PROPHECY DEFI INC.

Interim Condensed Consolidated Financial Statements

September 30, 2024

(Expressed in Canadian dollars)

(Unaudited)

Management's Responsibility for Financial Reporting

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards. These unaudited interim condensed 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 unaudited interim condensed consolidated financial statements prior to submitting the consolidated financial statements to the Board for approval.

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

Toronto, Ontario
November 28, 2024

NOTICE TO READER

The accompanying unaudited interim condensed financial statements of the Company have been prepared by and are the responsibility of management. The unaudited interim condensed consolidated financial statements as at and for the nine months ended September 30, 2024 have not been reviewed by the Company's auditors.

Prophecy DeFi Inc.
Interim Condensed Consolidated Statement of Financial Position
(Unaudited)
(In Canadian Dollars)

	September 30, 2024	December 31, 2023
Assets		
Current assets		
Cash	**$ 100,737**	$ 437,349
Digital currencies (note 5)	**1,104,360**	1,521,064
Accrued rent receivable (note 15(c))	**-**	-
Prepaid expenses and deposits (note 6)	**44,724**	57,791
Portfolio investments (note 7)	**96,619**	1,085,673
	1,346,440	3,101,877
Office premise and other (note 8)	**428,662**	583,404
	$ 1,775,102	$ 3,685,281
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 15)	**$ 482,569**	$ 383,541
Lease liability, current portion (note 10)	**150,249**	137,900
	632,818	521,441
Lease liability (note 10)	**138,885**	253,006
Convertible debentures (note 11)	**5,768,619**	5,500,189
	6,540,322	6,274,636
Capital Stock and Deficit		
Share capital (note 12(b))	**28,344,353**	28,344,353
Contributed surplus	**7,617,713**	7,617,713
Deficit	**(40,727,286)**	(38,551,421)
Accumulated other comprehensive loss	**-**	-
Total shareholders' deficit	**(4,765,220)**	(2,589,355)
	$ 1,775,102	$ 3,685,281

On Behalf of the Board:

John McMahon Director

Andy Dayes Director

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

Prophecy DeFi Inc.
Interim Condensed Consolidated Statement of Changes in Shareholders' Equity
For the nine months ended September 30, 2024 and 2023
(Unaudited)
(In Canadian Dollars)

	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	$	$	$	$	$
Balance January 1, 2023	28,327,353	7,537,913	(36,853,767)	-	(988,501)
Issuance of stock options (note 12(c))	105,000	-	-	-	(105,00)
Net loss for the period	-	-	(1,556,753)	-	(1,556,753)
Balance September 30, 2023	**28,432,353**	**7,537,913**	**(38,410,520)**	**-**	**(2,440,254)**
Balance January 1, 2024	28,344,353	7,617,713	(38,551,421)	-	(2,589,355)
Issuance of shares (note 12(b))	-	-	-	-	-
Issuance of stock options (note 12(c))	-	-	-	-	-
Net loss for the period	-	-	(2,175,865)	-	(2,175,865)
Balance September 30, 2024	**28,344,353**	**7,617,713**	**(40,727,286)**	**-**	**(4,765,220)**

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

Prophecy DeFi Inc.
Interim Condensed Consolidated Statement of Operations and Comprehensive Loss
For the three and nine months ended September 30, 2024 and 2023
(Unaudited)
(In Canadian Dollars)

