HUT 8 MINING CORP.

Unaudited Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

Three months ended March 31, 2019 and 2018

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 condensed consolidated interim 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 Company's independent auditors have not performed a review of these unaudited condensed consolidated interim 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.

HUT 8 MINING CORP.

(In Canadian dollars)

Unaudited Condensed Consolidated Interim Statements of Financial Position

	March 31, 2019	December 31, 2018
Assets		
Current assets		
Cash	$ 3,133,006	$ 3,556,560
Deposits and prepaid expenses (Note 4)	135,646	79,901
	3,268,652	3,636,461
Non-current assets		
Plant and equipment (Note 6)	53,394,704	58,127,009
Digital assets (Note 5)	14,343,835	15,408,189
Deposits and prepaid expenses (Note 4)	5,723,794	5,723,794
Total assets	**$ 76,730,985**	**$ 82,895,453**
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	$ 12,070,014	$ 16,869,179
Accrued liabilities	1,035,922	1,000,670
Loans payable (Note 7)	4,009,087	4,070,004
	17,115,023	21,939,853
Non-current liabilities		
Loans payable (Note 7)	27,031,494	28,296,238
	44,146,517	50,236,091
Shareholders' equity		
Share capital (Note 8)	168,789,700	162,733,360
Shares to be issued (Note 8)	-	1,167,386
Warrants (Note 8)	1,367,901	1,367,901
Contributed surplus (Note 8)	5,163,388	4,061,740
Accumulated deficit	(142,736,521)	(136,671,025)
	32,584,468	32,659,362
Total liabilities and shareholders' equity	**$ 76,730,985**	**$ 82,895,453**

Reporting entity and going concern (Note 1)

Approved on behalf of the Board:

"Andrew Kiguel"
Director & Chief Executive Officer

"Bill Tai"
Director

HUT 8 MINING CORP.

(In Canadian dollars)
Unaudited Condensed Consolidated Interim Statements of Loss and Comprehensive Loss for the three months ended March 31,

	2019	2018
Revenue		
Digital assets mined (Note 5)	$ 12,102,014	$ 10,988,949
Cost of revenue		
Site operating costs	(12,632,795)	(2,165,299)
Depreciation (Note 6)	(4,732,305)	(5,640,469)
Gross profit	(5,263,086)	3,183,181
Expenses		
Share based payments (Note 8)	(1,101,648)	(125,416)
Professional	(166,345)	(975,417)
General and office	(210,356)	(195,669)
Salary and benefits	(278,447)	(66,977)
Investor and public relations	(27,218)	(449,600)
Regulatory	(64,235)	-
Fair value gain (loss) on re-measurement of digital assets (Note 5)	789,678	(4,073,310)
	(1,058,571)	(5,886,389)
Operating loss	**(6,321,657)**	**(2,703,208)**
Gain on shares issued to settle accounts payable	951,059	-
Foreign exchange gain	488,868	6,510
Finance expense	(1,183,765)	-
Finance income	-	32,315
Listing and qualifying transaction	-	(1,151,401)
Net loss and comprehensive loss	**$ (6,065,495)**	**$ (3,815,784)**
Loss per share - basic and diluted	$ (0.08)	$ (0.05)
Weighted average number of shares outstanding - basic and diluted	73,979,319	74,449,011

HUT 8 MINING CORP.

(In Canadian dollars)
Unaudited Condensed Consolidated Interim Statement of Cash Flows for the three months ended March 31,

	2019	2018
Cash provided by (used in):		
Operating activities:		
Net loss	$ (6,065,495)	$ (3,815,784)
Change in non-cash operating items:		
Digital assets mined	(12,102,014)	(10,988,949)
Cash received from sale of bitcoin	7,844,338	-
Depreciation	4,732,305	5,640,469
Share based payments	1,101,648	125,416
Fair value loss or (gain) on re-measurement of digital assets	(789,678)	4,073,310
Gain on shares issued to settle accounts payable	(951,059)	-
Net finance expense	945,521	-
Foreign exchange gain	(488,868)	-
Listing and qualifying transaction	-	1,151,401
	(5,773,302)	(3,814,137)
Change in non-cash working capital:		
Sales tax and other receivables	-	50,000
Accounts payable and accrued liabilities	5,405,493	6,838,313
Net cash provided by (used in) operating activities	(367,809)	3,074,176
Investing activities		
Deposits and prepaid expenses	(55,745)	(34,496,200)
Additions to plant and equipment	-	(23,012,557)
Net cash used in investing activities	(55,745)	(57,508,757)
Financing activities		
Proceeds from issuance of common shares, net of issue costs	-	54,850,426
Net cash provided by financing activities	-	54,850,426
Increase (decrease) in cash and cash equivalents	(423,554)	415,845
Cash and cash equivalents, beginning of period	3,556,560	23,248,485
Cash and cash equivalents, end of period	**$ 3,133,006**	**$ 23,664,330**

Significant non-cash transactions included:

- Payment of loans payable (Note 7) interest and principle in bitcoin totaling $1,442,014.
- Payment of accounts payable in bitcoin of $4,669,694.
- Settlement of accounts payable in common shares of Hut 8 of $5,855,486.

