



NEPTUNE DIGITAL ASSETS CORP.

Condensed Consolidated Interim Financial Statements
For the Three-Month Periods Ended November 30, 2022 and 2021

(Unaudited)
(Expressed in Canadian Dollars)

Neptune Digital Assets Corp.
Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited)

As at	November 30, 2022	August 31, 2022
ASSETS		
Current		
Cash and cash equivalents	\$ 2,002,621	\$ 4,755,064
Short-term investments	11,080,325	1,311,100
Amounts receivable and prepaid expenses	337,680	322,022
USD Coin (Note 3)	-	91,663
Digital currencies receivable from centralized exchanges (Note 4)	-	4,403,263
Receivables from decentralized platforms relating to liquidity pool tokens (Note 5)	388,909	528,078
Loans receivable (Note 6)	5,257,373	12,582,710
Digital currencies related to lending activities (Note 3)	927,256	-
Investments in equity instruments at fair value through profit or loss (Note 7)	2,546,126	2,643,444
	22,540,290	26,637,344
Deposits	421,481	421,481
Digital currencies – intangible assets (Note 3)	7,228,398	4,105,225
Property and equipment (Note 8)	4,763,958	4,878,294
	\$ 34,954,127	\$ 36,042,344
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Notes 9)	\$ 411,491	\$ 890,787
Equity		
Share capital (Note 10)	56,762,630	56,762,630
Reserves (Note 10)	17,337,013	16,893,944
Revaluation surplus (Note 11)	9,435,424	9,435,424
Deficit	(48,992,431)	(47,940,441)
	34,542,636	35,151,557
Total Liabilities and Equity	\$ 34,954,127	\$ 36,042,344

Nature and continuance of operations (Note 1)
Contingency (Note 18)
Subsequent events (20)

On behalf of the Board on March 28, 2023:

“Cale Moodie” Director “Carmen To” Director

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

Neptune Digital Assets Corp.

Condensed Consolidated Interim Statement of Income (Loss) and Comprehensive Income (Loss)

(Expressed in Canadian Dollars)

(Unaudited)

For the three months period ended	November 30, 2022	November 30, 2021 (Restated – Note 19)
Revenue		
Mining revenue (Note 3)	\$ 580,343	\$ 293,794
Rewards earned from providing liquidity in liquidity pools	10,977	416,890
	591,320	710,684
Cost of revenue		
Cost of mining revenue		
Hashrate management fees (Note 3)	32,850	-
Operating and maintenance costs (Note 3)	369,962	-
Depreciation – equipment (Note 8)	103,728	159,818
Changes in fair value of receivables from decentralized platforms relating to liquidity pool tokens (Note 5)	139,169	(206,158)
	645,709	(46,340)
Gross profit (loss)	(54,389)	757,024
Consulting fees (Note 9)	(211,125)	(163,625)
Depreciation (Note 8)	(25,908)	-
Directors' fees (Note 9)	(26,400)	(36,000)
Foreign exchange	(611,610)	477,103
Impairment loss on financial assets (Notes 4 and 6)	(183,168)	-
Marketing	(2,448)	(35,114)
Office and miscellaneous	(30,719)	(27,376)
Professional fees	(132,028)	(64,264)
Share-based compensation (Note 10)	(443,069)	(184,214)
Other income – non-cash (Note 3)	126,967	580,027
Realized gain on settlement of loans receivable	1,474,577	-
Unrealized gain (loss) on investments in equity instruments (Note 7)	(232,718)	4,935,551
Realized gain on redemption of investments in equity instruments (Note 7)	-	17,004
Realized loss on sale of digital currencies – intangible assets (Note 3)	(529,356)	(84,009)
Revaluation loss on digital currencies – intangible assets (Note 3)	(375,714)	(6,391,660)
Change in fair value of digital currencies receivable from centralized exchanges (Note 4)	-	2,305,631
Change in fair value of digital currencies related to lending activities (Note 3)	(178,620)	-
Gain on sale of property and equipment (Note 8)	16,818	-
Gain (loss) before finance income	(1,418,910)	2,086,078
Finance income		
Interest income from loans receivable, short term investments, and bank interest	366,920	416,335
Net income (loss)	(1,051,990)	2,502,413
Other comprehensive income		
Revaluation of digital currencies – intangible assets (Note 3)	-	6,231,142
Comprehensive income (loss) for the year	\$ (1,051,990)	\$ 8,733,555

Neptune Digital Assets Corp.

Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)

(Expressed in Canadian Dollars)

(Unaudited)

(continued)

Weighted Average Number of Common Shares Outstanding			
Basic		124,909,811	124,909,811
Diluted		125,428,044	131,337,135
Loss per Common Share			
Basic	\$	(0.01)	\$ (0.02)
Diluted	\$	(0.01)	\$ (0.02)

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

Neptune Digital Assets Corp.
Condensed Consolidated Interim Statements of Changes in Equity
(Expressed in Canadian Dollars)
(Unaudited)

	Share Capital		Reserves		Revaluation Surplus (Restated - Note 19)	Deficit (Restated - Note 19)	Total
	Number of Common Shares	Share Capital	Share-based Payments	Warrant Reserve			
Balance, September 1, 2021	124,909,811	\$ 56,762,630	\$ 8,382,749	\$ 8,326,981	\$ 7,302,765	\$ (26,868,528)	\$ 53,906,597
Share-based compensation (Note 10)	-	-	184,214	-	-	-	184,214
Income for the period	-	-	-	-	-	2,502,413	2,502,413
Revaluation of digital currencies – intangible assets (Note 3)	-	-	-	-	6,231,142	-	6,231,142
Balance, November 30, 2021	124,909,811	56,762,630	8,566,963	8,326,981	13,533,907	(24,366,115)	62,824,366
Balance, September 1, 2022	124,909,811	56,762,630	8,566,963	8,326,981	9,435,424	(47,940,441)	35,151,557
Share-based compensation (Note 10)	-	-	443,069	-	-	-	443,069
Loss for the year	-	-	-	-	-	(1,051,990)	(1,051,990)
Balance, November 30, 2022	124,909,811	\$ 56,762,630	\$ 9,010,032	\$ 8,326,981	\$ 9,435,424	\$ (48,992,431)	\$ 34,542,636

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

Neptune Digital Assets Corp.
Condensed Consolidated Interim Statements of Cash Flows
(Expressed in Canadian Dollars)
(Unaudited)

For the three months ended	November 30, 2022	November 30, 2021 (Restated - Note 19)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (1,051,990)	\$ 2,502,413
Items not affecting cash:		
Depreciation	129,636	159,818
Mining revenue	(580,343)	(293,794)
Expenses paid by digital currency – intangible asset	32,850	-
Other income – non-cash	(153,580)	(1,174,142)
Rewards earned from providing liquidity in liquidity pools	(10,977)	(416,890)
Changes in fair value of receivables from decentralized platforms relating to liquidity pool tokens	(139,169)	206,158
Unrealized (gain) loss on investments in equity instruments at fair value through profit or loss	232,718	(4,935,551)
Realized gain on redemption of investments in equity instruments	-	(17,004)
Realized gain (loss) on sale of digital currencies – intangible assets	-	84,009
Revaluation loss on digital currencies – intangible assets	375,714	6,391,660
Revaluation of digital currencies related to lending activities	178,620	-
Change in fair value of digital currencies receivable from centralized exchanges	-	(2,305,631)
Impairment loss on financial assets	183,168	-
Share-based compensation	443,069	184,214
Unrealized foreign exchange (gain) loss	161,107	(230,206)
Changes in non-cash working capital items:		
Amounts receivable and prepaid expenses	(15,658)	(100,164)
Accounts payable and accrued liabilities	(479,296)	(496,184)
Net cash flows used in operations	<u>(694,131)</u>	<u>(441,294)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of short-term investments	(9,769,225)	-
Purchase of property and equipment	(15,300)	-
Issuance of loans receivable	(8,281,964)	(5,039,975)
Settlement of loans receivable	16,045,933	-
Proceeds from disposals of digital currencies – intangible assets	3,392	9,768,903
Purchase of investments in equity instruments	(135,400)	-
Proceeds from disposal of USD Coin and USD Coin receivable	94,252	-
Deposits made for real estate	-	(390,619)
Net cash flows from (used in) investing activities	<u>(2,058,312)</u>	<u>4,338,309</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
No financing activities for the period	-	-
Net cash flows from financing activities	<u>-</u>	<u>-</u>
Net change in cash and cash equivalents	(2,752,443)	3,897,015
Cash and cash equivalents, beginning of the period	<u>4,755,064</u>	<u>154,803</u>
Cash and cash equivalents, end of the period	<u>\$ 2,002,621</u>	<u>4,051,818</u>

Neptune Digital Assets Corp.
Condensed Consolidated Interim Statement of Cash Flows
(Expressed in Canadian Dollars)
(Unaudited)
(continued)

Non-cash Investing Transactions:			
Digital currencies – intangible assets sold for digital currencies – intangible assets	\$	-	\$ 1,490,137
Digital currencies – intangible assets purchased with digital currencies – intangible assets	\$	-	\$ 1,490,137
Digital currencies receivable from centralized exchanges purchased with digital currencies – intangible assets	\$	30,347	\$ -
Digital currencies – intangible assets sold for digital currencies receivable from centralized exchanges	\$	30,347	\$ -
Digital currencies receivable from centralized exchanges transferred to digital currencies – intangible assets cold wallet	\$	2,824,254	\$ -
Digital currencies – intangible assets transferred to cold wallet from digital currencies receivable from centralized exchanges	\$	2,824,254	\$ -
Fair value of digital currencies – intangible assets and USD Coin loaned as part of lending activities	\$	-	\$ 47,952,639
Fair value of digital currencies receivable from centralized exchanges loaned as part of lending activities	\$	1,097,863	\$ -
Digital currency – intangible asset used to purchase liquidity pool tokens	\$	-	\$ 424,900
Digital currency – intangible asset received on redemption of short-term investments	\$	-	\$ 42,544
Fair value of digital currencies – intangible assets and USD Coin used for equipment purchased	\$	-	\$ 3,038,391
Digital currencies – inventories sold for digital currencies – intangible assets	\$	2,584,433	\$ -
Digital currencies – intangible assets purchased with digital currencies – inventories	\$	2,584,433	\$ -
Fair value of digital currencies and USD Coin advanced for equipment deposits	\$	-	\$ 6,108,165
Reclassification of equipment to equipment held for sale	\$	-	\$ 879,497