	Three months ended September 30		Nine months ended September 30	
	2024	**2023**	**2024**	**2023**
Revenue				
Change in value of portfolio investments (note 7)	$ 107,862	$ (64,811)	$ (524,411)	$ (34,539)
Rental income (note 15(c))	-	20,999	-	62,997
Interest and dividend income	9,927	8,121	29,915	12,552
Foreign exchange gain (loss)	(6,972)	19,098	3,415	(16,786)
Realized gain (loss) on sale of portfolio investments	(120,763)	-	101,582	-
Realized loss on digital currencies (note 5)	(157,357)	(423,272)	(438,691)	(1,304,355)
	(167,303)	(439,865)	(828,190)	(1,280,131)
Expenses				
Interest on convertible debentures (note 11)	146,350	146,350	439,050	439,050
Salaries	101,451	102,486	259,445	303,274
Amortization of financing costs (note 11)	63,140	63,140	188,048	187,362
Audit and legal fees	63,044	84,205	203,676	166,037
Amortization of office premise and other (note 8)	51,418	52,110	154,742	156,626
Accretion on convertible debentures (note 11)	27,590	24,514	80,382	71,419
Consulting fees (note 15(a))	19,500	17,198	58,500	86,196
Insurance	16,586	19,553	60,192	63,988
Office expenses	10,875	3,805	25,788	22,337
Interest on lease liability (note 10)	7,999	(3,077)	26,891	21,379
Filing and listing fees	7,897	34,614	25,385	51,036
News releases and investor relations	-	4,498	1,473	6,341
Promotional	-	1,424	1,529	2,554
Debt settlement	-	(40,277)	-	(40,277)
Stock based compensation (note 12(c))	-	-	-	-
Director and advisory board fees (note 15(d))	-	-	-	-
Memberships	-	-	-	-
	515,850	510,543	1,525,101	1,537,322
Operating loss	(683,153)	(950,408)	(2,353,291)	(2,817,453)
Other income				
Unrealized gain (loss) on digital currencies (note 5)	14,996	104,186	177,426	1,260,700
Net income (loss)	(668,157)	(846,222)	(2,175,865)	(1,556,753)
Other comprehensive income				
Revaluation gain on digital currencies (note 5)	-	-	-	-
Net comprehensive income (loss)	$ (668,157)	$ (846,222)	$(2,175,865)	$ (1,556,753)
Net income (loss) per share (note 13)				
Basic	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.01)
Diluted	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.01)
Weighted average number of shares outstanding				
Basic	132,847,212	132,147,212	132,847,212	132,147,212
Diluted	134,847,212	149,819,800	134,847,212	149,819,800

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

Prophecy DeFi Inc.
Interim Condensed Consolidated Statement of Cash Flows
For the nine months ended September 30, 2024 and 2023
(Unaudited)
(In Canadian Dollars)

	2024	2023
Operating activities		
Net income (loss) for the period	**$ (2,175,865)**	$ (1,556,753)
Adjustments for non-cash items:		
Change in value of portfolio investments	**524,411**	34,539
Realized loss on digital currencies	**438,691**	1,304,355
Financing fees	**188,048**	187,362
Amortization	**154,742**	156,626
Accretion of discount on convertible debentures	**80,382**	71,419
Interest on lease liability	**26,891**	21,379
Foreign exchange (gain) loss	**(3,415)**	16,786
Realized gain on portfolio investments	**(101,582)**	-
Unrealized gain on digital currencies	**(177,426)**	(1,260,700)
Issuance of shares	**-**	105,000
Net changes in non-cash working capital balances		
Accrued interest receivable	**-**	-
Prepaid expenses	**13,067**	(6,128)
Accounts receivable	**-**	(62,997)
Accounts payable	**(102,443)**	(371,898)
	(929,613)	(1,361,010)
Investing activities		
Proceeds from sale of portfolio investments	**2,940,175**	-
Purchase of portfolio investments	**(2,373,950)**	(205,198)
Purchase of furniture and office equipment	**-**	(3,780)
Proceeds on disposition of digital currencies	**155,439**	1,524,949
	721,664	1,315,971
Financing activities		
Payments of lease obligation	**(128,663)**	(111,994)
	(128,663)	(111,994)
Increase (decrease) in cash	**(336,612)**	(157,033)
Cash, beginning of period	**437,349**	972,121
Cash, end of period	**$ 100,737**	$ 815,088
Interest paid	**$ 319,591**	$ 460,429
Income taxes paid	**$ -**	$ -

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

1. Nature of Business

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.) ("PDFI" or the "Company") is an investment issuer that holds investments in web3-related companies and publicly traded securities for the purpose of generating returns from capital appreciation and 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 interim condensed 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 September 30, 2024, the Company has an accumulated deficit of $40,727,286 and has generated a comprehensive loss of $2,175,865. 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 unaudited interim condensed 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 unaudited interim condensed 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 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 unaudited interim condensed consolidated financial statements is Canadian dollars. The functional currency used by the Company and its subsidiary is Canadian dollars.

These unaudited interim condensed consolidated financial statements were approved by the Company's Board of Directors on November 28, 2024.

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

3. Material Accounting Policy Information

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.
- 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 in the form of investment income or from the provision of liquidity to decentralized exchanges. As consideration for liquidity 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 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.

