PROPHECY DEFI INC.

Consolidated Financial Statements

For the Years Ended December 31, 2022 and 2021

(Expressed in Canadian dollars)

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards. These consolidated financial statements contain estimates based on management's judgment. Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records maintained.

The Audit Committee of the Board of Directors reviews the results of the annual audit and the consolidated financial statements prior to submitting the consolidated financial statements to the Board for approval.

The Company's auditors, Kingston Ross Pasnak LLP, are appointed by the shareholders to conduct an audit and their report follows.

Signed: ***"John McMahon"***
Chief Executive Officer

Toronto, Ontario

KRP | KINGSTON ROSS PASNAK LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

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May 1, 2023

INDEPENDENT AUDITOR'S REPORT Edmonton, Alberta

To the Shareholders of Prophecy DeFi Inc.

Opinion

We have audited the consolidated financial statements of Prophecy DeFi Inc. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the company as at December 31, 2022 and 2021, and the consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Material Uncertainty Relating to Going Concern

We draw your attention to Note 1 in the consolidated financial statements, which indicates that the company incurred a net loss of $29,101,366 during the year ended December 31, 2022 and has an accumulated deficit of $38,507,036. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor’s opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

In addition to the matter described in the Emphasis of Matter - Material Uncertainty Related to Going Concern section, we have determined that matters described below to be key audit matters to be communicated in our auditor’s report.

Goodwill Impairment Assessment

(continues)

In accordance with *IAS 36 Impairment of Assets*, management is required to test for impairment annually, or when facts and circumstances suggest it may be impaired. The Company's impairment test required management to make significant assumptions in determining the recoverable amount. Management concluded that goodwill was impaired.

We determined this as a key audit matter as it represented an area of significant risk of material misstatement given the magnitude of the goodwill and the high degree of estimation uncertainty in determining the recoverable amount. In addition, significant auditor judgment and specialized skills and knowledge were required in evaluating the results of our audit procedures. We performed the following procedures:

- Evaluated management's process and methodology;
- Tested the completeness and accuracy of data and reasonableness of assumptions used in the Company's impairment assessment;
- Assessed the overall presentation and disclosure in the consolidated financial statements;
- Engaged an expert in valuation to act as an auditor's expert in evaluating managements analysis.

Existence, ownership and valuation of digital currencies

We draw attention to Notes 3, 6 and 16 to the consolidated financial statements. The Company holds digital currencies of $3,407,494.

We considered this a key audit matter due to the magnitude of the digital currency balances and the audit effort involved in testing the existence and ownership of the digital assets and inventory.

Our procedures included, but were not limited to, the following:

- We observed the performance of the transfer of 100% of the digital currencies from the Company's wallet to a cold wallet to test the rights and ownership of the digital assets.
- We recalculated the value of the digital currencies held at December 31, 2022 using high, low, open and closing market price from coingecko.com and coinmarketcap.com.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, which includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jane Davidson, CPA, CA.

Kingston Ross Pasnak LLP

Kingston Ross Pasnak LLP
Chartered Professional Accountants

Prophecy DeFi Inc.
Consolidated Statement of Financial Position as at December 31, 2022 and 2021
(In Canadian Dollars)

		December 31, 2022		December 31, 2021
Assets				
Current assets				
Cash	**$**	**972,121**	$	6,652,988
Digital currencies (note 6)		**3,407,494**		6,187,917
Accrued interest receivable (note 8)		**-**		7,539
Accrued rent receivable (note 18(c))		**41,998**		-
Prepaid expenses and deposits (note 7)		**74,015**		71,990
Bridge loans, current portion (note 8)		**-**		10,000
Portfolio investments (note 9)		**26,908**		94,179
		4,522,536		13,024,613
Bridge loans (note 8)		**-**		89,520
Office premise and other (note 10)		**788,173**		998,471
Goodwill (note 11)		**-**		19,704,882
	$	**5,310,709**	$	33,817,486
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (note 18)	**$**	**632,456**	$	429,665
Lease liability, current portion (note 12)		**122,828**		103,718
		755,284		533,383
Lease liability (note 12)		**390,907**		513,735
Convertible debentures (note 13)		**5,153,019**		4,817,723
		6,299,210		5,864,841
Capital Stock and Deficit				
Share capital (note 14(b))		**28,327,353**		28,327,353
Contributed surplus		**7,537,913**		7,377,693
Deficit		**(38,507,036)**		(9,405,670)
Accumulated other comprehensive loss		**1,653,269**		1,653,269
Total shareholders' deficit		**(988,501)**		27,952,645
	$	**5,310,709**	$	33,817,486

On Behalf of the Board:

John McMahon ________________ Director

Andy Dayes ________________ Director

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

Prophecy DeFi Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the Years ended December 31, 2022 and 2021
(In Canadian Dollars)

	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	$	$	$	$	$
Balance December 31, 2020	3,235,409	35,343	(3,444,592)	-	(173,840)
Issuance of shares, net of costs	23,380,243	3,663,206	-	-	27,043,449
Issuance of performance warrants	-	1,731,500	-	-	1,731,500
Issuance of broker warrants	-	160,650	-	-	160,650
Issuance of stock options	-	2,299,725	-	-	2,299,725
Exercise of warrants	1,257,884	(506,398)	-	-	751,486
Exercise of stock options	293,193	(97,193)	-	-	196,000
Convertible debentures	160,624	90,860	-	-	251,484
Net loss for the year	-	-	(5,961,078)	-	(5,961,078)
Unrealized gain on digital currencies	-	-	-	1,653,269	1,653,259
Balance December 31, 2021	**28,327,353**	**7,377,693**	**(9,405,670)**	**1,653,269**	**27,952,645**
Balance January 1, 2022	28,327,353	7,377,693	(9,405,670)	1,653,269	27,952,645
Issuance of stock options	-	160,220	-	-	160,220
Net loss for the year	-	-	(29,101,366)	-	(29,101,336)
Balance December 31, 2022	**28,327,353**	**7,537,913**	**(38,507,036)**	**1,653,269**	**(988,501)**

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

Prophecy DeFi Inc.
Consolidated Statement of Operations and Comprehensive Loss
For the Years ended December 31, 2022 and 2021
(In Canadian Dollars)

