

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q/A  
Amendment No. 2

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2018**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission file number: 001-33675

**Riot Blockchain, Inc.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of  
incorporation or organization)

**84-1553387**

(I.R.S. Employer Identification No.)

**202 6th Street, Suite 401 Castle Rock, CO 80104**

(Address of principal executive offices) (Zip Code)

**(303) 794-2000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Non-accelerated Filer

Emerging growth company

(Do not check if smaller reporting company)

Accelerated Filer

Smaller Reporting Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

The number of shares of no par value common stock outstanding as of March 5, 2019 was 14,698,809.

## Explanatory Note

Form 10-Q/A pursuant to the authority under Rule 12b-15 of the Securities and Exchange Act of 1934.

The purpose of this Amendment No. 2 on Form 10-Q/A (this “Amendment No. 2”) to the Quarterly Report on Form 10-Q of Riot Blockchain, Inc. for the period ended September 30, 2018, as filed with the Securities and Exchange Commission (the “SEC”) on November 19, 2018 under Rule 12b-25 extension (the “Quarterly Report”), is to furnish responses and, where appropriate, make changes to the information disclosed on the amended Quarterly Report in response to comments from the Staff of the SEC (the “Staff”) received by the Company on February 14, 2019.

This Amendment No. 2 amends the following items of our Quarterly Report as affected by our review of our accounting practices for digital currencies and in response to SEC comment letters:

- i. Part I, Item 1 – Notes to the Condensed Interim Consolidated Financial Statements (unaudited), Note 2: Basis of presentation, summary of significant accounting policies and recent accounting pronouncements;
- ii. Part I, Item 2 – Management’s Discussion and Analysis of Results of Operations and Financial Condition, Management’s plans and basis of presentation; Digital Currencies Translations and Remeasurements;
- iii. Part I, Item 2 – Management’s Discussion and Analysis of Results of Operations and Financial Condition, Management’s plans and basis of presentation: Development of a U.S.-Based Digital Currency Exchange;
- iv. Part I, Item 2 – Management’s Discussion and Analysis of Results of Operations and Financial Condition, Results of Operations: Liquidity and Capital Resources;
- v. Part II, Item 1A – Risk Factors; and,
- vi. Part II, Item 6 – Exhibits.

No other items are amended or restated by this Amendment No. 2 to our Quarterly Report. Further, this Amendment No. 2 speaks as of the original filing date of the Quarterly Report, does not reflect events that may have occurred subsequent to the original filing date of the Quarterly Report.

This Form 10-Q/A has been signed as of a current date and, as required by Rule 12b-15 of the Securities Exchange Act of 1934, all certifications of the Company’s Chief Executive Officer and our Chief Financial and Accounting Officer are given as of a current date. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the SEC subsequent to the filing of the Original Quarterly Report, including any amendments to those filings.

**RIOT BLOCKCHAIN, INC.**

**PART I - Financial Information**

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q, as amended, including in Management's Discussion and Analysis of Financial Condition and Results of Operations, are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and are subject to the safe harbor created thereby. These statements relate to future events or the Company's future performance and include statements regarding expectations, beliefs, plans, intentions and strategies of the Company. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "would," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential" or other comparable terminology. These forward-looking statements are made based on management's expectations and beliefs concerning future events affecting the Company and are subject to uncertainties and factors relating to operations and the business environment, all of which are difficult to predict and many of which are beyond management's control. Actual results, performance and achievements could differ materially from those expressed in, or implied by, these forward-looking statements due to a variety of risks, uncertainties and other factors, including, but not limited to, the following:

- our history of operating losses and our ability to achieve or sustain profitability;
- our recent shift to an entirely new business and our ability to succeed in this new business;
- intense competition;
- our ability to raise additional capital needed to finance our business;
- general economic conditions in the U.S. and globally;
- our ability to maintain the value and reputation of our brand;
- our ability to attract and retain senior management and other qualified personnel;
- cryptocurrency-related risks, including regulatory changes or actions and uncertainty regarding acceptance and/or widespread use of virtual currency;
- risks relating to our virtual currency mining operations, including among others risks associated with the need for significant electrical power and cybersecurity risks;
- our dependence in large part upon the value of virtual currencies, especially Bitcoin, which have historically been subject to significant volatility in their market prices;
- risks relating to our planned establishment of a virtual currency exchange, including, among others, regulatory requirements and challenges and security threats;
- our ability to protect our intellectual property rights;
- volatility in the trading price of our common stock;
- our ability to maintain the Nasdaq listing of our common stock;
- our investments in other virtual currency and blockchain focused companies may not be realizable;
- legal proceedings to which we are subject, or associated with, including actions by private plaintiffs and the SEC; and
- the risks, uncertainties discussed in "Part I. Item 1A. Risk Factors" included in this Quarterly Report and our Quarterly Reports on Form 10-Q for the periods ended March 31, 2018, June 30, 2018, and as originally filed on Form 10-Q for the period ended September 30, 2018, our Annual Report on Form 10-K for the year ended December 31, 2017, as amended, and any other reports filed or which will be filed by the Company.

Accordingly, you should read this report completely and with the understanding that our actual future results may be materially different from what we expect. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



PART I — FINANCIAL INFORMATION

Item 1. Condensed Interim Consolidated Financial Statements

**Riot Blockchain, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	(Interim)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,607,085	\$ 41,651,965
Prepaid contracts	1,584,699	-
Prepaid expenses and other current assets	1,955,819	538,812
Digital currencies	1,715,309	200,164
Current assets of discontinued operations	-	44
Total current assets	6,862,912	42,390,985
Property and equipment, net	4,853,744	4,294,166
Intangible rights acquired	1,985,587	754,244
Long-term investments	9,412,726	3,000,000
Security deposits	703,275	-
Other long-term assets, net:		
Patents, net	498,670	509,649
Goodwill	1,186,496	1,186,496
Convertible note	200,000	200,000
<b>Total assets</b>	<b>\$ 25,703,410</b>	<b>\$ 52,335,540</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 3,393,970	\$ 410,029
Accrued expenses	1,487,996	216,883
Deferred purchase price - BMSS	1,350,000	-
Demand note	1,696,083	-
Notes and other obligations, current	-	135,574
Deferred revenue, current portion	96,698	96,698
Current liabilities of discontinued operations	16,340	181,340
Total current liabilities	8,041,087	1,040,524
Deferred revenue, less current portion	896,094	968,617
Deferred income tax liability	234,709	699,000
<b>Total liabilities</b>	<b>9,171,890</b>	<b>2,708,141</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity</b>		
Preferred stock, no par value, 15,000,000 share authorized:		
2% Series A Convertible stock shares authorized 2,000,000 and no shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	-	-
0% Series B Convertible stock, 1,750,001 shares authorized; 104,946 and 1,458,001 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	555,109	7,745,266
Common stock, no par value; 170,000,000 shares authorized; 14,293,702 and 11,622,112 shares outstanding as of September 30, 2018 and December 31, 2017, respectively	201,793,176	180,387,518
Accumulated deficit	(185,796,070)	(139,263,480)
Total Riot Blockchain stockholders' equity	16,552,215	48,869,304
Non-controlling interest	(20,695)	758,095
Total stockholders' equity	16,531,520	49,627,399
<b>Total liabilities and stockholders' equity</b>	<b>\$ 25,703,410</b>	<b>\$ 52,335,540</b>

See Accompanying Notes to Unaudited Condensed Interim Consolidated Financial Statements

**Riot Blockchain, Inc. and Subsidiaries**  
**Condensed Interim Consolidated Statements of Operations**  
**Three and Nine Months Ended September 30, 2018 and 2017**  
**(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Revenue:</b>				
Revenue - Cryptocurrency mining	\$ 2,342,508	\$ -	\$ 6,087,405	\$ -
Other revenue - fee	24,175	24,175	72,524	72,524
<b>Total Revenue</b>	<b>2,366,683</b>	<b>24,175</b>	<b>6,159,929</b>	<b>72,524</b>
<b>Costs and expenses:</b>				
Cost of revenues (exclusive of depreciation and amortization shown below)	2,031,885	-	3,933,381	-
Selling, general and administrative	5,970,411	596,544	16,299,491	2,691,286
Research and development	-	-	14,532	10,034
Depreciation and amortization	658,338	18,132	5,685,664	55,899
Impairment of property, plant & equipment	-	-	26,858,023	-
Impairment of digital currencies	163,837	-	3,374,976	-
<b>Total costs and expenses</b>	<b>8,824,471</b>	<b>614,676</b>	<b>56,166,067</b>	<b>2,757,219</b>
<b>Operating loss from continuing operations</b>	<b>(6,457,788)</b>	<b>(590,501)</b>	<b>(50,006,138)</b>	<b>(2,684,695)</b>
<b>Other income (expense)</b>				
Interest expense	(21,836)	(4,773,397)	(37,998)	(4,802,296)
Realized gain on sale of digital currencies	219,247	-	451,341	-
Other expenses	(1,746)	-	(1,358,924)	-
Loss on extinguishment of BMSS payable	(265,500)	-	(265,500)	-
Investment income	683	30,903	69,959	83,247
<b>Total other expense</b>	<b>(69,152)</b>	<b>(4,742,494)</b>	<b>(1,141,122)</b>	<b>(4,719,049)</b>
<b>Loss from continuing operations before income taxes</b>	<b>(6,526,940)</b>	<b>(5,332,995)</b>	<b>(51,147,260)</b>	<b>(7,403,744)</b>
Deferred income tax benefit	-	-	3,525,000	-
<b>Loss from continuing operations</b>	<b>(6,526,940)</b>	<b>(5,332,995)</b>	<b>(47,622,260)</b>	<b>(7,403,744)</b>
<b>Discontinued operations</b>				
Income (loss) from operations	-	30,922	96,132	(944,557)
Escrow forfeiture gain	-	-	-	134,812
Impairment loss	-	-	-	(2,754,131)
<b>Income (loss) from discontinued operations</b>	<b>-</b>	<b>30,922</b>	<b>96,132</b>	<b>(3,563,876)</b>
<b>Net loss</b>	<b>(6,526,940)</b>	<b>(5,302,073)</b>	<b>(47,526,128)</b>	<b>(10,967,620)</b>
Net loss attributable to non-controlling interest	296,982	-	929,158	-
<b>Net loss attributable to Riot Blockchain</b>	<b>\$ (6,229,958)</b>	<b>\$ (5,302,073)</b>	<b>\$ (46,596,970)</b>	<b>\$ (10,967,620)</b>
<b>Basic and diluted net loss per share:</b>				
Continuing operations attributable to Riot Blockchain	\$ (0.46)	\$ (0.99)	\$ (3.57)	\$ (1.47)
Discontinued operations attributable to Riot Blockchain	-	0.01	0.01	(0.71)
<b>Net loss per share</b>	<b>\$ (0.46)</b>	<b>\$ (0.98)</b>	<b>\$ (3.56)</b>	<b>\$ (2.18)</b>
<b>Basic and diluted weighted average number of shares outstanding</b>				
	<b>14,197,763</b>	<b>5,401,552</b>	<b>13,340,122</b>	<b>5,037,764</b>

See Accompanying Notes to Unaudited Condensed Interim Consolidated Financial Statements

**Riot Blockchain, Inc. and Subsidiaries**  
**Condensed Interim Consolidated Statement of Stockholders' Equity**  
**Nine Months Ended September 30, 2018**  
**(Unaudited)**

	Preferred Stock		Common Stock		Accumulated deficit	Total Riot Blockchain stockholders' equity	Non-controlling interest	Total stockholders' equity
	Shares	Amount	Shares	Amount				
<b>Balance as of December 31, 2017</b>	<b>1,458,001</b>	<b>\$ 7,745,266</b>	<b>11,622,112</b>	<b>\$180,387,518</b>	<b>\$(139,263,480)</b>	<b>\$ 48,869,304</b>	<b>\$ 758,095</b>	<b>\$ 49,627,399</b>
Common stock issued for asset purchase - Prive	-	-	800,000	8,480,000	-	8,480,000	-	8,480,000
Common stock escrow shares issued for asset purchase - Prive	-	-	200,000	-	-	-	-	-
Preferred stock converted to Common stock	(1,353,505)	(7,190,157)	1,353,505	7,190,157	-	-	-	-
Exercise of warrants	-	-	100,000	350,000	-	350,000	-	350,000
Stock-based compensation	-	-	-	4,147,190	-	4,147,190	-	4,147,190
Exercise of stock options	-	-	19,533	78,522	-	78,522	-	78,522
Common stock issued for services	-	-	20,754	277,940	-	277,940	-	277,940
Refund of escrow dividend	-	-	-	-	64,380	64,380	-	64,380
Sale of Riot shares held by 1172767 B.C. Ltd.	-	-	-	505,729	-	505,729	-	505,729
Stock issued for the extinguishment of the BMSS payable	-	-	50,000	265,500	-	265,500	-	265,500
Cashless exercise of stock purchase warrants	-	-	3,215	-	-	-	-	-
Delivery of common stock underlying restricted stock units	-	-	124,583	-	-	-	-	-
Non-controlling interest - Logical Brokerage	-	-	-	-	-	-	40,542	40,542
Net loss attributable to non-controlling interest	-	-	-	-	-	-	(929,158)	(929,158)
Sale of common shares by 1172767 B.C. Ltd.	-	-	-	110,620	-	110,620	109,826	220,446
Net loss	-	-	-	-	(46,596,970)	(46,596,970)	-	(46,596,970)
<b>Balance as of September 30, 2018</b>	<b><u>104,496</u></b>	<b><u>\$ 555,109</u></b>	<b><u>14,293,702</u></b>	<b><u>\$201,793,176</u></b>	<b><u>\$(185,796,070)</u></b>	<b><u>\$ 16,552,215</u></b>	<b><u>\$ (20,695)</u></b>	<b><u>\$ 16,531,520</u></b>

See Accompanying Notes to Unaudited Condensed Interim Consolidated Financial Statements

**Riot Blockchain, Inc. and Subsidiaries**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**Nine Months Ended September 30, 2018 and 2017**  
**(Unaudited)**

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (47,526,128)	\$ (10,967,620)
Income (loss) from discontinued operations	96,132	(3,563,876)
Loss from continuing operations	(47,622,260)	(7,403,744)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities of continuing operations:		
Amortization of discount on convertible debt	-	4,750,000
Stock-based compensation	4,147,189	379,622
Depreciation and amortization	5,685,664	55,899
Deferred income tax benefit	(3,525,000)	-
Amortization of license fee revenue	(72,523)	(72,524)
Common stock issued for services	277,940	-
Stock issued for the extinguishment of the BMSS payable	265,500	-
Property, plant & equipment impairment charge	26,858,023	-
Impairment of digital currencies	3,374,976	-
Realized gain on sale of digital currencies	(451,341)	-
Changes in assets and liabilities:		
Prepaid contracts	(1,584,699)	-
Prepaid expenses and other current assets	(1,417,007)	192,071
Digital currencies - Mining	(6,087,405)	-
Accounts payable	2,983,941	(4,997)
Accrued expenses	1,271,114	(129,875)
Net cash used in operating activities of continuing operations	(15,895,888)	(2,233,548)
Net cash used in operating activities of discontinued operations	(68,824)	(930,323)
Net cash used in operating activities	(15,964,712)	(3,163,871)
<b>Cash flows from investing activities - continuing operations:</b>		
Purchase of digital currencies	(5,722,545)	-
Proceeds from sale of digital currencies	7,371,172	-
Purchases of property and equipment	(20,311,436)	-
Purchases of other investments	(6,412,726)	-
Proceeds from sale of short-term investments	-	7,506,761
Security deposits	(703,275)	-
Purchases of patent and trademark application costs	(32,850)	(14,255)
Investment in Coinsquare	-	(3,000,000)
Investment in Logical Brokerage, net of cash acquired	(516,918)	-
Purchase of developed technology by 1172767	(531,176)	-
Net cash (used in) provided by investing activities of continuing operations	(26,859,754)	4,492,506
Net cash provided by investing activities of discontinued operations	-	4,004
Net cash (used in ) provided by investing activities	(26,859,754)	4,496,510
<b>Cash flows from financing activities - continuing operations:</b>		
Proceeds from issuance of convertible notes	-	4,750,000
Proceeds from issuance of common stock, net of \$336,491 in offering expenses	-	1,913,509
Redemption of equity rights	-	(291,995)
Proceeds from notes payable	1,696,083	-
Repayment of notes payable and other obligations	(135,574)	(192,539)
Proceeds from exercise of warrants	350,000	-
Proceeds from exercise of stock options	78,522	98,260
Proceeds from sale of Riot shares held by 1172767	505,729	-
Proceeds from common shares sold by 1172767, net	220,446	-
Refund of escrow dividend	64,380	-
Net cash provided by financing activities of continuing operations	2,779,586	6,277,235
Net increase (decrease) in cash and cash equivalents	(40,044,880)	7,609,874
Cash and cash equivalents at beginning of period	41,651,965	5,529,848
Cash and cash equivalents at end of period	\$ 1,607,085	\$ 13,139,722

Supplemental disclosure of cash flow information:

Cash paid for interest	<u>\$ 6,585</u>	<u>\$ 1,571</u>
Supplemental disclosure of noncash investing and financing activities:		
Conversion of notes payable and accrued interest to preferred stock	<u>\$ -</u>	<u>\$ 4,798,671</u>
Value of shares issued for Prive asset acquisition	<u>\$ 8,480,000</u>	<u>\$ -</u>
Conversion of Preferred stock to Common stock	<u>\$ 7,190,157</u>	<u>\$ -</u>
Deferred purchase price for BMSS	<u>\$ 1,350,000</u>	<u>\$ -</u>

See Accompanying Notes to Unaudited Condensed Interim Consolidated Financial Statements

**Riot Blockchain, Inc. and Subsidiaries**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Three and Nine Months Ended September 30, 2018**  
**(Unaudited)**

**Note 1. Organization:**

**Nature of operations:**

Riot Blockchain, Inc. (the “Company” or “Riot Blockchain”) was originally organized on July 24, 2000, as a Colorado corporation. Effective October 19, 2017, the Company's name was changed to Riot Blockchain, Inc., from Bioptix, Inc., and as of November 30, 2016, the Company's name was changed to Bioptix, Inc., from Venaxis, Inc. Effective October 19, 2017, the Company changed its state of incorporation to Nevada from Colorado.

