ZeU Crypto Networks Inc.

Condensed Interim Financial Statements

Three Months Ended March 31, 2019

(Expressed in Canadian Dollars)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the 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 interim financial statements have been prepared by and are the responsibility of the management.

The Company's independent auditor has not performed a review of these 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 auditor.

MONTREAL, QUEBEC
May 30, 2019

ZeU Crypto Networks Inc.
Condensed Interim Statements of Financial Position
(Unaudited – Prepared by Management)
As at

	March 31, 2019	December 31, 2018
Assets		$
Current assets		
Cash	482,991	541,795
Digital assets (Note 5)	752,599	705,390
Prepaid	5,794	
Total current assets	1,241,384	1,247,185
Non-Current assets		
Exploration and evaluation assets (Note 6)	180,000	-
Total assets	1,421,384	1,247,185
Liabilities and Shareholders' Deficiency		
Current liabilities		
Accounts payable and accrued liabilities (Notes 8 and 13)	643,637	515,735
Loan from shareholders (Note 13)	361,688	223,596
Total current liabilities	1,005,325	739,331
Long-Term Liabilities		
Derivative liability (Note 9)	502,086	478,991
Convertible debentures (Note 9)	4,217,158	3,944,728
Total liabilities	5,724,569	5,163,050
Shareholders' deficiency		
Common shares (Note 10)	496,195	496,195
Deficit	(4,799,380)	(4,412,060)
Total shareholders' deficiency	(4,303,185)	(3,915,865)
Total liabilities and shareholders' deficiency	1,421,384	1,247,185

signed "Frank Dumas"
Frank Dumas
President and Chief Executive Officer

signed "Mark Billings"
Mark Billings
Chief Financial Officer

ZeU Crypto Networks Inc.
Condensed Interim Statements of Loss and Comprehensive Loss
For The Three Months Ended March 31
(Unaudited – Prepared by Management)

	2019 $	2018 $
Operating expenses		
Research and development expense (Notes 7 and 13)	89,717	116,100
Accretion expense (Note 9)	60,282	-
Interest on convertible debentures (Note 9)	119,589	-
Compensation expense (Note 9)	33,609	-
Consulting fees (Note 13)	6,560	-
Management fees (Note 13)	66,875	-
Professional fees	5,000	25,000
Shareholders communication	52,897	-
Total operating expenses	(434,529)	(141,100)
Unrealized gain on digital assets (Note 5)	47,209	-
Loss and comprehensive loss for the period	(387,320)	(141,100)
Loss per share – basic and diluted	$ (0.02)	$ (0.01)
Weighted average number of common shares outstanding – basic and diluted	20,000,000	16,888,889

The accompanying notes are an integral part of these condensed interim financial statements

ZeU Crypto Networks Inc.
Condensed Interim Statement of Changes in Shareholders' Deficiency
(Unaudited – Prepared by Management)

	Number of Common Shares	Common Shares	Deficit	Total Shareholders' Equity
		$	$	$
Balance at January 4, 2018	-	-	-	-
Shares issued for cash and license assignment (Note 10)	20,000,000	496,433	-	496,433
Share issue costs	-	-	-	-
Loss for the period	-	-	(141,100)	(141,100)
Balance as at March 31, 2018	**20,000,000**	**496,433**	**(141,100)**	**(141,100)**
Balance as at January 1, 2019	20,000,000	496,195	(4,412,060)	(3,915,865)
Loss for the period	-	-	(387,320)	(387,320)
Balance as at March 31, 2019	20,000,000	496,195	(4,799,380)	(4,303,185)

ZeU Crypto Networks Inc.
Condensed Interim Statement of Cash Flows
For The Three Months Ended March 31
(Unaudited – Prepared by Management)

	2019	2018
	$	$
Operating activities		
Net loss and comprehensive loss for the period	(387,320)	(141,100)
Non-cash items		
Accretion expenses	60,282	-
Interest on convertible debentures	119,589	-
Compensation expenses	33,609	-
Unrealized gain on digital assets	(47,209)	-
	(221,049)	(141,100)
Net changes in working capital items		
Prepaid	(5,794)	-
Accounts payable and accrued liabilities	127,902	(55,333)
Net cash used in operating activities	(98,941)	(196,433)
Investing activity		
Technologies acquisition (Note 6)	(180,000)	-
Net cash used in investing activity	(180,000)	-
Financing activities		
Shares issued for cash and license assignment (Note 10)	-	496,433
Convertible debentures	82,045	-
Amounts advanced from related parties	138,092	-
Net cash provided by financing activities	220,137	496,433
Increase (decrease) in cash	(58,804)	300,000
Cash, beginning	541,795	-
Cash, ending	482,991	300,000

There were no significant non-cash transactions during the periods ended March 31, 2019 and 2018.