	2022	2021
Revenue		
Fee income (note 6)	$ 867,822	$ 653,949
Rental income (note 18(c))	55,749	-
Interest income	14,809	11,181
Foreign exchange gain (loss)	(11)	45
Change in value of portfolio investments (note 9)	(67,271)	(154,934)
Realized gain (loss) on digital currencies (note 6)	(3,399,102)	208,722
Realized gain on sale of portfolio investments	-	693,508
Discount on note	-	(71,074)
	(2,528,004)	1,341,397
Expenses		
Salaries	617,433	484,648
Interest on convertible debentures (note 13)	585,400	12,996
Promotional	461,334	1,041,839
Audit and legal fees	446,949	448,962
Consulting fees (note 18(a))	446,899	652,827
Amortization of financing costs (note 13)	249,409	-
Amortization of office premise and other (note 10)	211,389	75,106
Stock based compensation (note 14(c) & note 18(a))	160,220	2,299,725
Impairment on bridge loans (note 8)	103,737	-
Accretion on convertible debentures (note 13)	85,887	-
Insurance	84,313	38,880
Filing and listing fees	63,896	-
Office expenses	58,421	135,736
Interest on lease liability (note 12)	54,618	15,757
Director and advisory board fees (note 18(d))	51,973	124,223
Bad debt expense	18,131	-
News releases and investor relations	678	64,043
Memberships	169	57,883
Service agreement	-	1,731,500
	3,700,855	7,302,475
Operating loss	(6,228,859)	(5,961,078)
Other income (losses)		
Unrealized loss on digital currencies (note 6)	(3,167,625)	-
Goodwill impairment (note 11)	(19,704,882)	-
Net loss	(29,101,366)	(5,961,078)
Other comprehensive loss		
Unrealized gain on digital currencies	-	1,653,269
Net comprehensive loss	$ (29,101,366)	$ (4,307,809)
Net loss per share (note 15)		
Basic	$ (0.22)	$ (0.06)
Diluted	$ (0.22)	$ (0.06)
Weighted average number of shares outstanding		
Basic	132,147,212	84,289,264
Diluted	132,147,212	84,289,264

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

Prophecy DeFi Inc.
Consolidated Statement of Cash Flows
For the Years ended December 31, 2022 and 2021
(In Canadian Dollars)

	2022	2021
Operating activities		
Net income (loss) for the year	$ (29,101,366)	$ (5,961,078)
Adjustments for non-cash items:		
Impairment of goodwill	19,704,882	
Unrealized loss on digital currencies	3,167,625	
Realized loss (gain) on digital currencies	3,399,102	(208,722)
Fee income	(867,822)	(653,949)
Financing fees	249,409	6,584
Amortization	211,389	75,106
Stock based compensation	160,220	2,299,725
Impairment of bridge loans	99,520	(157,068)
Change in value of portfolio investments	67,271	154,934
Accretion of discount on convertible debentures	85,887	-
Interest on lease liability	54,618	-
Consulting fees	-	1,731,500
Realized gain on sale of portfolio investments	-	(693,508)
Promotional	-	150,000
Discount on loan	-	71,074
Net changes in non-cash working capital balances		
Accrued interest receivable	7,539	17,272
Prepaid expenses	(2,025)	(71,240)
Accounts receivable	(41,998)	17,653
Accounts payable	202,791	(156,300)
	(2,602,958)	(3,220,949)
Investing activities		
Purchase of digital currencies	(2,918,482)	(1,850,100)
Purchase of furniture and office equipment	(1,091)	(412,918)
Proceeds from sale of portfolio investments	-	745,971
Cash acquired on business combination	-	199,216
	(2,919,573)	(1,474,899)
Financing activities		
Payments of lease obligation	(158,336)	(58,964)
Proceeds from financing activities	-	10,441,890
Exercise of warrants	-	751,486
Exercise of stock options	-	196,000
	(158,336)	11,330,412
Increase (decrease) in cash	(5,680,867)	6,634,564
Cash, beginning of year	6,652,988	18,424
Cash, end of year	$ 972,121	$ 6,652,988
Interest paid	$ 621,915	$ 26,420
Income taxes paid	$ -	$ -

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

1. Nature of Business

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.) ("PDFI" or the "Company") invests its funds for the purpose of generating returns from capital appreciation and income. It plans to accomplish these goals by exiting certain cryptocurrency holdings and strategically investing in public companies who are Bitcoin miners. The Company's goal is to monetize on the lag that exists between the miners and BTC pricing. This will be PDFI's future source of income. The Company is a public company incorporated and domiciled in Ontario, Canada. The Company's registered office is located at 87 Scollard Street, Suite 100, Toronto, Ontario M5R 1G4. The Company's subordinate voting shares commenced trading on the Canadian Securities Exchange ("CSE") on March 14, 2016.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes the Company will realize the carrying value of its assets and satisfy its obligations as they become due in the normal course of operations. As at December 31, 2022, the Company has an accumulated deficit of $38,507,036 and has incurred a comprehensive loss of $29,101,366. Due to a material and systemic decline in the price of digital currencies, the Company is evaluating different revenue generating alternatives and cost reductions to support current operations and remain a going concern.

2. Basis of Presentation

Statement of Compliance

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

These consolidated financial statements include those of Prophecy Defi Inc. and its wholly owned subsidy, Layer2 Blockchain Inc. ("Layer2"), from the date on which control is acquired by the Company. The consolidated financial statements for the consolidated entity are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany transactions and balances have been eliminated in the preparation of these consolidated financial statements.

The reporting currency used for the consolidated financial statements is Canadian dollars. The functional currency used by the Company and its subsidiary is Canadian dollars.

These consolidated financial statements were approved by the Company's Board of Directors on May 1, 2023.

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

3. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared by management in accordance with IFRS. Outlined below are those policies considered particularly significant for the Company.

A. <u>Use of Estimates</u>

The preparation of these consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the period. Financial statement items subject to significant management judgment include:

- Credit losses – Management exercises judgement to determine the expected credit losses on loans.
- Valuation of portfolio investments – Where investments are not traded in an active market, management exercises judgement to determine the fair value of these assets. These assumptions include observation of recent private sales on the underlying securities (if available).
- The Black-Scholes option pricing model is used to determine the fair value of the share-based payments and utilizes subjective assumptions such as expected price volatility and expected life of the option. Discrepancies in these input assumptions can significantly affect the fair value estimate.

3. Summary of Significant Accounting Policies – continued

A. Use of Estimates – continued

- Business combinations – assumptions and estimates are made in determining the fair value of assets and liabilities, including the identification and valuation of separately identifiable intangible assets acquired as part of an acquisition and the allocation of the purchase price. These estimates may be further based on management's best assessment of the related inputs used in valuation models, such as future cash flows and cost of capital.
- Office premise and other – Management determines the carrying value of its office premise based on policies that incorporate assumptions, estimates and judgements relative to the useful lives and residual values of assets.
- Goodwill – Management determines the carrying value of its goodwill based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. Goodwill is assessed for indicators of impairment at each reporting date and is tested annually or whenever events or changes in circumstances indicate that the carrying amount of goodwill exceeds its recoverable amount.
- Impairment of non-financial assets – Impairment exists where the carrying value of an asset, or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value. The fair value less costs of disposal calculated is based on available data from binding sales transactions in an arm's length transaction of similar assets or other observable market prices less incremental costs of disposal. The value in use calculation is based on discounted cash flow models. The estimated future cash flows are derived from management assumptions, estimates, budgets and past performance and do not include activities that the Company is not yet committed to or significant investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the cost of capital used for the discounted cash flow model as well as the expected future cash flows.
- Revenue recognition – The Company recognizes revenue from the provision of liquidity. As consideration for these services, the Company receives digital currency. Management has exercised significant judgment in determining the completion stage and examined various factors surrounding the substance of the Company's operations, and determined the stage of completion being once the digital currencies have left the liquidity pool.
- Going concern – The Company regularly reviews and makes an assessment of its ability to continue as a going concern. This assessment relies on significant judgements and assumptions, taking into account all known future information.
- Digital currencies valuation – Digital currencies consist of cryptocurrency denominated assets and are included in current assets. The digital currency market is still a new market and is highly volatile, historical prices are not necessarily indicative of future value and a significant change in the market prices for digital currencies would have a significant impact on the Company's earnings and financial position.