The Company operates a cryptocurrency mining operation, which utilizes specialized computers (also known as “miners”) that generate cryptocurrency (primarily bitcoin) from the Blockchain. As of September 30, 2018, the Company owns approximately 8,000 miners. The Company acquired 1,200 miners as a result of its acquisition of Kairos Global Technology, Inc., (“Kairos”) in November 2017 and in February 2018, the Company acquired 3,800 miners from Prive Technologies, Inc. (“Prive”) and 3,000 miners from Blockchain Mining Supply & Services Ltd. (“BMSS”).

On January 2, 2018, the Company formed Digital Green Energy Corp. (“Digital Green”), a wholly owned subsidiary, which is seeking to identify environmentally friendly projects with large energy capacity and a cost-effective rate for energy for cryptocurrency mining operations and data center projects. Subsequent to September 30, 2018, certain activities of Digital Green were curtailed.

On February 27, 2018, Kairos entered into a lease agreement for approximately a 107,000-square foot facility in Oklahoma City, Oklahoma, which included data center improvements. Upon the execution of the facility lease, the Company began consolidating all of its miners at the data center facility. As of September 30, 2018, approximately 8,000 miners were installed and operating.

On March 26, 2018, the Company acquired 92.5% of Logical Brokerage Corp. (“Logical Brokerage”). Logical Brokerage is a futures introducing broker headquartered in Miami, Florida registered with the Commodity Futures Trading Commission (“CFTC”), and a member of the National Futures Association (“NFA”). The Company is investigating launching a digital currency exchange and a futures brokerage operation within the United States under the name “RiotX”.

**Note 2: Basis of presentation, summary of significant accounting policies and recent accounting pronouncements**

The Company has experienced recurring losses and negative cash flows from operations. At September 30, 2018, the Company had approximate balances of cash and cash equivalents of \$1,607,000, a working capital deficit of \$1,178,000, total stockholders' equity of \$16,532,000 and an accumulated deficit of \$185,796,000. To date, the Company has in large part relied on equity financing to fund its operations.

The Company's primary focus is on its cryptocurrency mining operation located in Oklahoma City, Oklahoma, along with its investigation of the launch of RiotX as a cryptocurrency exchange in the United States. That operational focus and the Company's recently completed acquisitions of Kairos and 1172767 B.C. Ltd. (or “1172767”), formerly known as Tess Inc., and its investment in goNumerical Ltd., (d/b/a “Coinsquare”), as well as the Company's new name, reflects a strategic decision by the Company to operate in the blockchain and digital currency related business sector. The Company's current strategy will continue to expose the Company to the numerous risks and volatility associated within this sector.

Effective January 14, 2017, the Company adopted a plan to exit the business of Bioptix Diagnostics Inc. (“BDI”) and commenced a significant reduction in the workforce. The decision to adopt this plan was made following an evaluation by the Company's Board of Directors in January 2017, of the estimated results of operations projected during the near to mid-term period for BDI, including consideration of product development required and updated sales forecasts, and estimated additional cash resources required. Accordingly, the historical results of BDI have been classified as discontinued operations for all periods presented.

The Company expects to continue to incur losses from operations for the near-term and these losses could be significant as the Company incurs costs and expenses associated with recent and potential future acquisitions and development of the RiotX exchange platform, as well as public company, legal and administrative related expenses being incurred. The Company is closely monitoring its cash balances, cash needs and expense levels.

The Company believes that in order for the Company to meet its obligations arising from normal business operations for the next twelve months, the Company requires additional capital either in the form of equity or debt. Without additional capital, the Company's ability to continue to operate will be limited. If the Company is unable to obtain adequate capital, it could be forced to cease or reduce its operations. The Company is currently pursuing capital transactions in the form of debt and equity, however, the Company cannot provide any assurance that it will be successful in its plans. These condensed interim consolidated financial statements do not include any adjustments to the recoverability and classification of recorded assets

amounts and classification of liabilities that might be necessary should the Company not be able to continue as a going concern. In the opinion of management, these factors, among others, raise substantial doubt about the ability of us to continue as a going concern.

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Management's strategic plans include the following:

- continuing expansion of cryptocurrency mining operations;
- continuing to evaluate opportunities for acquisitions in the blockchain and digital currency sector;
- establishing a virtual currency exchange;
- exploring other possible strategic options and financing opportunities available to the Company;
- evaluating options to monetize, partner or license the Company's assets; and
- continuing to implement cost control initiatives to conserve cash.

**Basis of presentation and principles of consolidation**

The accompanying condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The accompanying condensed interim consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP) for interim financial information and pursuant to the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the U.S. Securities and Exchange Commission ("SEC") and on the same basis as the Company prepares its annual audited consolidated financial statements. The condensed interim consolidated balance sheet at September 30, 2018, condensed interim consolidated statements of operations for the three and nine months ended September 30, 2018 and 2017, condensed interim consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017, and condensed interim consolidated statement of changes in stockholders' equity for the nine months ended September 30, 2018 are unaudited, but include all adjustments, consisting only of normal recurring adjustments, that the Company considers necessary for a fair presentation of the financial position, operating results and cash flows for the periods presented. The results for the three and nine months ended September 30, 2018 are not necessarily indicative of results to be expected for the year ending December 31, 2018 or for any future interim period. The consolidated balance sheet at December 31, 2017 has been derived from audited financial statements; however, it does not include all of the information and notes required by GAAP for complete financial statements. The accompanying condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017 and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as amended, as filed with the SEC (the "2017 Annual Report"). The Company's consolidated subsidiaries and (percentage owned at September 30, 2018) consisted of; Kairos Global Technology, Inc. (100%), Digital Green Energy Corp., Inc. (100%), Logical Brokerage Corp. (92.5%), 1172767 B.C. Ltd. (50.2%, see Note 13) and BiOptix Diagnostics, Inc. (100%, see Note 11).

**Reclassifications**

Certain prior period amounts reported in the consolidated statement of operations have been reclassified to conform to the presentations currently used. The reclassifications did not have a material impact on the Company's condensed interim consolidated financial statements and related disclosures.

**Digital Currencies Translations and Remeasurements**

Digital currencies are included in current assets in the Company's consolidated balance sheets as intangible assets with indefinite useful lives. Digital currencies are recorded at cost less impairment.

An intangible asset with an indefinite useful life is not amortized but assessed for impairment annually, or more frequently, when events or changes in circumstances occur indicating that it is more likely than not that the indefinite-lived asset is impaired. Impairment exists when the carrying amount exceeds its fair value. In testing for impairment, the Company has the option to first perform a qualitative assessment to determine whether it is more likely than not that an impairment exists. If it is determined that it is not more likely than not that an impairment exists, a quantitative impairment test is not necessary. If the Company concludes otherwise, it is required to perform a quantitative impairment test. To the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset. Subsequent reversal of impairment losses is not permitted. The Company assesses impairment of its digital currencies quarterly if the fair value of digital assets is less than its cost basis. The Company recognizes impairment losses on digital assets caused by decreases in fair value using the average US dollar spot price of the related digital currency as of each impairment date. Impairment losses related to digital assets totaled \$163,837 and \$3,374,976 for the three and nine-month periods ended September 30, 2018, respectively. Impairment charges are included in as a separate line item in costs and expenses, in the accompanying statements of operations.

Realized gain or loss on the sale of digital currencies is included in other income or expenses in the condensed interim consolidated statements of operations. Realized gains on the sale of digital currencies totaled \$219,247 and \$451,341 for the three and nine month periods ended September 30, 2018, respectively.

The Company originally adopted an accounting policy regarding digital currencies transactions and remeasurement that stated:

"Digital currencies are recorded at their fair value on the date they are received as revenues, and are revalued to their current market value at each reporting date. Fair value is determined by taking the spot rate from the most liquid exchanges."

Based on reviews of the available accounting guidance, the Company has concluded that its originally adopted accounting policy was in error and the digital currencies should have been recorded at cost less impairment. The change in this accounting policy did not have a material impact of the Company's previously reported condensed interim consolidated financial statements.

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**Revenue Recognition (Cryptocurrency Mining):**

The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when there is persuasive evidence of an arrangement and that the product has been shipped or the services have been provided to the customer, the sales price is fixed or determinable and collectability is probable. The Company derives a material portion of its revenue from its digital currency mining activities. The Company derives revenue from its digital currency mining activities by providing computing power as part of transaction verification services within the digital currency networks of cryptocurrencies, such as bitcoin, bitcoin cash, litecoin and ethereum, commonly termed "cryptocurrency mining." In consideration for these services, the Company receives digital currencies which are recorded as revenue, using the average U.S. Dollar spot price of the related cryptocurrency when the algorithm is solved. The Company's digital currency tokens are recorded on the balance sheet at their fair value when realized or realizable, and are assessed for impairment according to the Company's accounting practices for digital currency assets. Gains or losses on sale of digital currencies are recorded at the time of the transaction in the statement of operations. Expenses associated with running the cryptocurrency mining business, such as equipment depreciation, compensation, rent and electricity costs are recorded as cost and expenses.

There is currently no specific definitive guidance in U.S. Generally Accepted Accounting Practices (U.S. GAAP) or alternative accounting frameworks for the accounting procedures for the production and mining of digital currencies. Accordingly, management has, after consulting with its independent accountants and legal counsel, exercised its business judgment to determine the appropriate accounting treatment for the recognition of revenue for mining of digital currencies. Management has considered the nature of the Company's operations and the available guidance in Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers, in developing its revenue recognition policies. In the event authoritative guidance is enacted by the Financial Accounting Standards Board ("FASB"), the Company may be required to change its policies which could result in a change in the Company's financial statements.

The Company recognizes revenue under ASC 606, Revenue from Contracts with Customers. The core principle of the new revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the Company satisfies a performance obligation

In order to identify the performance obligations in a contract with a customer, a company must assess the promised goods or services in the contract and identify each promised good or service that is distinct. A performance obligation meets ASC 606's definition of a distinct good or service (or bundle of goods or services) if both of the following criteria are met: (1) The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e., the good or service is capable of being distinct), and (2) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e., the promise to transfer the good or service is distinct within the context of the contract).

If a good or service is not distinct, the good or service is combined with other promised goods or services until a bundle of goods or services is identified that is distinct.

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The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. When determining the transaction price, an entity must consider the effects of all of the following:

- Variable consideration
- Constraining estimates of variable consideration
- The existence of a significant financing component in the contract
- Noncash consideration
- Consideration payable to a customer

Variable consideration is included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The transaction price is allocated to each performance obligation on a relative standalone selling price basis.

The transaction price allocated to each performance obligation is recognized when that performance obligation is satisfied, at a point in time or over time as appropriate.

The provision of computing power as part of transaction verification services is the only performance obligation in each digital currency mining transaction the Company engages in. If the Company or another miner in the mining pool is successful in adding a block to the blockchain, the Company is awarded a proportional share of the fixed number of digital currency tokens received by the pool operator based on the hash rate contributed to the pool by the Company, from which the pool operator takes its fee for operating the pool. The transaction price is all variable consideration and, due to the uncertainty that a member of the pool the Company participates in being the first to solve a given algorithm and thereby earn a reward, revenue cannot be recognized until and if the digital currency tokens are actually awarded. Revenue recognition from digital currency mining can therefore only be said to arise from a contract upon the award of the digital currency token to the successful pool, wherein the pool operator has an obligation to pay over to the Company its proportional share of the digital currency award based on the high rate contributed by the Company to the successful transaction verification. There is no significant financing component in these transactions, but the fee paid to the pool operator is consideration payable to the customer, which the Company records as contra-revenue.

Digital currencies are non-cash consideration and thus must be included in the transaction price at fair value at the inception of the contract, which occurs upon award of the digital currency token to the successful mining pool. Fair value is determined using the average U.S. dollar spot rate of the related digital currency for each successful transaction at the time the digital currency tokens are delivered to the Company. As detailed in “Digital Currency Translations and Remeasurements” above, the Company records these digital currency tokens at fair value and then assesses them for impairment, as appropriate under the cost less impairment method of accounting for indefinite life intangible assets.

**Use of estimates:**

The preparation of the condensed interim consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates inherent in the preparation of the accompanying condensed interim consolidated financial statements include recoverability and useful lives (indefinite or finite) of long-lived assets and intangible assets, assessment of impairment of goodwill, provisions for income taxes and the fair value of digital currencies, stock options and warrants granted to employees, consultants, directors, investors, licensors, placement agents and underwriters.

The Company’s estimates could be affected by external conditions, including those unique to the Company and general economic conditions. It is reasonably possible that these external factors could have an effect on the Company’s estimates and could cause actual results to differ from those estimates and assumptions.

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**Deferred tax liability:**

Due to the acquisitions, a temporary difference between the book fair value and the tax basis of the indefinite life intangible assets and depreciable property and equipment acquired created an approximately \$3.7 million deferred tax liability (before the impact of impairment and depreciation). The Company recognized a \$2.9 million and \$0.2 million deferred tax liability related to the Prive and Logical Brokerage acquisitions during the nine months ended September 30, 2018. Subsequently, due to the impairment and depreciation of the Kairos and Prive property and equipment, the Company recorded a \$3.5 million income tax benefit from the reduction of its existing deferred tax liability related to its acquisitions. The following is a rollforward of the Company's deferred tax liability from January 1, 2018 to September 30, 2018:

	<b>September 30, 2018</b>
Deferred tax liability as of January 1, 2018	\$ 699,000
Deferred tax liability recorded on the Prive acquisition	2,918,000
Deferred tax liability recorded on the Logical Brokerage acquisition	142,709
Impairment and depreciation on Prive and Kairos acquisitions	(3,525,000)
Deferred tax liability as of September 30, 2018	<u>\$ 234,709</u>

**Loss per share:**

ASC 260, Earnings Per Share, requires dual presentation of basic and diluted earnings per share ("EPS") with a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic EPS excludes dilution. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Basic net loss per share of common stock is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period, unless inclusion of such shares would be anti-dilutive. The Company excludes escrow shares because including them would result in anti-dilution. Since the Company has only incurred losses, basic and diluted net loss per share is the same. Securities that could potentially dilute loss per share in the future that were not included in the computation of diluted loss per share at September 30, 2018 and 2017 are as follows:

	<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>
Warrants to purchase common stock	1,671,113	1,257,929
Options to purchase common stock	162,000	106,333
Unvested restricted stock units	665,188	157,000
Escrow shares of common stock	200,000	-
Convertible preferred shares	104,496	-
	<u>2,802,797</u>	<u>1,521,262</u>

For periods when shares of preferred stock are outstanding, the two-class method is used to calculate basic and diluted earnings (loss) per common share since such preferred stock is a participating security under ASC 260 Earnings per Share. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Under the two-class method, basic earnings (loss) per common share is computed by dividing net earnings (loss) attributable to common share after allocation of earnings to participating securities by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings (loss) per common share, when applicable, is computed using the more dilutive of the two-class method or the if-converted method. In periods of net loss, no effect is given to participating securities since they do not contractually participate in the losses of the Company.

Under the provisions of ASC 260, "Earnings Per Share," basic EPS is computed by dividing income available to common stockholders (the numerator) by the weighted-average number of common shares outstanding (the denominator) during the period. Income available to common stockholders is computed by deducting both the dividends declared in the period on preferred stock and the dividends accumulated for the period on cumulative preferred stock from income from continuing operations. There were no dividends declared during the nine months ended September 30, 2018 and 2017.

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**Adoption of Recent Accounting Pronouncements:**

The Company continually assesses any new accounting pronouncements to determine their applicability. When it is determined that a new accounting pronouncement affects the Company's financial reporting, the Company undertakes a study to determine the consequences of the change to its consolidated financial statements and assures that there are proper controls in place to ascertain that the Company's consolidated financial statements properly reflect the change.

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as modified by ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, and ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. The revenue recognition principle in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, new and enhanced disclosures will be required. Companies may adopt the new standard either using the full retrospective approach, a modified retrospective approach with practical expedients, or a cumulative effect upon adoption approach. The Company adopted the new standard on January 1, 2018, using the modified retrospective approach. The adoption of ASU 2014-09 did not have a material impact on the Company's condensed interim consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted the new standard on January 1, 2018 and the adoption of ASU 2016-01 did not have a material impact on the Company's condensed interim consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This standard provides guidance for eight cash flow classification issues in current GAAP. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company adopted the new standard on January 1, 2018 and the adoption did not have a material impact on the Company's condensed interim consolidated statement of cash flows.

In May 2017, the FASB issued ASU 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting*. ASU 2017-09 provides clarity and reduces both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, to a change to the terms or conditions of a share-based payment award. The amendments in ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. The Company adopted the new standard on January 1, 2018 and the adoption of ASU 2017-09 did not have a material impact on the Company's condensed interim consolidated financial statements and related disclosures.

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**Recent Accounting Pronouncements**

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”) which supersedes ASC Topic 840, *Leases*. ASU 2016-02 requires lessees to recognize a right-of-use asset and a lease liability on their balance sheets for all the leases with terms greater than twelve months. Based on certain criteria, leases will be classified as either financing or operating, with classification affecting the pattern of expense recognition in the income statement. For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In July 2018, the FASB issued ASU No. 2018-11, “Leases (Topic 842): Targeted Improvements” that allows entities to apply the provisions of the new standard at the effective date (e.g. January 1, 2019), as opposed to the earliest period presented under the modified retrospective transition approach (January 1, 2017) and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The modified retrospective approach includes a number of optional practical expedients primarily focused on leases that commenced before the effective date of Topic 842, including continuing to account for leases that commence before the effective date in accordance with previous guidance, unless the lease is modified. The Company currently expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon its adoption of Topic 842, which will increase the total assets and total liabilities that the Company reports relative to such amounts prior to adoption.

In June 2018, the FASB issued ASU 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*, which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under the ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity’s adoption date of Topic 606. The Company is currently evaluating the impact of the new standard on its condensed interim consolidated financial statements and related disclosures.