1. Corporate Information and Going Concern of Operations

ZeU Crypto Networks Inc. ("the Company") was incorporated under the Canada Business Corporations Act on January 4, 2018. The address of the Company's corporate office and principal place of business is 230 Rue Notre-Dame West, Montreal, H2Y 1T3, Canada, and it operates as a subsidiary of St-Georges Eco-Mining Corp. ("St-Georges").

The principal activities of the Company are block-chain technology development.

In May 2018, St-Georges signed an Arrangement Agreement providing for the spin-out of the Company with the intent of listing the Company on the Canadian Securities Exchange ("CSE").

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and discharge of liabilities in the normal course of business. During the period ended March 31, 2019, the Company had working capital of $236,059 with long term debt of $4,719,244 and an accumulated deficit of $4,799,380. As such, the Company's ability to continue as a going concern depends on its ability to successfully raise additional financing. If additional capital is not raised, the going concern basis may not be appropriate with the result that the Company may have to realize its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts different from those stated in the financial information. No adjustments for such circumstances have been made in the financial information. These conditions, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern

2. Basis of Presentation

Statement of Compliance

These condensed interim financial statements of the Company for the period ended March 31, 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

These financial statements follow the same accounting policies and methods of application as our most recent annual financial statements, save for the adoption of IFRS 16 for the 2019 fiscal year starting on January 1, 2019. The adoption of this policy had no effect on the financial statements

The financial statements of the Company were authorized for issue by the Board of Directors on May 30, 2019.

Basis of Measurement

The financial statements have been prepared on an historical cost basis except for certain assets and liabilities measured at fair value as required under specific IFRS pronouncements. These financial statements are presented in Canadian dollars unless otherwise noted.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

3. Summary of Significant Accounting Policies

The accounting policies are set out below.

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 production and operating costs, financing and related transactions. Changes to these factors may have an impact on the judgment applied in the determination of the Company's functional currency. The functional and presentation currency of the Company is the Canadian Dollar.

Classification of digital currencies as current assets

The Company's determination to classify its holding of digital currencies as current assets is based on management's assessment that its digital currencies held can be considered to be commodities, the availability of liquid markets to which the Company may sell a portion of its holdings and that the Company is considering selling its digital currencies in the near future to generate a profit from price fluctuations.

The digital currencies are recorded on the statements of financial position at their fair value and re-measured at each reporting date. Revaluation gains or losses, as well as gains or losses on the sale of traditional currencies are included in profit and loss.

There is currently no specific definitive guidance in IFRS or alternative accounting frameworks for the accounting for the mining and strategic selling of digital currencies and management has exercised significant judgement in determining appropriate accounting treatment for the recognition of income from digital currency. Management has examined various factors surrounding the substance of the Company's operations, including the stage of development of blockchain and the reliability of the measurement of the digital currency received.

Financial Instruments

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics.

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

Cash, account payable, loan from shareholders are classified as amortized cost. Derivative liabilities are classified as FVTPL.

3. Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Measurement

Financial assets at FVTOCI

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of net loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of net loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive loss.

Impairment of financial assets at amortized costs

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of net loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition

Financial assets

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. Gains and losses on derecognition are generally recognized in the statements of net loss.

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

3. Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Other financial liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise of trade payables and accrued liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding. This category includes accounts payable, due to a company controlled by a director and convertible debentures.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired.

Digital assets

The digital assets are traded in active markets and may be resold in the near future, generating a profit from the fluctuations in prices or margins. As a result, the Company has determined that its holding of digital assets should be accounted for under IAS 2, Inventories. Under IAS 2, digital assets are measured at fair value less cost to sell, with changes in fair value recognized in profit or loss.

Convertible debentures

Convertible debentures are recorded at amortized cost and accounted for as a hybrid financial instrument with separate debt and derivative liability components. The derivative liability is recorded at fair value and deducted from the principal of the debt to arrive at the net principal to be accreted to face value over the life of the note. The derivative liability is measured at fair value each period subsequent to initial recognition.

Income Taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

3. Summary of Significant Accounting Policies (continued)

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting year, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Share Capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, preferred shares, share warrants are classified as equity instruments.