While management believes that the estimates and assumptions are reasonable, actual results may differ materially from those estimates.

B. Financial instruments

Financial assets and financial liabilities, including derivatives, are recognized on the statements of financial position when the Company becomes a party to the financial instrument or derivative contract.

Classification
The Company classifies its financial assets and financial liabilities in the following measurement categories:

(1) those to be measured subsequently at fair value through profit or loss ("FVTPL");
(2) those to be measured subsequently at fair value through other comprehensive income ("FVTOCI"); and
(3) those to be measured subsequently at amortized cost.

The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of

3. Summary of Significant Accounting Policies – continued

B. Financial instruments – continued

recognition). For assets and liabilities measured at fair value, gains and losses are recorded in the statements of operations and comprehensive loss.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

The Company's classification and measurements of financial assets and liabilities are summarized below:

	IFRS 9
	Classification
Cash	Amortized cost
Accrued interest receivable	Amortized cost
Accrued rent receivable	Amortized cost
Accounts receivables	Amortized cost
Bridge loans	Amortized cost
Portfolio investments	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Convertible debentures	Amortized cost

Financial assets at amortized cost
This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely payment of principal and interest ("SPPI") criterion. Financial assets classified in this category are measured at amortized cost using the effective interest method.

Financial assets at fair value through profit or loss
This category includes derivative instruments as well as equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVTOCI. This category also includes debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in the statements of operations and comprehensive loss.

Measurement
All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through the statements of operations and comprehensive loss.

Fair value hierarchy
Financial assets measured at fair value or where their fair value is disclosed in the notes must be classified into one of the three hierarchy levels set forth below for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair value of assets and liabilities.

3. Summary of Significant Accounting Policies – continued

B. Financial instruments – continued

- Level 1: Inputs are unadjusted quoted prices of identical instruments in active markets;
- Level 2: Valuation models which utilize predominately observable market inputs; and
- Level 3: Valuation models which utilize predominately non-observable market inputs.

The classification of a financial asset in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

The Company's fair value financial instruments are classified as follows:

Financial instrument	***Classification***
Portfolio investments	Levels 1 and 3

At the end of each reporting period, management estimates the fair value of investments based on the criteria below and reflects such valuations in the restated consolidated financial statements.

i. Securities including shares, options, and warrants which are traded in an active market, such as on a recognized securities exchange and for which no sales restrictions apply, are presented at fair value based on quoted closing trade prices at the end of the reporting period or the closing trade price on the last day the security traded if there were no trades at the end of the reporting period. These are included in Level 1 of the fair value hierarchy.

ii. For options, warrants, and conversion features which are not traded on a recognized securities exchange, no market value is readily available. When there are sufficient and reliable observable market inputs, a valuation technique is used. Valuation models such as the Black-Scholes valuation model ("Black-Scholes") are used when there are sufficient and reliable observable market inputs. These market inputs include risk-free interest rate, exercise price, market price at the date of valuation, expected dividend yield, expected life of the instrument and expected volatility of the underlying security based on historical volatility. These are included in Level 2 of the fair value hierarchy.

iii. Convertible debts and loans issued by investee companies are generally valued at the price in which the instrument was issued. The Company regularly considers whether any indications of deterioration in the value of the underlying business exist, which suggest that the debt instrument will not be fully recovered. The fair value of convertible debentures is measured using valuation techniques such as Black-Scholes model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment and assumptions provided by management is required in establishing fair values. Judgments include consideration of inputs such as credit risk, discount rates, volatility, probability of certain triggering events, and share price of private company borrowers. Changes in assumptions relating to these factors could affect the reported fair value of the financials instruments. These are included in Level 3 of the fair value hierarchy.

iv. Private company investments
All privately-held investments (including options, warrants, and conversion features) are initially recorded at the transaction price, being the fair value at the time of acquisition. At the end of each reporting period, the fair value of an investment may (depending upon the circumstances) be adjusted using one or more of the valuation indicators described below.

The determination of fair value of the Company's privately-held investments at other than initial cost, is subject to certain limitations. Financial information for private companies in which the Company has investments, may not be available and, even if available, that information may be limited and/or unreliable.

Use of the valuation approach described below may involve uncertainties and determinations based on management's judgment and any value estimated from these techniques may not be realized or realizable.

3. Summary of Significant Accounting Policies – continued

B. Financial instruments – continued

Company-specific information is considered when determining whether the fair value of a privately-held investment should be adjusted upward or downward at the end of each reporting period. In addition to company-specific information, the Company will also consider trends in general market conditions and the share performance of comparable publicly-traded companies when valuing privately-held investments.

The fair value of a privately-held investment may be adjusted if:

i. There has been a significant subsequent equity financing provided by outside investors at a valuation different than the current value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place;
ii. There have been significant corporate, political, or operating events affecting the investee company that, in management's opinion, have a material impact on the investee company's prospects and, therefore, its fair value. In these circumstances, the adjustment to the fair value of the investment will be based on management's judgment and any value estimated may not be realized or realizable;
iii. The investee company is placed into receivership or bankruptcy;
iv. Based on financial information received from the investee company, it is apparent to the Company that the investee company is unlikely to be able to continue as a going concern;
v. Release by the investee company of positive/negative operational results; and
vi. Important positive/negative management changes by the investee company that the Company's management believes will have a very positive/negative impact on the investee company's ability to achieve its objectives and build value for shareholders.

Adjustments to the fair value of a privately-held investment will be based upon management's judgment and any value estimated may not be realized or realizable. The resulting values for non-publicly traded investments may differ from values that would be realized if a ready market existed.

In addition, the amounts at which the Company's privately-held investments could be currently disposed of may differ from the carrying value assigned.

Convertible Debentures
Convertible debentures issued by the Company are comprised of convertible unsecured debentures that can be converted to common shares at the option of the holder. The host liability component of a compounded financial instrument is recognized initially at the fair market value of a similar liability that does not have an equity conversion option. Any directly attributable transaction costs are allocated entirely to the host liability component.