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule is effective on November 5, 2018. The Company is evaluating the impact of this guidance on our condensed consolidated financial statements.

**Note 3. Acquisitions:**

The acquisitions of Prive, BMSS, and Logical Brokerage were accounted for as an asset acquisition pursuant to ASU 2017-01, *Business Combinations (Topic 805), Clarifying the Definition of a Business*, as the majority of the fair value of the assets acquired was concentrated in a group of similar assets, and the acquired assets did not have outputs or employees.

**Asset Purchase Agreement with Prive Technologies LLC:**

On February 21, 2018, the Company and Kairos, completed an asset purchase under an agreement (the “Prive Purchase Agreement”) with Prive on behalf of certain persons and entities who owned certain cryptocurrency mining machines and related equipment (the “Prive Equipment”). Pursuant to the Prive Purchase Agreement, the aggregate consideration for the Prive Equipment consisted of (i) Eleven Million Dollars (\$11,000,000) and (ii) One Million (1,000,000) shares of the Company’s common stock (the “Prive Shares”). Upon closing of the transaction, and pursuant to the terms of the Prive Purchase Agreement, Kairos became the owner of the Prive Equipment and other assets used for the mining of cryptocurrency, including, but not limited to, 3,800 Bitmain AntMiner S9s. On February 21, 2018, the miners were recorded for a purchase price of \$22,400,000, consisting of cash of \$11,000,000 and 800,000 of the Company’s shares of common stock valued at \$10.60 per share (excludes 200,000 shares of Common Stock currently held in escrow).

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The purchase price for the miners was recorded as follow:

	<b>September 30, 2018</b>
Cash consideration	\$ 11,000,000
Fair value of common stock	8,480,000
Deferred tax liability	2,918,000
Other expenses	2,000
	<b>\$ 22,400,000</b>

Two principal shareholders held 24.8% and 18.4%, respectively, of Prive, at the time of its acquisition by the Company. These holders held 10.7% and 5.7%, respectively of Kairos at the time of Kairos acquisition by the Company in October 2017.

Two Hundred Thousand (200,000) of the Shares (the “Escrow Shares”) were deposited into an escrow account with Corporate Stock Transfer, Inc., as escrow agent (the “Escrow Agent”), pursuant to an escrow agreement (the “Escrow Agreement”). Certificates representing the Escrow Shares were deposited and recorded with the Escrow Agent to be held in escrow and not be transferred, pledged or hypothecated except as provided in the Escrow Agreement. No value was assigned to the Escrow Shares at the time of the acquisition as they are contingent consideration. The Escrow Shares will be released to the Sellers upon the Company generating Net Cash Flow (as defined in the Prive Purchase Agreement) of at least Ten Million Dollars (\$10,000,000) from the Equipment. If the Escrow Shares are not released to the Sellers on or before the two-year anniversary (February 2020) of the Prive Purchase Agreement, the Escrow Shares shall be returned to the Company for cancellation.

Under the guidance of ASC 360, Impairment or Disposal of Long-lived Assets, a long-lived asset or asset group (including intangibles) will be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Based upon the significant decline in the price of bitcoins during the nine months ended September 30, 2018 and the decline in projected cash flows over the life of the miners, the Company performed an undiscounted cash flow test to determine if the miners were impaired. The undiscounted cash flows were less than the carrying amount of the miners and when the carrying amount was compared to the discounted fair value of the miners, the Company determined that there were impairment charges to be recorded on the miners purchased from Prive. Impairment charges for the three and nine months ended September 30, 2018 totaled \$0 and \$18,265,000, respectively.

**Asset Purchase Agreement with Blockchain Mining Supply & Services Ltd.:**

On February 21, 2018, the Company completed an asset purchase under an agreement (the “BMSS Purchase Agreement”) with “BMSS which owned 3,000 AntMiner S9 bitcoin mining machines (the “BMSS Equipment”). Pursuant to the BMSS Purchase Agreement, the Company purchased the BMSS Equipment for aggregate consideration of Eight Million Five Hundred Thousand Dollars (\$8,500,000). On February 21, 2018, the miners were recorded for purchase price of \$8,500,000 paid or payable in cash. Seven Million Dollars (\$7,000,000) of the purchase price was paid at closing and \$1,500,000 was payable within six-months, as further defined in the BMSS Purchase Agreement.

On August 21, 2018, the Company and BMSS entered into a waiver letter, amending the BMSS Purchase Agreement (the “Waiver”) whereby the Company and BMSS agreed to waive any and all past due amounts payable by the Company to BMSS pursuant to Section 2(b)(ii) of the BMSS Purchase Agreement. Pursuant to the Waiver, the Company agreed to pay to BMSS \$150,000 on or before August 21, 2018, \$200,000 on or before September 30, 2018 and on each 30-day anniversary thereafter for a total of six payments of \$200,000 until a total of \$1,350,000 has been paid. The Company will make a final payment equal to \$150,000 plus accrued and unpaid interest calculated at a rate equal to 10% per year 30 days following the last payment of \$200,000. In addition to the foregoing, the Company agreed to issue to BMSS 50,000 shares of restricted common stock in connection with the Waiver within seven days of the execution of the Waiver. In connection with the foregoing, the Company relied upon the exemption from registration provided by Section 4(a)(2) under the Securities Act of 1933, as amended, for transactions not involving a public offering. For the three months ended September 30, 2018, the Company recorded a loss of \$266,000 related to the computed value of the modification of the BMSS deferred purchase price which was recorded as a loss on extinguishment of debt in connection with the Waiver.

Under the guidance of ASC 360, Impairment or Disposal of Long-lived Assets, a long-lived asset or asset group (including intangibles) will be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Based upon the significant decline in the price of bitcoins during the nine months ended September 30, 2018 and the decline in projected cash flows over the life of the miners, the Company performed an undiscounted cash flow test to determine if the miners were impaired. The undiscounted cash flows were less than the carrying amount of the miners and when the carrying amount was compared to the discounted fair value of the miners, the Company determined that there were impairment charges to be recorded on the miners purchased from BMSS. Impairment charges for the three and nine months

ended September 30, 2018 totaled \$0 and \$5,796,000, respectively.

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**Acquisition of Logical Brokerage Corp.:**

On March 26, 2018, the Company entered into and closed a stock purchase agreement (the “Logical Brokerage Purchase Agreement”) between the Company and Mark Bradley Fisher (the “Logical Brokerage Seller”). Pursuant to the Logical Brokerage Purchase Agreement, the Company purchased from the Logical Brokerage Seller 9.25 shares of Logical Brokerage, representing 92.5% of the outstanding capital stock of Logical Brokerage, for a cash purchase price of \$600,000. Logical Brokerage, a futures introducing broker headquartered in Miami, Florida is registered with the CFTC and is a member of the NFA.

The Company considered the provisions of FASB ASU 2017-01, Business Combinations (Topic 805), and has determined that the Logical Brokerage Purchase Agreement should be accounted for as an acquisition of assets based on the estimated fair value at the acquisition date. The CFTC license will be recorded at the relative fair value as an indefinite lived intangible asset. The initial value was recorded at the purchase price of \$600,000, net of cash received with the asset acquisition of \$100,000, plus any transaction costs. The intangible asset will be revalued for any future impairment.

As a result of an asset acquisition, temporary differences may arise due to differences between the tax bases of assets acquired and liabilities assumed (determined by tax law) and the values of those assets and liabilities recognized for financial statement purposes (determined based on the provisions of ASC 805). ASC 740 requires an entity to recognize deferred tax assets and liabilities for those temporary differences and acquired operating loss or other tax credit carryforwards that arise as a result of the purchase of an asset. However, deferred taxes are not recognized for differences related to nondeductible goodwill, leveraged leases, and certain other differences for which there are specific exceptions. The deferred tax liability represents the difference between the book basis and the tax basis of Riot Blockchain’s intangible assets, calculated using a 25.6% effective tax rate.

On September 30, 2018, the CFTC license was recorded as follows (unaudited):

	<b>September 30, 2018</b>
Cash, net of cash acquired	\$ 500,000
Deferred tax liability	142,709
Non-controlling interest	40,541
Legal expense	16,918
	<b>\$ 700,168</b>

In connection with the closing of the Logical Brokerage Purchase Agreement, on March 26, 2018, the Company entered into a stockholders’ agreement (the “Stockholders Agreement”) with Logical Brokerage and Mark Bradley Fisher. The Stockholders Agreement provides, among other things, that, subject to certain exceptions, the Logical Brokerage Seller may not transfer any of his remaining shares of Logical Brokerage without the written consent of the Company. The Stockholders Agreement also provides that, subject to certain exceptions, in the event the Company proposes to transfer 35% or more of Logical Brokerage’s total issued and outstanding capital stock, the Logical Brokerage Seller will be entitled to certain “tag-along” rights.

***1172767 Investment (formerly Tess Inc.)***

During October 2017, the Company acquired approximately 52% of 1172767, which is developing blockchain solutions for telecommunications companies. During late 2017 and in early 2018, 1172767 and Cresval Capital Corp. (“Cresval”) (TSX-V: CRV) following the execution of a non-binding letter of intent, executed a definitive agreement providing that 1172767 agreed to merge with Cresval, assuming specified closing conditions were met. Upon closing of the anticipated merger and related required approvals, 1172767 would become publicly traded on the TSX Venture Exchange (the “TSXV”). The merger transaction was completed in the third quarter of 2018. The shares of 1172767 are expected to commence on the TSXV once regulatory approvals are obtained. Based upon the terms of the merger and related agreements, the acquisition will result in the Company owning less than 50% of 1172767, at which time it would no longer be consolidated within the Company’s financial statements.

During the nine months ended September 30, 2018, 1172767 received approximately \$506,000 from the sale of shares of Riot Blockchain common stock held by 1172767, which has been recorded as a credit to the consolidated Common Stock of the Company. Additionally, 1172767 issued approximately 189,000 of its common shares in exchange for cash proceeds of approximately \$220,000 thereby reducing the investment percentage held by the Company from 52.01% to 50.2% as of September 30, 2018.

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**Note 4. Property and equipment:**

As of September 30, 2018, the Company's property and equipment primarily consisted of its approximately 8,000 cryptocurrency miners. During the nine months ended September 30, 2018, the Company determined that certain events occurred that were indicators of potential impairments to the miners. Based upon the significant decline in the price of bitcoin during the nine months ended September 30, 2018 and the decline in projected cash flows over the life of the miners, the Company performed an undiscounted cash flow test to determine if the miners were impaired. The undiscounted cash flows were less than the carrying amount of the miners and when compared the discounted fair value of the miners to the carrying value of the miners, the Company determined that there were impairment charges of \$0 and \$26,858,000 during the three and nine months ended September 30, 2018, respectively. The breakdown of the impairment charges are as follows:

	<b>Three Months Ended September 30, 2018 (unaudited)</b>	<b>Nine Months Ended September 30, 2018 (unaudited)</b>
Prive miners	\$ -	\$ 18,264,759
BMSS miners	-	5,796,179
Kairos miners	-	2,797,085
Total impairment charge	<u>\$ -</u>	<u>\$ 26,858,023</u>

In the first quarter of 2018, the Company commenced the relocation of the servers acquired in the acquisition of Kairos in 2017 to the newly leased facility in Oklahoma City Oklahoma. Kairos noted that due to storm water leakage into a previously utilized facility as of December 31, 2017, servers consisting of 90 AntMiner S9s and 29 AntMiner L3s had visible evidence of exposure to water. These servers were taken off line and Kairos investigated the extent of possible damage and functionality of the 119 servers. During the first quarter of 2018, the Company determined there was no damage to the 119 servers and they were relocated to the Company's facility in Oklahoma City, Oklahoma during the second quarter of 2018.

Property and equipment consisted of the following:

	<b>September 30, 2018 (unaudited)</b>	<b>December 31, 2017</b>
Cryptocurrency machines, net of impairment	4,118,675	\$ 4,700,575
Leasehold improvements	2,069,259	-
Office and computer equipment	92,840	61,670
Total cost of property and equipment	6,280,774	4,762,245
Less accumulated depreciation	(1,427,030)	(468,079)
Property and equipment, net	<u>\$ 4,853,744</u>	<u>\$ 4,294,166</u>

Depreciation expense for the three months ended September 30, 2018 and 2017, totaled approximately \$644,000 and \$500, respectively. Depreciation expense for the nine months ended September 30, 2018 and 2017, totaled approximately \$5,642,000 and \$1,400, respectively. During the nine months ended September 30, 2018, in connection with the \$26,858,000 in impairment charges recorded, costs of cryptocurrency miners totaling approximately \$31,541,000, net of accumulated depreciation of \$4,683,000 were written off.

**Note 5. Investment in Coinsquare:**

In September 2017, the Company acquired a minority interest for \$3,000,000, in goNumerical, Ltd., (d/b/a: "Coinsquare"), which operates a digital crypto-currency exchange platform in Canada. The Company acquired approximately 10.9% of the voting common stock of Coinsquare. In connection with the investment, the Company also received warrants, which were to expire on May 30, 2018, to acquire additional shares of common stock of Coinsquare, which if exercised in full by the Company, would result in the Company owning an approximate total of 14.7% of Coinsquare, including the initial investment. The fair value of the warrants was determined to be *de minimis*. The Company has evaluated the guidance ASC 325-20 *Investments – Other*, in determining to account for the investment on the cost method since the equity securities are not marketable and do not give the Company significant influence over Coinsquare. As of December 31, 2017, the Company considered the cost of the investment to not exceed the fair value of the investment due to the subsequent funding activities of Coinsquare and the proximity of the time of the investment to year end.

During February 2018, the Company invested an additional \$6.4 million to acquire additional common stock of Coinsquare. The investment included an additional equity investment of \$2.8 million that is part of an approximate \$24 million financing by

Coinsquare. Additionally, warrants acquired in the original investment were exercised in exchange of a cash payment of \$3.6 million. These additional investments resulted in a current ownership in Coinsquare by the Company of approximately 12.9% ownership in Coinsquare based upon Coinsquare's then issued and outstanding shares. As of September 30, 2018, the Company considered the cost of the investment to not exceed the fair value of the investment.

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**Note 6. Other long-term assets:**

Intangible rights acquired totaling \$754,000 and \$1,986,000, as of September 30, 2018 and December 31, 2017, respectively, consisted of intangible rights associated with the 1172767 and Logical Brokerage acquisitions.

Other long-term assets as of December 31, 2017 and September 30, 2018 consisted of the following (unaudited):

	<b>September 30, 2018 (unaudited)</b>	<b>December 31, 2017</b>
Cost:		
Patents	\$ 1,092,681	\$ 1,059,832
Goodwill	1,186,496	1,186,496
Convertible note investment	200,000	200,000
Total	<u>2,479,177</u>	<u>2,446,328</u>
Accumulated amortization:		
Patents	(594,011)	(550,183)
Total	<u>(594,011)</u>	<u>(550,183)</u>
Net other long-term assets	<u>\$ 1,885,166</u>	<u>\$ 1,896,145</u>

The Company's intangible assets with finite lives consist of its patents. The patents were issued in relation to its animal health business which has been out-licensed. For all periods presented, all of the Company's identifiable intangible assets were subject to amortization. The carrying amounts related to acquired intangible assets as of September 30, 2018 were as follows (unaudited):

	<b>September 30, 2018</b>
Patents at January 1, 2018, net	\$ 509,649
Additions	32,849
Less: amortization expense	43,828
Patents at September 30, 2018, net	<u>\$ 498,670</u>

The following table represents the total estimated amortization of intangible assets for the five succeeding years:

<b>For the year ended December 31,</b>	<b>Estimated amortization expense</b>
2018	\$ (492,183)
2019	\$ 58,000
2020	\$ 58,000
2021	\$ 58,000
2022	\$ 1,146,845

The Company capitalizes legal costs and filing fees associated with obtaining patents on its new discoveries. Once the patents have been issued, the Company amortizes these costs over the shorter of the legal life of the patent or its estimated economic life using the straight-line method. Amortization expense totaled \$14,000 and \$53,000 for the three months ended September 30, 2018 and 2017, respectively. Amortization expense totaled \$44,000 and \$53,000 for the nine months ended September 30, 2018 and 2017, respectively. The Company tests intangible assets with finite lives upon significant changes in the Company's business environment. The testing resulted in no patent impairment charges during the nine months ended September 30, 2018 and 2017.

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**Note 7. Notes and other obligations:**

As of March 28, 2018, 1172767, a subsidiary of the Company, entered into a note purchase agreement with a private investor under which a convertible promissory note issued by 1172767 in the principal amount CAD \$2.2 million (the “Convertible Note”) and cash proceeds of CAD \$2.2 million were placed into a third-party controlled escrow account. Upon the successful achievement of conditions defined under the escrow agreement relating to closing of a transaction between 1172767 and Cresval Capital Corp, (“Cresval”) whereby 1172767 and Cresval would merge as provided in the merger agreements and 1172767 would become publicly traded on the TSXV Venture Exchange, the then remaining cash and the Convertible Note would be issued to 1172767 and the investor, respectively. The Convertible Note is convertible at \$0.10 per share of the merged entity, as defined, subject to certain adjustments. If those conditions are not successfully achieved or revised or waived by August 31, 2018, the then remaining cash and Convertible Note would be returned to the investor and 1172767, respectively.

Upon funding the escrow account and as provided thereunder, an interim release of consideration from the escrow account was made to the parties. The interim release consisted of CAD \$1.0 million (USD \$775,555) of cash released to 1172767 and an unsecured promissory note issued by 1172767 (“Promissory Note”) released to the investor. Upon the achievement of conditions discussed above required for the successful release of the escrowed Convertible Note and then remaining escrowed cash, the Promissory Note would thereupon be cancelled. The Promissory Note bears interest at 6%, is unsecured and due upon demand. On August 23, 2018, the final release from escrow occurred. 1172767 received approximately USD \$921,000, bringing the total convertible note balance to approximately \$1,696,000.

Notes and other obligations also consisted of short-term installment obligations, arising from insurance premium financing programs bearing interest at approximately 4.5%, with outstanding balances of \$0 and \$135,574, as of September 30, 2018 and December 31, 2017, respectively.