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

Share-based Payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss/income over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in comprehensive loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss. Options or warrants granted related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model.

All equity-settled share-based payments are reflected in reserves until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

3. Summary of Significant Accounting Policies (continued)

Loss per Share

The basic loss per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant year.

The diluted earnings per common share is computed by dividing the net income applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

4. Critical Accounting Judgments and Estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive loss in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

Judgments

Income Taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Going Concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the recourses to continue in business for the foreseeable future. The factors are considered by management are disclosed in Note 1.

4. Critical Accounting Judgments and Estimates (continued)

Estimates

Digital assets – valuation

Many digital assets are traded in active markets and are valued based upon quoted prices (less costs to sell), a portion of such digital assets may not be actively traded and are valued based upon quoted prices for similar assets or based upon unobservable inputs. These valuations require the Company to make significant estimates and assumptions. Digital assets are generally considered to be commodities or similar to commodities and are treated as inventory for financial reporting purposes. Unrealized gains and losses on digital assets are recorded as net unrealized gain (loss) on digital assets.

Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 10.

5. Digital assets

Digital assets are typically part of a decentralized system of recording transactions and issuance of new units and rely on cryptography to secure its transactions, to control the creation of additional units, and to verify the transfer of assets.

During the year ended December 31, 2018, the Company received $3,708,692 of digital assets in consideration for the issuance of convertible debentures (Note 9). The continuity of digital currencies is as follows:

	Number of Ether Coins	Ether Coins $
Digital assets received on issuance of convertible debentures	3,936	3,708,692
Revaluation adjustment	-	(3,003,302)
Balance December 31, 2018	3,936	705,390
Revaluation adjustment	-	47,209
Balance March 31, 2019	3,936	752,599

As at March 31, 2019, due to general market changes in digital assets, the value of the assets had increased to $752,599, and accordingly, the Company recorded an unrealized gain of $47,209.

6. Blockchain

On January 14, 2018, St-Georges assigned its blockchain and smart contract technology license agreement with Qingdao Tiande Technologies Limited and cash of $496,433 to the Company in consideration of 20,000,000 common shares (Note 10) and the assumption of the royalty obligations.

Under the terms of the License, Tiande has granted the Company an exclusive license to use Tiande's proprietary technologies, patents and know-how to develop and commercialize novel mineral commodity production chain control, tracking and trading exchanges. In consideration for the rights granted under the License, the Company shall pay to Tiande a royalty of 8% of the gross revenues derived from the Licensee.

On January 14, 2018, the Company entered into a non-binding letter of intent ("LOI") to acquire all of the Blockchain and Smart Contract Technologies assets of Tiande. Pursuant to the terms of the LOI, the proposed consideration for the Transaction is an aggregate amount of CND$150 million payable through the issuance of 150,000,000 common shares and 75,000,000 share purchase warrants in the capital of the Company. Each warrant will entitle the holder to acquire one share at a price of CND$1.00 for a period of three years following the date the Company completes a transaction pursuant to which its common shares will either be listed on a recognized stock exchange in North America, or will be exchanged for common shares of a reporting issuer listed on a recognized stock exchange in North America.

On February 8, 2018, the LOI amended the general terms of the LOI, which referred to Qingdao Tiande Technologies Limited instead of Qingdao.

On February 23, 2018, the Company entered into a definitive asset purchase agreement with Qingdao Tiande Technologies Limited and Beijing Tiande Technologies Limited with the intervention of Guiyan Tiande Technologies Limited to purchase all intellectual property for consideration of up to 150,000,000 common shares through the issuance of 65,000,000 common shares and 75,000,000 common share purchase warrants on the closing date. An additional 10,000,000 common shares will be issued upon satisfaction of milestone conditions. Closing of the transaction was subject to the Company completing a total financing of up to $30,000,000 in convertible debentures.

On August 13, 2018, the Company received a termination notice, which was accompanied by a request to negotiate a new agreement. The revised financial demands by Tiande rendered the transaction commercially impossible for the Company. The Company has commenced the process of consulting with its legal advisors to seek full reimbursement and compensation of its expenses.

The Company has been working on a series of patents with the focus on technologies that can be quickly commercially deployed.

On December 21, 2018, ZeU entered into an agreement with Prego International Group AS to develop and integrate certain proprietary technologies in a Global Multi Payment and E-Money Services Platform ("Services").