3. Summary of Significant Accounting Policies – continued

B. Financial instruments - continued

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

	IFRS 9
	Classification
Cash	Amortized cost
Accrued rent receivable	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.

- 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.

3. Summary of Significant Accounting Policies – continued

B. Financial instruments - continued

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 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.

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.

3. Summary of Significant Accounting Policies – continued

B. Financial instruments - continued

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 investment income or digital currencies received for providing liquidity to decentralized exchanges. Liquidity provisioning 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 are 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.

(In Canadian Dollars)

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 nine months ended September 30, 2024 and, accordingly, have not been applied in preparing these interim condensed consolidated financial statements.

A. Amendments to IAS 1 Presentation of Financial Statements

In October 2022, the IASB issued Non-current Liabilities with Covenants that provides guidance on how covenants may affect an entity's right to defer settlement of a liability for at least twelve months after the reporting period, which may determine whether a liability should be presented as current or non-current.

This amendment to IAS 1 is effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, applied retrospectively.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New standards, amendments and interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Company's consolidated financial statements.

5. Digital Currencies

The continuity of digital currencies for the nine months ended September 30, 2024:

	September 30 2024	December 31 2023
Opening balance	$ 1,521,064	$ 3,407,494
Proceeds on disposition of digital currencies	(155,439)	(2,017,296)
Realized gain (loss) on dispositions	(438,691)	(2,743,587)
Unrealized gain (loss) on digital currencies	177,426	130,866
Derecognition of prior period unrealized losses	-	2,743,587
Total	$ 1,104,360	$ 1,521,064

(In Canadian Dollars)

6. Prepaid Expenses and Deposits

	September 30 2024	December 31 2023
Prepaid insurance	$ 14,742	$ 44,540
Lease security deposit	11,686	11,686
Prepaid rent	14,296	1,565
Prepaid consulting	4,000	-
Total	$ 44,724	$ 57,791

7. Portfolio Investments

	September 30 2024	December 31 2023
Marketable securities (a) (b) (c) (d) (e)	$ 621,030	$ 568,732
Change in fair value	(524,411)	516,941
Total	$ 96,619	$ 1,085,673

a) As at September 30, 2024, the Company held 1,391,085 (December 31, 2023 - 1,391,085) common shares of Uptempo Inc. with a fair value of $17,462 (December 31, 2023 - $11,387) and an decrease in fair value of $3,881 (December 31, 2023 - $5,693).

b) As at September 30, 2024, the Company held 284,656, (December 31, 2023 - 284,656) common shares of Hank Payments Corp. with a fair value of $12,809 (December 31, 2023 - $15,522) and a decrease in fair value of $2,847 (December 31, 2023 - $7,761).

c) As at September 30, 2024, the Company held 62 (December 31, 2023 - Nil) options of NVIDIA Corporation with a cost of $49,967 (December 31, 2023 - Nil) and a decrease in fair value of $20,674 (December 31, 2023 - Nil). The initial value of these investments are recorded at cost as they were purchased during the period.

d) As at September 30, 2024, the Company held 366 (December 31, 2023 - Nil) options of TeraWulf Inc. with a cost of $27,214 (December 31, 2023 - Nil) and an increase in fair value of $9,841 (December 31, 2023 - Nil). The initial value of these investments are recorded at cost as they were purchased during the period.

(In Canadian Dollars)

8. Office Premise and Other

	Office Premise (Right-of-Use Asset)	Leasehold Improvements	Furniture & Office Equipment	Total
Cost				
Balance, January 1, 2023	$ 660,660	$ 306,875	$ 110,913	$ 1,074,668
Additions	-	-	-	-
Disposals	-	-	-	-
Balance, December 31, 2023	$ 660,660	$ 306,875	$ 110,913	$ 1,078,448
Additions	-	-	-	-
Disposals	-	-	-	-
Balance, September 30, 2024	$ 660,660	$ 306,875	$ 110,913	$ 1,078,448
Accumulated Amortization				
Balance, January 1, 2023	$ (176,176)	$ (81,833)	$ (28,486)	$ (286,495)
Amortization	(132,132)	(61,375)	(15,042)	(208,549)
Balance, December 31, 2023	$ (308,308)	$ (143,208)	$ (43,528)	$ (495,044)
Amortization	(99,099)	(46,032)	(9,611)	(154,742)
Balance, September 30, 2024	$ (407,407)	$ (189,240)	$ (53,139)	$ (649,786)
Carrying Amount				
Balance, December 31, 2023	$ 352,352	$ 163,667	$ 67,385	$ 583,404
Balance, September 30, 2024	$ 253,253	$ 117,635	$ 57,774	$ 428,662