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

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

1. NATURE AND CONTINUANCE OF OPERATIONS

Neptune Digital Assets Corp. (the “Company” or “Neptune”) (formerly Neptune Dash Technologies Corp.) was incorporated on October 31, 2017 under the laws of the province of British Columbia. On December 17, 2020, the Company changed its name to Neptune Digital Assets Corp. The Company’s shares are listed on the TSX Venture Exchange (TSX-V) under the symbol NDA, on the Frankfurt Stock Exchange under the symbol INW, and on the OTCQB Venture Market under NPPTF. On January 5, 2023, the Company was issued a Cease Trade Order from the British Columbia Securities Commission until such time as the Company’s filings are up to date. The head office, registered office and records office of the Company are located in 2800 – 666 Burrard Street, Vancouver, BC.

Neptune is engaged in the business that builds, owns, and operates digital currency infrastructure assets. Its core assets are bitcoin mining equipment and digital currencies and its primary business model is to generate Bitcoin. The Company’s ancillary activities include staking and lending various digital currencies with the goal of earning interest and staking rewards. Digital currency staking is the process of actively participating in transaction validation on a blockchain.

On February 16, 2018, the Company incorporated a wholly owned subsidiary, Neptune Stake Technologies Corp. (“Neptune Stake”) which holds no assets and is in the process of being wound up. On October 1, 2021, the Company incorporated a wholly owned subsidiary, Neptune Digital USA Corp. (“Neptune USA”) for its US Bitcoin mining operations. The principal place of business of Neptune USA is in the US.

On December 7, 2021, the Company changed its business model to engage in Decentralized Finance (“DeFi”) related activities, including investing in liquidity mining pools.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on March 28, 2023.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting. The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

These condensed consolidated interim financial statements do not include all disclosures required in the annual consolidated financial statements and should be read in conjunction with the Company’s annual consolidated financial statements for the year ended August 31, 2022.

These condensed consolidated interim financial statements are prepared on the historical cost basis, except for financial instruments, digital currencies receivable from centralized exchanges, and embedded derivatives on receivables from decentralized platforms relating to liquidity pool tokens that are classified as fair value through profit or loss (“FVTPL”) and digital currencies (including those related to lending activities) that are measured at revalued amounts. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Amended standards became applicable for the current reporting period. These standards including those already issued but not yet applied by the Company do not have significant impact to the Company’s financial statements.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Going concern

The directors have, at the time of approving the condensed consolidated interim financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the condensed consolidated interim financial statements, which assumes that the Company will realize its assets and discharge its liabilities.

Basis of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries, Neptune Stake and Neptune USA. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

All intercompany balances and transactions and gains or losses resulting from intercompany transactions are eliminated in full in the condensed consolidated interim financial statements.

Foreign currencies

The Company's condensed consolidated interim financial statements are presented in Canadian Dollars, which is also the parent company's functional currency. For each entity, the Company determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Foreign currency transactions in currencies other than the Company's functional currency are translated into its functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Foreign operations

The operations of Neptune USA are an extension and complement of the parent company, Neptune. Neptune USA's revenues are intercompany management services and are not independent of Neptune. Therefore, management has determined, Neptune USA's functional currency is Canadian dollars.

Significant accounting judgments and estimates

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates (continued)

Significant judgments

Critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements include the following:

- (i) Income taxes - Management exercises judgment to determine the extent to which deferred tax assets are recoverable and can therefore be recognized in the consolidated statements of financial position and income and comprehensive income.
- (ii) Functional currency - The functional currency of the Company has been assessed by management based on consideration of the currency and economic factors that mainly influence the Company's digital currencies, production and operating costs, financing, and related transactions. Specifically, the Company considers the currencies in which digital currencies are most commonly denominated and expenses are settled by each entity as well as the currency in which each entity receives or raises financing. Changes to these factors may have an impact on the judgment applied in the determination of the Company's functional currency.

Since Neptune USA is a foreign operation, the Company applied judgement to determine whether Neptune USA carries on business as if it were an extension of the parent company. Management determined that Neptune USA is an extension of the parent company and is assumed to operate in the same primary economic environment as the parent company and should have the same functional currency as the parent company.

- (iii) Digital currency transactions and balances - Judgments applied on this area are as follows:

Digital currencies as intangible assets or inventories

Given the change in business model of the Company, the digital assets prior to December 7, 2021 are accounted for as intangible assets and were measured initially at cost and subsequently at fair value on the consolidated statement of financial position. Digital currencies are considered to be an identifiable non-monetary asset without physical substance. Management has determined that the digital currencies are treated as intangible assets in accordance with IAS 38 *Intangible Assets* ("IAS 38"). The Company adopts the revaluation model in accounting for its digital currencies.

Effective December 7, 2021, certain digital assets are transacted on DeFi platforms' liquidity pools and are purchased with the intent to resell in the near future, generating a profit from margins or from the fluctuations in prices. The Company applies the inventory treatment of a broker-trader under IAS 2 *Inventories* ("IAS 2"). Under IAS 2, the digital currencies are measured at fair value less cost to sell, with change in fair value recognized in profit or loss. There were no digital currencies previously held as intangible assets that were classified as inventories as at December 7, 2021, August 31, 2022 and November 30, 2022. Rewards earned from providing liquidity in liquidity pools are now presented as part of revenue. Rewards earned from providing liquidity in liquidity pools that were previously presented as a line after gross profit or loss prior to December 7, 2021 have been reclassified to meet the current presentation.

In determining fair values, management needs to apply judgments to identify the relevant available markets, and to consider accessibility to and activity within those markets in order to identify the principal digital asset markets for the Company.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates (continued)

Significant judgments (continued)

Digital currencies as intangible assets or inventories (continued)

Digital currencies related to lending activities representing digital currencies loaned out to third parties are accounted for as intangible assets and are presented separately on the consolidated statement of financial position. Management determined that digital currencies loaned out to third parties do not meet the derecognition criteria of IAS 38.

In June 2019, the IFRS IC published its agenda decision on ‘Holdings of Cryptocurrencies,’ and management exercises significant judgment in determining the appropriate accounting treatment for matters with no current definitive and uniform answers. In the event authoritative guidance is enacted by the IASB, the Company may be required to change its policies, which could have an effect on the Company’s consolidated financial position and results from operations.

USD Coin

Management exercises judgment to determine whether a digital currency meets the definition of a financial asset under IFRS 9 *Financial Instruments* (“IFRS 9”). Management has determined that USD Coin represents a contractual right to receive cash from the USD Coin issuer and, therefore, meets the definition of a financial asset.

Accounting for mining revenue and rewards earned from providing liquidity in liquidity pools and staking rewards

There is currently no specific definitive guidance in IFRS or alternative accounting frameworks for accounting for (a) mining of digital assets, (b) rewards from providing liquidity in liquidity pools, (c) trading fees earned on DeFi platforms and (d) staking rewards. Management has exercised significant judgment in determining appropriate accounting treatments for these revenue and other income items. Management has determined the accounting treatments as follows:

- The Company measures bitcoins from mining at the spot price when the consideration is received daily, which is not materially different from the fair value at the time the Company has earned the awards from the pools. Bitcoins received are subsequently measured as an intangible asset.
- Revenue from rewards from providing liquidity in liquidity pools is measured at the spot price of the reward tokens at the inception of the contract. Digital assets received are subsequently measured as inventories using the broker-dealer exemption in IAS 2. As at August 31, 2022 and November 30, 2022, all of the reward tokens received have been disposed of.
- Staking rewards are measured at fair value by reference to the quoted market price of the rewards at the beginning of contract. Digital assets received are subsequently measured as an intangible asset.

In the event authoritative guidance is enacted by the IASB, the Company may be required to change its policies which could result in a change in the Company’s financial position and earnings.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates (continued)

Significant judgments (continued)

Digital currencies receivable from centralized exchanges

Currently, no explicit IFRS exists on determining the accounting ownership of custodied digital assets. Therefore, the Company looked to the available non-authoritative guidance. To make the accounting ownership determination, the Company considered the guidance in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”) when developing an accounting policy for such assets.

The Company used the following principles, by analogy, in accounting ownership determination:

- Control principle under IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”) and
- Analysis of the characteristics of an asset as described in the IASB’s revised *2018 Conceptual Framework*.

The Company assessed the terms and conditions governing the arrangement with centralized exchanges and concluded that the derecognition requirements in IAS 38 are met. Accordingly, the Company does not retain control over the assets and when such assets are transferred from cold storage to the Company’s accounts held with centralized exchanges, the intangible assets are derecognized and reclassified to digital currencies receivable from centralized exchanges. The assets derecognized were revalued to their fair value on the dates of derecognition. Digital currencies purchased in the accounts held with centralized exchanges are classified as digital currencies receivable from centralized exchanges.