Under the agreement, ZeU and Prego will share equally the costs of the Services as follows:

- Phase 1 –preface: Innovation lab: US$675,000, including the setup cost and license fees of the full platform;
- Phase 2 –pilot operational: US$750,000, including full system integration with "POC" testing and user testing with stress test of the platform in 60 days with a complete report; and
- Phase 3-project launched and running (upscale/internationalization), including a full platform, service ready to go, for implementation in multiple global markets.

6. Blockchain (continued)

On February 4, 2019, the Company executed an asset purchase agreement with VN3T Technologies Inc. and its subsidiaries, collectively "VN3T", an arm's length party to acquire the key IP of VN3T's decentralized data market place platform and secured development services.

Under the agreement, the Company will pay $150,000 to VN3T for the IP by the issuance of a debenture of the Company maturing 2 years from its issuance and convertible into common shares of the Company at a price equal to the 5-day VWAP of the shares on the Canadian Stock Exchange, subject to a minimum of $1.85. The Company agreed to retain the services of the VN3T for a gross amount of $60,000 to assist with the development of certain aspects of the IP. During the period ended March 31, 2019, the Company had paid $30,000 to retain the services of the VN3T.

Under the agreement, VN3T also granted the Company an exclusive option to acquire the additional assets for purchase price of $25,000 on or before May 31, 2019, which would be satisfied by the issuance of a $25,000 debenture under the same terms and conditions.

On March 8, 2019, the Company agreed to provide its patent pending Blockchain Random Number Generator and other related blockchain technologies to St. James House PLC (LSE: SJH)("St. James"), a UK licensed gaming operator, by the way of joint-venture for the establishment of a blockchain lottery. The agreement calls for the establishment of a new lottery joint-venture with its main license in Malta.

The Lottery Joint-Venture ("Lottery JV") will combine St. James' expertise in regulated lottery management and administration with the Company's innovative blockchain based technology. St. James' who will act as the lottery operator and hold a 45% equity interest in the Lottery JV, and the Company will hold 19%, St-Georges will hold 19.9% and the balance with independent investors.

All technology operating costs of the Lottery JV will be met by the Company, and in return the Company will charge a service fee that will not exceed 90% of the revenues from the Lottery JV. Profits generated by the Lottery JV will be distributed as a dividend to the shareholders.

In additional consideration, in excess of the 19.9% of the net profits that it will receive and of the revenues generated and of the fees that will be collected for the technology usage, the Company will receive from St. James ' new UK subsidiary, LottoCo, 100,000 non-voting, zero-coupon redeemable preferred shares of a par value of 2 pence("Preferred Shares"). The Preferred Shares will be redeemable in 21 years, the redemption price of the Preferred Shares to be fixed within 3 months after the issue of the audited accounts of the Lottery JV for the second year of operations and will be based on an independent valuation report. At the discretion of the Company, the Preferred Shares may be exchanged on the basis of one Preferred Share for two ordinary shares of 1 pence each in St. James ("Ordinary Shares"), with notice to be given one day before the Preferred Shares are due to be redeemed in 21 years, i.e. a maximum of 200,000 Ordinary Shares may be issued.

On March 29, 2019, the Company was retained to develop the global blockchain infrastructure and data mining components of the KinectHub initiative of Kinect Corporation ("Kinect"). KinectHub is a large multi-million-dollar infrastructure project using state-of –the-art technology such as blockchain, distributed storage, anonymity solution and privacy insurances to bring healthcare to third world countries. The scope of work will be starting with a full use case analysis for 30 days. At the end of this period, a Statement of Work will be delivered and used as a development road-map. Kinect will issue 2,000,000 units with the same terms as their current placement offering. The Company will accrue without interest the invoices issued to Kinect up to $600,000 CAD and has the option to convert the amount into royalties.

7. Research and development expenses

During the period ended March 31, 2019, the Company incurred expenditures of $89,717 (2018 - $116,100) related to the development of the blockchain technology. Since the technological feasibility has not been yet achieved, all these expenditures were recognized in the statement of loss and comprehensive loss. Future expenditure on the development of the technology may meet the guidelines and could be capitalized at that time.