Expected credit losses on financial assets
Determining an allowance for expected credit losses ("ECLs") for all debt financial assets not held at fair value through profit or loss ("FVTPL") requires management to make assumptions about the historical patterns for the probability of default, the timing of collection, and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

Upon disposal of an investment, previously recognized unrealized gains or losses are reversed to recognize the full realized gain or loss in the period of disposition.

C. Provisions

The Company recognizes provisions when a legal or constructive obligation exists as a result of past events, when it is probable that there will be an outflow of economic benefits from the entity, and a reliable estimate of the amount of the obligation can be made. When a provision is expected to settle beyond the immediate term, the provision is measured at the present value of future cash flows, discounted at prevailing market interest rates. With the passage of time, additional expenses are recorded as the provision accretes.

3. Summary of Significant Accounting Policies – continued

D. Business Combinations

All business combinations are accounted for by applying the acquisition method. Upon acquisition the assets (including intangible assets), liabilities and contingent liabilities acquired are measured at their fair value. The Company recognizes identifiable intangible assets as part of business combinations at fair value at the date of acquisition. The determination of these fair values is based upon management's judgement and includes assumptions on the timing and amount of future incremental cash flows generated by the assets acquired and the selection of an appropriate cost of capital. Acquisition and integration costs are recognized in profit or loss as incurred.

Goodwill represents the excess of the identifiable cost of an acquisition over the fair value of the Company's share of the net assets acquired at the date of acquisition. If the identifiable cost of acquisition is less than the fair value of the Company's share of the net assets acquired (i.e. a discount on acquisition) the difference is credited to the statement of income (loss) and comprehensive statement of income (loss) in the period of acquisition. At the acquisition date, goodwill acquired is recognized as an asset and allocated to each cash generating unit ("CGU") expected to benefit from the business combination's synergies and to the lowest level at which management monitors goodwill.

E. Revenue Recognition

The Company derives its income from digital currencies received for providing liquidity to decentralized cryptocurrency exchanges. Liquidity provisioning is Layer2 Blockchain's principal business activity and is the process where liquidity, in the form of digital assets, is deployed into the liquidity pools of decentralized exchanges. Revenue is recognized by the Company when payment, in the form of digital currency, is received for liquidity provisioning services rendered. Revenue is measured based on the fair value of the coins received. The fair value is determined using the daily weighted close price for the digital currency on www.coinmarketcap.com and www.coingecko.com.

Realized gains (losses) on disposal of digital currencies are reflected in the statements of operations and comprehensive loss on the transaction date. The Company has the control of the crypto assets prior to the sale and records revenue at the point in time when the sale is confirmed on the respective blockchain.

Realized gains (losses) on disposals of investments and unrealized gains (losses) on securities classified as FVTPL are reflected in the statements of operations and comprehensive loss on the transaction date and are calculated on an average cost basis. For all financial instruments measured at amortized cost and interest-bearing financial assets, interest income or expenses are recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or financial liability.

The Company also derives income from a cost sharing agreement with a corporation controlled by an Officer and Director of the Company. Accordingly, rental revenue is recorded quarterly as invoices are issued at this frequency. Invoices are issued on the basis that they will be collectable.

F. Foreign Currency Translation

Monetary assets and liabilities denominated in currencies other than Canadian dollars are translated into Canadian dollars at the rate of exchange in effect at the end of the reporting period. Non-monetary assets and liabilities are translated at the historical rates. Revenues and expenses are translated at the transaction exchange rate. Foreign currency gains and losses resulting from translation are reflected in profit or loss.

G. Income Taxes

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the income is also recognized directly in equity or other comprehensive income.

3. Summary of Significant Accounting Policies – continued

G. Income Taxes – continued

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted at the end of the reporting period, and any adjustments to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred income tax is recognized in respect of all qualifying temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expensed to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be

recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

H. Cash

Cash consists of cash balances and highly liquid investments with original maturities of three months or less.

I. Digital Currencies

Digital currencies meet the definition of intangible assets as they are identifiable non-monetary assets without physical substance. They are initially recorded at the fair value on the acquisition date and the revaluation method is used to measure the digital assets subsequently. Under the revaluation method, increases in fair value are recorded in other comprehensive income, while decreases are recorded in profit or loss.

The Company revalue its digital assets at the end of its reporting periods. There is no recycling of gains from other comprehensive income to profit or loss. However, to the extent that an increase in fair value reverses a previous decrease in fair value that has been recorded in profit or loss, that increase is recorded in profit or loss. Decreases in fair value that reverse gains previously recorded in other comprehensive income are recorded in other comprehensive income.

The Company holds a variety of digital currencies which are measured at fair value using the quoted prices on a cryptocurrency data aggregator. The digital currencies are valued based on the daily weighted closing price obtained at the time the digital currencies are acquired and at each reporting date. Management considers the fair value to be a level two input under the fair value hierarchy as the prices from this source represents an average of quoted prices on multiple digital currency exchanges.

The Company's determination to classify its holdings as current assets is based on management's assessment that the digital currencies held can be considered to be a commodity that may be readily sold because liquid markets are available.

J. Office Premise and Other

Furniture, office equipment and leasehold improvements are stated at historical cost, less any accumulated amortization and accumulated impairment in value. Historical cost includes all costs directly attributable to the acquisition.

Amortization is recognized using the declining balance method at a rate of 20% to amortize the cost of furniture and office equipment to their residual values over their estimated useful lives in profit or loss.

3. Summary of Significant Accounting Policies – continued

J. Office Premise and Other – continued

Amortization methods, useful lives and residual values are reviewed at the reporting period date. Such a review takes into consideration the nature of the assets, their intended use and technological changes.

Gains or losses on the sale of furniture and office equipment are determined by comparing the proceeds with the carrying amount and are recognized in the profit or loss in the period of disposition.

Leasehold improvements and right-of-use assets are amortized on a straight-line basis over their lease term and are accounted for at cost less accumulated amortization and reviewed at each balance sheet date to determine whether there is an indication of impairment.

K. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable assets and liabilities acquired determined at the date of acquisition. Goodwill is carried at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually by assessing the recoverable amount of each CGU to which it relates, where applicable. The recoverable amount is the higher of fair value less costs of disposal, and value in use. When the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. Any impairment is recognized immediately in profit or loss and comprehensive profit or loss.

L. Share-based payments

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted. In situations where equity instruments are issued to non-employees and some of all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“the vesting date”). The cumulative expense recognized for equity-settled transaction at each reporting date until the vesting date reflects the Company’s best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in contributed surplus.

No expense is recognized for awards that do no ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled aware are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as a measure at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings or loss per share.

M. Loss per share

Basic loss per share is calculated using the weighted average number of multiple, subordinate and common shares outstanding during the period.