**Note 8. Stockholders’ equity:**

**Series B – Preferred Stock**

During the nine months ended September 30, 2018, holders of 1,353,505 Series B Preferred Shares elected to convert those shares to 1,353,505 shares of the Company’s common stock under their original terms. As of September 30, 2018, 104,496 shares of Series B Preferred Stock were outstanding. The Series B Preferred Stock contains a blocker pursuant to which, if the Company has not obtained the approval of its shareholders in accordance with NASDAQ Listing Rule 5635(d), then the Company may not issue upon conversion of the Series B Preferred Stock a number of shares of common stock, which, when aggregated with any other shares of common stock underlying the Series B Preferred Stock issued pursuant to the Agreement would exceed 19.99% of the shares of common stock issued and outstanding as of the date of the Agreement, subject to adjustment for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions of the common stock that occur after the date of the Agreement. As of the date of this report shareholder approval has not been sought or obtained.

**Common Stock:**

On January 4, 2018, the Company issued 19,533 shares of common stock upon the exercise of an employee stock-option.

On January 25, 2018, the Company issued 2,754 shares of common stock at fair value for consulting services at \$7.26 per share.

On February 14, 2018, the Company issued 100,000 shares of common stock in exchange for the exercise of 100,000 warrants issued in March 2017. The Company received \$350,000 from the exercise of the warrants.

On April 20, 2018, the Company issued 18,000 shares of the Company’s common stock for consulting services at an average fair value of \$14.33 per share.

During August 2018, the Company issued 50,000 shares of the Company’s common stock at an average fair value of \$5.31 per share, as consideration for the Waiver under the BMSS Purchase Agreement.

During the nine months ended September 30, 2018, holders of 1,353,505 Series B preferred shares elected to convert those shares to 1,353,505 shares of the Company’s common stock under its original terms.

During the nine months ended September 30, 2018, 13,009 warrants were exercised on a cashless basis in exchange for 3,215 shares of common stock. See Note 9.



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**Common Stock issued in Asset Acquisition:**

On February 21, 2018, the Company issued 1,000,000 shares of common stock at fair value in connection with the Prive asset purchase agreement, with 200,000 of these shares deposited into an escrow account with Corporate Stock Transfer, Inc. See Note 3.

**Restricted Common Stock Units:**

During the nine months ended September 30, 2018, 124,583 shares of common stock related to fully vested restricted stock units were delivered for services performed in 2017 and 2018.

**Note 9. Stock based compensation, options and warrants:**

**Stock based compensation:**

The Company recognized total expenses for stock-based compensation during the three and nine months ended September 30, 2018 and 2017, which are included in the accompanying condensed interim consolidated statements of operations, as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Selling, general and administrative expenses	\$ 1,655,160	\$ 108,568	\$ 4,147,189	\$ 379,622
Total stock-based compensation	<u>\$ 1,655,160</u>	<u>\$ 108,568</u>	<u>\$ 4,147,189</u>	<u>\$ 379,622</u>

The Company recognized total stock-based compensation expense during the three and nine months ended September 30, 2018 and 2017, from the following categories:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Restricted stock awards under the Plan	\$ 1,434,650	\$ 100,396	\$ 3,634,192	\$ 188,572
Stock option awards under the Plan	220,510	8,172	512,997	103,430
Non-qualified stock option awards	-	-	-	87,620
Total stock-based compensation	<u>\$ 1,655,160</u>	<u>\$ 108,568</u>	<u>\$ 4,147,189</u>	<u>\$ 379,622</u>

**Restricted stock units:**

	<b>Number of Shares</b>	<b>Weighted Average Grant- Date Fair Value</b>
Unvested at January 1, 2018	342,070	\$ 5.97
Granted	431,000	10.46
Vested	(201,421)	7.48
Forfeited	(290,147)	6.53
Delivered	(124,583)	5.42
Unvested at September 30, 2018	<u>156,919</u>	<u>\$ 13.37</u>

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A summary of the Company's restricted stock activity in the nine months ended September 30, 2018 is presented below:

During the nine months ended September 30, 2018, the Company granted 418,500 restricted stock units to employees and non-employee directors, respectively, and 12,500 restricted stock units to a consultant. The total fair value of restricted stock units granted during the nine months ended September 30, 2018 was approximately \$4,509,000. The fair value of each restricted stock unit was based upon the closing stock price on the grant date.

The fair value of restricted stock unit grants are measured based on their fair value on the date of grant and amortized over the vesting period of twenty-four months. As of September 30, 2018, there was approximately \$3,483,000 of unrecognized compensation cost related to unvested restricted stock units, which is expected to be recognized over a remaining weighted-average vesting period of approximately six months.

**Stock incentive plan options:**

The Company currently provides stock-based compensation to employees, directors and consultants under the Plan. The Company granted 62,000 stock options to an employee of the Company for the nine months ended September 30, 2018. There were no stock options granted to employees, directors or consultants for the nine months ended September 30, 2017.

A summary of activity under the Plan for the nine months ended September 30, 2018 is presented below:

	<b>Shares Underlying Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at January 1, 2018	119,533	\$ 9.02		
Granted	62,000	15.71		
Exercised	(19,533)	4.02		
Outstanding at September 30, 2018	<u>162,000</u>	<u>\$ 12.19</u>	<u>9.2</u>	<u>\$ -</u>
Exercisable at September 30, 2018	<u>145,335</u>	<u>\$ 11.46</u>	<u>9.2</u>	<u>\$ -</u>

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price on September 30, 2018 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders, had all option holders been able to, and in fact had, exercised their options on September 30, 2018.

In January 2018, 19,533 vested options granted under the Plan were exercised for cash proceeds of \$78,522.

During the nine months ended September 30, 2018, the 62,000 options granted had a ten-year life and there were no options forfeited that were granted under the Plan. The vested options were exercisable at an average of \$39.47 per share, the unvested options were exercisable at an average of \$7.90 per share.

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**Other common stock purchase options and warrants:**

Following is a summary of outstanding options and warrants that were issued outside of the Plan for the nine months ended September 30, 2018:

	<b>Shares Underlying Options/Warrants</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at December 31, 2017	1,944,895	\$ 35.06	2.7	\$ 6,135,000
Granted	-	-		
Exercised	(113,009)	3.50		
Forfeited	(160,773)	10.88		
Outstanding at September 30, 2018	<u>1,671,113</u>	<u>\$ 39.47</u>	2.2	<u>\$ 3,000</u>
Exercisable at September 30, 2018	<u>1,671,113</u>	<u>\$ 39.47</u>	2.2	<u>\$ 3,000</u>

During the nine months ended September 30, 2018, 13,009 of the warrants issued in the May 2013 private offering were surrendered for the issuance of 3,215 shares of common stock, 100,000 warrants issued in March 2018, were exercised for cash proceeds of \$350,000 and 160,773 warrants were forfeited.

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price on September 30, 2018 and the exercise price, multiplied by the number of in-the-money options and warrants) that would have been received by the option and warrant holders, had all option and warrant holders been able to, and in fact had, exercised their options and warrants on September 30, 2018.

**Note 10. Digital Currencies**

The following table presents additional information about digital currencies:

	<b>September 30, 2018</b>
Digital currencies balance - January 1, 2018	\$ 200,164
Additions of digital currencies	6,087,405
Purchase of digital currencies	5,722,547
Sale of digital currencies	(7,371,172)
Realized gain on sale of digital currencies	451,341
Impairment of digital currencies	(3,374,976)
Digital currencies balance - September 30, 2018	<u>\$ 1,715,309</u>

**Note 11. Discontinued Operations:**

During the quarter ended March 31, 2017, the Company made the decision to discontinue the operations of its wholly-owned subsidiary BDI. BDI had developed a proprietary Enhanced Surface Plasmon Resonance technology platform for the detection of molecular interactions. The decision to adopt this plan was made following an evaluation by the Company's Board of Directors in January 2017 of the estimated results of operations projected during the near to mid-term period for BDI, including consideration of product development required and updated sales forecasts, and estimated additional cash resources required. The Company substantially disposed of the BDI assets and operations during 2017 by selling the assets and licensing the intellectual property rights. The Company has recognized the exit of BDI in accordance with ASC 205-20, *Discontinued Operations*. As such, the historical results of BDI, following its 2016 acquisition, have been classified as discontinued operations.

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The Company's historical financial statements have been revised to present the operating results of the BDI business as a discontinued operation. Assets and liabilities related to the discontinued operations of BDI were approximately as follows as of September 30, 2018 (unaudited) and December 31, 2017:

Current Liabilities	September 30, 2018	December 31, 2017
Accounts payable	\$ 16,000	\$ 16,000
Accrued expenses	-	28,000
Deferred revenue	-	137,000
Total current liabilities	<u>\$ 16,000</u>	<u>\$ 181,000</u>

Summarized results of the discontinued operation are as follows for the three and nine months ended September 30, 2018 and 2017 (unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	\$ -	\$ 7,000	\$ 137,000	\$ 37,000
Cost of revenue	-	2,000	41,000	6,000
Gross margin	-	5,000	96,000	31,000
Operating expenses	-	(26,000)	-	975,000
Operating income (loss)	-	31,000	96,000	(944,000)
Escrow forfeiture gain	-	-	-	135,000
Impairment loss	-	-	-	(2,754,000)
Income (loss) from discontinued operations, net of tax	<u>\$ -</u>	<u>\$ 31,000</u>	<u>\$ 96,000</u>	<u>\$ (3,563,000)</u>

**Note 12. Commitments and contingencies:**

**Commitments:**

***Oklahoma Lease Agreement.***

On February 27, 2018, Kairos entered into a lease agreement (the "Lease") with 7725 Reno #1, LLC (the "Landlord"), pursuant to which Kairos leases an approximately 107,600 square foot warehouse located in Oklahoma City, Oklahoma, including improvements thereon. Pursuant to the terms of the Lease, the initial term of one year terminates on February 15, 2019, unless terminated earlier pursuant to the terms of the Lease, subject to Kairos' options to renew the Lease. Kairos has four one-year renewal options that may be exercised so long as Kairos is not in default, subject to increases in base rent. Kairos has the right to operate from the premises on a 24 hour/seven day a week basis. At least three months, but no more than six months, prior to the expiration of the initial Lease term or renewal term, as applicable, Kairos shall give Landlord written notice of its intent to exercise the applicable renewal option, which also includes incremental payment for additional electric capacity delivery. If Kairos does not elect to exercise a renewal option, all remaining renewal options, if any, shall terminate.

Base rent for the premises during the first 12 months is equal to \$55.95/kW per month for a total of 4 Megawatts (MW) of available electrical power, or \$223,800 per month. Base rent is calculated based upon the monthly electrical power made available to Kairos within the premises, and not based on Kairos's actual usage. In connection with the Lease, Parent has provided a limited guarantee of Kairos's failure to make payment of base rent or additional rent pursuant to the Lease. As soon as practicable after the effective date of the Lease, Landlord, at Landlord's expense, agreed to provide additional 12.5 kV transformer equipment to increase the electrical power available for Kairos's use by an additional 2MW, which will result in additional rent of \$55.12/kW for the additional 2MW of power when it is made available. Provided that Kairos is not in default under the Lease beyond any applicable notice and cure periods, Kairos may request Landlord to further increase the electrical power available, in increments from 6.01 MW up to 12.0 MW, by giving written notice to Landlord of the requested increase. Landlord, at Landlord's expense, would then provide an additional 12.5kV of electrical transforming equipment to increase the electrical power available for Kairos's use by the additional MW requested by Kairos. Effective as of the date the additional power is made available to Kairos, base rent will increase by an amount equivalent to the additional MW requested by Kairos multiplied by \$55.12 per kW. If Kairos exercises all of its renewal options, then the base rent for the first 4MW of available power would increase to \$57.63 per kW in year two, \$59.36 per kW in year three, \$61.14 per kW in year four and \$62.97 per kW in year five. In each case, available power of greater than 4MW and up to 12MW would result in base rent of \$55.12 per kW.

On March 26, 2018, Kairos entered into a first amendment to the above lease, whereby the Landlord agreed to increase the

electrical power available for Kairos's use from 6MW to 12MW, and the base rent under the lease was increased to approximately \$665,760 per month, effective as of the date when such additional power is available. The Company is currently in discussions with the Landlord concerning possible additional amendments to the Lease.

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***Registration Rights Agreement***

On December 19, 2017, the Company accepted subscriptions for the sale of \$37,000,000 of units of its securities, with each unit consisting of one share of Common Stock and one warrant to purchase one share of Common Stock, at a per unit price of \$22.50. On December 21, 2017, the Company accepted subscriptions for an additional \$37,528 of units. On December 21, 2017, the Company closed on the sale of \$37,037,528 of units of its securities and issued 1,646,113 shares of Common Stock and warrants to purchase up to 1,646,113 shares of Common Stock.

The registration rights agreement required that the securities would be registered by March 5, 2018, the effectiveness date, and the registration statement was not declared effective by March 5, 2018. The Company accounted for registration rights agreements in accordance with ASC 825-20, "Registration Payment Arrangements." ASC 825-20 addresses an issuer's accounting for registration payment arrangements. This pronouncement specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument, should be separately recognized and accounted for as a contingency in accordance with ASC 450-20 "Loss Contingencies". The Company recorded approximately \$0 and \$1,357,000 for this contingency in other expenses for the three and nine months ended September 30, 2018, respectively. This contingency was recorded as a liability as a component of accrued expenses as of September 30, 2018.

***Corporate Lease Agreement***

On April 9, 2018, the Company entered into a commercial lease covering 1,694 rentable square feet of office space in Fort Lauderdale, Florida, with a third-party. The lease is for an initial term of thirty-nine months, with one five-year option to renew. The lease requires initial monthly rent of approximately \$7,000, including base rent and associated operating expenses.

***Ingenium International LLC Consulting Agreement.***

On February 21, 2018, the Company entered into a Consulting Agreement with Ingenium International LLC (the "Consultant") to provide consulting services related to the Company's business for a twelve-month period. Pursuant to the Consulting Agreement, Consultant's services are defined as follows: complete the installation and deployment of 8,000+ ASIC cryptocurrency miners, which included the Prive Equipment and the BMSS Equipment; assist in managing and monitoring the operation of the 8,000+ cryptocurrency miners on an ongoing basis; promptly responding to and troubleshooting any issues as they arise in the management and monitoring of the operations; continuing the buildout of up to 40 Megawatts of energy capacity, with the ultimate goal to secure the power and build the location for up to 80 Megawatts of energy capacity; and to make strategic introductions to other cryptocurrency business opportunities and contacts in the sector. In connection with the Consulting Agreement the Company made a lump sum payment of \$4,000,000 to the Consultant.

The controlling principals of Ingenium International LLC., are shareholders in the Company by virtue of the previous acquisitions of Kairos and Prive (See Note 3).

**Contingencies:**

***Securities Class Actions***

On February 17, 2018, Creighton Takata filed an action asserting putative class action claims on behalf of the Company's shareholders in the United District Court for the District of New Jersey, Takata v. Riot Blockchain Inc., et al., Case No. 3:18-cv-02293. The complaint asserts violations of federal securities laws under Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934 on behalf of a putative class of shareholders that purchased stock from November 13, 2017 through February 15, 2018. The complaint alleges that the Company and certain of its officers and directors made, caused to be made, or failed to correct false and/or misleading statements in press releases and public filings regarding its business plan in connection with its cryptocurrency business. The complaint requests damages in unspecified amounts, costs and fees of bringing the action, and other unspecified relief.

Two additional, nearly identical complaints were subsequently filed by Richard Roys and Bruce Greenawalt in the United District States Court for the Southern District of Florida (*Roys v. Riot Blockchain Inc., et al.*, Case No. 9:18-cv-80225) and the United States District Court for the District of Colorado (*Greenawalt v. Riot Blockchain Inc., et al.*, Case No. 1:18-cv-00440), respectively. On March 27, 2018, the court closed the *Roys* case for administrative purposes. On April 2, 2018, Mr. Greenawalt filed a notice of voluntary dismissal of his action, which the court entered on the same date.

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**(Unaudited)**

On April 18, 2018, Joseph J. Klapper, Jr., filed a complaint against Riot Blockchain, Inc., and certain of its officers and directors in the United District Court for the District of New Jersey (Klapper v. Riot Blockchain Inc., et al., Case No. 3:18-cv-8031). The complaint contained substantially similar allegations and the same claims as those filed by Mr. Takata, and requests damages in unspecified amounts, costs and fees of bringing the action, and other unspecified relief.

On November 6, 2018, the court in the *Takata* action issued an order consolidating *Takata* with *Klapper* into a single putative class action. The court also appointed Dr. Golovac as Lead Plaintiff and Motely Rice as Lead Counsel of the consolidated class action. Lead Plaintiff's consolidated complaint is due on or before January 7, 2019.

*Shareholder Derivative Cases*

On April 5, 2018, Michael Jackson filed a shareholder derivative complaint on behalf of the Company in the Supreme Court of the State of New York, County of Nassau, against certain of the Company's officers and directors, as well as against an investor (Jackson v. Riot Blockchain, Inc., et al., Case No 604520/18). The complaint contains similar allegations to those contained in the shareholder class action complaints and seeks recovery for alleged breaches of fiduciary duty, unjust enrichment, waste of corporate assets, abuse of control and gross mismanagement. The complaint seeks unspecific monetary damages and corporate governance changes.

On May 22, 2018, two additional shareholder derivative complaints were filed on behalf of the Company in the Eighth Judicial District Court of the State of Nevada in and for the County of Clark (*Kish v. O'Rourke, et al.*, Case No. A-18-774890-B & *Gaft v. O'Rourke, et al.*, Case No. A-18-774896-B). The two complaints make identical allegations, which are similar to the allegations contained in the shareholder class action complaints. The shareholder derivative plaintiffs also seek recovery for alleged breaches of fiduciary duty, unjust enrichment, waste of corporate assets, and aiding abetting a breach of fiduciary duty. The complaint seeks unspecific monetary damages and corporate governance changes.