9. Goodwill

Cost	
Balance, January 1, 2021	$ -
Business combination	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	$ -

During the year ended 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)

10. 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 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, 2023	$	513,735
Interest expense		46,313
Cash payments		(169,142)
Balance, December 31, 2023	$	390,906
Interest expense		26,891
Cash payments		(128,663)
Balance, September 30, 2024		289,134
Current portion of lease liability		(150,249)
Non-current portion of lease liability	$	138,885

As at September 30, 2024, the carrying rate of the Company's lease liability was $289,134 (December 31, 2023 - $390,906) and the carrying rate of the right-of-use asset was $253,253 (December 31, 2023 - $352,352).

11. 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 nine months ended September 30, 2024, $439,050 (September 30, 2023 - $439,090) of interest and $80,382 (September 30, 2023 - $71,419) of accretion 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.

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

		September 30 2024		December 31 2023
Principal amount outstanding	$	5,854,000	$	5,854,000
Less: Transaction costs		(751,507)		(751,507)
Amortization of financing costs		694,543		506,495
Liability component on initial recognition		5,797,036		5,608,988
Debenture discount (net of amortization)		(28,417)		(108,799)
Total	$	5,768,619	$	5,500,189

(In Canadian Dollars)

12. Share Capital

a) *Authorized:*

Unlimited common shares (“CS”)

b) *Shares issued and outstanding:*

	Subordinated Voting Shares (SVS)		Common Shares (CS)	
	Number of Shares	Amount	Number of Shares	Amount
Balance December 31, 2021	**-**	**-**	**132,147,212**	**28,327,353**
Balance December 31, 2022	**-**	**-**	**132,147,212**	**28,327,353**
Issuance for debt settlement	-	-	700,000	17,000
Balance December 31, 2023	**-**	**-**	**132,847,212**	**28,344,353**
Balance September 30, 2024	**-**	**-**	**132,847,212**	**28,344,353**

(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.

(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.

12. Share Capital – continued

(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.

(viii) On August 3, 2023, the Company settled an aggregate of $17,000 of indebtedness owed to certain creditors through the issuance of an aggregate of 700,000 common shares in the capital of the Company at a price of $0.15 per Common Share, of which 600,000 common shares had a cost of $0.025 per Common Share and 100,000 common shares had a cost of $0.02 per Common Share. All Common Shares issued in connection with the Debt Settlement are subject to a statutory hold period of four months plus a day from the date of issuance in accordance with applicable securities legislation.

(In Canadian Dollars)

12. 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 September 30, 2024, the Company had 10,451,721 (December 31, 2023 - 8,651,721) options available for issuance under the plan.

The continuity of outstanding stock options for the nine months ended September 30, 2024 is as follows:

	Number of stock options	Weighted average exercise price per share $
Balance, December 31, 2021	**7,725,000**	**0.44**
Exercised	-	-
Granted	3,000,000	0.10
Balance, December 31, 2022	**10,725,000**	**0.32**
Expired	(4,800,000)	(0.23)
Exercised	-	-
Cancelled	(3,292,000)	(0.42)
Granted	2,000,000	0.05
Balance, December 31, 2023	**4,633,000**	**0.27**
Expired	**(1,800,000)**	**(0.36)**
Balance, September 30, 2024	**2,833,000**	**0.21**

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, 2023:

Grant Date	December 28, 2023	December 28, 2023	December 28, 2023
Number of options	1,000,000	500,000	500,000
Exercise Price	$0.05	$0.05	$0.05
Expected life in years	5	5	5
Volatility	270%	270%	270%
Risk-free interest rate	3.2%	3.2%	3.2%
Dividend yield	0.00%	0.00%	0.00%
Vesting	Immediately	Immediately	Immediately
Fair value of options granted	$39,900	$19,950	$19,950

During the fiscal year ended December 31, 2023, the Company recognized $79,800 (December 31, 2022 - $160,220) of stock-based compensation.