3. Summary of Significant Accounting Policies – continued

M. Loss per share – continued

Diluted loss per share is calculated by dividing net loss available to shareholders for the period by the diluted weighted average number of multiple, subordinate and common shares outstanding during the period. The diluted weighted average number of shares includes the potential dilution from shares issuable through stock options, if dilutive. This assumes that the proceeds from any shares issued on the exercise of stock options are used by the Company to repurchase and cancel shares at the average market price of the Company's share price for the period. As such, where the strike price of stock options exceeds the average market price of the Company's shares for the reporting period, the inclusion of these shares under the treasury stock method would be anti-dilutive, so these shares are excluded from the calculation of the weighted average number of diluted shares outstanding.

4. Significant New Accounting Standards

Standards, Amendments and Interpretations Issued but not yet Adopted

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ended December 31, 2022 and, accordingly, have not been applied in preparing these consolidated financial statements.

A. Amendments to IAS 1: Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. The Company is currently assessing the impact of the amendments. Earlier application is permitted. The Company is assessing the potential impact of these amendments.

B. Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Company's consolidated financial statements.

C. IAS 12: Amendment to IAS 12, Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

In May 2021, the IASB issued targeted amendments to IAS 12 – Income Taxes to specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, companies are exempt from recognizing deferred tax when they recognize assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations transactions for which companies recognize both an asset and a liability. The amendments clarify that the exemption does not apply and that companies are

(In Canadian Dollars)

4. Significant New Accounting Standards – continued

C. IAS 12: Amendment to IAS 12, Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – continued

required to recognize deferred tax on such transactions. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted. The Company is assessing the potential impact of the amendment.

5. Business Combination

During the 2021 year end, the Company acquired 60% of the shares of Layer2 Blockchain Inc. ("Layer2"), on July 8, 2021, as consideration the Company issued 25,000,000 common shares of the Company to the shareholders of Layer2. The Company subsequently acquired the remaining 40% of the shares of Layer2 on September 13, 2021, as consideration the Company issued a further 25,000,000 common shares of the Company to the shareholders of Layer2 for a total purchase price of $21,670,375. Layer2 is a technology company focused on the rapidly emerging Ethereum Layer Two decentralized finance ecosystem. The Company incurred acquisition-related costs of $43,149, representing legal and other fees, which were recognized through profit or loss in the prior period.

Goodwill calculated in this acquisition represents the expected synergies from combining the operations of Layer2 with the Company, revenue growth, future market development and expertise in the sector. These benefits are not recognized separately from goodwill as their fair value cannot be measured reliably individually. Goodwill from this acquisition is deductible for tax purposes, and was established as follows:

Purchase price	$	**21,670,375**
Cash		**(199,216)**
Digital currencies		**(1,821,878)**
Accounts payable		**55,601**
Goodwill	$	**19,704,882**

During the current year, goodwill was determined to be impaired and written off. See Note 11 for further details.

6. Digital Currencies

The continuity of digital currencies for the year ended December 31, 2022:

		December 31 2022		December 31 2021
Opening balance	$	6,187,917	$	-
Purchased		2,918,482		1,850,100
Fee income earned		867,822		653,949
Realized gain (loss) on dispositions		(3,399,102)		208,722
Revaluation adjustment		(3,167,625)		1,653,269
Acquired on business combination		-		1,821,877
Total	$	3,407,494	$	6,187,917

(In Canadian Dollars)

7. Prepaid Expenses and Deposits

	December 31 2022	December 31 2021
Prepaid insurance	45,615	43,354
Lease security deposit	11,686	11,686
Prepaid rent	16,714	-
Prepaid consulting contract	$ -	$ 16,950
Total	$ 74,015	$ 71,990

8. Bridge Loans

		Due Date	Stated Interest Rate	December 31 2022	December 31 2021
Individual	(a)	October 31, 2021	12%	$ -	$ 10,000
Corporation	(b)	March 2, 2026	12%	-	89,520
Total				$ -	$ 99,520

The fair values of the notes receivable are estimated to be approximately equivalent to their carrying values as the market rate of interest approximates the effective interest rate.

a) As at December 31, 2022, $Nil (December 31, 2021 - $7,539) in interest has been accrued. The loan is secured by a promissory note, a corporate guarantee, and equipment. A payment of $6,000 was due in May 2021 with the remaining principal and interest due on October 31, 2021.

b) The principal of the loan is $148,765. As at December 31, 2022, $Nil (December 31, 2021 - $Nil) of interest has been accrued. The Company determined that the interest rate was preferential and has discounted the future cash flows at an effective rate of 12%, with a discount on note of $ 71,074 recorded in the prior year.

During the current year, these were determined to be impaired and written off. Collectability of these amounts are very unlikely as the net assets of the borrowers are insufficient to repay the loans.

9. Portfolio Investments

	December 31 2022	December 31 2021
Opening value of marketable securities (a) (b)	$ 94,179	$ 206,403
Change in fair value	(67,271)	(112,224)
Total	$ 26,908	$ 94,179

a) As at December 31, 2022, the Company held 1,391,085 (2021 – 1,391,085) common shares of Uptempo Inc.

b) As at December 31, 2022, the Company held 284,656 (2021 – 284,656) common shares of Hank Payments Corp.

(In Canadian Dollars)

10. Office Premise and Other

	Office Premise (Right-of-Use Asset)	Leasehold Improvements	Furniture & Office Equipment	Total
Cost				
Balance, January 1, 2021	$ -	$ -	$ -	$ -
Additions	660,660	306,875	106,042	1,073,577
Disposals	-	-	-	-
Balance, December 31, 2021	$ 660,660	$ 306,875	$ 106,042	$1,073,577
Additions	-	-	1,091	1,091
Disposals	-	-	-	-
Balance, December 31, 2022	$ 660,660	$ 306,875	$ 107,133	$1,074,668
Accumulated Amortization				
Balance, January 1, 2021	$ -	$ -	$ -	$ -
Amortization	(44,044)	(20,458)	(10,604)	(75,106)
Balance, December 31, 2021	$ (44,044)	$ (20,458)	$ (10,604)	$ (75,106)
Amortization	(132,132)	(61,375)	(17,882)	(211,389)
Balance, December 31, 2022	$ (176,176)	$ (81,833)	$ (28,486)	$ (286,495)
Carrying Amount				
Balance, December 31, 2021	$ 616,616	$ 286,417	$ 95,438	$ 998,471
Balance, December 31, 2022	$ 484,484	$ 225,042	$ 78,647	$ 788,173

11. Goodwill

Cost	
Balance, January 1, 2021	$ -
Business combination (note 5)	19,704,882
Balance, December 31, 2021	$ 19,704,882
Additions	-
Impairment	(19,704,882)
Balance, December 31, 2022	$ 19,704,882
Carrying Amount	
Balance, December 31, 2021	$ 19,704,882
Balance, December 31, 2022	$ -

As of December 31, 2022, PDFI had amicably parted ways with the former principals and employees of Layer2. Given the resignation of Layer2's management team and the winding down of the core activities, PDFI management feels there is no remaining or future value in the goodwill from the acquisition.