*SEC Subpoena*

During 2018 the Company received several comment letters (the "Comment Letters") from the Division of Corporation Finance and the Division of Investment Management of the Securities and Exchange Commission ("SEC"). The Comment Letters have been issued on the Company's periodic reports on Form 10-Q for the quarter ended March 31, 2018, Annual Report on Form 10-K for the fiscal year ended December 31, 2017, amendment to Annual Report on Form 10-K/A for the fiscal year ended December 31, 2017 and current report on Form 8-K filed October 4, 2017. The comments raise matters related to, among other things, the unsettled nature of accounting treatment for the Company's cryptocurrency mining and the fair value method selected by the Company (as opposed to intangible accounting methods proposed by some experts) and applicability to the Company of the Investment Company Act of 1940, particularly as relates to the Company's minority interest in goNumerical, Inc. a/k/a Coinsquare. The Company continues to engage in conversations with the staff of the Division of Enforcement, Division of Investment Management, Division of Corporation Finance, and Office of the Chief Accountant regarding the issues raised in the comment letters.

On July 30, 2018, the Company received a letter from the SEC (the "Letter") that the Commission has issued an Order Directing Examination and Designating Officers Pursuant to Section 8(e) of the Securities Act of 1933 with respect to the following registration statements: (1) a Form S-8 filed on July 19, 2017 (File No. 333-219357); (2) a Form S-3 initially filed January 5, 2018 and subsequently amended on February 7, 2018 (File No. 333-222450); and (3) a Form S-3 filed on July 10, 2018 (File No. 333-226111). The Letter stated, "while the Section 8(e) examination is pending, the Division of Corporation Finance will not take any further action on the Registration Statements, and all communications with regard to the Registration Statements and the Section 8(e) examination should be made to the Commission's Division of Enforcement."

On October 12, 2018, the Company filed for withdrawal of the Form S-3 registration statement initially filed on January 5, 2018 and amended on February 7, 2018 (File No. 333-222450); and terminated the Form S-8 registration statement filed on July 19, 2017 (File No. 333-219357).

On October 22, 2018, the Company was notified by SEC staff that the SEC had terminated the Section 8(e) examination with respect to the above-referenced registration statements. The previously disclosed SEC investigation associated with the subpoena received by the Company on April 9, 2018 is still ongoing. The SEC has continued to request information from the Company and the Company has been fully cooperating with the SEC in that investigation.

**Blockchain, Inc. and Subsidiaries**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Three and Nine Months Ended September 30, 2018**  
**(Unaudited)**

*Beneficial Ownership*

Pursuant to the rules of the Securities and Exchange Commission (the “SEC”), the Company has consistently reported its beneficial ownership positions in its proxy and other filings where beneficial ownership disclosures are presented, for certain beneficial owners with respect to any person (including any “group” as that term is used in section 13(d)(3) of the Securities and Exchange Act of 1934 (the “Exchange Act”)) who is known to the Company to be the beneficial owner of more than 5% of the Company’s common stock. The Company has relied on each person who has reported to the SEC beneficial ownership of more than 5% of our common stock to provide complete and accurate information regarding their ownership, based on the reports filed by these persons.

On September 7, 2018, a complaint was filed by the SEC (Case 1:18-cv-08175) (the “Complaint”) against, among others, a number of individuals and entities some of whom the Company has previously disclosed as its beneficial owners, as well as, Mr. John O’Rourke III, the Company’s former chairman of the board of directors and chief executive officer who resigned from the Company on September 8, 2018, as disclosed in the Current Periodic Report on Form 8-K filed September 10, 2018. Other persons named in the Complaint have previously reported that they were beneficial owners of the Company’s common stock, however, the Company has no basis to determine whether any such persons may have operated as a control group, collectively beneficially owning more than 5% of the Company’s common stock.

**Note 13. Related Party Transactions:**

Per Schedules 13D filed with the Securities and Exchange Commission, each of Barry Honig (together with other group members) and Catherine Johanna DeFrancesco during a portion of 2017 beneficially owned greater than 10% of the dispositive and voting power of the Company’s common stock. Mr. Honig reported beneficial ownership of approximately 11.2% of the Company’s common stock as of January 5, 2017 and Ms. DeFrancesco reported beneficial ownership of approximately 11.45% of the Company’s common stock as of January 10, 2017. Mr. Honig invested \$1,750,000 in the Company’s March 2017 Convertible Note Private Placement. GRQ Consultants, Inc., a related party of Mr. Honig, received a cash payment of \$50,000 for diligence services in connection with the Company’s September 2017 investment in Coinsquare. Each of Mr. Honig and Ms. DeFrancesco was a shareholder of Kairos at the time of its acquisition by the Company, with Mr. Honig having owned approximately 8.6% of Kairos and Ms. DeFrancesco having owned approximately 6.3% of Kairos. Each of Mr. Honig and Ms. DeFrancesco invested in the December 2017 Common Share Private Placement, with Mr. Honig investing \$500,000 and Ms. DeFrancesco investing \$360,000. See also disclosures in Notes 3, 12 and 14.

**Note 14. Management Changes:**

On September 8, 2018, John O’Rourke resigned as chief executive officer and chairman of the board of directors of the Company, and Christopher Ensey was appointed as the Company’s interim chief executive officer. Also, on September 8, 2018, Remo Mancini, who has served as a director of the Company since February 2018, was appointed chairman of the board of directors.

On September 20, 2018, an Amendment to Executive Employment Agreement (the “Amendment”), between the Company and Mr. Christopher Ensey, documenting the appointment of Mr. Ensey as the Company’s Interim Chief Executive Officer and revising Mr. Ensey’s compensation.

Effective as of October 23, 2018, Mr. Benjamin Yi was appointed to serve as an independent member of the Board of Directors. This followed the resignation of Mr. Andrew Kaplan as an independent member of the Board of Directors effective as of October 22, 2018.

**Note 15. Subsequent Events:**

Subsequent to September 30, 2018, 202,833 shares of restricted common stock related to fully vested restricted stock units were delivered to former officers and employees for services performed in 2017 and 2018.

Subsequent to the September 30, 2018, date of the accompanying condensed interim consolidated financial statements, the trading value of bitcoin has significantly declined to a current value of approximately \$5,200. While the decline is believed to be temporary, should the decline continue and at year-end not be deemed as temporary, an assessment of the Company’s long-lived assets could result in a material impairment adjustment to the long-lived asset

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes in "Item 1. Condensed Interim Consolidated Financial Statements." The following discussion includes forward-looking statements about our business, financial condition and results of operations, including discussions about management's expectations for our business. These statements represent projections, beliefs and expectations based on current circumstances and conditions and in light of recent events and trends, and should not be construed either as assurances of performance or as promises of a given course of action. Instead, various known and unknown factors are likely to cause our actual performance and management's actions to vary, and the results of these variances may be both material and adverse. See "Cautionary Note Regarding Forward-Looking Statements" and "Item 1A. Risk Factors."*

### **Management's plans and basis of presentation:**

The Company has experienced recurring losses and negative cash flows from operations. At September 30, 2018, the Company had approximate balances of cash and cash equivalents of \$1,607,000, a working capital deficit of \$1,178,000 total stockholders' equity of \$16,532,000 and an accumulated deficit of \$185,796,000. To date, the Company has in large part relied on debt and equity financing to fund its operations.

The Company's primary focus is on its cryptocurrency mining operation located in Oklahoma City, Oklahoma, along with its investigation of the launch of RiotX as a cryptocurrency exchange in the United States. That operational focus and the Company's recently completed acquisitions of Kairos and 1172767 B.C. Ltd. (or "1172767"), formerly known as Tess Inc., and its investment in goNumerical Ltd., (d/b/a "Coinsquare"), as well as the Company's new name, reflects a strategic decision by the Company to operate in the blockchain and digital currency related business sector. The Company's current strategy will continue to expose the Company to the numerous risks and volatility associated within this sector.

On January 2, 2018, the Company formed Digital Green Energy Corp. ("Digital Green"), a wholly owned subsidiary, which is seeking to identify environmentally friendly projects with large energy capacity and a cost-effective rate for energy for cryptocurrency mining operations and data center projects. Subsequent to September 30, 2018, certain activities of Digital Green were curtailed.

In February 2018, the Company acquired 3,800 miners from Prive Technologies, Inc. ("Prive") and 3,000 miners from Blockchain Mining Supply & Services Ltd. ("BMSS").

On February 27, 2018, Kairos entered into a lease agreement for approximately a 107,000-square foot facility in Oklahoma City, Oklahoma, which included data center improvements. Upon the execution of the facility lease, the Company began consolidating all of our miners at the data center facility. As of September 30, 2018, all of the Company owned approximately 8,000 miners were at the data center facility. The Company is currently in discussions with the Landlord concerning possible additional amendments to the Lease.

On March 26, 2018, the Company entered into and closed a stock purchase agreement pursuant to which the Company acquired 92.5% of Logical Brokerage. Logical Brokerage is a futures introducing broker headquartered in Miami, Florida, registered with the CFTC, and a member of the NFA. The Company is investigating launching a digital currency exchange within the United States. To this end, the Company's recently formed subsidiary, RiotX Holdings Inc ("RiotX") has obtained through Logical Brokerage, a CFTC license, a Money Service Business license with FinCEN, and a Money Transmitter License from the state of Florida. RiotX is pursuing additional Money Transmitter licenses from other states within the United States. The Company is also vetting and negotiating with several third parties as service providers to the proposed exchange. No formal agreements with third party vendors have yet been signed and there is no assurance that the proposed exchange can be successfully launched.

Effective January 14, 2017, the Company adopted a plan to exit the business of BiOptix Diagnostics, Inc. ("BDI"). The decision to adopt this plan was made following an evaluation by the Company's Board of Directors in January 2017 of the estimated results of operations projected during the near to mid-term period for BDI, including consideration of product development required and updated sales forecasts, and estimated additional cash resources required. Accordingly, the historical results of BDI have been classified as discontinued operations for all periods presented as those results are meaningless and unrelated to the Company's current operations.

The Company expects to continue to incur losses from operations for the near-term and these losses could be significant as the Company incurs costs and expenses associated with recent and potential future acquisitions and development of the RiotX exchange platform, as well as public company, legal and administrative related expenses being incurred. The Company is closely monitoring its cash balances, cash needs and expense levels.

The Company expects the need to raise additional capital to expand the Company's operations and pursue its growth strategies, including potential acquisitions of complementary businesses, and to respond to competitive pressures or unanticipated working capital requirements. The Company may not be able to obtain additional debt or equity financing on favorable terms, if at all, which could impair our growth and adversely affect our existing operations. If the Company raises additional equity financing, the Company's shareholders may experience significant dilution of their ownership interests, and the per share value of the Company's common stock could decline. Furthermore, if the Company engages in additional debt financing, the holders of debt would have priority over the holders of common stock, and the Company may be required to

accept terms that restrict its ability to incur additional indebtedness and take other actions that would otherwise possibly not be in the interests of the Company's shareholders, forcing it to maintain specified liquidity or other ratios.

Management's strategic plans include the following:

- continuing expansion and improving operating efficiencies of cryptocurrency mining operations;
- continuing to evaluate opportunities for investments in the blockchain and digital currency sector;
- establishing a virtual currency exchange;
- exploring other possible strategic options and financing opportunities available to the Company;
- evaluating options to monetize, partner or license the Company's assets; and
- continuing to implement cost control initiatives to conserve cash.

### ***Digital Currency Mining Operations***

#### *Overview of Digital Currency Mining Operations*

The primary focus of the Company is our digital currency mining operations. Digital currencies are digital or virtual currencies used as a medium of exchange outside of the traditional state-backed fiat currencies. Digital or “crypto” currencies rely on complex cryptographically recorded data entries known as “blocks” on decentralized digital ledger system known as a blockchain. Blocks are added to the blockchain chronologically and, once added, are unchangeable. Thus, digital currencies are seen as a secure means of storing and recording information regarding a transaction or set of transactions. To incentivize the creation of blocks for the blockchain, digital currency tokens are awarded on a per block basis for block creation, a process which is known in the industry as digital currency mining.

The Company’s digital currency mining operations focus primarily on bitcoin mining. Bitcoin mining entails solving complex mathematical problems using custom designed and programmed application-specific integrated circuit computers (referred to as “miners”). Bitcoin miners provide transaction verification services to a given blockchain by solving complex algorithms to encode additional blocks into the blockchain; which blocks serve as immutable records of transactions once added to the blockchain. When a miner is successful in adding a block to the blockchain, it is rewarded with a fixed number of bitcoin. Blocks are added to the blockchain on a first-to-finish basis, meaning that the first miner to solve an algorithm and verify a given transaction is the only miner to receive a bitcoin reward. This first-to-finish environment has created a computing power arms race whereby miners are encouraged through competition to allocate ever-increasing computing power (known as “hash rate”) to solving algorithms in the hopes of finishing first. The resulting energy costs are substantial, and, in light of the recent decline in the market price of bitcoin and other “benchmark” digital currencies such as bitcoin cash, litecoin, and ethereum, the profitability of digital currency mining operations has been reduced while competition to solve each block continues to increase. The Company’s digital currency mining operations operate at a maximum hash rate of 95 petahash per second.

In response to these factors, the Company has entered into digital currency mining pools, whereby multiple miners allocate their collective computing powers to solving a given algorithm, thereby increasing the hash rate devoted to a given algorithm while spreading the cost of providing that increased hash rate across the digital currency mining pool. By pooling their efforts, miners in a pool are more likely to receive a reward from the verification a given transaction than miners acting individually. Pool miners are awarded a fractional reward based on the hash rate each miner contributed to the pool in a successfully solved algorithm by the pool operator, regardless of whether the individual miner actually solved the applicable algorithm and added a block to the blockchain. Miners participating in digital currency mining pools accept the proportional share of a bitcoin reward rather than seeking to obtain whole bitcoin rewards individually for two reasons: first, by pooling their efforts, miners participating in a digital currency mining pool are able to devote a greater collective hash rate to solving a given algorithm than would be economically feasible for any individual miner to do so themselves, thereby increasing the likelihood they will receive more bitcoin from their digital currency mining activities on average than they would operating outside of a pool; and second, they enjoy the benefit of their fellow digital currency mining pool participants’ contributed hash rates, without incurring the significant cost of producing a greater hash rate individually. The Company participates in pools on an at-will basis, and is under no obligation to remain in a given pool and may terminate its engagement with a given pool at any time. Presently, management believes participating in digital currency mining pools is the most efficient means of digital currency mining digital currencies, but is under no obligation, nor does it provide any assurance that it will continue to do so in the future.

### Oklahoma City Mining Facility

Beginning in February of 2018, we relocated our digital currency mining operations to our Oklahoma City, Oklahoma facility (our "Mining Facility"), which is leased by our subsidiary, Kairos Global Technology, Inc. ("Kairos"). As of September 30, 2018, we have moved all of our 8,000 digital currency miners, which includes 7,500 model S9 and 500 model L3+ miners, to our Mining Facility. These miners have been installed and operational since being deployed in June of 2018. Kairos leased the Mining Facility from 7725 Reno #1, L.L.C. ("7725 Reno") by a lease agreement dated February 27, 2018, as amended on March 26, 2018 (the "Lease"). Effective as of November 29, 2018, Kairos amended the Lease with 7725 Reno by: (i) extending the initial term of the Lease through August 15, 2019; (ii) effective as of December 1, 2018, changing the monthly rent for the Lease as follows: (a) \$235,000 for December of 2018, (b) \$230,000 for January of 2019, and (c) \$190,000 per month thereafter for the duration of the Lease, including any renewals; (iii) reducing the monthly electricity usage charges due under the Lease; (iv) providing that Kairos will reimburse 7725 Reno for up to \$14,000 of the costs of installing electricity metering devices in the facility; and (v) Kairos will have the option to renew the Lease for up to two (2) three (3) month periods after the expiration of the initial term of the Lease. Under the initial terms of the Lease, the Company was required to pay for 12 megawatts of power per month, regardless of the actual power consumption by its miners. Before upgrades were made to the software of our miners which made our digital currency mining activities much more energy efficient, this fixed cost arrangement was beneficial to the Company, as the Company had access to the allotted 12 megawatts of power each month during a time of peak demand for electric power. When the original Lease was entered into, computing power, and therefore electricity, was in high demand among competitors in the bitcoin mining industry, and securing access to 12 megawatts of electric power per month at a fixed price important given those market conditions. Subsequent changes to the software of our miners and facility improvements have made our miners far more energy-efficient and therefore, this fixed cost arrangement had become cost-inefficient, as the Company used less than the allotted 12 megawatts of power per month. Accordingly, for these reasons and other economic factors, the Company renegotiated the Lease.

The changes to the Lease do not impact the number of miners deployed at the facility. The Company's monthly electricity usage costs are now variable, rather than fixed under the Lease, and are assessed at a lower rate per kilowatt/hour for the electricity used. The reduction in the base rent was the product of negotiations between the Company and 7725 Reno and reflects changes to the economics of the Lease, rather than any change in the leased space or the number of deployed miners. These changes to the Lease will allow the Company to be more responsive to changes in the profitability of its digital currency mining operations.

The Company can, under the amended Lease, decide to reduce or temporarily switch off any number of its miners in its Mining Facility and therefore reduce its variable electricity costs from its digital currency mining operation. Whereas under the original Lease, the Company would still have incurred the same electricity cost, regardless of actual electricity use. These changes allow the Company to monitor its monthly costs by optimizing its digital currency mining performance by operating its miners at less than full capacity during times of peak electricity rates.