Control over staked digital assets

Management applied judgment whether the Company, either acting as a validator or a delegator in a staking activity, should continue to recognize staked digital assets as its own assets on the consolidated statement of financial position. The Company assessed that it should continue to recognize staked digital assets as its own assets after applying the control principle in IFRS 15.

- (iv) Investments in equity instruments - Included in investments in equity instruments are a 34.42% investment in an investment fund and a 41.45% investment in a US private company. Management accounted for such investments at fair value to profit or loss under IFRS 9, because the Company does not exercise significant influence over the investee. The Company does not have any contractual right to appoint any representative to the investee’s board of directors. In addition, the Company does not have any participation in policy-making processes and does not have any material transactions with the investee.

The fair value of investments in investment funds which are not quoted in an active market is determined by using net asset value as determined by the investee fund’s administrator. Management deems the net asset value to be the fair value after considering key factors such as the liquidity of the investee fund or its underlying investments, any restrictions on redemptions and basis of accounting. The fair value of investments in the US private company which are not quoted in an active market is determined based on financing rounds of the US private company or underlying investment.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates (continued)

Significant judgments (continued)

- (v) Accounting for receivables from decentralized platforms relating to liquidity pool tokens - IFRS does not include specific guidance on the accounting for digital assets and there is no clear industry practice and, accordingly, the accounting for digital assets transacted on a DeFi platform's liquidity pools could fall into a variety of different standards. Accordingly, the Company classifies these digital assets as inventories starting from December 7, 2021. Prior to December 7, 2021, the Company classified the digital assets used in liquidity mining as intangible assets.

Based on the Company's business model associated with liquidity mining (a process which involves depositing cryptocurrencies into a DeFi platform's liquidity pool), characteristics of decentralized platforms such as liquidity pools, the nature of liquidity pool tokens including its redeemability feature at the discretion of the holder, the documentation within decentralized platforms that outlines the trading and redemption process, token price determination including final value at redemption, incentives for participation and other factors, the Company has applied judgment and used certain IFRS by analogy. This led to a conclusion that liquidity pool tokens represent a right to receive digital assets and the Company then assessed if this right to receive digital assets is, or includes, a derivative. Based on the Company's assessment, this right represents a hybrid instrument consisting of a host (a prepayment which is not within the scope of IFRS 9) and an embedded derivative (difference between the pro-rata share and fair value of the underlying digital assets).

- (vi) Depreciation of property and equipment - Depreciation of property and equipment is dependent upon estimates of useful lives, which are determined through the exercise of judgment.
- (vii) Identifying whether a contract includes a lease - The Company entered into hosting contracts with third party hosting facilities to provide space and electricity to the equipment used for cryptocurrency mining.

The Company assessed whether the Company has contracted for the rights to substantially all of the capacity of the two third-party hosting facilities and whether the contracts with the third-party hosting facilities contain a lease for the occupied space in these facilities. Based on the Company's assessment of the contract terms, the Company does not have the right to obtain substantially all the economic benefits from the use of the two facilities. As a result, management concluded that the Company has not contracted for substantially all the capacity of the facilities, and therefore the contracts do not contain a lease.

Significant estimates

- (i) Valuation of digital currencies, digital currencies receivable from centralized exchanges and embedded derivative on receivables from decentralized platforms relating to liquidity pool tokens - Digital currencies and digital currencies receivable from centralized exchanges are revalued to their fair value determined based on volume weighted average price from www.cryptocompare.com at 7:00 am UTC. The fair value of the embedded derivative on receivables from decentralized platforms relating to liquidity pool tokens be the proportionate number of underlying digital assets associated with the hypothetical redemption of a given liquidity pool token. The digital currency market is still a new market and is highly volatile; historical prices are not necessarily indicative of future value; a significant change in the market prices for digital currencies would have a significant impact on the Company's earnings and financial position. In addition, management estimates that selling costs will be nominal.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates (continued)

Significant estimates (continued)

- (ii) Depreciation of property and equipment - Depreciation of property and equipment is dependent upon estimates of useful lives, which are determined through the exercise of judgment.
- (iii) Impairment of non-financial assets - Impairment of these non-financial assets exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. These calculations are based on available data, other observable inputs and projections of cash flows, all of which are subject to estimates and assumptions.
- (iv) Calculation loss allowance - When measuring ECL the Company uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions, and expectations of future conditions.

- (v) Share based compensation - The Company utilizes the Black-Scholes Option Pricing Model (“Black-Scholes”) to estimate the fair value of stock options granted to directors, employees, and consultants. The use of Black-Scholes requires management to make various estimates and assumptions that impact the value assigned to the stock options including the forecast future volatility of the stock price, the risk-free interest rate, dividend yield and the expected life of the stock options. Any changes in these assumptions could have a material impact on the share-based compensation calculation value, however the most significant estimate is the volatility. Expected future volatility can be difficult to estimate as the Company has had limited history and is in a unique industry, and historical volatility is not necessarily indicative of future volatility.

Revenue recognition

Mining revenue

The Company has entered into cryptocurrency mining pools by executing contracts with mining pool operators to provide computing power to the mining pool. The contracts are terminable at any time by either party without prior written notice and payment of a termination penalty is not required. The only amounts due are related to previously satisfied performance obligations which may be pending at termination (i.e. outstanding compensation earned by the Company via contribution of computing power to the pool per the contractual payment model). The Company’s enforceable right to compensation begins upon providing computing power to the mining pool operator and this enforceable right is created as power is provided over time. Providing computing power to the mining pool operators is an output of the Company’s ordinary activities and providing such computing power represents the only performance obligation in the Company’s contracts with mining pool operators. There is no significant financing component present in these transactions. Furthermore, the agreement does result in consideration payable to the customer in the form of a pool operator fee (in bitcoin). Given that this pool operator fee does not represent a payment for a distinct good or service, this fee is treated as a reduction of the transaction price.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Mining revenue (continued)

The Company earns revenue under payout models determined by the mining pool operators. The payout model relevant to the Company during the periods ended November 30, 2022 and 2021 is the Full Pay Per Share (“FPPS”) model.

Under the FPPS model, in exchange for providing computing power to the pool, which represents the Company’s performance obligation, the Company is entitled to compensation at an amount that approximates the total bitcoin that could have been mined using the Company’s computing power, based upon the then current blockchain difficulty. Under this model, the Company is entitled to compensation regardless of whether the pool operator successfully records a block to the bitcoin blockchain.

The terms of the contracts specify that the performance and the expected block reward and expected transaction fees are measured either hourly or daily and are calculated from midnight-to-midnight UTC time or calculated on a look-back basis across a specified number of previous blocks. Although the performance and payment are measured hourly, certain contract allows the Company to receive its allocable share of compensation daily. Payments are associated with computing power provided during one UTC day and not combined with those for previous days.

Due to the continuous nature of the provision of computing power to the pool, the Company has determined that its performance obligation is satisfied over time. The provision of computing power represents a single performance obligation that represents a promise to transfer to the customer a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer.

Under the FPPS model, the transaction consideration the Company receives is also non-cash consideration, which the Company measures at the spot price when the consideration is received daily, which is not materially different from the fair value at the time the Company has earned the award from the pools.

Under the FPPS approach, the Company’s reward is based upon the pool operator’s standard FPPS payout methodology. This payout methodology determines the Company’s payout, in bitcoin, based on the hashrate the Company contributed to the mining pool relative to the current network difficulty at the end of each 24-hour time-period (i.e. at 23:59 UTC) or at the end of each hour calculated on a look-back basis across a specified number of previous blocks. Revenue is calculated and recognized on a daily or an hourly basis in accordance with the payout methodology of the pool operators as specified in the Company’s contracts.

Revenue from rewards earned from providing liquidity in liquidity pools

The Company engages in liquidity mining activities where it acts a liquidity provider and deposits certain tokens into certain DeFi platforms’ liquidity pools. Transactions within liquidity pools are governed by a self-executing code referred to as a smart contract.

In a liquidity mining, the Company earns rewards from providing liquidity in liquidity pools and share in trading fees earned by liquidity pools. Share in trading fees is a component of rewards earned from providing liquidity in liquidity pools. Certain percentage of trading fees on DeFi platforms are automatically fed back into the liquidity pools to make the pools more valuable over time. The liquidity pool providers will therefore earn their pro rata share of trading fees every time a trade is executed by the liquidity pools.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from rewards earned from providing liquidity in liquidity pools (continued)

Depositing and holding liquidity pool tokens in a rewards pool for a certain contract term represents one performance obligation. In determining the contract term, the Company considered the length of time during which the Company can monitor and can decide whether to exit from the reward pool and whether the Company has reasonable ability to do so, as well as the required unbound period. Every contract term, the Company will make a decision on whether to exit from the reward pool. This is done perpetually throughout the smart contract term, and it renews each and every contract term (“evergreen contract term”) without any additional costs or penalties. Since the smart contract will renew without additional cost under the same terms, there is not material right associated with the evergreen renewal clause. Therefore, the Company assessed that there are no material rights for future services granted under the contract.

The Company assessed that each contract renewal is considered as a contract modification. The Company further assessed that the contract modification is a separate contract because the modification results in a promise to deliver additional goods that are distinct (i.e. quantity of depositing and holding liquidity pool tokens in a reward pool); and an increase in the price of the contract by an amount of consideration that reflects the Company’s stand-alone selling price for those goods (i.e. the amount of rewards would be based on the portion of the rewards generated by the reward pools in which the Company’s liquidity pool tokens are deposited in comparison to the all reward pools on the platform).

As the liquidity pool simultaneously receives and consumes the benefits provided by the Company’s liquidity pool tokens, the Company has determined that its performance obligation is satisfied over time. Depositing and holding liquidity pool tokens in a reward pool represents a single performance obligation that represents a promise to transfer to the customer a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer.