(In Canadian Dollars)

12. Lease Liability

The Company leases an office premise at 87 Scollard Street, Suite 100, Toronto, Ontario M5R 1G4. The lease expires in 2026, with a five-year option to extend.

The lease liability is measured at the present value of the lease payments that are not paid at the balance sheet date. Lease payments are apportioned between interest expense and a reduction of the lease liability using the Company's incremental borrowing rate of 10% to achieve a constant rate of interest on the remaining balances of the liability.

The carrying value of the Company's lease liability is as follows:

Balance, January 1, 2021	$	-
Addition of lease liability		636,753
Interest expense		15,757
Cash payments		(35,057)
Balance, December 31, 2021	$	617,453
Interest expense		54,618
Cash payments		(158,336)
Balance, December 31, 2022		513,735
Current portion of lease liability		(122,828)
Non-current portion of lease liability	$	390,907

As at December 31, 2022, the carrying rate of the Company's lease liability was $513,735 (December 31, 2021 - $617,453) and the carrying rate of the right-of-use asset was $484,484 (December 31, 2021 - $616,616).

13. Convertible Debentures

On December 23, 2021, the Company completed the offering of $5,854,000 aggregate principal amount of 10% unsecured convertible debentures of the Company. Each convertible debenture matures 36 months following the closing of the offering and bears interest at a rate of 10% per annum, payable quarterly in cash. For the fiscal year ended December 31, 2022, $585,400 (December 31, 2021 – $12,996) of interest and $85,887 of accretion (December 31, 2021 – $Nil) has been charged to the income statement.

The convertible debentures are convertible into common shares of the Company at the option of the holder at any time prior to the maturity date or on the business day immediately preceding a date fixed for redemption of the convertible debentures, at a conversion price equal to $0.60 per common share. The Company has the right to force conversion of the convertible debentures at the conversion price if the daily volume weighted average trading price of the common shares on the Canadian Securities Exchange is greater than $1.20 for 10 consecutive trading days.

Each convertible debenture includes 1,667 common share purchase warrants of the Company. Each warrant is exercisable into one common share at a price of $0.90 per common share for a period of 36 months from the closing of the offering.

In 2021, $90,860 was recognized in contributed surplus relating the equity component of the convertible debentures.

(In Canadian Dollars)

13. Convertible Debentures – continued

The host liability component of the convertible debentures recognized on the consolidated financial statements of financial position was calculated as follows:

	December 31 2022	December 31 2021
Principal amount outstanding	$ 5,854,000	$ 5,854,000
Less: Transaction costs	(751,507)	(751,507)
Amortization of financing costs	255,993	6,584
Liability component on initial recognition	5,295,346	5,109,077
Debenture discount (net of amortization)	(205,467)	(291,354)
Total	$ 5,153,019	$ 4,817,723

14. Share Capital

a) *Authorized:*

Unlimited common shares ("CS")

b) *Shares issued and outstanding:*

	SVS		MVS		CS	
	Number of Shares	**Amount**	**Number of Shares**	**Amount**	**Number of Shares**	**Amount**
Balance December 31, 2020	**23,809,395**	**2,567,040**	**5,704,846**	**668,369**	**-**	**-**
Converted from MVS to SVS (i)	946,491	110,889	(946,491)	(110,889)	-	-
Converted from MVS/SVS to CS (ii)	(61,555,885)	(3,444,740)	(4,758,355)	(557,480)	66,314,240	4,002,220
Private placement, net of costs (iii)	25,000,000	199,795	-	-	-	-
Private placement, net of costs (iv)	9,999,999	405,983	-	-	-	-
Private placement, net of costs (v)	-	-	-	-	10,000,000	954,090
Issuance for business combination (vi)	-	-	-	-	51,000,000	21,670,375
Issuance for fee payable (vii)	-	-	-	-	250,000	150,000
Convertible debentures, net of costs	-	-	-	-	-	160,624
Warrant exercise	-	-	-	-	4,382,972	1,257,884
Stock option exercise	1,800,000	161,033	-	-	200,000	132,160
Balance December 31, 2021	**-**	**-**	**-**	**-**	**132,147,212**	**28,327,353**
Balance December 31, 2022	**-**	**-**	**-**	**-**	**132,147,212**	**28,327,353**

(i) On March 31, 2021, 946,491 multiple voting shares ("MVS") were converted on a one for one basis to 946,491 subordinate voting shares ("SVS"). The rights of MVS and SVS are identical other than voting rights. MVS are entitled to four votes per share whereas SVS are entitled to one vote per share.

(ii) On June 30, 2021, all of the issued and outstanding SVS and MVS of the Company were automatically converted into common shares of the Company on the basis of one common share for each SVS and MVS outstanding.

14. Share Capital – continued

(iii) On March 19, 2021, the Company closed a non-brokered private placement issuing 25,000,000 units at a price of $0.05 per Unit for gross proceeds of $1,250,000. Each Unit consisted of one subordinated voting common share of the Company and one subordinate voting share purchase warrant. Each full warrant entitles the holder to acquire one additional subordinate voting share expiring on March 19, 2024 at an exercise price of $0.25. The Company incurred issuance costs of $422,450 including finder's fees/commissions of $80,250, $23,000 in legal fees and 1,750,000 finders warrants entitling certain eligible persons to acquire a Unit exercisable at a price of $0.05 for a period of thirty-six months from closing, of these costs, $101,992 has been recorded as share issuance costs.

(iv) On April 23, 2021, the Company closed a non-brokered private placement issuing 9,999,999 units at a price of $0.15 per Unit for gross proceeds of $1,500,000. Each Unit consisted of one subordinated voting common share of the Company and one Common Share purchase warrant. Each full warrant entitles the holder to acquire one additional Common Share for a period of thirty-six months expiring on April 23, 2024 at an exercise price of $0.25. However, should the closing price at which the Common Shares trade on the Canadian Securities Exchange (or any such other stock exchange in Canada as the Common Shares may trade at the applicable time) exceed $0.75 for 10 consecutive trading days at any time following the date of issuance, the Company may accelerate the Warrant Term such that the Warrants shall expire on the date which is 30 business days following the date a press release is issued by the Company announcing the Reduced Warrant Term. The Company incurred issuance costs of $299,915, including finder's fees/commissions of $126,300, $29,400 in legal fees and 491,466 finders warrants entitling certain eligible persons to acquire one common share exercisable at a price of $0.25 for a period of thirty-six months from closing, of these costs, $101,460 has been recorded as share issuance costs.