Operation of the miners requires substantial electrical power, which power usage increases as the hash rate produced increases. Furthermore, miners generate a substantial amount of heat when operating, which heat must be dissipated to avoid damaging the miners' circuitry. Heat dissipation also requires significant electrical power. As the hash rate produced is increased, the heat generated by operation of the miners is increased. Therefore, as the hash rate produced from operation of the miners is increased, the electricity used in heat dissipation is also increased. Accordingly, the electricity cost incurred in operation of the miners increases exponentially as the hash rate produced is increased, as the electrical power required to operate the miners and to dissipate the heat they produce both increase as a function of the hash rate produced. This increased electricity usage comes at substantial cost to the Company, and, accordingly, when the conversion spot price of bitcoin declines, the profitability of operating the mine at peak capacity declines. Under the original Lease, the Company incurred the same electricity cost regardless of electricity used, so it was negatively incentivized to reduce or halt its digital currency mining activities in response to dips in the conversion spot price of bitcoin, effectively causing the Company to produce bitcoin at disadvantageous conversion spot prices. Under the amended Lease, however, the Company can reduce or even halt the operation of its miners temporarily in response to changing market conditions and obtain a corresponding reduction of its electricity costs for its Mining Facility. Furthermore, the Company expends electricity in dissipating environmental heat affecting its miners. As the environmental heat increases, so does the amount of electricity required to dissipate that heat. In times of extreme heat, the cost of dissipating environmental heat can be substantial. Accordingly, running the Company's miners at peak capacity during times of high heat is more expensive for the Company. Because the amended Lease does not have a fixed power cost built in, the Company can reduce, increase, or even shut off the electric power devoted to the miners when environmental factors or market forces change the relative advantages of digital currency mining at a given time, without incurring the high fixed power cost required under the original Lease. This variability in the Company's power costs resulting from the operation of its digital currency mining facility makes the Company's digital currency mining activities more responsive to variables affecting the cost of digital currency mining, therefore bringing more of the Company's variable expenses under the Lease within management's control.

## *Development of a U.S.-Based Digital Currency Exchange*

### *Overview of the RiotX Exchange*

In addition to those business developments previously reported by the Company in its annual report on Form 10-K, quarterly reports on Form 10-Q, and periodic reports on Form 8-K, the Company has continued its exploration of the development of a U.S.-based digital currency exchange. The Company has been investigating and pursuing the regulatory pathway for the launch of a digital currency exchange in the United States since the beginning of 2018. The Company's planned digital currency exchange under the name "RiotX" is being developed by and is contemplated to be operated through the Company's subsidiary, RiotX Holdings, Inc. ("RiotX Holdings") The Company believes that, by providing a stable and secure platform for the exchange of digital currencies, it will attract significant trading volume, thereby providing the Company with consistent revenue per trade, independent of the price of any one digital currency. The Company intends to launch RiotX for the exchange of bitcoin, bitcoin cash, litecoin, and ethereum (the "Exchanged Currencies") and for exchange of the Exchanged Currencies for U.S. Dollars by the end of the first quarter of 2019. The Company has selected the Exchanged Currencies for exchange on RiotX based on internal and external reviews, and will only include those currencies for which it has obtained regulatory approval.

The Company views its RiotX exchange as being comprised of three core services: (i) Banking Services; (ii) a Trading Engine; and (iii) Digital Wallet Services. The Company intends to provide each of these services by engaging experienced third-party vendors in the industry, which will be reviewed on a case-by-case basis by the Company's management, along with external advisors and legal counsel; ultimately subject to review by the Company's board of directors. The Company plans to only contract with companies that have established track records as industry leaders, which comply with federal, state and local laws, and, if required, are in compliance with U.S. securities law to provide such services. The Company assesses each vendor using a risk management process that evaluates key risk factors related to their performance and their potential impact on the Company, including, without limitation, its capital structure, financial condition and liquidity. The Company has engaged external advisors and legal counsel to review contracts and conduct due diligence related to financial stability and performance and cybersecurity procedures of each vendor. Additionally the Company assesses each vendor as they relate to its regulatory compliance framework needs such as reporting, fraud monitoring, know your customer, anti-money laundering, and data privacy standards to ensure compliance with applicable rules, regulations, and industry best practices.

### *Agreements with Third Party Vendors*

As the Company continues to explore and develop its planned U.S.-based digital currency exchange, it will continue to develop relationships with third party vendors to support the RiotX exchange. As of September 30, 2018, the Company has entered into relationships with two third parties to provide RiotX with these core services.

### (i) Banking Services

As previously reported on the Company's Periodic Report on Form 8-K filed on October 29, 2018, the Company's subsidiary, Logical Brokerage, has entered into a material definitive agreement with Synapse Financial Technologies, Inc. ("SynapseFi"), and its partner, Evolve Bank and Trust, to provide RiotX with banking services and transactional support (the "SynapseFi Agreement"). SynapseFi's proprietary software technologies will provide the RiotX exchange with secure banking services to enable RiotX users to efficiently and securely create accounts to hold, transfer, and deliver exchanged currencies, allowing RiotX users to make deposits and take withdrawals of fiat currencies into and from their RiotX user accounts. SynapseFi is an industry leader in the provision of Application Program Interfaces ("API") to the financial services industry. SynapseFi's APIs provide a secure and stable means of communication between users and financial institutions, while providing security and compliance assurances to financial institutions. Under the terms of the SynapseFi Agreement, SynapseFi will engage Evolve Bancorp, Inc., through its subsidiary, Evolve Bank & Trust (collectively, "Evolve"), or any successor financial institution designated by SynapseFi, to provide Logical with all bank services directly. SynapseFi API will allow Logical to effectively communicate user requests to Evolve, while assisting Evolve with managed risks and compliance concerns associated with the exchange of digital currencies. Pursuant to the terms of the SynapseFi Agreement, Logical has also agreed to submit to periodic security, compliance and risk reviews and audits performed by SynapseFi on behalf of Evolve as a means of ensuring continued compliance and reliability for Evolve, SynapseFi, the Company, and its end users. The SynapseFi agreement is a significant milestone in the development of the planned RiotX exchange.

The SynapseFi Agreement will enable RiotX users to gain access to accredited banking institutions, and it will provide the Company with assurances through its Application Program Interfaces ("API") of the identity and location of RiotX users. The API provided by SynapseFi will enable the Company to track and identify its users in order to prevent fraud and improper use of its RiotX exchange. As the Company has previously disclosed, regulatory compliance has been and continues to be a top priority for its development of RiotX, including complying with territorial restrictions on the exchange of digital currencies. For example, SynapseFi's API will enable the Company to know where the user is when accessing RiotX, thereby enabling the Company to prevent a user from Montana, a state where the exchange of digital currencies is permitted, from traveling to neighboring Wyoming, where the exchange of digital currencies is not permitted, and using RiotX in the prohibited jurisdiction.

### (ii) Trading Engine

On August 31, 2018, the Company signed a Software Licensing and Subscription Services Agreement (the "Coinsquare Agreement") with goNumerical, Ltd. (d/b/a "Coinsquare") to provide the Company with a comprehensive digital currency exchange platform inclusive of a Trading Engine and Digital Wallet Services. Under the Coinsquare Agreement, Coinsquare would have been responsible for the day to day management, hosting, customer support and other operational services provided to RiotX users, and would have been responsible for integration of banking services software into RiotX once a software as service agreement was reached with a third party vendor. In total, the Coinsquare Agreement had an initial cost for the first year in excess of \$1,500,000, an equity grant of 9.9% of the equity interest in RiotX Holdings, and an issuance of 450,000 shares of the Company's common stock to Coinsquare. The Coinsquare Agreement was terminated by mutual agreement of the Company and Coinsquare on September 17, 2018, as reported by the Company on Form 8-K on September 18, 2018, prior to the issuance of the Company's common stock, and all shares of RiotX Holdings were returned by Coinsquare pursuant to the termination. As of the date of the original filing of the Quarterly Report, November 19, 2018, the Company had not reached an agreement with a third party vendor or vendors to replace those services which would have been provided by Coinsquare pursuant to the Coinsquare Agreement, including a Trading Engine.

### (iii) Digital Wallet Services

The Company plans to integrate SynapseFi's banking services technologies and a to-be-determined Digital Wallet Services provider's technology into a licensed Trading Engine in order to complete the development of the RiotX exchange. Digital Wallet Services will provide RiotX exchange users with secured means of storing digital currencies for exchange on RiotX. Digital Wallet Services are a core component of the Company's planned RiotX exchange, and will be integrated into RiotX as soon as a service vendor is selected and an agreement is formalized. Once the Company has consummated an agreement with an appropriate Digital Wallet Services provider, The Company will be in a position to start bringing its RiotX digital currency exchange online in those jurisdictions where it has obtained regulatory approval.

### Project Timeline for RiotX

The Company anticipates launching its RiotX digital currency exchange late in the first quarter of 2019, which is subject to change based on several factors. Once the exchange software is online, the Company plans to offer services in a limited number of states in order to fully validate the performance of the system and debug any potential issues with RiotX. Throughout this time, the Company plans to increase staff levels to support additional users and refine its procedures for compliance, security and general support of RiotX. As the Company obtains the necessary regulatory approval in a given jurisdiction, the Company intends to bring RiotX online in that jurisdiction, with the ultimate goal of bringing RiotX online in all 50 states except Hawaii and Wyoming by the end of 2019. The regulatory hurdles faced by the Company, and its progress in this regard, is discussed in greater detail under the section titled "*Regulatory Framework of RiotX*", below. Management believes this timeline is achievable, but, in light of difficulties in obtaining regulatory approval, reaching software as service

agreements with third party vendors, and capital restrictions affecting the Company, this timeline may be delayed.

Reaching software service agreements with third party vendors for the RiotX exchange has presented a delay for the Company's development of the RiotX exchange. Termination of the Coinsquare Agreement requires the Company to replace Coinsquare with another provider (or providers) that would fulfill various technology components (such as the Trade Matching Engine and Digital Wallet Service for RiotX) as well as customer support and management services, all of which were to be handled by Coinsquare staff under the original Coinsquare Agreement. In addition to allocating its own personnel and resources to handling the customer service and troubleshooting aspects of the RiotX exchange which would have been handled by Coinsquare under the Coinsquare Agreement, the Company must integrate the services provided by third party vendors into the RiotX exchange to provide the Company with the necessary services for the development and operation of its planned exchange.

The timeline to launch the RiotX exchange will depend on several factors including, but not limited to: performance of the Company and its ability to finance its deployment; the federal and state regulatory landscape; the ability of the Company to secure proper licensing in each state in which it intends to operate; the Company's technology implementation schedule; and the Company's ability to raise capital to continue funding the development of the RiotX exchange. Any delay in these factors, as well as additional unforeseen or unforeseeable factors, may result in the delay of the launch of the RiotX exchange platform.

#### *Cost of Development and Operation of RiotX*

The Company estimates the initial development costs of launching the RiotX exchange inclusive of software development, license applications, legal fees, and general overhead should not exceed \$250,000 prior to the anticipated launch by the end of the first quarter of 2019. This estimate is based on current projections, and is subject to change as factors, such as protracted legal costs, affect the cost of development of the RiotX exchange. Once operational, the RiotX exchange budget for the 2019, inclusive of the contract costs of the SynapseFi agreement, as well as the to-be-determined Digital Wallet Services provider and Trading Engine Service provider, employee, utility, regulatory, and legal costs, is not anticipated to exceed \$2,000,000 per year. Factors such as rapid growth, changes in the regulatory landscape, and changes in our business plan could have a material adverse effect on these estimates, and, as such, these costs are subject to change over time. You should not assume that the estimates disclosed under this subheading of this prospectus are accurate on any date subsequent to the date set forth on the front of this prospectus. You should also not assume that any information we have incorporated by reference is correct on any date subsequent to the date of the document incorporated by reference, even though this prospectus, any applicable prospectus supplement or any related free writing prospectus is delivered, or securities are sold, on a later date.

#### *Regulatory Framework of RiotX*

As of the date of this prospectus, RiotX is licensed and/or approved in five states and has pending licenses in another 17 states, with review in another two states. The Company plans to be operational in 24 states by the launch date of RiotX by the end of the first quarter of 2019. However, management continues to work towards the long-term goal of obtaining regulatory approval of the RiotX exchange in all 50 U.S. states, with the exception of Hawaii and Wyoming, by the end of 2019; which timeline is subject to delays caused by regulatory review, market forces, and other factors outside of the Company's control.

In furtherance of its plan for regulatory compliance, the Company's purchase of 92.5% of Logical Brokerage Corp. ("Logical Brokerage"), which is an introducing broker registered with the Commodities Futures Trading Commission and the National Futures Administration, was completed in March of 2018. The Company subsequently obtained a Money Services Business License from FinCEN in May of 2018. The Company then obtained a Money Transmitter License from the State of Florida for RiotX in June of 2018. In October Logical Brokerage and RiotX were approved for application in a consortium of 17 states for fast track approval for Money Transmitter Licenses. We expect to receive these licenses in the first quarter of 2019. In December of 2018, RiotX obtained a Sellers-Issuers of Payment Instruments and Money Transmitter License from the State of Georgia and is actively pursuing additional state Money Transmitter Licenses. Additionally, RiotX, through Logical Brokerage, is a licensed futures introducing broker registered with the Commodity Futures Trading Commission and is a member of the National Futures Association. RiotX is licensed with FinCEN as a Money Service Business. These additional licenses may permit the Company to explore additional exchange developments in the future.

Throughout 2019, the Company plans to pursue additional money transmitter licenses in the United States for RiotX, as well as a New York State Bitlicense, which will license the RiotX exchange to engage in cryptocurrency business in New York. The New York State Bitlicense is seen as a benchmark license in the cryptocurrency business, and has traditionally been difficult to obtain. In the Third and Fourth Quarter of 2018, however, New York State regulators have increased the number of New York State Bitlicenses issued, and have done so at a greater frequency than in previous quarters. While management does not believe this bears any indication on its own application, management believes this movement indicates increasing action by New York State regulators to grant state licenses. The Company may not, however, ever succeed in obtaining a New York State Bitlicense for RiotX, and RiotX may therefore never obtain regulatory approval to conduct cryptocurrency business in New York. This lack of regulatory approval in one of the largest and most economically important states in the United States could have a detrimental effect on the planned RiotX exchange, which may have a material negative impact on our business operations.

#### *Business Risks Associated with RiotX*

The Company has devoted significant resources to the development of the planned RiotX exchange and the Company may lose most or all of its investment if RiotX fails. If the Company faces significant delays in the deployment of RiotX, or if the

development costs of RiotX become unbearable, the Company may have to reduce or even halt its efforts to develop and deploy RiotX. If the Company is unsuccessful in the deployment of RiotX, it may lose most or all of the capital it has invested into its planned exchange. Additionally, if RiotX is not adopted by users, it may never gain traction in the market and become viable long-term. These risks to the deployment and adoption of RiotX pose significant risks to the capital the Company has invested in RiotX and the Company may be unable to sustain the short- and long-term costs associated with the development and operation of RiotX.

## Results of Operations

### Comparative Results for the Three Months Ended September 30, 2018 and 2017

Comparative results for the three months ended September 30, 2018 and 2017 are not indicative of the actual performance of the Company's cryptocurrency business. The Company's results for the three months ended September 30, 2017, do not reflect any cryptocurrency related operations, because the Company did not determine to pursue our new strategy until the third quarter of 2017. Rather, during early 2017, the Company was conducting the now discontinued operation of BDI, a wholly-owned subsidiary of the Company. BDI had developed a proprietary Enhanced Surface Plasmon Resonance technology platform for the detection of molecular interactions. Further, because the operations of BDI are considered a discontinued operation and BDI's results are not reflected in the revenues and expenses explained below for the periods ended September 30, 2018 or 2017.

Revenue for the three months ended September 30, 2018 and 2017, consisted of our cryptocurrency mining revenue of \$2,343,000, and \$0, respectively, and other revenue consisting of amortization of license payments of \$24,000 in each period.

Cost of revenue for the three months ended September 30, 2018 of \$2,032,000 consisted primarily of direct production costs of the mining operations, including rent and utilities, but excluding depreciation and amortization which are separately stated. There was no cost of revenue recognized during the period ended September 30, 2017.

Selling, general and administrative expenses in the three months ended September 30, 2018 totaled \$5,970,000, which is approximately \$5,374,000, or a 900% increase, as compared to \$597,000 in the 2017 period, when only limited operations were occurring. Stock compensation increased by approximately \$1,547,000 for the three months ended September 30, 2018 as compared to the 2017 period. Consulting fees increased by approximately \$1,036,000 for services related to our cryptocurrency machines. Investor, public relations and public company expenses increased by approximately \$149,000 related to expanded public company activities in the 2018 period. Legal fees increased approximately \$1,345,000, due to legal matters associated with the increased level of regulatory matters, litigation and general corporate activities, in the 2018 period. Selling, general and administrative expenses increased by approximately \$898,000 in the three months ended September 30, 2018, due primarily to expenses incurred by subsidiaries acquired or formed subsequent to September 30, 2017.

Depreciation and amortization expense totaled \$658,000 in the three months ended September 30, 2018 as compared to \$18,000 in the 2017 period, an increase of \$640,000. The increase was due to the depreciation associated with the assets acquired after September 30, 2017, for the cryptocurrency mining operations.

Interest expense for the three months ended September 30, 2018, decreased to approximately \$22,000 compared to approximately \$4,773,000 in the 2017 period. For the three months ended September 30, 2018, the Company recorded a loss of \$266,000 related to the computed value of the modification of the BMSS deferred purchase price which was recorded as a loss on extinguishment of debt. For the three months ended September 30, 2018, the Company recorded investment income of approximately \$1,000 compared to investment income of approximately \$31,000 in the comparable 2017 period, generally due to a lower level of average outstanding interest-bearing debt. For the three months ended September 30, 2018, the Company recorded a gain on sale of digital currencies of approximately \$218,000.

Other expenses for the three months ended September 30, 2018 of \$1,800 represents the penalty accrual related to our registration rights agreement associated with our December 19, 2017 private placement. The agreement provided that the Company register our securities by the effectiveness date of March 5, 2018. The registration rights were not registered by the effectiveness date and the Company recognized a contingency.

No income tax benefit was recognized for the three months ended September 30, 2018 and 2017.

## **Comparative Results for the Nine Months Ended September 30, 2018 and 2017**

Revenue for the nine months ended September 30, 2018 and 2017, consisted of our cryptocurrency mining revenue of \$6,087,000, and \$0, respectively, and other revenue consisting of license payments of approximately \$73,000 in each period.