(In Canadian Dollars)

12. Share Capital – continued

d) *Warrants*

The continuity of outstanding warrants for the nine months ended September 30, 2024 is as follows:

	Number of warrants	Weighted average exercise price per share $
Balance, December 31, 2023	**49,031,826**	**0.13**
Expired	**(48,558,493)**	**(0.32)**
Balance, September 30, 2024	**473,333**	**0.60**

(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.

12. Share Capital – continued

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.

13. 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, and CS outstanding during the period as the effect of stock options and warrants issued and outstanding are considered antidilutive.

14. 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.

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. The Company's maximum exposure to credit risk is $100,737 (December 31, 2023 - $437,349).

14. Fair Value and Financial Risk Management – continued

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

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 September 30, 2024, the Company has cash of $100,737 (December 31, 2023 - $437,349) to meet current financial liabilities of $453,583 (December 31, 2023 - $521,441).

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.

(In Canadian Dollars)

15. Transactions with Related Parties

a) Compensation of key management personnel

The remuneration expense of directors and other members of key management personnel during the nine months ended September 30, 2024 and 2023 as follows:

		2024		2023
Consulting fees and salaries	**$**	**157,500**	$	142,500
Professional fees		**135,600**		101,721
	$	**293,100**	$	244,221

During the period, the Company paid $135,600 of professional fees to a company controlled by the CFO of PDFI.

b) As at September 30, 2024, included in accounts payable accrued liabilities is $32,885 (December 31, 2023 - $77,098) of salary expenses due to directors and officers of the Company.

c) As at September 30, 2024 the Company had 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 year ended December 31, 2023 was $91,243. There is uncertainty with the ability to collect the receivable therefore during the fiscal year ended December 31, 2023 a provision had been recorded with respect to the amount included in accounts receivable of $125,994. Officers of the Company have received the benefit of the provision recorded.

d) As at September 30, 2024, included in accounts payable accrued liabilities is $91,844 (December 31, 2023 - $91,844) due to former advisory board members of the company.

16. Commitments and Contingencies

Management Contingency

The Company is party to certain management contracts. These contracts require that additional payments of up to approximately $780,000 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.

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.

(In Canadian Dollars)

17. Subsequent Events

On November 7, 2024, PDFI announced that it had initiated the process to amend the terms of an aggregate of $5,680,000 principal amount convertible debentures (the "Debentures") and 9,468,560 common share purchase warrants (the "Warrants") of the Company issued on December 23, 2021. The Company received written approval from more than $66^{2/3}$% of the beneficial holders of Debentures by way of written resolution and is currently seeking the consent of beneficial Warrant holders to effect the proposed amendments. The Amendments offer more favourable conversion and exercise terms to holders of Debentures and Warrants and are being sought by the Company in an effort to preserve cash for deployment into its investment strategies, allowing the Company to focus on short-term business development.

Key features of the amendments include:

Debentures		
Terms	**Original**	**Amended**
Maturity Date	December 23, 2024	December 23, 2025
Interest Rate	10% per annum payable in arrears in equal quarterly installments.	12% per annum from the effective date of the amendments, payable as a balloon payment at maturity.
Conversion Terms	Conversion Price: $0.60 The Company can force conversion of the Debentures at the conversion price if the daily VWAP of the common shares on the CSE exceeds $1.20 for 10 consecutive trading days.	Conversion Price: $0.05 The Company can force conversion of the Debentures at the conversion price if the daily VWAP of the Common Shares on the CSE exceeds $0.10 for 10 consecutive trading days.

Warrants		
Terms	**Original**	**Amended**
Exercise Price	$0.90	$0.05
Expiry Date	December 23, 2024	December 23, 2026
Accelerated Expiry	The Company can accelerate the expiry date of the Warrants if the daily VWAP of the common shares on the CSE exceeds $1.80 for 10 consecutive trading days, starting four months and one day after the Warrant issuance.	The Company can accelerate the expiry date of the Warrants if the daily VWAP of the common shares on the CSE exceeds $0.10 for 10 consecutive trading days, starting four months and one day after issuance.

The Company further announced that it is requesting Debenture holders to provide a requisition in writing (the "Requisition") instructing TSXT to waive an event of default consisting of the non-payment of interest due and payable on October 1, 2024, pursuant to the terms of the Debenture Indenture. The Company expects it will receive the requisite number of Requisitions and will be in a position to proceed with the Amendments in due course. The Amendments have been approved by the Canadian Securities Exchange and a further announcement related to the effective date of the Amendments will be provided in due course assuming all consents are obtained.