(v) On June 1, 2021, the Company closed a non-brokered private placement issuing 10,000,000 units at a price of $0.30 per Unit for gross proceeds of $3,000,000. Each Unit consisted of one common share of the Company and one Common Share purchase warrant. Each full warrant entitles the holder to acquire one additional Common Share for a period of thirty-six months expiring on June 1, 2024 at an exercise price of $0.50. However, should the closing price at which the Common Shares trade on the Canadian Securities Exchange (or any such other stock exchange in Canada as the Common Shares may trade at the applicable time) exceed $1.00 for 10 consecutive trading days at any time following the date of issuance, the Company may accelerate the Warrant Term such that the Warrants shall expire on the date which is 30 business days following the date a press release is issued by the Company announcing the Reduced Warrant Term. The Company incurred issuance costs of $588,697, including commission of $210,000, $56,850 in legal fees and 700,000 brokers warrants entitling certain eligible persons to acquire one common share exercisable at a price of $0.50 for a period of thirty-six months from closing, of these costs, $232,932 has been recorded as share issuance costs.

(vi) On July 9, 2021, the Company issued an aggregate of 25,000,000 common shares as consideration for 60% of the issued and outstanding common shares of Layer2. On September 13, 2021, the Company issued an aggregate of 25,000,000 common shares as consideration for the remaining 40% of the issued and outstanding common shares of Layer2. All common shares issued are subject to a four-month and one day resale restriction and voluntary lock-ups of up to 21 months, subject to certain accelerated relates in the event the Company's common shares trade above certain prices. The Company issued 1,000,000 common shares to certain eligible finders. The shares issued to such finder are subject to a four-month and one date resale restriction and the same lock-ups as noted above.

(vii) On September 13, 2021, the Company issued an aggregate of 250,000 common shares to North Equities Corp. as consideration for a fee payable of $150,000 for a 6-month marketing and consulting contract. These shares will be subject to a statutory holding period expiring on the date that is four months and one day from the issuance date.

(In Canadian Dollars)

14. Share Capital – continued

c) *Stock Options*

The Company has a stock option plan (the "Plan") under which the Company may grant options to directors, officers, employees and consultants. The maximum number of common shares reserve for issue under the plan at any point in time may not exceed 10% of the number of shares issued and outstanding. As at December 31, 2022, the Company had 2,489,721 (December 31, 2021 – 5,489,721) options available for issuance under the plan.

The continuity of outstanding stock options for the fiscal year ended December 31, 2022 is as follows:

	Number of stock options	Weighted average exercise price per share $
Balance, December 31, 2021	**7,725,000**	**0.43**
Exercised	-	-
Granted	3,000,000	0.10
Balance, December 31, 2022	**10,725,000**	**0.34**

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the share-based payments for the stock options issued during the year ended December 31, 2022:

Grant Date	**October 28, 2022**	**October 28, 2022**	**October 28, 2022**
Number of options	1,000,000	1,000,000	1,000,000
Exercise Price	$0.05	$0.10	$0.15
Expected life in years	3	3	3
Volatility	150%	150%	150%
Risk-free interest rate	3.79%	3.79%	3.79%
Dividend yield	0.00%	0.00%	0.00%
Vesting	Monthly	Monthly	Monthly
Fair value of options granted	$78,000	$72,600	$68,900

During the fiscal year ended December 31, 2022, the Company recognized a total of $160,220 of stock-based compensation (December 31, 2021 - $2,299,725), of which $151,074 related to stock options granted in the prior year.

d) *Warrants*

The continuity of outstanding warrants for the fiscal year ended December 31, 2022 is as follows:

	Number of warrants	Weighted average exercise price per share $
Balance, December 31, 2021	**49,031,826**	**0.13**
Exercised	-	-
Granted	-	-
Balance, December 31, 2022	**49,031,826**	**0.13**

14. Share Capital – continued

d) *Warrants – continued*

(i) On March 19, 2021, the Company issued 25,000,000 warrants as part of the private placement financing. Each warrant entitles the holder to acquire one additional subordinate voting share expiring on March 19, 2024 at an exercise price of $0.25. The value of a warrant was determined using the Black-Scholes model, using 150% volatility, 3-year term, 0.53% discount rate, 0% expected dividend. The resulting value represented approximately 75.9% of the value of the Unit with the remaining 24.1% attributed to the value of the subordinate voting share within the Unit. The warrants were allocated $948,213 of the net proceeds of the financing.

The Company issued 1,750,000 finders warrants as part of the private placement financing. Each warrant entitles the holder to acquire one additional Unit expiring on March 19, 2024 at an exercise price of $0.05. The value of a warrant was determined using the Black-Scholes model, using 150% volatility, 3-year term, 0.53% discount rate, 0% expected dividend. The warrants had a value of $319,200.

(ii) On April 23, 2021, the Company issued 9,999,999 warrants as part of the private placement financing. Each warrant entitles the holder to acquire one additional subordinate voting share expiring on April 23, 2024 at an exercise price of $0.25. The value of a warrant was determined using the Black-Scholes model, using 150% volatility, 3-year term, 0.49% discount rate, 0% expected dividend. The resulting value represented approximately 66.2% of the value of the Unit with the remaining 33.8% attributed to the value of the subordinate voting share within the Unit. The warrants were allocated $992,557 of the net proceeds of the financing.

The Company issued 491,466 finders warrants as part of the private placement financing. Each warrant entitles the holder to acquire one common share expiring on April 23, 2024 at an exercise price of $0.25. The value of a warrant was determined using the Black-Scholes model, using 150% volatility, 3-year term, 0.49% discount rate, 0% expected dividend. The warrants had a value of $144,196.

(iii) On April 27, 2021, the Company entered into a service agreement with Ninepoint Partners GP Inc. who will receive a $25,000 per month advisory fee and were issued 5,000,000 performance warrants exercisable at a price of $0.35 to purchase common shares of the Company for a period expiring on the earlier of 3 years or a date that is 90 days after the advisory ceases to provide services to the Company. The value of a warrant was determined using the Black-Scholes model, using 150% volatility, 3-year term, 0.48% discount rate, 0% expected dividend. The warrants had a value of $1,731,500 which were recorded as a service agreement expense.

(iv) On June 1, 2021, the Company issued 10,000,000 warrants as part of the private placement financing. Each warrant entitles the holder to acquire one additional subordinate voting share expiring on June 1, 2024 at an exercise price of $0.50. The value of a warrant was determined using the Black-Scholes model, using 150% volatility, 3-year term, 0.51% discount rate, 0% expected dividend. The resulting value represented approximately 60.4% of the value of the Unit with the remaining 39.6% attributed to the value of the subordinate voting share within the Unit. The warrants were allocated $1,812,978 of the net proceeds of the financing.

The Company issued 700,000 brokers warrants as part of the private placement financing. Each warrant entitles the holder to acquire one common share expiring on June 1, 2024 at an exercise price of $0.50. The value of a warrant was determined using the Black-Scholes model, using 150% volatility, 3-year term, 0.51% discount rate, 0% expected dividend. The warrants had a value of $320,740.