Cost of revenue for the nine months ended September 30, 2018 of \$3,933,000 consisted primarily of direct production costs of the mining operations, including rent and utilities, but excluding depreciation and amortization which are separately stated. There was no cost of revenue recognized during the period ended September 30, 2017.

Selling, general and administrative expenses in the nine months ended September 30, 2018 totaled \$16,299,000, which is approximately \$13,608,000, or a 506% increase, as compared to \$2,691,000 in the 2017 period. Stock compensation increased by approximately \$3,768,000 for the nine months ended September 30, 2018 as compared to the 2017 period relating to additional awards in 2018. Consulting fees increased by approximately \$2,466,000 for services related to our cryptocurrency machines. Investor, public relations and public company expenses increased by approximately \$1,112,000 related to expanded public company activities in the 2018 period. Legal fees increased by approximately \$2,981,000 due to legal matters associated with the increased regulatory matters, litigation and general level of corporate activities in the 2018 period. Audit and related professional fees increased by approximately \$168,000 due primarily increased level of operations and acquisitions and other reporting matters. Compensation related expense increased by approximately \$428,000 due primarily to increased payroll related to the Company's additional hiring activities in late 2017 and early 2018. Selling, general and administrative expenses increased by approximately \$1,917,000 in the nine months ended September 30, 2018, due to expenses incurred by subsidiaries acquired or formed subsequent to September 30, 2017.

Research and development expenses in the nine months ended September 30, 2018 totaled \$15,000, which is approximately a \$5,000 decrease as compared to the 2017 period. This change resulted from normal period to period fluctuations in the animal health business expenses.

Depreciation and amortization expense totaled \$5,685,000 in the nine months ended September 30, 2018 as compared to \$56,000 in the 2017 period, an increase of \$5,630,000. The increase was due to the depreciation associated with the assets acquired after September 30, 2017, for the cryptocurrency mining operations.

Asset impairment charges of \$26,858,000 were recognized for the nine months ended September 30, 2018 to record impairments of our cryptocurrency miners. There were no impairment charges recognized for the nine months ended September 30, 2017.

Interest expense for the nine months ended September 30, 2018, decreased to \$38,000 compared to \$4,802,000 in the 2017 period. The 2017 interest expense included the expenses recognized based on accretion of values allocated to the value of the warrants and the beneficial conversion feature computed upon the release of the securities from escrow in 2017. For the nine months ended September 30, 2018, the Company recorded a loss of \$266,000 related to the computed value of the modification of the BMSS deferred purchase price which was recorded as a loss on extinguishment of debt. For the nine months ended September 30, 2018, the Company recorded investment income of approximately \$70,000 compared to investment income of \$83,000 in the 2017 period, generally due to a lower level of average outstanding interest-bearing debt. For the nine months ended September 30, 2018, the Company recorded a gain on sale of digital currencies of approximately \$451,000.

Other expenses for the nine months ended September 30, 2018 of \$1,359,000 represents the penalty accrual related to our registration rights agreement associated with our December 19, 2017 private placement. The agreement provided that the Company register our securities by the effectiveness date of March 5, 2018. The registration rights were not registered by the effectiveness date and the Company recognized a contingency.

Income tax benefit for the nine months ended September 30, 2018 of \$3,525,000 as compared to no income tax benefit recognized for the nine months ended September 30, 2017.

## **Liquidity and Capital Resources**

The Company has experienced recurring losses and negative cash flows from operations. We expect to continue to incur losses from operations for the near-term and these losses could be significant as we incur costs and expenses associated with recent and potential future acquisitions and development of the RiotX exchange platform, as well as public company, legal and administrative-related expenses being incurred. We are closely monitoring our cash balances, cash needs and expense levels.

As of September 30, 2018, the Company had approximate balances of cash and cash equivalents of \$1,607,000, a working capital deficit of \$1,178,000, total stockholders' equity of \$16,532,000 and an accumulated deficit of \$185,796,000. To date, the Company has in large part relied on debt and equity financing to fund its operations. As of September 30, 2018, the Company has been closely monitoring its cash and cash equivalents and has reduced its operating expenses, as needed, in order to continue to execute the Company's strategy. Management believes that the Company will require additional capital to meet its obligations arising from normal business operations for the next twelve months. Without additional capital, the Company's ability to continue to operate as a going concern will be limited. If unable to obtain adequate capital, the Company

could be forced to reduce or cease its operations. The Company is currently pursuing capital transactions in the form of debt and equity; however, management cannot provide any assurance that we will be successful in its plans.

Cash flow from our operations relies substantially on our ability to continue to mine digital currencies and the conversion spot price at which our digital currencies are exchangeable for U.S. Dollars. We expect to generate ongoing revenues from the production of digital currencies, primarily bitcoins, in our Oklahoma City digital currency mining facility. Our ability to liquidate bitcoins at future values above the cost of production of bitcoins will affect our ability to generate positive cash flow from operations. However, our primary variable expense associated with our digital currency mining operation is the electricity expense of operating our Oklahoma City facility. Accordingly, the revenue from our digital currency mining operation is a function of the conversion spot price of bitcoin to U.S. Dollars over our electricity and other variable costs associated with operating our digital currency mining facility.

As of September 30, 2018, the trading spot price of bitcoin, our primary digital currency asset, has significantly declined from its highest conversion spot price in 2018. Management has determined that a conversion spot price for bitcoin of \$3,000 per bitcoin is the lowest acceptable “floor price” at which continued peak operation of the mine comports with the Company’s short- and long-term strategies. At a conversion spot price at or below \$3,000 per bitcoin, the ratio of revenue generated to operating costs from our digital currency mining operation is not supportable based on current internal projections. Should the spot price of bitcoin fall below \$3,000 per bitcoin, management may reduce or completely deactivate its digital currency miners as a cost-saving measure. Management could substantially reduce or cease the Company’s digital currency mining activities until such a time as bitcoin begins to trade at a more advantageous conversion spot price against the U.S. Dollar, at which point the Company could immediately re-initiate its miners and resume bitcoin production from its digital currency mining facility.

If the spot price of bitcoin were to consistently trade at or below \$3,000 per bitcoin and management were to successfully reduce or eliminate its variable operating expenses associated with its digital currency mining operation, sell certain of its salable assets at prices below fair market value, reduce payroll and delay the launch of its RiotX exchange, management believes that the Company can continue as a going concern for at least three months. This estimate is based on current internal projections of the Company’s expenses, and does not account for unforeseen or unforeseeable costs such as additional legal or regulatory expenses which the Company cannot reasonably predict. If such isolated or continuing unpredictable costs occur, the Company’s predictions could change materially.

The Company does not, at present, anticipate initiating these cost mitigation efforts, but is prepared to do so should access to capital markets not materialize in the short-term. Cutting its core digital currency mining operations, reducing its payroll, and delaying the development and launch of its RiotX exchange platform may have a material negative impact on the trading price of our common stock, and our shareholders may lose part or all of their investment. Management believes, however, that continued decline in the conversion price of bitcoin to U.S. Dollars may reduce cash flow to the extent that the Company is forced to engage in these cost-saving measures in order to continue as a going concern.

Additionally, even if the present trend of the decline in the conversion price of bitcoin to U.S. Dollars reverses and the Company is able to convert its digital currency assets to U.S. Dollars at a more advantageous price, the Company will need to raise additional capital to continue its operations and pursue its strategies, including the development of RiotX, and the need to respond to competitive pressures or unanticipated working capital requirements. The Company may not be able to obtain additional debt or equity financing on favorable terms, if at all, which could impair our growth and adversely affect our existing operations. If the Company raises additional equity financing, the Company’s shareholders may experience significant dilution of their ownership interests, and the value per share of the Company’s common stock could decline. Furthermore, if the Company engages in additional debt financing, the holders of debt would have priority over the holders of common stock, and the Company may be required to accept terms that restrict its ability to incur additional indebtedness and take other actions that would otherwise possibly not be in the interests of the Company’s shareholders, forcing it to maintain specified liquidity or other ratios.

## **Operating Activities**

Net cash used in operating activities was \$15,965,000, consisting of \$15,986,000 from continuing operations and \$69,000 from discontinued operations during the nine months ended September 30, 2018. Cash was consumed from continuing operations by the loss of \$47,526,000, less non-cash items of \$36,560,000 consisting of an asset impairment for the Company's miners of \$26,858,000, impairment of our digital currencies of \$3,143,000, depreciation and amortization totaling \$5,686,000, stock-based compensation totaling \$4,147,000, and other non-cash charges totaling \$92,000, net of deferred income tax benefit of \$3,375,000 and amortization of license fee revenue totaling \$73,000, stock issued for the extinguishment of the BMSS payable of \$266,000 and common stock issued for services totaling \$278,000. Prepaid contracts increased \$1,585,000 due to the advance consulting payment made to Ingenium, for future services associated with the set-up of the new mining facility and its operations and other services, digital currencies increased \$6,087,000, accounts payable and accrued expenses increased \$4,255,000 related to the significant expansion of the Company's operating activities in 2018, offset by a slight decrease in prepaid and other current assets.

Net cash consumed by operating activities was \$3,164,000, consisting of \$2,234,000 from continuing operations and \$930,000 from discontinued operations during the nine months ended September 30, 2017. Cash was consumed from continuing operations by the loss of \$7,404,000, less non-cash items of \$5,113,000 in non-cash items consisting of amortization of debt discount to interest of \$4,750,000, stock-based compensation totaling \$380,000, depreciation and amortization totaling \$56,000, net of amortization of license fees totaling \$73,000. Decreases in prepaid and other current assets of \$192,000 provided cash, primarily related to reductions in operating activities. There was a net \$135,000 decrease in accounts payable and accrued expenses in the nine months ended September 30, 2017, primarily due to reductions in operating activities and the payment of 2016 litigation settlement accrual in early 2017.

## **Investing Activities**

Net cash used in investing activities during the nine months ended September 30, 2018 was \$26,860,000 primarily consisting of purchases of digital currencies of \$5,723,000, purchases of property and equipment of \$20,311,000 related to the Company's cryptocurrency miners, an additional investment in Coinsquare of \$6,413,000, security deposits of \$703,000, purchases of patent and trademark application costs of \$33,000, an investment in Logical Brokerage of \$517,000 and a purchase of developed technology of \$531,000, offset by proceeds from the sale of digital currencies of \$7,371,000.

Net cash inflows from investing activities provided cash of \$4,497,000, consisting of \$4,493,000 from continuing operations and a cash inflow of \$4,000 from discontinued operations during the nine months ended September 30, 2017. Sales of marketable securities investments totaling approximately \$7,507,000 provided cash. Cash of \$3,000,000 was used in the Coinsquare investment. A \$14,000 use of cash was attributable to additional costs incurred from patent filings.

## **Financing Activities**

Net cash provided by financing activities was \$2,780,000 during the nine months ended September 30, 2018, primarily consisting of \$1,696,000 of proceeds from a convertible demand note issued by 1172767, \$350,000 from the exercise of warrants, \$506,000 from the sale of the Company's shares of common stock held by 1172767, \$220,000 from the sale of common shares by 1172767, \$79,000 from the exercise of stock options and \$64,000 from a refund of previously escrowed dividend, offset by \$136,000 used in scheduled payments under debt agreements.

Net cash inflows from financing activities provided \$6,277,000 from continuing operations, during the nine months ended September 30, 2017 consisting of net proceeds of \$4,750,000 from convertible notes payable, \$2,012,000 from the sale of common stock and exercise of warrants and options, net of \$193,000 in scheduled payments under debt agreements, and \$292,000 consumed from the redemption of equity rights payments.

## **Critical Accounting Policies and Significant Judgments and Estimates**

Our critical accounting policies and significant estimates are detailed in our 2017 Annual Report. Our critical accounting policies and significant estimates have not changed from those previously disclosed in our 2017 Annual Report, except for those accounting subjects mentioned in the section of the notes to the condensed interim consolidated financial statements titled Adoption of Recent Accounting Pronouncements.

### ***Recently issued and adopted accounting pronouncements***

The Company has evaluated all recently issued accounting pronouncements and believes such pronouncements do not have a material effect on the Company's financial statements. See Note 2 of the condensed interim consolidated financial statements at September 30, 2018.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not required for a smaller reporting company.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported accurately and within the time frames specified in the SEC's rules and forms and accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### **Changes in Internal Control Over Financial Reporting**

There was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Inherent Limitations on the Effectiveness of Controls**

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies and procedures.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

Disclosure under this Item is incorporated by reference to the disclosure provided in this report under Part I, Item 1., Financial Statements in Note 12., contingencies.

### **Item 1A. Risk Factors**

Other than the risk factors set forth below, there are no material changes from the risk factors previously disclosed in Part I – Item 1A – “Risk Factors” of our Annual Report on Form 10-K, as amended on Form 10-K/A, for the year ended December 31, 2017, as well as in Part II – Other Information – Item 1A – “Risk Factors” of our Quarterly Reports on Form 10-Q for the periods ended March 31, 2018 and June 30, 2018.

#### ***Our Planned Launch of a U.S.-Based Digital Currency Exchange May Result in Significant Compliance Costs.***

The Company plans to offer US dollar trading markets for approved digital currencies through its subsidiary, Logical Brokerage Corp, d/b/a RiotX. Currently, the Company anticipates that bitcoin, bitcoin cash, litecoin, and ethereum will be available for exchange on its RiotX platform. Current guidance regarding the treatment of digital currencies is generally unavailable. The Company has previously relied on statements of the former SEC Chairman John Clayton that bitcoin is not a security, as well as other guidance that would indicate that ethereum is not a security in the development of its digital currency exchange. The Company currently does not believe that the digital currencies to be made available on the RiotX platform, would meet the definition of securities, as laid out by the Securities Exchange Act of 1933, as amended. The Company will evaluate new digital currencies for potential addition (or removal from) to the platform on a case-by-case basis depending on certain factors regarding the digital currencies, including whether a given digital currency may be classified as a security. Classification of digital currencies or a given digital currency may result in the classification of RiotX as a securities exchange. Securities exchanges are heavily regulated by the SEC and such a classification would significantly increase the Company’s cost of compliance associated with its planned exchange, which would have a material adverse effect on the Company’s business operations and financial condition.

To mitigate this risk, the Company has initiated and is continually updating its review process, which incorporates an internal selection committee that will conduct a risk assessment of all existing and any new digital currencies considered for exchange on its platform, RiotX. The Company’s risk assessment includes considerations of key factors such as: security, source code transparency, governance, scalability, liquidity, compliance with US securities law, market supply and demand, and standards compliance. The review also incorporates an external review by external advisors and legal counsel, who will evaluate each digital currency with regard to the latest rules, guidance, and regulations promulgated by the SEC and other governmental and quasi-governmental bodies. Once a digital currency has been reviewed, the Company’s management team will make the final determination whether to permit the exchange of the currency on RiotX based on the contemporaneous financial, risk, and business factors applicable to the Company.

Although the Company believes that the digital currencies currently contemplated for exchange on its planned platform including, bitcoin, bitcoin cash, litecoin, and ethereum, do not meet the definition of securities, the possibility remains that a given digital currency or digital currencies may be classified as securities by the SEC. Furthermore, although the Company believes it has developed a detailed review process to prevent the classification of its planned exchange as a securities exchange, the possibility remains that such exchange could be classified as a securities exchange by the SEC. Either of these two events would have a substantial impact on the Company’s financial and business operations. In either event, the Company would need to evaluate whether to continue to permit the exchange of such digital currencies classified as securities on its platform, RiotX, or whether such compliance costs would be too significant, thereby forcing the Company to not pursue its planned exchange or discontinue the operation of such an exchange. The resulting harm to the Company’s business, cash flow, and the market price of its securities could be substantial, and the Company’s financial position would be harmed by such an event.

#### ***Our Company May be Classified as an Investment Company, Resulting in Significant Compliance Costs.***

Generally, companies that hold themselves out as being primarily engaged in the business of “investing, reinvesting, or trading in securities” will be considered “investment companies” as defined under Section 3(a) of the Investment Company Act of 1940 (the “ICA”). Alternatively, a company may, inadvertently, be considered an “investment company” under Section 3(a) of the ICA if it acquires investment securities and the value of all such investment securities exceeds 40% of the value of the company’s total assets, excluding any government securities and cash items, on an unconsolidated basis. For the purposes of calculating the value of investment securities, Section 3(a)(2) of the ICA includes the value of minority-owned investments but excludes the value of majority-owned subsidiaries of a company. However, Section 3(b)(1) of the ICA may exclude a company from the definition of being an investment company even if such company exceeds the 40% threshold, if such company is primarily engaged in a business other than investing, reinvesting, holding or trading securities.



The Company believes that is not an investment company as defined under the ICA given the Company's primary focus on bitcoin and general Blockchain technology and not on investing, reinvesting, holding or trading securities, or otherwise holding itself out as doing such activities. The Company believes this is demonstrated by, among other things, (i) the Company's continuous and ongoing business operations in bitcoin mining, and (ii) the Company's active pursuit of new opportunities in the Blockchain ecosystem, mainly developing a digital currency exchange in the United States.

The Company's majority-owned subsidiaries includes (i) 52% of the voting shares in 1172767 B.C. Ltd (formally know as Tess Inc.) which is developing Tesspay and other Blockchain solutions for telecommunications companies, and (ii) 100% of the voting shares of Kairos which owned computer equipment and other assets used for the mining of digital currencies, each of which the Company views as being a majority-owned subsidiary of the Company. The Company believes that 1172767 and Kairos as majority-owned subsidiaries of the Company are excluded from the 40% limit under the ICA and demonstrates the Company's present intention to continue being an active participate in the Blockchain ecosystem.

The Company's minority-owned investments includes (i) acquiring approximately 12.97% of goNumerical Ltd., (d/b/a "Coinsquare"), which operates a leading Canadian exchange for purchasing and selling digital currencies, and (ii) investing \$200,000 in a convertible note of Verady, LLC ("Verady"), which seeks to provide accounting, audit and verification services for Blockchain based assets such as digital currencies. The Company values its Coinsquare investment based on its acquisition cost and since Coinsquare is a privately held company, the actual market value upon a sale of some (or all) of such minority-owned investment, if any, may differ significantly. The investment in Verady is considered a *de minimis* investment.