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

- Variable consideration,
- Constraining estimates of variable consideration,
- The existence of a significant financing component in the contract, and
- Non-cash consideration.

The consideration is all variable because rewards earned will be proportional to the total number of liquidity pool tokens staked. Because it is not probable that a significant reversal of cumulative revenue will not occur, the consideration is constrained until the Company is able to resolve the variable consideration, which occurs at the end of each contract term. Revenue from rewards earned from providing liquidity in liquidity pools is recognized over time (measured at the beginning of each contract term). The transaction consideration the Company receives, is non-cash consideration, which the Company measures at fair value by reference to the quoted market price of the rewards from providing liquidity and pair of tokens representing proportionate share in trading fees at the beginning of each hour (i.e. inception of the contract).

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Other income from staking

Staking is the act of posting digital assets as collateral to a proof-of-stake (“PoS”) blockchain network either as (1) a validator or (2) a delegator.

A validator is a blockchain participant (e.g., an individual or entity) that verifies transactions on a PoS blockchain as part of the blockchain’s consensus mechanism. Validators generally must be node operators to sign blocks of transactions as valid.

A delegator is an individual or entity that stakes its digital assets with a trusted validator instead of operating a node and validating blockchain transactions itself.

Validator in staking activity

As a validator, the Company earns income from staking in which the Company participates in networks with PoS consensus algorithms, through creating or validating blocks on the network. In exchange for participating in the consensus mechanism of these networks, the Company earns rewards in the form of the native token of the network. Each block creation or validation is a performance obligation. Rewards are recognized at the point when the block creation or validation is complete and the rewards are available for transfer. Other income is measured based on the number of tokens earned and the fair value of the token when it was earned.

Staking income from running a validator node is not significant during the periods ended November 30, 2022 and 2021.

Delegator in staking activity

As a delegator, the Company secures the network by delegating its stake to validator nodes. The Company earns a portion of the rewards generated by validators by securing the network and producing blocks per respective period/epoch/era (varies based on the platform or the chain).

When the Company elects to de-stake digital assets acting either as delegator or validator, an unbonding period may apply. During this period, the Company typically no longer earns staking rewards on the de-staked digital assets and is subject to slashing, but it cannot sell (or otherwise transfer) those digital assets. The unbonding period varies based on the platform or the chain.

The performance obligation is the delegation of the Company’s tokens to a validator node for certain contract term (which varies from one chain to another) plus the unbonding period. In determining the contract term, the Company considered the length of time during which the Company can monitor and can decide whether to exit from the reward pool and whether the Company has reasonable ability to do so. Every contract term the Company will decide on whether to unbond its position from the staking pool without additional cost or penalty. Since the smart contract will renew without additional cost under the same terms, there is not a material right associated with the evergreen renewal clause. Therefore, the Company assessed that there are no material rights for future services granted under the contract.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Other income from staking (continued)

The Company assessed that each contract renewal is considered as a contract modification. The Company further assessed that the contract modification is a separate contract because the modification results in a promise to deliver additional services that are distinct (i.e. delegating tokens to a delegation pool); and an increase in the price of the contract by an amount of consideration that reflects the Company's stand-alone selling price for those services (i.e. pro-rata share of rewards based on the proportion of the Company's delegated assets relative to the total of other delegated assets and the validator's own assets less any commissions charged by the validator).

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

- Variable consideration,
- Constraining estimates of variable consideration,
- The existence of a significant financing component in the contract, and
- Non-cash consideration.

The consideration is all variable because staking rewards earned will be proportional to the total number of delegated assets staked and network's inflation rate. Because it is not probable that a significant reversal of cumulative revenue will not occur, the consideration is constrained until the Company is able to resolve the variable consideration, which occurs at the end of each contract term. Revenue is recognized over time, which is measured at the beginning of each contract term. The transaction consideration the Company receives is non-cash consideration, which the Company measures at fair value by reference to the quoted market price of the rewards at the beginning of each day (i.e. inception of the contract).

Other income from staking is presented as part of other income as management deems this as part of its ancillary operations.

Interest income from digital currencies related to lending activities and from digital currency balances held in exchanges and lending platforms

From time to time, the Company loans out digital currencies to earn interest on these digital currencies prior to them being used to purchase mining machines or funding other asset acquisitions. The loans are in both open and closed terms at varying interest rates. Interest rates are based on a percentage of the digital currencies loaned and are denominated in the related digital currencies.

The Company also earns interest income from digital currency balances held in an exchange and lending platform based on contractual interest rates.

Interest income from digital currencies loaned is presented as part of other income as management deems this as part of its ancillary operations.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Current and non-current classification

Assets and liabilities are presented in the consolidated statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realized or intended to be sold or consumed in the Company's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Digital currencies

As mentioned in Note 1, the Company changed its business model starting December 7, 2021 to include engaging in DeFi related activities. The Company determined that starting December 7, 2021 revenue from investing in liquidity pools is an output of the Company's ordinary activities.

(i) *Prior to December 7, 2021*

Digital currencies that are expected to be realized within 12 months of the reporting period are recorded as current assets on the consolidated statement of financial position. All other digital currencies are classified as non-current.

Management of the Company views each digital currency as an intangible asset as it is an identifiable non-monetary asset without physical substance and accordingly the Company uses the revaluation model, as permitted under IAS 38 to measure its digital currencies. Initially, the digital currencies are measured at cost. For purposes of revaluation, fair value is determined by reference to the volume weighted average price from www.cryptocompare.com at 7:00 am UTC.

If the carrying amount of a digital currency is increased as a result of a revaluation, the increase is recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

If the carrying amount of a digital currency is decreased as a result of a revaluation, the decrease is recognized in profit or loss. However, the decrease is recognized in other comprehensive income to the extent of any credit balance in the other comprehensive income in respect to that digital currency.

The Company does not transfer the cumulative revaluation surplus included in equity directly to retained earnings when the surplus is realized. The whole surplus may be realized on the disposal of the asset.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Digital currencies (continued)

The Company has assessed that the digital currencies have an indefinite useful life because there is no foreseeable limit to the period over which the assets are expected to generate cash inflows for the Company.

Purchases of digital currencies by the Company are included within investing activities on the consolidated statement of cash flows, while digital currencies awarded to the Company through its mining activities are included within operating activities on the consolidated statement of cash flows. The sales of digital currencies are included within investing activities on the consolidated statement of cash flows and any realized gains or losses from such sales are included as an item under other items on the consolidated statement of income and comprehensive income.

Digital currencies that are used in lending activities do not meet the derecognition criteria under IAS 38 and are presented as digital currencies related to lending activities on the consolidated statement of financial position. When a digital currency is transferred to digital currencies related to lending activities, both the revalued amount and the corresponding cost of the digital currency are transferred to that category.

The Company's realized gain or loss on digital currencies is calculated as the proceeds received from the sale of digital currencies less their cost, which is determined on a First-in, First-out basis.

(ii) *On or after December 7, 2021*

Following the change in the Company's business model, the Company has classified digital currencies as either intangible assets under IAS 38 or inventories under IAS 2, depending on facts and circumstances.

Certain digital assets are transacted in decentralized platforms and are purchased with the intent to resell in the near future, generating a profit from margins or from the fluctuations in prices. The Company applies the inventory treatment of a broker-trader under IAS 2 to these digital assets. Under IAS 2, the digital assets are measured at fair value less cost to sell, with change in fair value recognized in the consolidated statement of profit or loss. Costs are determined on a First-in, First-out basis and realized gains or losses when digital assets are sold.

There were no digital assets previously held as intangible assets that were recognized as inventories as at December 7, 2021.

The Company values its digital currency inventories based on volume weighted average price from www.cryptocompare.com at 7:00 am UTC. The Company believes any price difference amongst the principal market and the average of quoted rates to be immaterial. Management considers this fair value to be a level 2 input under IFRS 13 fair value hierarchy as the price on this source represents the average quoted prices on multiple cryptocurrency exchanges.

The Company's determination to classify its holding of digital currency inventories as current assets is based on management's assessment that the Company actively trades these cryptocurrencies to generate a profit from price fluctuations.

The Company continues to classify digital assets that are not purchased with the intent to resell in the near future as intangible assets using the revaluation model.

At November 30, 2022 and August 30, 2022 the Company did not have any digital currencies classified as inventories because the Company did not purchase any digital currencies that would be used in liquidity service arrangement.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Digital currencies receivable from centralized exchanges

The digital currencies receivables from centralized exchanges represent a hybrid instrument with a debt host contract and embedded derivatives linked to the fair value of digital currencies. The Company accounts for this right as a financial asset (host contract) with an embedded derivative (the fair value of the digital currencies) given the value of the asset is driven by the price change of the digital currencies. The embedded derivative is not required to be bifurcated under IFRS 9 because the host contract is a financial asset. The instrument is measured at FVTPL in its entirety, because the contractual cash flows characteristics are not solely for payment of principal and interest. The change in fair value is recorded under “Change in fair value of digital assets receivable from centralized platforms” in the consolidated statement of income or loss and comprehensive income or loss.

Receivables from decentralized platforms relating to liquidity pool tokens

Receivables from decentralized platforms relating to liquidity pool tokens represent the fair value of digital assets held in blockchain-based liquidity pools and decentralized exchanges for peer-to-peer trading of such digital assets. These receivables are considered a right to receive digital assets that arises as a result of the liquidity service arrangement entered into by the Company as a liquidity provider with certain liquidity pools. The Company accounts for this right as a non-financial asset (host contract) with an embedded derivative (the difference between pro-rata share and fair value of underlying digital assets) given the value of the asset is driven by the price change of the digital assets underlying the liquidity pool tokens that could be redeemed for at the end of reporting period. The host contract is measured at cost and the embedded derivative is measured at fair value with change in fair value recorded under “Change in fair value of receivables from decentralized platforms relating to digital currencies deposited in liquidity pools” in the consolidated statement of income or loss and comprehensive income or loss.

