ years
Accounts payable and accrued liabilities	$ 17,869,849	$ 17,869,849	$ 17,869,849	$ -	$ -	$ -
Loans payable and interest	32,366,242	42,798,937	6,783,340	6,783,340	29,232,257	-
Lease commitments	-	1,256,850	132,300	132,300	396,900	595,350
	$ 50,236,091	$ 61,925,636	$ 24,785,489	$ 6,915,640	$29,629,157	$ 595,350

13. Financial Instruments (continued)

(d) Foreign 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 Company's functional currency is the Canadian dollar and most purchases are transacted in Canadian dollars. The Company has also transacted in US Dollars to purchase mining equipment from Bitfury and with loans payable denominated in US Dollars. Management currently does not hedge its foreign exchange risk.

The table below indicates the foreign currencies to which the Company has significant exposure at December 31, 2018 in Canadian dollar terms:

	2018
Cash	$ 70,169
Accounts payable and accrued liabilities	881,834
Loans payable	32,366,242

The effect on earnings before tax of a 10% strengthening or weakening of the CAD exchange rate at the balance sheet date for financial instruments denominated in USD, with all other variables held constant, is $2,445,544.

(e) 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.

(f) 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.

(g) 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 have unforeseen effects to the bitcoin network.

(In Canadian dollars)

13. Financial Instruments (continued)

(h) Fair value measurements:

(i) Financial hierarchy:

Financial instruments 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's financial instruments have been classified as follows:

December 31, 2017	Level 1	Level 2	Level 3	Total
Fair value through profit and loss				
Cash	$ 23,248,485	$ -	$ -	$ 23,248,485
Digital assets	$ -	$ 1,078,760	$ -	$ 1,078,760

December 31, 2018	Level 1	Level 2	Level 3	Total
Fair value through profit and loss				
Cash	$ 3,556,560	$ -	$ -	$ 3,556,560
Digital assets	$ -	$ 15,408,189	$ -	$ 15,408,189

(i) Digital assets and risk management

Digital assets are measured using level two fair values, determined by taking the rate from Coinmarketcap.

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 its desired price if required. 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 solely consist of bitcoin.

At December 31, 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 $1,540,819.

(In Canadian dollars)

14. Income taxes

Income tax expense for the years ended December 31, is as follows:

	2018	2017
Current tax expense	$ -	$ -
Deferred tax expense	-	17,760
Total income tax expense	**$ -**	**$ 17,760**

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 27% to the effective tax rate is as follows:

	2018	2017
Net income (loss) before recovery of income taxes	$ (136,765,537)	$ 112,272
Canadian statutory tax rate	27%	27%
Expected tax expense (recovery)	(36,926,695)	30,310
Permanent differences	1,513,089	-
Share issuance costs capitalized to equity	(965,477)	(487,280)
Legal fees booked to Balance Sheet	(280,928)	-
Prior year true-up	5,765,489	-
Change in tax benefits not recognized	30,894,522	474,730
Income tax expense (recovery)	**$ -**	**$ 17,760**

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

As at December 31, 2018, the Company had non-capital loss carry-forwards of $47,560,484 (2017 - $1,310,860) that may be used to offset future taxable income will expire in periods between 2037 and 2038. Share issue and financing costs of $5,124,657 (2017 - $1,692,460) will be fully amortized in 2022. Deferred tax asset has not been recognized in respect of share issuance costs because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

15. Commitments

The Company entered into definitive agreements with the City of Medicine Hat ("CMH") for the supply of electric energy, and the lease of land upon which Hut 8 is constructed its mining facilities. For electricity, an Electricity Supply Agreement ("ESA") was executed, whereby CMH will provide electric energy capacity of approximately 63 MW to the new Hut 8 facilities. The ESA and the land lease have a concurrent term of 10 years. The minimum payments on the land lease are $10,500 per month from May 1, 2018 to December 31, 2027.

16. Subsequent Event

On March 27, 2019, the Company agreed to issue 3,717,433 common shares in settlement of outstanding accounts payable to Bitfury of $5,576,150, based on a conversion price of $1.50 per share.