On December 23, 2021, the Company issued 473,333 warrants to the lead agent in connection with the issuance of convertible debentures. Each warrant entitles the holder to acquire one common share expiring on December 23, 2024 at an exercise price of $0.90. The value of a warrant was determined using the Black-Scholes model, using 150% volatility, 3-year term, 1.04% discount rate, 0% expected dividend. The warrants had a value of $160,650.

(In Canadian Dollars)

15. Income (loss) per Share

Basic income (loss) per share has been calculated using the weighted average number of SVS, MVS and CS outstanding during the period. Diluted income (loss) per share has been calculated using the weighted average number of SVS, MVS and CS outstanding during the period as the effect of stock options and warrants issued and outstanding are considered antidilutive.

16. Income Taxes

The following table reconciles the expected income tax provision at the Canadian federal and provincial statutory rate of 26.5% (2020 – 26.5%) to the amounts recognized in the consolidated statement of operations and comprehensive loss:

	December 31, 2022	December 31, 2021
Loss before income taxes	**$ (29,101,366)**	$ (4,307,809)
Expected income tax recovery	**(7,711,862)**	(1,141,569)
Stock based compensation	**42,458**	609,427
Unrealized loss (gain) on digital currencies	**839,421**	(438,116)
Other adjustments	**5,221,794**	-
Change in tax benefits not recognized	**1,608,189**	970,258
Income tax	**$ -**	$ -

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

	December 31, 2022	December 31, 2021
Non-capital losses	**$ 2,055,695**	$ 1,496,490
Leasehold improvements, furniture & office equipment	**(23,878)**	(24,596)
Office premise	**7,752**	222
Financing fees	**(38,085)**	(38,085)
Marketable securities	**-**	-
Bridge Loans	**-**	-
Share issuance costs	**-**	-
Tax asset not recognized	**(2,001,484)**	(1,434,031)

As at December 31, 2022, the Company has approximately $7,757,340 of non-capital losses carry forward available to reduce taxable income for future years. These losses will expire in 2036 to 2042.

17. Fair Value and Financial Risk Management

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

17. Fair Value and Financial Risk Management – continued

Capital Management

The Company considers the items included in shareholders' equity as capital. The Company's capital management objectives are to maintain a strong and efficient capital structure to provide liquidity to support continued asset growth. A strong capital position also provides flexibility in considering accretive growth opportunities. It is the intention of the Company in the long term to pay out a portion of its future annual earnings to shareholders in the form of dividends. There has been no change in the capital management approach from the prior period.

Risk Management

The success of the Company is dependent upon its ability to assess and manage all forms of risk that affect its operations. The Company is exposed to many factors that could adversely affect its business, financial conditions or operating results. Developing policies and procedures to identify risk and the implementation of appropriate risk management policies and procedures is the responsibility of senior management and the Board of Directors. The Board directly, or through its committees, reviews and approves these policies and procedures, and monitors their compliance with them through ongoing reporting requirements. A description of the Company's most prominent risks follows.

Credit Risk

Concentration of credit risk may arise from exposures to a single debtor or to a group of debtors having similar characteristics such that their ability to meet their current obligations is expected to be affected similarly by changes in economic or other conditions. The Company is exposed to credit risk on its cash, accrued interest receivable, and bridge loans. The Company's maximum exposure to credit risk is $972,121 (December 31, 2021 - $6,760,047).

Market Risk

The Company is exposed to certain market risk that the value of, or future cash flows from, the Company's financial assets will significantly fluctuate due to changes in market prices. The value of the financial assets can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is required to mark to market its fair value through profit or loss investments at the end of each

reporting period. This process could result in significant write-downs of the Company's portfolio investment over one or more reporting periods, particularly during periods of overall market instability, which would have a significant unfavorable effect on the Company's financial position.

Digital Currencies Risk

Digital currencies are measured using level two fair values, determined by taking the rates from a cryptocurrency data aggregator.

Digital currency prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and the global political and economic conditions. The profitability of the Company is directly related to the current and future market price of coins; in addition, the Company may not be able to liquidate its inventory of digital currency at its desired price if required. A decline in the market prices for coins could negatively impact the Company's future operations. The Company has not hedged the conversion of any of its coin sales.

Digital currencies have a limited history, and the fair value historically has been very volatile. Historical performances of digital currencies are not indicative of their future price performance.

The following websites were used to gather information and pricing for digital currencies:

1. CoinGecko
2. CoinMarketCap

(In Canadian Dollars)

17. Fair Value and Financial Risk Management – continued

Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash to meet its obligations as they become due. The Company manages liquidity risk by maintaining cash balances to ensure that it is able to meet its short-term and long-term obligations as and when they fall due. The Company manages Company-wide cash projections centrally and regularly updates projections for changes in business and fluctuations caused in digital currency prices and exchange rates. In recent years, the digital currency markets experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings. As at December 31, 2022, the Company has cash of $972,121 (December 31, 2021 - $6,652,988) to meet current financial liabilities of $665,922 (December 31, 2021 - $533,383).

Currency Risk

The Company is exposed to certain currency risks that the value of certain financial instruments will fluctuate due to changes in foreign exchange rates. The Company does not hedge against this foreign currency risk.

18. Transactions with Related Parties

a) Compensation of key management personnel

The remuneration expense of directors and other members of key management personnel during the fiscal year ended December 31, 2022 and 2021 as follows:

		2022		2021
Consulting fees and salaries	**$**	**520,935**	$	404,170
Directors fees		**51,973**		
Stock based compensation		**9,146**		1,153,835
	$	**582,054**	$	1,558,005

b) As at December 31, 2022, included in accounts payable is $132,892 (December 31, 2021 - $68,905) due to directors and officers of the Company.

c) As at December 31, 2022 the Company has entered into an office cost sharing agreement with a corporation controlled by an Officer and Director of the Company. The terms of the agreement are monthly payments of $7,000 with no formal end date. The total amount of rental income accrued from this arrangement for the fiscal year ended December 31, 2022 is $41,998.

d) As at December 31, 2022, included in accounts payable is $91,844 (December 31, 2021 - $35,444) due to directors of the company

19. Commitments and Contingencies

Management Contingency

The Company is party to certain management contracts. These contracts require that additional payments of up to approximately $720,000 be made upon the occurrence of certain events such as a change of control or termination. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

19. Commitments and Contingencies – continued

Legal Contingency

The Company is, from time to time, involved in various claims and legal proceedings. The Company cannot reasonably predict the likelihood or outcome of these activities. The Company does not believe that adverse decisions in any ending or threatened proceedings related to any matter, or any amount which may be required to be paid by reasons thereof, will have a material effect on the financial condition or future results of operations.

On February 12, 2022, a claim was commenced against Layer2 Blockchain Inc. and several other defendants for equitable relief or, in the alternative, damages in an amount to be determined. The Company believes this action is without merit and it intends to defend the proceedings. At this stage, it is not possible to predict the outcome of the proceedings.