Upon redemption of the liquidity pool tokens, realized gain or loss is determined based on the initial cost of liquidity pool tokens and the fair value of the embedded derivative. This is included within “Changes in fair value of receivables from decentralized platforms relating to liquidity pool tokens” in the consolidated statement of income or loss and comprehensive income or loss.

The Company’s accounting policy is to present the host and embedded derivative as one line item on the consolidated statements of financial position. The Company classifies the asset as current or non-current depending on the cash flows of the whole hybrid arrangement because the embedded derivative cannot be settled separately from the host contract.

Shared-based payments

Share-based payments include option and stock grants granted to directors, employees and consultants. The Company accounts for share-based compensation using a fair value-based method with respect to all share-based payments measured and recognized, to directors, employees and consultants. For directors and employees, the fair value of the options and stock grants is measured at the date of grant. For consultants, the fair value of the options and stock are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. For directors, employees and consultants, the fair value of the options and stock grants is accrued and charged to operations, with the offsetting credit to share based payment reserve for options, and commitment to issue shares for stock grants over the vesting period. If and when the stock options are exercised, the applicable amounts are transferred from share-based payment reserve to share capital. When the stock grants are issued, the applicable fair value is transferred from commitment to issue shares to share capital. Option based compensation awards are calculated using the Black-Scholes option pricing model while stock grants are valued at the fair value on the date of grant.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**Shared-based payments (continued)**

The Company has granted certain directors and consultants restricted share units (“RSUs”) to be settled in shares of the Company. The fair value of the estimated number of RSUs that will eventually vest, determined at the date of grant, is recognized as share-based compensation expense over the vesting period, with a corresponding amount recorded as equity. The fair value of the RSUs is estimated using the market value of the underlying shares as well as assumptions related to the market and non-market conditions at the grant date.

Income taxes

The income tax expense or credit for the period is the tax payable on the current period’s taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current taxation is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries the Company and its subsidiary operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax assets and liabilities are recognized for deferred income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. To the extent that the Company does not consider it probable that a deferred income tax asset will be recovered, the deferred income tax asset is not recognized. Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to offset current tax assets against liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Loss per share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average share outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

(i) Financial assets

Initial recognition and measurement

Financial assets are classified as either financial assets at FVTPL, amortized cost, or fair value through other comprehensive income. The Company determines the classification of its financial assets at initial recognition.

FVTPL - financial assets are classified as fair value through profit or loss if they do not meet the criteria of amortized cost or fair value through other comprehensive income. Changes in fair value are recognized in profit and loss.

Amortized cost – financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as FVTPL: 1) The objective of the Company’s business model for these financial assets is to collect their contractual cash flows; and 2) the assets contractual cash flow represents solely payments of principal and interest.

Subsequent measurement – financial assets at amortized cost

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate (“EIR”) method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets are classified as follows:

Classification	IFRS 9
Cash and cash equivalents	Amortized cost
Short-term investments	Amortized cost
USD Coin	Amortized cost
USD Coin receivable	Amortized cost
Loans receivable	Amortized cost
Loan receivable with put option	FVTPL
Embedded derivative on receivables from decentralized platforms relating to liquidity pool tokens	FVTPL
Digital currencies receivable from centralized exchanges	FVTPL
Investment in equity instruments	FVTPL

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Financial liabilities

Initial recognition and measurement

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL, as is the case with derivative instruments and, or the Company has opted to measure the financial liability at FVTPL. All financial liabilities are recognized initially at fair value, and where applicable net of directly attributable transaction costs.

Subsequent measurement – financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or expires with any associated gain or loss recognized in other income or expense in the statement for profit or loss.

Financial liabilities consist only of accounts payable and accrued liabilities which are measured at amortized cost.

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortized cost or fair value as appropriate.

Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of IFRS 9 (e.g., financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

If the hybrid contract is a quoted financial liability, instead of separating the embedded derivative, the Company generally designates the whole hybrid contract at FVTPL.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realized or settled within 12 months.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Impairment

(i) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (the "cash-generating unit").

An impairment loss is recognized if the carrying amount of a cash-generating unit exceeds its estimated recoverable amount. The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cost flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. Impairment losses are recognized in net income (loss).

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss has been recognized.

The Company's accounting policy for impairment on digital currencies is discussed within the digital currencies significant accounting policy.

(ii) Financial assets

The Company assesses all information available, including on a forward-looking basis, the expected credit losses ("ECL") associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as the reporting date, with the risk of default as at the date of initial recognition, based on all information available, and reasonable and supportive forward-looking information.

The Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**Property and equipment**

Property and equipment are recorded at historical cost less accumulated depreciation and accumulated impairment losses. The Company provides for depreciation using a straight-line basis of 40 years for building, the declining balance at 20% per year for furniture, and the declining balance at 50% per year for all mining equipment.

Unit share issuances

For unit share issuances consisting of common shares and warrants, the Company uses the fair value of common shares as the more reliably measurable instrument. The proceeds from the issuance of units are first allocated to the share capital and the residual amount, being the difference between the proceeds from issuance and the fair value of the common shares, is allocated to warrants.

Comprehensive income

Comprehensive income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in net profit. Other comprehensive income consists of changes to unrealized gains and losses on digital currencies that are measured at revalued amounts during the period. Comprehensive income measures net earnings for the period plus other comprehensive income. Amounts reported as other comprehensive income are accumulated in a separate component of shareholders' equity as revaluation surplus.

New standards, interpretations and amendments adopted

There were no new standards, interpretations, or amendments adopted for the period ended November 30, 2022.

Accounting standards and amendments issued but not yet adopted

There are no new standards or amendments issued but not yet adopted that are expected to have a material impact on the Company's condensed consolidated interim financial statements.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

3. DIGITAL CURRENCIES – INTANGIBLE ASSETS AND USD COIN

Digital currencies – intangible assets are recorded at their fair value on the acquisition date or when they are received as revenues and are revalued at their current market value at each reporting date. Fair value is determined based on volume weighted average price from www.cryptocompare.com at 7:00 am UTC. The Company believes any price difference amongst the principal market and an aggregated price to be immaterial.

A summary of digital currencies – intangible assets balances as at November 30, 2022 and August 31, 2022 is as follows:

	Holdings, November 30, 2022	Fair Value, November 30, 2022	Holdings, August 31, 2022	Fair Value, August 31, 2022
ATOM ⁽¹⁾	169,160	\$ 2,396,978	162,961	\$ 2,525,433
Bitcoin	198	4,569,847	50	1,321,097
Dash ⁽¹⁾	2,041	117,685	2,005	118,834
Ethereum	36	61,788	36	72,813
MEMO ⁽¹⁾	2,257	39,187	2,257	39,749
Litecoin	349	37,241	349	24,650
Fantom ⁽¹⁾	5,306	3,512	5	2
Stellar	12,788	1,545	12,788	1,755
Neo	42	399	42	498
OMG Network	77	132	77	182
Qtum	52	84	52	212
Balance		\$ 7,228,398		\$ 4,105,225

(1) Digital currencies used for staking.

The Company's digital currencies – intangible assets are remeasured as of the reporting date. The following overview shows the fair values and carrying amounts as at November 30, 2022 and August 31, 2022:

	Fair Value, November 30, 2022	Cost, November 30, 2022	Fair Value, August 31, 2022	Cost, August 31, 2022
ATOM	\$ 2,396,978	\$ 1,654,025	\$ 2,525,433	\$ 1,595,897
Bitcoin	4,569,847	4,879,034	1,321,097	1,499,169
Dash	117,685	1,759,272	118,834	306,462
Ethereum	61,788	49,228	72,813	48,624
MEMO	39,187	309,445	39,749	310,086
Litecoin	37,241	53,637	24,650	53,620
Fantom	3,512	1,757	2	2
Stellar	1,545	4,955	1,755	4,955
Neo	399	3,101	498	3,101
OMG Network	132	1,157	182	1,164
Qtum	84	984	212	984
Balance	\$ 7,228,398	\$ 8,716,595	\$ 4,105,225	\$ 3,824,064

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

3. DIGITAL CURRENCIES – INTANGIBLE ASSETS AND USD COIN (continued)

The following is a reconciliation of digital currencies – intangible assets as at November 30, 2022 and August 31, 2022:

	November 30, 2022	August 31, 2022
Balance, beginning of period (<i>Restated - Note 19</i>)	\$ 4,105,225	\$ 6,103,264
Bitcoin mining	580,343	1,468,243
Dash, Fantom, ATOM, MEMO and Ethereum earned	156,544	743,604
Transfer from centralized exchanges	2,824,254	-
Purchase of digital currencies – intangible assets	-	3,821,357
Purchase of digital currencies from centralized exchanges	-	48,132
Disposal of digital currencies – intangible assets	-	(8,762,190)
Derecognition of digital currencies – transfer to centralized exchanges	(30,345)	(847,793)
Digital currencies loaned as part of lending activities	-	-
Digital currencies received as interest	-	-
Digital currencies used to pay for expenses and equipment purchases	(32,850)	(93,327)
Digital currencies received to settle digital currencies loaned as part of lending activities	-	-
Digital currencies received to settle loans receivable receivable	-	1,039,136
Revaluation of digital currencies	(374,773)	584,799
Balance, end of year	\$ 7,228,398	\$ 4,105,225

Management considers the fair value of digital assets to be Level 2 under IFRS 13 *Fair Value Measurement* (“IFRS 13”) fair value hierarchy as the volume weighted average price taken from www.cryptocompare.com uses the volumes of multiple digital currency exchanges. There has been no change in the valuation techniques during the year.