The Company intends to closely monitor its activities, including its ratio of total assets to investment securities, if any, to avoid being considered an investment company under the ICA. If the Company determines that such 40% limit is being approached or maybe triggered under the ICA, the Company may decide to sell some (or all) of its minority-owned investments to avoid being considered an investment company under the ICA or increase the Company's ratios by selling bitcoin or other assets. Although the Company believes it is not an investment company under the ICA, being considered an investment company would have a substantial impact on the Company's financial and business operations. Further discussion involving the ICA's impact on the Company's financial and operations is disclosed in the Company's most recent 2017 Form 10-K/A filed on June 29, 2018 under Item 1.A – "Risk Factors." The Company intends to comply with the ICA in all respects.

***Our Relationships with Third Party Vendors in the Development of Our Planned U.S.-Based Digital Currencies Exchange may Expose us to Additional Regulatory Risks and Counterparty Risk.***

The Company is reviewing third party vendors to develop the anticipated services offered by its RiotX platform. The Company views RiotX as being comprised of three core services: (i) Banking Services; (ii) a Trading Engine; and (iii) Digital Wallet Services. The Company intends to provide each of these services by engaging experienced third-party vendors in the industry, which will be reviewed on a case-by-case basis by the Company's management, along with external advisors and legal counsel, subject to review by the Company's Board of Directors. The Company plans to only contract with companies that have established track records as industry leaders, which comply with federal, state and local laws, and, if required are in compliance with U.S. securities law to provide such services. The Company assesses each vendor using a risk management process that evaluates key risk factors related to their performance and their potential impact on the Company, including, without limitation, its capital structure, financial condition, and liquidity. The Company has engaged external advisors and legal counsel to review all contracts and conduct due diligence related to financial stability and performance, and cybersecurity procedures. Additionally, the Company assesses each vendor as they relate to our regulatory compliance framework needs such as reporting, fraud monitoring, "know your customer," anti-money laundering, and data privacy standards.

Presently, the Company has entered the Synapse Agreement to provide banking services to the RiotX exchange. The Company conducted extensive internal and external vetting of SynapseFi, prior to entering into the agreement as reported in its Current Report on Form 8-K filed on October 29, 2018. The Company is presently evaluating potential agreements with other vendors to provide the contemplated Digital Wallet Services and Trading Engine Services for the RiotX exchange.

Although the Company believes its review and vetting process for third party vendors is sufficiently well-engineered to mitigate known business risks and association with companies under investigation or examination, the possibility exists that one of the Company's third-party vendors may come under enhanced SEC scrutiny or regulatory review. Should such an event occur, the Company may need to terminate its relationship with such third-party vendor, however, it may be difficult to find a substitute third party vendor, which may have a substantial impact on the Company's financial and business operations. The decision to continue or terminate a relationship with one of the Company's third-party vendors will be reviewed on a case-by-case basis and could result in significant compliance costs.

***Our Ability to Monitor and Control where our Platform is Accessed by Users may be Insufficient to Prevent All Unauthorized Use.***

The Company, along with external advisors and legal counsel, continually monitors the changing landscape of laws and regulations regarding the exchange of digital currencies and is aware of the present restrictions and prohibitions against such exchanges as they apply to residents of Wyoming and Hawaii. The Company, through RiotX, anticipates having the ability to track customers and trade volumes by state based on each individual user's IP address. Furthermore, through the SynapseFi Agreement, RiotX will be able to use SynapseFi's proprietary application programming interfaces ("API") to continually test the use of RiotX according to specifically designed rules and programs. This review process incorporates state-by-state regulations regarding the exchange of digital currencies and thus, transactions on RiotX will be continuously monitored, tracked, and analyzed for compliance. As disclosed in its Current Report on Form 8-K filed on October 29, 2018, the banking services provided to RiotX by SynapseFi will be through SynapseFi's parent company, Evolve Bank. The Company, together with its third-party service provider, SynapseFi, will make every effort to ensure that proper rules and procedures for the qualification of new accounts, the subsequent monitoring of the accounts, and "know your customer" checks are conducted with regularity and in compliance with all rules, guidance, and best practices in the banking services industry. Consequently, potential customers from states that either prohibit digital currency trading or which have not yet been licensed by RiotX, will not be permitted to register and use the RiotX exchange. Further, the Company plans to prevent intentional or unintentional unauthorized use by cross-checking each customer's residence on the SynapseFi banking services account application against the SynapseFi API data obtained for such user. By continually tracking and monitoring RiotX users through SynapseFi, the Company expects to be able to prevent unauthorized use through such API's rules and programs. Although the Company has or intends to take these steps to prevent unauthorized use of RiotX, the possibility exists that such unauthorized use may still occur through sophisticated illicit means. Such unauthorized use may result in compliance or regulatory enforcement actions being initiated against the Company, which may cause the Company to incur significant costs or ultimately discontinue its planned exchange. Such an event would have a substantial effect on the Company's business and financial operations.

***The Online Nature of Our Company's Operations Exposes the Company to Additional Cybersecurity Risks.***

The Company is heavily engaged in Blockchain mining and the development of a planned digital currency exchange, all of which are inherently dependent on and exposed to the internet. Accordingly, hacking and unauthorized access to the Company's internal systems poses a substantial threat. The Company, through its platform, RiotX, anticipates the use of multiple digital wallets to secure customer assets. These digital wallets will have policy controls that require multiple approvals, spending limits and whitelists for transactions. The Company's digital wallet provider is anticipated to also support multi-signature, three-key management which removes any single point of failure and advanced security configurations ensure that assets are secure as they move in and out of the digital wallet. By employing multiple independent digital wallets, the Company plans to implement several fail safes against a potential breach, such as; assets in a given wallet are completely segregated from assets in another wallet, except for access by the authorized user(s). Furthermore, the Company is presently in discussions with third party providers for custodial services of customer assets exchanged on its planned RiotX digital currency exchange. The Company will have a qualified third-party custodian to secure customer digital assets in keeping with industry rules and best practices. No system is totally secure and even the most sophisticated systems face the risk of unauthorized access and asset seizure. Digital currency keys which provide access to digital wallets and the digital currencies contained therein, are the most likely and vital assets for an attack, and the Company has taken or plans to take appropriate action to abrogate such risk as much as possible. An unauthorized user with access to the Company's digital keys could conceivably transfer all of the Company's digital currency assets and the Company would have limited ability to recover such stolen assets. To protect against this risk, the Company intends to employ a 95% "cold storage" policy for all digital currencies exchanged on RiotX. Cold Storage assets are air-gapped to the internet providing an additional layer of security, meaning that a potential unauthorized online penetration of RiotX or its vendors would not be able to impact the offline digital currency keys. Despite these safeguards, there is still risk of loss or theft of digital currencies or access to the planned exchange due to the prevalence of ransomware, DDOS, and other malware/hacking attacks which pervade the internet. A successful hacking operation of the Company or its planned exchange could result in substantial impacts on the financial and business operations of the Company.

***Our Planned Operation of a U.S.-Based Digital Currency Exchange May Cause the Company to Incur Substantial Fixed and Variable Costs which may Expose the Company to Additional Risks.***

The Company's planned RiotX digital currency exchange will have fixed and variable costs from both third-party vendors servicing the exchange, and from its internal costs incurred by operation of the exchange itself. As previously disclosed on the Company's Current Report on Form 8-K filed on October 29, 2018, the Company entered into an agreement with Synapse to provide the banking services framework to support the exchange. The Company will incur a monthly fixed cost for SynapseFI's base services and a per deposit / withdrawal transaction fee that is variable based on volume. Fixed and variable costs are factored into the Company's financial model for developing the RiotX exchange. The Company does not anticipate that the fixed costs of the SynapseFi agreement and other similar agreements to have a material impact on the Company's liquidity, however, the Company will continually monitor this assessment in light of the volatility of the market for digital currencies. Classification of the Company's digital currency assets as securities may result in significant increases in compliance costs which may have a material adverse effect on the Company's liquidity and financial condition. This risk, when considered along with the volatility in the market price for most digital currencies, may impair the Company's ability to fund its fixed and variable costs, which would have a substantial impact on the Company's financial and business operations. If such costs are deemed to be financially incompatible with the Company's business, this may cause the Company incur significant costs or ultimately discontinue its planned operation the exchange, which would have a substantial impact on the financial and

business operations of the Company.

***Development of the RiotX Exchange is Dependent on our Ability to access the Capital Markets.***

The Company's transition into the Blockchain industry poses many risks and requires substantial capital investment. The Company's bitcoin mining operations require significant investment in equipment and power costs. Such costs are generally predictable, but the profitability of the Company's mining operations is tied to the market price of bitcoin, which varies widely and with great rapidity. Furthermore, the Company's planned development and operation of a U.S.-based digital currency exchange involves development, fixed and variable costs, some of which may be significant. The Company's operations have focused on these two sectors exclusively to allow the Company to concentrate its resources to the operations which it believes stand the greatest chance of commercial success. Finally, throughout its history the Company has consistently operated at a loss and has a substantial accumulated deficit. If the Company is unable to successfully gain access to funding in the capital markets or other sources or access the capital at favorable rates, the Company may be unable to continue financing the development of the exchange.

***Regulatory action against existing bitcoin and other digital currency exchanges may have a detrimental effect on the acceptance and widespread use of our planned digital currency exchange, RiotX.***

In recent years, a number of bitcoin exchanges have been closed by governmental regulatory action due to alleged fraud and security breaches. Some investors were not compensated for the loss of their account balances on these exchanges. While our planned exchange is being developed to be licensed by the appropriate U.S. governmental and quasi-governmental regulatory authorities prior to launch, its planned scope will make it a desirable target for malware, DDoS, and other hacking attacks, which could lead to regulatory backlash against RiotX. The Company is working with its regulators to ensure alignment with standards set for business in the same sector for compliance, fraud prevention, and cybersecurity. The Company cannot, however, predict or prevent all future threats and acknowledges that digital currency exchanges are possibly exposed to the following risks: denial of service attacks, account takeover attempts, software exploits due to vulnerabilities and flaws, potential misdirection of funds and assets, phishing, natural disasters, human error, insider threats and other factors that can render the exchange of digital currency untrustworthy.

Additionally, international action against bitcoin exchanges has been harsh; China has moved to shut down all digital currency exchanges operating within its borders. Until such action was announced, mainland China and Hong Kong were responsible for a majority of global digital currency transactions. We are aware of the threat posed by governmental and quasi-governmental regulators to the short and long-term success of RiotX, and we have taken steps to mitigate these risks by working closely with U.S. and state regulators to obtain all proper licenses and approvals prior to the launch of RiotX. The Company cannot mitigate against, or even fully anticipate, all regulatory actions which may be taken against it or the digital currency sector as a whole in the future, and such risks pose a threat to the success of our business operations. Further, the Company's efforts to mitigate against hacking attacks are necessarily limited by the present knowledge of various malware designs and other hacking methods; the remains the possibility that future unforeseeable hacking techniques could harm RiotX. Furthermore, occurrence of these hacking attacks may trigger regulatory backlash, which could temporarily suspend or even shut down operation of RiotX. We believe such regulatory actions will be less common in the future as digital currencies continue to gain acceptance, however, such enforcement actions presently pose a risk to the value of our planned exchange, RiotX, and to the trading price of our common stock. Should any of these risk factors (or other unforeseen risk factors) occur, the Company may suffer substantial material harm, which may have a negative effect on the trading price of our common stock.

***We may not have adequate recourse against third parties if our bitcoins and other digital currency assets are lost, stolen or destroyed.***

The online nature of digital currencies such as bitcoins and their immutability poses a unique threat to their security. We have implemented robust security measures to minimize the exposure of our digital currencies to such risks including, without limitation, cold storage procedures to "air-gap" our digital currency keys from the internet. These measures are not perfect and improper access to and transfer of our digital current assets may still occur despite our security measures. By their nature, bitcoin transactions are largely irreversible. Our recourse in the event of theft or other loss is limited to our ability to secure restitution from the improper transferors or transferees of our digital currency assets. Recovery from such individuals may be limited by a number of factors including, without limitation, our ability to locate and identify both the transferors and transferees. This risk may pose a threat to the trading price of our common stock, and the occurrence of such an event could have a materially adverse effect on our business and operations.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

On January 4, 2018, the Company issued 19,533 shares of common stock upon the exercise of employee stock options.

On January 25, 2018, the Company issued 2,754 shares of common stock at fair value for consulting services at \$7.26 per share.

On February 14, 2018, the Company issued 100,000 shares of common stock in exchange for the exercise of 100,000 warrants issued in March 2017. The Company received \$350,000 from the exercise of the warrants.

On April 20, 2018, the Company issued 18,000 shares of the Company's common stock for consulting services.

On April 25, 2018 the Company issued 40,000 shares of common stock related to a restricted stock unit issuance for services performed in 2017.

On May 22, 2018, the Company issued 20,000 shares of common stock related to a restricted stock unit issuance for services performed in 2017 and 2018.

On June 7, 2018, the Company issued 14,583 shares of common stock related to a restricted stock unit issuance for services performed in 2017.

During August 2018, the Company issued 50,000 shares of the Company's common stock at an average fair value of \$5.31 per share, as consideration for the Waiver under the BMSS Purchase Agreement.

During the nine months ended September 30, 2018, holders of 1,353,505 Series B preferred shares elected to convert those shares to 1,353,505 shares of the Company's common stock under its original terms.

During the nine months ended September 30, 2018, 13,009 warrants were exercised on a cash basis in exchange for 3,215 shares of common stock. See Note 9.

In connection with the foregoing, the Company relied upon the exemption from registration provided by Section 4(a)(2) under the Securities Act of 1933, as amended, for transactions not involving a public offering.

**Item 3. Defaults Upon Senior Securities**

N/A - none

**Item 4. Mine Safety Disclosures**

N/A - none

**Item 5. Other Information**

N/A - none

Item 6. Exhibits

**EXHIBIT DESCRIPTION**

<a href="#"><u>10.1</u></a>	<a href="#"><u>Waiver Letter, dated August 20, 2018, between the Company and BMSS (incorporated by reference to 8-K filed August 24, 2018)</u></a>
<a href="#"><u>10.2</u></a>	<a href="#"><u>Software License and Services Agreement dated as of August 30, 2018, between goNumerical Ltd. and Riot Blockchain, Inc. (incorporated by reference to 8-K filed September 7, 2018)</u></a>
<a href="#"><u>10.3</u></a>	<a href="#"><u>Subscription Agreement dated as of August 30, 2018, between goNumerical Ltd. and Riot Blockchain, Inc. (incorporated by reference to 8-K filed September 7, 2018)</u></a>
<a href="#"><u>10.4</u></a>	<a href="#"><u>Subscription Agreement dated as of August 30, 2018, between RiotX Holdings, Inc., and goNumerical Ltd. (incorporated by reference to 8-K filed September 7, 2018)</u></a>
<a href="#"><u>10.5</u></a>	<a href="#"><u>Termination and Release Agreement, dated September 17, 2018, by and among Riot Blockchain, Inc., RiotX Holdings, Inc. and goNumerical Ltd. (incorporated by reference to 8-K filed September 18, 2018)</u></a>
<a href="#"><u>10.6</u></a>	<a href="#"><u>Amendment to Executive Employment Agreement dated as of September 20, 2018, by and between Riot Blockchain, Inc., a Nevada Corporation, and Christopher Ensey (incorporated by reference to 8-K filed September 26, 2018)</u></a>
<a href="#"><u>10.7</u></a>	<a href="#"><u>Master Services Agreement and Software-as-a-Service Order Form by and between Logical Brokerage Corporation and Synapse Financial Technologies, Inc (incorporated by reference to 8-K filed October 29, 2018)</u></a>
<a href="#"><u>31.1</u></a>	<a href="#"><u>Rule 13a-14(a)/15d-14(a) - Certification of Chief Executive Officer.*</u></a>
<a href="#"><u>31.2</u></a>	<a href="#"><u>Rule 13a-14(a)/15d-14(a) - Certification of Chief Financial Officer.*</u></a>
<a href="#"><u>32</u></a>	<a href="#"><u>Section 1350 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.*</u></a>
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Balance Sheets, (ii) the Statements of Operations, (iii) the Statements of Cash Flows and (iv) the Notes to Condensed Interim Consolidated Financial Statements. **

\* Filed herewith.

\*\* Previously filed

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 2 to its quarterly report on Form 10-Q/A to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Castle Rock, Colorado on March 6, 2019.

Riot Blockchain, Inc.  
(Registrant)

Dated: March 6, 2019

/s/ Jeffrey G. McGonegal

Jeffrey G. McGonegal  
Chief Executive Officer (Principal Executive Officer)

Dated: March 6, 2019

/s/ Robby Chang

Robby Chang  
Chief Financial Officer (Principal Financial and Accounting Officer)



## CERTIFICATION

I, Jeffrey G. McGonegal, certify that:

1. I have reviewed this Amendment No. 1 to the quarterly report on Form 10-Q/A of Riot Blockchain, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 6, 2019

/s/ Jeffrey G. McGonegal  
Jeffrey G. McGonegal  
Chief Executive Officer (Principal Executive  
Officer)

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## CERTIFICATION

I, Robby Chang, certify that:

1. I have reviewed this Amendment No. 1 to the quarterly report on Form 10-Q/A of Riot Blockchain, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 6, 2019

/s/ Robby Chang  
Robby Chang  
Chief Financial Officer (Principal Financial and Accounting  
Officer)

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**CERTIFICATION PURSUANT  
TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Amendment No. 2 to the Quarterly Report on Form 10-Q/A, (the "Report") of Riot Blockchain, Inc. (the "Company") for the quarter ended September 30, 2018, each of the undersigned Jeffrey G. McGonegal and Robby Chang, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of the undersigned's knowledge and belief:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934;  
and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 6, 2019

/s/ Jeffrey G. McGonegal

Jeffrey G. McGonegal, Chief Executive Officer (Principal Executive Officer)

March 6, 2019

/s/ Robby Chang

Robby Chang, Chief Financial Officer (Principal Financial and Accounting Officer)