8. Accounts payable and accrued liabilities

	March 31, 2019	December 31, 2018
	$	$
Accounts payable (Note 11)	259,774	254,827
Accrued liabilities	383,863	260,908
	643,637	515,735

9. Convertible Debentures

On July 5, 2018, the Company closed an initial tranche of its 10% unsecured convertible debentures offering for an aggregate principal amount of $4,783,692 of which $3,708,692 was subscribed in consideration of digital assets, and $550,000 was issued pursuant to signing bonus as management and consulting fees to be earned over a period of four years. Each convertible debenture issued had a maturity date of July 5, 2020 and can be convertible into common shares of the Company at the greater of $1.00 or the price listed for each common share on an exchange. As the conversion price is variable, the Company accounted for the convertible debentures as a hybrid financial instrument with separate debt and derivative liability components. The derivative liability is recorded at fair value and deducted from the principal of the debt to arrive at the net principal which is recorded at amortised cost and will be accreted to face value over the life of the convertible note. The derivative liability is remeasured at fair value at each period subsequent to initial recognition. The fair value of the derivative liability as at December 31, 2018 was estimated to be $478,991. During the year ended December 31, 2018, the Company recognized accretion expenses for $117,145 and interest expense of $235,908.

The terms of the signing bonus states that the employees must remain employees for a period of four years. If the employee resigns prior to the end of that period, they will be required to reimburse a pro rata portion of the signing bonus back to the Company. Accordingly, these convertible debentures were recognized to the extent that they vested and the compensation expenses for the period ended March 31, 2019 of $33,609 (2018 - $nil) was recorded in the statement of loss

On February 4, 2019, under the agreement with VN3T, the Company paid $150,000 to VN3T for the IP by the issuance of a debenture of the Company maturing 2 years from its issuance and convertible into common shares of the Company at a price equal to the 5-day VWAP of the shares on the Canadian Stock Exchange, subject to a minimum of $1.85.

On February 25, 2019, the Company retained the services of Cassiopeia Services Ltd. (“CSL”), a UK based communication and investors awareness firm specialized in blockchain out of London UK. The Company issued $50,000 debentures to CSL and the convertible at $1.00 per share for 2 years.

During the period ended March 31, 2019, the Company recognized accretion expenses of $60,282 (2018 - $nil) and interest expenses of $119,589 (2018 - $nil).

10. Share Capital

Common Shares – authorised

The Company is authorized to issue an unlimited number of common shares, voting, participating and with no par value. The share capital of the Company consists only of fully paid common shares.

Common Shares –issued

On January 14, 2018, the Company issued 20,000,000 common shares to St-Georges for the license assignment agreement together with cash of $496,433 (Note 6). The fair value of the shares of $496,433 was determined based on the cash advanced by the shareholder to develop the blockchain technology as the assignment agreement was deemed to have a nominal value.

Options

During the period ended March 31, 2019, the Company has 50,000 common share options outstanding with an exercise price of $1.25 per share.

11. Financial Risk Management and Financial Instruments

Financial Risk

The primary goals of the Company's financial risk management are to ensure that the outcomes of activities involving elements of risk are consistent with the Company's objectives and risk tolerance, and to maintain an appropriate risk/reward balance while protecting the Company's balance sheet from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through aligning risk appetite with business strategy, diversifying risk, pricing appropriately for risk, mitigating risks through preventive controls and transferring risk to third parties.

The Company's exposure to potential loss from financial instruments is primarily due to various market risks, including interest rate, liquidity and credit risk.

Market Risk

Market risk is the risk of loss arising from adverse changes to market rates and prices, such as interest rates, equity market fluctuations, foreign currency exchanges rates, and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded.

Below is a discussion of the Company's primary market risk exposures and how those exposures are currently managed.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash flow commitments associated with financial instruments. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. To manage cash flow requirements, the Company may have to issue additional common shares or conclude private placements.

As at March 31, 2019, the Company has current liabilities of $1,005,325, has cash of $482,991, and has digital assets of $752,599 to meet its current obligations. As a result, the Company does face liquidity risk considering its long-term debt.

11. Financial Risk Management and Financial Instruments (continued)

Credit Risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments that potentially subject the Company to credit risk consist primarily of cash. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada. This amount best represents the Company's maximum exposure to any potential credit risk. The risk is assessed as low.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's convertible debentures have fixed interest rates and accordingly are not subject to cash flow interest rate risk due to changes in the market rate of interest. The Company does not use financial derivatives to reduce its exposure to risk. The management of the Company considers its interest rate risk to be minimal.

Fair Value Measurement

Fair value is the amount at which a financial instrument could be exchanged between willing parties, based on current markets for instruments with the same risk, principal and remaining maturity. Fair value estimates are based on present value and other valuation techniques using rates that reflect those that the Company could currently obtain, on the market, for financial instruments with similar terms, conditions and maturities.