Other income for the period ended November 30, 2022 and 2021 is comprised of the following:

	Three months ended November 30, 2022	Three months ended November 30, 2021
ATOM earned	\$ 143,120	\$ 162,030
Fantom earned	-	29,089
Dash earned	2,012	7,469
Ethereum	435	-
MEMO earned	-	18,601
Interest earned on digital currency and digital currency receivable	63,266	169,903
Interest earned on digital currency and USD Coin loans	8,013	192,935
Penalty on early redemption of digital currency receivable	(89,879)	-
Other income	\$ 126,967	\$ 580,027

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

3. DIGITAL CURRENCIES – INTANGIBLE ASSETS AND USD COIN (continued)**Bitcoin**

As at November 30, 2022, the Company has 198 (August 31, 2022 - 50) Bitcoin with a fair value of \$4,569,847 (August 31, 2022 - \$1,321,097). During the year ended August 31, 2021, the Company commenced Bitcoin mining operations. Included within net and comprehensive income for the three-month period ended November 30, 2022, is \$547,494 (2021 - \$293,794) related to 21 (2021 - 5) Bitcoin mined during the period.

A continuity for Bitcoin as at November 30, 2022 and August 31, 2022 is as follows:

	Number	Amount
Balance, August 31, 2021 <i>(Restated - Note 19)</i>	1	\$ 44,970
Mining revenue	26	1,468,243
Hashrate management fee	-	(93,327)
Bitcoin received on settlement of loan receivable	38	1,039,136
Bitcoin acquired	1	113,520
Bitcoin derecognized and transferred to centralized exchanges	(16)	(847,793)
Revaluation		(403,652)
Balance, August 31, 2022	50	\$ 1,321,097
Mining revenue	21	580,343
Hashrate management fee	-	(32,850)
Bitcoin transferred from centralized exchanges	127	2,824,254
Revaluation	-	(122,997)
Balance, November 30, 2022	198	\$ 4,569,847

All revenue from Bitcoin mining was generated from only one mining pool operator. Revenue from Bitcoin mining is recognized over time.

ATOM

During the three-month period ended November 30, 2022, the Company earned 8,446 (2021 - 3,864) ATOM valued at \$143,120 (2021 - \$162,030) recorded within other income and exchanged 2,247 (2021 - nil) ATOM with a fair value of \$21,125 (2021 - \$nil).

A continuity for ATOM as at November 30, 2022 and August 31, 2022 is as follows:

	Number	Amount
Balance, August 31, 2021	144,384	\$ 4,166,227
ATOM earned	22,275	605,730
ATOM exchanged	(3,698)	(130,858)
Revaluation of digital currencies	-	(2,115,666)
Balance, August 31, 2022	162,961	\$ 2,525,433
ATOM earned	8,446	143,120
ATOM exchanged	(2,247)	(21,125)
Revaluation of digital currencies	-	(250,450)
Balance, November 30, 2022	169,160	\$ 2,396,978

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

3. DIGITAL CURRENCIES – INTANGIBLE ASSETS AND USD COIN (continued)**Bitcoin related to lending activities**

On October 4, 2022, the Company entered into a loan agreement whereby it loaned 40 Bitcoin to a third party maturing April 4, 2023. The loan bears interest at 5.0% per annum, accrued daily and payable monthly in Bitcoin. Bitcoin received as interest were valued based on daily average price. The change in Bitcoin related to lending activities for the three-month period ended November 30, 2022, is as follows:

	Number	Amount
Balance, August 31, 2022	-	\$ -
Bitcoin loaned	40.00	1,097,863
Interest accrued	0.32	8,013
Revaluation	-	(178,620)
Balance, August 31, 2022 and 2021	40.32	\$ 927,256

Tether and USD Coin related to lending activities

During the year ended August 31, 2021, the Company entered into a series of loans whereby it loaned an aggregate of 27,500,000 Tether with the following interest rates and maturities:

- 20,000,000 Tether, valued at \$25,212,709, bearing 11% interest, maturing May 21, 2021;
- 7,500,000 Tether, valued at \$9,454,766, bearing 11.25% interest, maturing October 22, 2021; and
- 10,000,000 Tether, valued at \$12,589,647, bearing 10% interest, maturing September 28, 2021.

Interest on above loans was payable in Tether. Subsequent to maturity, the 20,000,000 was rolled into two new loans bearing 11% and maturing on June 21, 2021. 10,000,000 of the loans were rolled into USD Coin, and the remaining 10,000,000 remained as Tether. As Tether and USD Coin had the same value, the Company did not recognize any gain or loss on the loan roll forwards. The two loans were repaid during the year ended August 31, 2021. During the year ended August 31, 2022, the loans matured. The Company received USD 7,500,000 (\$9,256,943) in cash on the October 22, 2021 loan and rolled the September 28, 2021 maturing loan into a USD loan receivable (Note 6).

A continuity for the Tether and USD Coin related to lending activities as at November 30, 2022 and August 31, 2022 is as follows:

	USD Coin Quantity	Tether Quantity	Amount
Balance, August 31, 2020	-	-	\$ -
Tether loaned	-	37,500,000	47,257,122
Tether loan rolled into USD Coin	10,000,000	(10,000,000)	-
Tether interest accrued	-	157,772	198,258
Repayment of loans	(10,000,000)	(10,000,000)	(25,212,709)
Revaluation of loan	-	-	6,122
Balance, August 31, 2021	-	17,657,772	22,248,793
Tether interest accrued	-	(310,455)	(391,728)
Tether interest received	-	152,683	192,935
Repayment of loans	-	(17,500,000)	(22,044,413)
Foreign exchange	-	-	535
Revaluation of loan	-	-	(6,122)
Balance, November 30, 2022 and August 31, 2022	-	-	\$ -

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

3. DIGITAL CURRENCIES – INTANGIBLE ASSETS AND USD COIN (continued)**USD Coin**

The Company held \$nil USD Coin as at November 30, 2022 (August 31, 2022 - \$91,663). The underlying U.S. dollar denominated assets are held by the issuer in US-regulated financial institutions on behalf of USD Coin holders.

For purposes of impairment assessment, USD Coin is considered to have a low credit risk as the overall investment portfolio (excluding cash and cash equivalents) backing USD Coin maintains a weighted average credit rating of A or better on S&P scale. Accordingly, for the purpose of impairment assessment for this instrument, the loss allowance is measured at an amount equal to 12-month expected credit losses. Management determined that USD Coin is subject to insignificant credit losses.

A continuity for USD Coin as at November 30, 2022 and August 31, 2022 is as follows:

	Number	Amount
Balance, August 31, 2021 <i>(Restated - Note 19)</i>	-	\$ -
USD Coin acquired	4,166,063	5,391,577
USD Coin disposed	(3,416,063)	(4,418,451)
USD Coin used for loan receivable issuance	(680,080)	(882,405)
Foreign exchange	-	942
Balance, August 31, 2022	69,920	\$ 91,663
USD Coin used for loan receivable issuance	(69,920)	(90,721)
Foreign exchange	-	(942)
Balance, November 30, 2022	-	\$ -

4. DIGITAL CURRENCIES RECEIVABLE AND USD COIN RECEIVABLE FROM CENTRALIZED EXCHANGES

Digital currencies receivable from centralized exchanges are recorded at their fair value on the acquisition date or when they are received as revenues and are revalued at their current market value at each reporting date. Fair value is determined based on volume weighted average price from www.cryptocompare.com at 7:00 am UTC. The Company believes any price difference amongst the principal market and an aggregated price to be immaterial.

On June 12, 2022, the Company learned a third-party cryptocurrency lending and borrowing company halted withdrawals on its platform and on July 13, 2022, this third party filed for reorganization under Chapter 11 of the United States Bankruptcy Code. The outcome of the Chapter 11 proceedings is unknown. The Company recognized impairment losses of \$1,265,901 for digital currencies receivable and \$86,969 for USD Coin receivable, which are held in hot wallets with the third party.

A summary of the digital currencies receivable balances as at November 30, 2022 and August 31, 2022 is as follows:

	Holdings, November 30, 2022	Fair Value, November 30, 2022	Holdings, August 31, 2022	Fair Value, August 31, 2022
Bitcoin	-	\$ -	167	\$ 4,402,592
Tether	-	-	500	659
Bitcoin Cash	-	-	-	12
Balance		\$ -		\$ 4,403,263

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

**4. DIGITAL CURRENCIES RECEIVABLE AND USD COIN RECEIVABLE FROM
CENTRALIZED EXCHANGES (continued)**

The following is a reconciliation of digital currencies receivable as at November 30, 2022 and August 31, 2022:

	November 30, 2022	August 31, 2022
Balance, beginning of period (<i>August 31, 2021, Restated – Note 19</i>)	\$ 4,403,263	\$ 8,864,941
Dash earned	-	19,622
Purchase of digital currencies receivable	48,563	3,657,015
Transfer from cold wallets	-	847,793
Disposal of digital currencies receivable	-	(1,568,069)
Digital currency loaned as part of lending activities	(1,976,159)	-
Digital currencies receivable accrued as interest	63,266	941,808
Penalty on early redemption of digital currency receivable	(89,879)	-
Digital currency receivable as part of borrowing activities	-	-
Digital currency receivable on redemption of short-term investments	-	42,576
Digital currencies used to pay for expenses and equipment purchases	-	(87,816)
Digital currency used to settle digital currency borrowed	-	(130,564)
Digital currencies received to settle digital currencies loaned as part of lending activities	-	-
Impairment losses on digital currencies receivable	-	(1,265,901)
Transfer to cold wallets	(6,359,154)	-
Change in fair value of digital currencies receivable	3,910,100	(6,918,142)
Balance, end of period	\$ -	\$ 4,403,263