HUT 8 MINING CORP.

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

	Share Capital						
	Number of shares	Dollar amount	Shares to be issued	Warrants	Contributed surplus	Accumulated deficit	Total
Balance, December 31, 2017	**55,200,000**	**$ 35,676,182**	**$ -**	**$ 736,848**	**$ -**	**$ 94,512**	**$ 36,507,542**
Shares issued for mining equipment	14,560,000	51,400,000	-	-	-	-	51,400,000
Shares issued on private placement	14,000,000	65,052,260	-	1,367,901	-	-	66,420,161
Shares issued for reverse takover	220,000	1,100,000	-	-	-	-	1,100,000
Buy back of shares	(1,600,000)	(80,000)	-	-	-	-	(80,000)
Share based payments	-	-	-	-	125,416	-	125,416
Net loss and comprehensive loss	-	-	-	-	-	(3,815,784)	(3,815,784)
Balance, March 31, 2018	**82,380,000**	**$ 153,148,442**	**$ -**	**$ 2,104,749**	**$ 125,416**	**$ (3,721,272)**	**$ 151,657,335**

	Share Capital						
	Number of shares	Dollar amount	Shares to be issued	Warrants	Contributed surplus	Accumulated deficit	Total
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**
Shares issued for mining equipment	838,511	1,167,386	(1,167,386)	-	-	-	-
Shares issued in settlement of accounts payable	3,717,433	4,609,617	-	-	-	-	4,609,617
Shares issued for services	206,966	279,337	-	-	-	-	279,337
Share based payments	-	-	-	-	1,101,648	-	1,101,648
Net loss and comprehensive loss	-	-	-	-	-	(6,065,496)	(6,065,496)
Balance, March 31, 2019	**89,990,768**	**$ 168,789,700**	**$ -**	**$ 1,367,901**	**$ 5,163,388**	**$ (142,736,521)**	**$ 32,584,468**

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. As at March 31, 2019, Bitfury Holding BV ("Bitfury") owned approximately 48% 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 and the Company receives bitcoin in return for successful service.

(a) Going concern

These unaudited condensed consolidated interim 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 March 31, 2019, the Company has a working capital deficiency of $13,846,371 and shareholders' equity of $32,584,468. During the three months ended March 31, 2019, the Company had a net loss of $6,065,495 and negative cash flow from operations of $367,810.

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 unaudited condensed consolidated inteirm 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 unaudited condensed consolidated interim financial statements.

2. Statement of compliance and basis of presentation

(b) Statement of compliance

These unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on May 29, 2019.

(c) Basis of presentation

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

(e) Consolidation

These unaudited condensed consolidated interim 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 Finance Ltd. on January 30, 2019 related to the digital currency trading operations based in Bridgetown, Barbados.

As of March 31, 2019, the Company had three wholly owned subsidiaries: Hut 8 Holdings Inc., Hut 8 Asset Management Inc., and Hut 8 Finance Ltd.

3. Significant accounting policies, judgements, and estimates

The preparation of the Company's unaudited condensed consolidated interim 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 unaudited condensed consolidated interim 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.

(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.

(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. Because of added restrictions to the movement of bitcoin per Note 7, the digital assets have been classified as non-current.

(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.

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 ECL 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 unaudited condensed consolidated interim financial statements for the three months ended March 31, 2019.