The carrying amount and fair value of financial instruments are considered to be a reasonable approximation of fair value because of their short-term maturities.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Derivative liability is measured using level 3 inputs. The fair value was estimated using Black-Scholes Option Pricing Model (effective interest rate of 17%, volatility 120%, risk free interest rate of 2% and 0% dividend yield)

12. Capital Management

Capital is comprised of the Company's shareholders' equity and any debt that it may issue. As at March 31, 2019, the Company's shareholders' deficiency was $4,303,185. The Company's objectives when managing capital are to maintain financial strength and to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term.

Protecting the ability to pay current and future liabilities includes maintaining capital above minimum regulatory levels, current financial strength rating requirements and internally determined capital guidelines and calculated risk management levels. To meet these objectives, management monitors the Company's capital requirements against unrestricted net working capital and assesses additional capital requirements on specific business opportunities on a case-by-case basis.

The capital for expansion is mostly from proceeds from the issuance of common shares. The net proceeds raised will only be sufficient for a certain amount of development work on its projects, and for working capital purposes. Additional funds will be required to finance the Company's corporate objectives. The Company is not currently exposed to any externally imposed capital requirements.

13. Related Party Transactions

a) Related party transactions

During the period, the Company incurred transactions with related parties including a company controlled by its Chief Architect, Chief Technology Officer, and Chief Executive Officer. During the period ended March 31, 2019, the Company incurred research and development costs of $88,272 (2018 - $nil) and management fees of $66,875 (2018 - $nil). 50% of the CEO's time was devoted to research and development.

During the year ended December 31, 2018, related parties received signing bonuses in the form of convertible debentures for $250,000 which are being recognised over the vesting period of 4 years (Note 9).

b) Due to Related Parties

At March 31, 2019, included in accounts payable is $198,390 (December 31, 2018 - $143,329) owing to directors. These amounts are non-interest bearing, unsecured and have no fixed terms of repayment.

In addition, the company has a liability owing to its parent company of $361,688 as at March 31, 2019 (December 31, 2018 - $223,596). This amount is non-interest bearing, unsecured and has no fixed terms of repayment.

14. Subsequent Events

On May 28, 2019, the Company announced that it has signed a binding term sheet with Star Epigone Capital Ltd. of the British Virgin Islands to provide a license for the Company's Random Number Generator to be used by Star Epigone in its online gaming product offering. Star Epigone has access to an already established clientele through its online gaming business and is planning to integrate lotteries and other gambling offerings using the Company's technologies solutions.

The Company also entered into a binding term sheet to acquire 2,100,000 first rank preferred shares of vSekur Network Ltd. The shares have a redemption value of $1.00 and bear a 6% annual interest. The preferred shares can be converted into common shares of vSekur at the current value of $1 each, or at the last equity raise price. The Company will have the right to maintain its equity position with a right of first refusal in all future financing efforts of vSekur. If converted in common shares, this would represent more than 21% of the company outstanding common shares.

14. Subsequent Events (continued)

vSekur is already developing the patient account security component of its Healthcare SaaS. It will now become the primary provider of anonymization solutions for the different development initiatives of the Company.

The Company will issue to vSekur approximately 215,325 convertible debenture units with a minimum floor conversion of CAD $3.25 for one year. The transaction is planned to close within 5 days of the Company listing on a Canadian securities exchange.

In order to further accelerate the development of its blockchain healthcare SaaS solution, the Company's Management has entered into a term sheet with Pure Data Tech Corporation of Hong Kong. Pure has received investment and grants in excess of £1m up to today. The company operates a turnkey solution that includes software, hardware and management services (MIS) for the healthcare industry in South-East Asia with a focus on Singapore and Malaysia. The companies will partner in certain aspects of their development. While Pure will leverage the Company's blockchain technology, the Company will be able to integrate Pure's machine learning IP into its Healthcare SaaS solution.

The transaction is expected to close within 5 days of the Company listing its common shares on a Canadian securities exchange.

The Company will issue 461,540 subordinated debenture units convertible at a floor price of CAD $3.25 for a total of approximately CAD $1,500,000 and 400,000 three years special warrants in favor of Pure at an execution price of CAD $3.75.

Pure will issue approximately £1,000,000 worth of 1st Rank, Fixed Redeemable and Convertible Preferred Shares of Pure in favor of the Company currently representing after conversion, 42% of Pure's common shares.