Management considers the fair value of digital assets receivable from centralized exchanges to be Level 2 under IFRS 13 fair value hierarchy, as the volume weighted average price taken from www.cryptocompare.com uses the volumes of multiple digital currency exchanges. There has been no change in the valuation techniques during the year.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

4. DIGITAL CURRENCIES RECEIVABLE AND USD COIN RECEIVABLE FROM CENTRALIZED EXCHANGES (continued)**Bitcoin Receivable from Centralized Exchanges**

As at November 30, 2022, the Company has nil (August 31, 2022 - 167) Bitcoin receivable from centralized exchanges with a fair value of \$nil (August 31, 2022 - \$4,402,592). A continuity for Bitcoin receivable from centralized exchanges as at November 30, 2022 and August 31, 2022 is as follows:

	Number	Amount
Balance, August 31, 2021 <i>(Restated - Note 19)</i>	109	\$ 6,489,008
Interest received	10	484,429
Bitcoin receivable acquired	61	3,366,647
Bitcoin receivable disposals	(6)	(279,280)
Bitcoin transferred from cold wallets	16	847,793
Bitcoin receivable received on redemption of short-term investment	1	42,576
Impairment loss	(24)	(620,367)
Change in fair value	-	(5,928,214)
Balance, August 31, 2022	167	\$ 4,402,592
Interest received	2	63,266
Bitcoin receivable acquired	2	48,563
Bitcoin loaned as part of lending activities	(40)	(1,976,159)
Penalty on early redemption of digital currency receivable	(4)	(89,879)
Bitcoin transferred to cold wallets	(127)	(6,359,154)
Change in fair value	-	3,910,771
Balance, November 30, 2022	-	\$ -

USD Coin Receivable from Centralized Exchanges

The Company held \$nil of USD Coin receivable from centralized exchanges as at November 30, 2022 (August 31, 2022 - \$nil). A continuity for USD Coin receivable from centralized exchanges as at August 31, 2022 and 2021 is as follows:

	Number	Amount
Balance, August 31, 2021 <i>(Restated - Note 19)</i>	8,691,918	10,965,496
USD Coin interest received	54,091	68,690
USD Coin used to acquire equipment	(4,806,000)	(6,056,358)
USD Coin used for loan receivable issuance	(3,899,920)	(4,914,155)
USD Coin acquired	5,001,331	6,312,180
USD Coin disposed	(4,975,080)	(6,277,603)
Impairment loss	(66,340)	(86,969)
Foreign exchange	-	(11,281)
Balance, November 30, 2022 and August 31, 2022	-	\$ -

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

5. RECEIVABLES FROM DECENTRALIZED PLATFORMS RELATING TO LIQUIDITY POOL TOKENS

Receivables from decentralized platforms relating to liquidity pool tokens consist of the following:

	November 30, 2022	August 31, 2022
Host contracts	\$ 792,255	\$ 792,255
Embedded derivatives	(403,346)	(264,177)
	<u>\$ 388,909</u>	<u>\$ 528,078</u>

A continuity for receivables from decentralized platforms relating to liquidity pool tokens as at November 30, 2022 and August 31, 2022 is as follows:

	November 30, 2022	August 31, 2022
Balance, beginning of period	\$ 528,078	\$ -
Additions	-	5,099,878
Redemptions	-	(4,307,623)
Change in fair value of embedded derivatives – unrealized	(139,169)	(405,350)
Trading fees earned	-	141,173
Balance, end of period	<u>\$ 388,909</u>	<u>\$ 528,078</u>

The fair value of embedded derivatives is determined based on quoted prices of digital assets underlying the liquidity pool tokens taken from at 7:00 am UTC from certain exchanges and the proportionate number of underlying digital assets associated with the hypothetical redemption of a given liquidity pool token that the Company held as of November 30, 2022 and August 31, 2022. Management considers the fair value of digital assets to be Level 2 under IFRS 13 fair value hierarchy, as the volume weighted average price taken from certain exchanges uses the volumes of multiple digital currency exchanges. There has been no change in the valuation techniques during the period.

6. LOANS RECEIVABLE

During the year ended August 31, 2022, the Company entered into a series of loans whereby it loaned an aggregate of USD 50,186,090 with the following interest rates and maturities:

Loans receivable classified as at amortized cost

- a) USD 10,000,000, of which USD 9,996,000 was rolled forward from the Company's previous Tether loan and USD 4,000 was advanced through the issuance of 4,000 Tether, valued at \$12,713,909, bearing 9% interest, matured December 28, 2021;
- b) USD 4,000,000, of which USD 3,900,000 was advanced through the issuance of 3,900,000 USD Coin and USD 100,000 through the issuance of 100,000 Tether, valued at \$5,052,400, bearing 11% interest, matured March 8, 2022;
- c) USD 3,999,980 valued at \$5,039,975, bearing 9% interest with an open term, settled March 9, 2022;
- d) USD 10,000,000 valued at \$12,700,000, bearing 9% interest, matured April 4, 2022;
- e) USD 7,500,110 valued at \$9,600,000, bearing 10.5% interest, maturing March 15, 2023, settled before maturity in three payments of USD 2,000,000, USD 2,000,000, and USD 3,500,110, on June 13, 18, and 21, 2022, respectively;
- f) USD 5,000,000 valued at \$6,250,000, bearing 9.5% interest, not redeemable before maturity on October 8, 2022;
- g) USD 4,000,000 valued at \$5,215,600, bearing 8% interest with an open term, settled in two payments of USD 2,000,000 each on June 7 and 23, 2022; and

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

6. LOANS RECEIVABLE (continued)

Loans receivable classified as at amortized cost (continued)

- h) USD 4,000,000 valued at \$5,181,699, bearing 11% interest, maturing September 22, 2022.

As at August 31, 2022, outstanding loans receivable classified at amortized cost amounted to USD 9,222,164 or equivalent to \$11,691,162.

Loans receivable classified as at FVTPL

As at August 31, 2022, the following loans classified as at FVTPL because the contractual cash flows characteristics are not solely for payment of principal and interest.

- a) USD 486,000 valued at \$619,198 with a term borrow fee of USD 31,590 received at commencement and principal repayable in USD or 18 Bitcoin if the price per Bitcoin is at or below USD 27,000 upon maturity, matured June 24, 2022 and the Company received 18 Bitcoin;
- b) USD 520,000 valued at \$668,200 with a term borrow fee of USD 26,700 received at commencement and principal repayable in USD or 20 Bitcoin if the price per Bitcoin is at or below USD 26,000 per Bitcoin upon maturity, matured June 24, 2022 and the Company received 20 Bitcoin;
- c) USD 680,000, through the issuance of 680,000 USD Coin, valued at \$889,168 with a term borrow fee of USD 22,800 received at commencement and principal repayable in USD or 40 Bitcoin if the price per Bitcoin is at or below USD 17,000 per Bitcoin upon maturity on September 30, 2022.

As at August 31, 2022, outstanding loans receivable classified as at FVTPL amounted to USD 680,000 or equivalent to \$891,548 (2021 - \$nil).

During the three-month period ended November 30, 2022, the loans outstanding as at August 31, 2022 were repaid and the Company entered into a series of loans whereby it loaned an aggregate of USD 6,059,663 with the following interest rates and maturities:

- a) USD 1,999,980 valued at \$2,713,973, bearing 10% interest, maturing on September 23, 2023;
- b) USD 2,000,000 valued at \$2,760,000, bearing 8.75% interest, maturing on April 13, 2023;
- c) USD 799,735 valued at \$1,074,924, bearing 5.2% interest, maturing on December 8, 2022, settled before maturity on November 9, 2022.

On November 16, 2022, the borrower, a full-service digital currency brokerage, of the outstanding loans receivable classified at amortized cost, halted withdrawals on its lending platform and on January 19, 2023, this third party filed for relief under Chapter 11 of the United States Bankruptcy Code. The outcome of the Chapter 11 proceedings is unknown. It is unknown if or when withdrawals will resume. As at November 30, 2022, outstanding loans receivable classified at amortized cost amounted to USD 4,027,644 or equivalent to \$5,440,541.

Loans receivable classified as at FVTPL

During the three-month period ended November 30, 2022, the loan classified as at FVTPL outstanding as at August 31, 2022 matured and the Company received 40 Bitcoin and immediately entered into another loan classified as at FVTPL in b) below. As at November 30, 2022, the following loans classified as at FVTPL because the contractual cash flows characteristics are not solely for payment of principal and interest.

- a) USD 69,948 valued at \$90,424 and repayable together with USD 2,482 interest in USD if the price per Bitcoin is at or above USD 17,000 or in Bitcoin if the price per Bitcoin is below USD 17,000 upon maturity, matured October 28, 2022 and the Company received USD 72,430;

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

6. LOANS RECEIVABLE (continued)*Loans receivable classified as at FVTPL (continued)*

- b) USD 680,000, through the issuance of 680,000 USD Coin, valued at \$938,536 with a term borrow fee of USD 32,000 received at commencement and principal repayable in USD or 40 Bitcoin if the price per Bitcoin is at or below USD 17,000 per Bitcoin upon maturity, matured November 25, 2022 and the Company received 40 Bitcoin which were immediately traded for USD 657,960;
- c) USD 510,000, through the issuance of 510,000 USD Coin, valued at \$704,106 with a term borrow fee of USD 26,400 received at commencement and principal repayable in USD or 30 Bitcoin if the price per Bitcoin is at or below USD 17,000 per Bitcoin upon maturity, matured November 25, 2022 and the Company received 30 Bitcoin which were immediately traded for USD 493,470;

As at November 30, 2022, there were no outstanding loans receivable classified as at FVTPL.