(In Canadian dollars)

4. Deposits and prepaid expenses

		March 31, 2019		December 31, 2018
Current				
Prepaid insurance	$	127,646	$	71,901
Rent deposit		8,000		8,000
Total current deposits and prepaids expenses	**$**	**135,646**	**$**	**79,901**
Non-current				
Deposits under electricity supply agreement	$	5,342,594	$	5,342,594
Land deposit		381,200		381,200
Total non-current deposits and prepaids expenses	**$**	**5,723,794**	**$**	**5,723,794**

5. Digital assets

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

	Dollars	Bitcoin
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	448,264	32
Bitcoin paid for services	(5,161,512)	(667)
Bitcoin traded for cash	(11,168,400)	(1,719)
Fair value loss on re-measurement of digital assets	(17,862,687)	-
Balance, December 31, 2018	**15,408,189**	**3,035**
Bitcoin mined	12,102,014	2,405
Bitcoin used for debt and interest payments(i)	(1,442,014)	(291)
Bitcoin used to pay for services(ii)	(4,669,694)	(971)
Bitcoin traded for cash	(7,844,338)	(1,563)
Fair value gain on re-measurement of digital assets(iii)	789,678	-
Balance, March 31, 2019	**$ 14,343,835**	**2,615**

(i) The Company has the option to pay its loans payable and related interest payments in bitcoin. The Company considers it more efficient at times to settle these liabilities in bitcoin and has paid Galaxy 93 bitcoin to settle $447,901 (US$335,630) of interest payable. The Company has also paid 198 bitcoin to settle $994,913 (US$750,000) of the principal of the Bitfury loan.

(ii) Includes services paid to Bitfury for the maintenance and operation of Hut 8's on-site operations.

(iii) 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 March 31, 2019, the price of bitcoin was $5,486 (US$4,105) which resulted in a fair value gain on re-measurement of $789,678.

(In Canadian dollars)

6. Plant and equipment

	Infrastructure	Mining servers	Total
Cost			
As at January 1, 2018	$ 5,033,000	$ 16,317,000	**$ 21,350,000**
Additions	56,427,119	111,346,467	**167,773,586**
Impairment	(3,560,072)	(80,263,565)	**(83,823,637)**
As at December 31, 2018	57,900,047	47,399,902	**105,299,949**
Additions	-	-	**-**
As at March 31, 2019	$ 57,900,047	$ 47,399,902	**$ 105,299,949**
Accumulated Depreciation			
As at January 1, 2018	$ 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**
Depreciation	3,610,959	1,121,346	**4,732,305**
As at March 31, 2019	$ 12,354,768	$ 39,550,476	**$ 51,905,244**
Net Book Value December 31, 2018	**$ 49,156,238**	**$ 8,970,771**	**$ 58,127,009**
Net Book Value March 31, 2019	**$ 45,545,279**	**$ 7,849,425**	**$ 53,394,704**

7. Loan payable

		March 31, 2019		December 31, 2018
Galaxy	$	20,488,321	$	20,700,957
Bitfury		10,552,260		11,665,285
		31,040,581		32,366,242
Current portion	**$**	**4,009,087**	**$**	**4,070,004**
Non-current portion	**$**	**27,031,494**	**$**	**28,296,238**

Galaxy loan - As at March 31, 2019, the Company has a loan payable of $20,488,321 (US$15,331,411) to Galaxy, a related party. 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 subsequently a foreign exchange loss was recognized of $680,241 and interest accretion of $179,390 since the beginning of the loan. 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 three months ended March 31, 2019 was $766,662 (US$575,774) of which $96,696 (US$72,734) was related to interest accretion and has been recognized as finance expense.

Bitfury loan - As at March 31, 2019, the Company has a loan payable of $10,552,260 (US$7,896,256) to Bitfury, a related party. The loan payable is unsecured and bears interest at 12% per annum. 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. A foreign exchange gain was $181,625 and interest accretion of $63,512 was recognized since the beginning of the loan. This loan is split into a $6,979,527 (US$5,250,000) portion which will be repaid in US$250,000 installments every month for 21 months. Three months of installments of the principal were paid during the three months ended March 31, 2019 of $994,913 (US$750,000). The remaining principal of $4,009,087 (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. The interest expense for the three months ended March 31, 2019 was $416,057 (US$312,958) of which $63,512 (US$47,774) was related to interest accretion and has been recognized as finance expense. Interest payable as at March 31, 2019 was $352,545 (US$265,184).

(In Canadian dollars)

8. Equity

(a) Common shares

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

	Number of shares		Amount
Balance, December 31, 2017	**55,200,000**	**$**	**35,676,182**
Shares issued for mining equipment	16,693,858		58,463,070
Shares issued on private placement	14,000,000		70,000,000
Share issue costs – cash	-		(3,579,839)
Shares issue costs - broker warrants	-		(1,367,901)
Buyback of shares	(1,600,000)		(80,000)
Shares issued for reverse acquisition	220,000		1,100,000
Shares issued on exercise of warrants	714,000		2,521,848
Balance, December 31, 2018	**85,227,858**		**162,733,360**
Shares issued for mining equipment[(i)]	838,511		1,167,386
Shares issued in settlement of accounts payable[(ii)]	3,717,433		4,609,617
Shares issued for services	206,966		279,337
Balance, March 31, 2019	**89,990,768**	**$**	**168,789,700**

(i) 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 January 15, 2019. The share issuance measured at a fair value of $1,167,386 was recognized as shares to be issued as at December 31, 2018.

(ii) 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. The share price on the date of settlement of February 26, 2019 was $1.24 which created a gain recognized from the transaction of $951,059.

As of March 31, 2019, the Company has 12,397,141 shares in escrow. Following the Company's 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)

8. Equity (continued)

(b) Warrants

The warrant activity is as follows:

	Grant date	Number of warrants		Value
Balance, January 1, 2018		**714,000**	**$**	**736,848**
Broker warrants	2/7/2018	660,000		1,367,901
Warrants exercised		(714,000)		(736,848)
Galaxy warrants	9/10/2018	2,222,222		-
Balance, December 31, 2018		**2,882,222**		**1,367,901**
Balance, March 31, 2019		**2,882,222**	**$**	**1,367,901**

The warrants issued and outstanding as at March 31, 2019 are as follows:

Exercise price		Number	Weighted average remaining contractual life (months)	Expiry date
$	4.50	2,222,222	54	9/10/2023
	5.00	660,000	10	2/7/2020
$	4.61	2,882,222	44	

(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)

8. Equity (continued)

(c) Incentive plan (continued)

Stock options

The stock option activity is as follows:

	Number of options		Weighted average exercise price
Balance, January 1, 2018	-	$	-
Granted	965,000		4.63
Balance, December 31, 2018	965,000		4.63
Options outstanding, March 31, 2018	**965,000**	**$**	**4.63**

As at March 31, 2019 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	54
	5.00	785,000	236,251		5.00	45
$	4.63	965,000	236,251	$	5.00	46

During the three months ended March 31, 2019, the Company recorded $337,759 (2018 – $125,415), 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 for the three months ended March 31,

	2019		2018
Expected life (years)	n/a		5.00
Expected volatility	n/a		75.00%
Dividend rate	n/a		0.00%
Risk-free interest rate	n/a		1.93%
Weighted average fair value per option granted	n/a	$	2.56

Restricted Share Units (“RSUs”)

On April 2, 2018, the Company granted 1,515,152 RSUs to the Chief Executive Officer (“CEO”) which remain outstanding as at March 31, 2019. Each RSU shall be settled by the issuance of one common share issued from treasury. The RSUs vest in three equal tranches, with a tranche vesting on the first, second and third anniversaries of the date of grant. On April 2, 2019, 252,526 RSUs vested and the net amount common shares issued after standard employee withholdings were 117,350. During the three months ended March 31, 2019, the Company recognized a total of $763,889 (2018 – $Nil), as share based payments related to RSUs.

(In Canadian dollars)

9. 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:

		Three months ended March 31, 2019
Salary, fees, and other short-term benefits	$	249,769
Share based payments		929,388
	$	1,179,157

A Director of the Company is also a controlling shareholder of Galaxy, resulting in the Company and Galaxy to be related party entities. On May 13, 2019, the date of the Company's Annual General Meeting, this same Director ceased to be a Director of the Company. During the three months ended March 31, 2019, the Company sold 1,342 bitcoin for approximately $6,718,603 in cash with Galaxy. See Note 6 and 7 for the amounts owing and further transactions with Galaxy.

During the three months ended March 31, 2019, the Company was charged $5,657,807 (2018 - $2,165,299) in site operating costs from Bitfury. As at March 31, 2019, $9,311,921 (March 31, 2019 - $10,021,717) was owed to Bitfury, which has been included in accounts payable.

10. 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, 2018.

11. 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, digital assets, 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. This 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 but not limited to the June 28, 2019 loan to bitcoin value covenant of 100% for the Galaxy loan. The Company currently settles its financial obligations out of cash 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.

11. 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 as at March 31, 2019 in Canadian dollar terms:

Cash	$ 98,439
Accounts payable	881,834
Interest payable	464,132
Loans payable	31,040,581
Total	**$32,484,986**

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 $2,416,119.

(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)

11. 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, 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

March 31, 2019	Level 1	Level 2	Level 3	Total
Fair value through profit and loss				
Cash	$ 3,133,006	$ -	$ -	$ 3,133,006
Digital assets	$ -	$ 14,343,835	$ -	$ 14,343,835

(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 March 31, 2019, 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 $1,434,384.