The fair value of this instrument approximates the carrying value because of its short-term maturity. The Company considers the fair value hierarchy of the instrument as Level 2 under IFRS 13.

A continuity for loans receivable as at November 30, 2022 and August 31, 2022 is as follows:

	November 30, 2022	August 31, 2022
Balance, beginning of year	\$ 12,582,710	\$ -
Additions	8,281,964	63,930,149
Repayments	(13,486,216)	(51,609,282)
Acquisition of Bitcoin through option	(1,642,642)	-
Interest accrued	267,292	1,640,967
Interest payments received	(531,788)	(1,355,230)
Expected credit losses	(183,168)	(400,017)
Foreign exchange	(30,779)	376,123
Balance, end of year	\$ 5,257,373	\$ 12,582,710

As at November 30, 2022 and August 31, 2022, in determining the ECL, management has taken into the account the historical default experience, the financial position of the counterparties as well as the future prospects of the crypto industry in estimating the probability of default of each loan occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. In May 2022, a major blockchain network and stablecoin collapsed with widespread effects to the global digital currency industry and since then, a number of bankruptcies followed, including well-known exchanges, custodians, and other digital currency platforms. The Company has assessed that the expected credit losses for loans receivable based on these events under the 12-month expected credit losses method. As a result, for the three-month period ended November 30, 2022, the Company recognized expected credit losses of \$183,168 (year ended August 31, 2022 - \$400,017).

7. INVESTMENTS IN EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

During the year ended August 31, 2020, the Company invested in two private funds. During the year ended August 31, 2022, the Company redeemed one of its investments and received 0.67 Bitcoin with a value of \$42,544. In connection with the redemption, the Company recognized a gain of \$17,004.

As at November 30, 2022 and August 31, 2022, the Company's investments in equity instruments include an investment in an investment fund. The investment in the investee fund is valued based on the latest available net asset value, as determined by the investee fund's administrator. The fair values of the investments are remeasured based on monthly valuation reports provided to the Company by the investee fund administrator. There has been no change in the valuation techniques during the period.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

7. INVESTMENTS IN EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Subsequent to the three-month period ended November 30, 2022, the Company submitted for redemption in full, its investment in the investment fund for USD 73,288 or equivalent to \$99,261 and recognized a loss on redemption of \$246,189.

During the year ended August 31, 2022, the Company through a subsidiary, invested \$2,286,000 in a private US company whose sole purpose is to invest in a US spacecraft manufacturer, space launch provider, and satellite communications provider. The fair value of the investment is remeasured based on new rounds of financing of the private US company or the US spacecraft manufacturer, space launch provider, and satellite communications provider. The Company will adjust the fair value of the investment when (i) there is a bona fide arm's length transaction which establishes a different value, or ii) where an investment experiences a material change in value, in which case the valuation will be increased or decreased, as appropriate, to the estimated fair value.

During the three-month period ended November 30, 2022, the Company invested in a private Canadian company focused on Web3 innovation and gaming and where an independent director of the Company is the Chairman and majority owner.

These investments are accounted for as financial assets which are initially recognized at fair value and subsequently measured at fair value through profit or loss. A continuity for investments in equity instruments at fair value through profit or loss as at November 30, 2022 and August 31, 2022 is as follows:

	November 30, 2022	August 31, 2022
Balance, beginning of period	\$ 2,643,444	\$ 3,327,316
Additions	135,400	2,286,000
Redemptions	-	(25,540)
Unrealized gain (loss)	(232,718)	(2,944,332)
Balance, end of year	\$ 2,546,126	\$ 2,643,444

Management considers the fair value of investments in the investment fund to be Level 2 and in the private US company to be Level 3, under IFRS 13 fair value hierarchy.

8. PROPERTY AND EQUIPMENT

On December 15, 2021, the Company through a subsidiary purchased real estate in New York City for \$3,999,193.

Equipment is comprised of Bitcoin miners acquired during the years ended August 31, 2022 and 2021. On August 26, 2022, the Company completed a non-monetary asset exchange with a third party for its Bitcoin miners which were purchased earlier in the year ended August 31, 2022. The Bitcoin miners exchanged had never been in use, were of the same model, and produce an equal amount of total hash rate.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

8. PROPERTY AND EQUIPMENT (continued)

	Property	Mining Equipment	Furniture	Total
Cost:				
Balance, August 31, 2021	\$ -	\$ 2,975,076	\$ -	\$ 2,975,076
Additions	3,999,193	6,108,166	118,929	10,226,288
Balance, August 31, 2022	3,999,193	9,083,242	118,929	13,201,364
Additions	-	-	15,300	15,300
Disposals	-	(1,057,261)	-	(1,057,261)
Balance, November 30, 2022	3,999,193	8,025,981	134,229	12,159,403
Accumulated depreciation and impairment loss:				
Balance, August 31, 2021	-	177,764	-	177,764
Depreciation	56,435	905,870	13,220	975,525
Impairment	-	7,169,781	-	7,169,781
Balance, August 31, 2022	56,435	8,253,415	13,220	8,323,070
Depreciation	19,996	103,728	5,912	129,636
Disposals	-	(177,764)	-	(177,764)
Disposals – impairment	-	(879,497)	-	(879,497)
Balance, November 30, 2022	76,431	7,299,882	19,132	7,395,445
Net book value:				
August 31, 2022	\$ 3,942,758	\$ 829,827	\$ 105,709	\$ 4,878,294
November 30, 2022	\$ 3,922,762	\$ 726,099	\$ 115,097	\$ 4,763,958

Impairment loss on equipment – Alberta location

On November 29, 2021, 298 mining rigs that were part of litigation discussed in Note 18 were returned to the Company. Bitmain s17 rigs have lost significant value as they have been recognized by the industry as inefficient and requiring high operational maintenance specifically when compared to newer models. Thus, during the year ended August 31, 2022, management determined there was no longer any economic value for these mining rigs and the net book value of \$879,497 was recognized as an impairment loss. During the three-month period ended November 30, 2022, these mining rigs were sold for \$16,818.

The impairment loss has been included as a separate line on the consolidated statement of income or loss and comprehensive income or loss.

Impairment loss on equipment – Colorado Springs, Colorado and Olathe, Colorado locations

As a result of the decline in Bitcoin price during the year ended August 31, 2022, the Company tested its other Bitcoin miners located in Colorado Springs and Olathe, both in the State of Colorado in the US for impairment at August 31, 2022. The review led to the recognition of an impairment loss of \$6,290,284, which has been recognized in profit or loss. The Company was not able to reliably estimate the fair value less costs of disposal of the mining equipment located in Colorado; hence, the recoverable amount of the relevant assets has been determined on the basis of their value in use. The mining equipment located in Colorado was impaired to their recoverable amount based on value in use of \$829,827, which is its carrying value as at August 31, 2022. The discount rate used in measuring value in use was 28% per annum. There was no further impairment for the three-month period ended November 30, 2022.

The impairment loss has been included as a separate line on the consolidated statement of income or loss and comprehensive income or loss.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

9. RELATED PARTY BALANCES AND TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered a related party transaction when there is a transfer of resources or obligations between related parties.

During the three-month periods ended November 30, 2022 and 2021, the Company incurred the following related party transactions:

	November 30, 2022	November 30, 2021
Consulting fees	\$ 196,125	\$ 155,000
Directors' fees	26,400	36,000
Share-based compensation	426,244	-

Key management includes directors and key officers of the Company, including the President and Chief Executive Officer (CEO), Chief Operating Officer (COO), and Chief Financial Officer (CFO). The Company has the right to terminate the agreements with the officers of the Company by providing 12-24 months' notice or paying the equivalent of 12-24 months in fees to each officer. Consulting fees include payments made or accrued to the Company's CEO, COO, and CFO for services.

As at November 30, 2022, there is \$42,819 (August 31, 2022 - \$420,325) due to directors and officers of the Company. The balances to related parties are unsecured, non-interest bearing and without fixed repayment terms.

During the three-month period ended November 30, 2022, the Company invested in a private Canadian company where an independent director of the Company is the Chairman and majority owner as discussed in Note 7.

10. SHARE CAPITAL

Authorized Capital

Unlimited common shares without par value

Shares issued

There were no shares issued during three-month period ended November 30, 2022.

During the year ended August 31, 2021, the Company:

- completed a non-brokered private placement by issuing 1,875,000 units at a price of \$0.08 per unit and 1,428,571 units at a price of \$0.105 for gross proceeds of \$300,000. Each unit consists of one common share and one transferable common share purchase warrant entitling the holder to purchase one common share at a price of \$0.13 and \$0.175 respectively, for a period of three years from the issue date. The securities will be subject to a four-month-and-one-day hold period. In connection with the offering, the Company incurred share issuance costs of \$7,525;
- issued 2,376,785 common shares on the exercise of warrants for gross proceeds of \$341,125;
- issued an aggregate of 557,199 common shares relating to 250,000 restricted share units vested and 307,199 newly issued restricted share units that vested immediately;

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

10. SHARE CAPITAL (continued)**Shares issued (continued)**

- d) completed a non-brokered private placement by issuing 1,500,000 units at a price of \$0.175 per unit for gross proceeds of \$262,500. Each unit consists of one common share and one common share purchase warrant entitling the holder to purchase one additional common share at a price of \$0.294 for a period of three years. In connection with the offering, the Company incurred share issuance costs of \$8,916;
- e) completed a non-brokered private placement by issuing 923,076 units at a price of \$0.325 per unit for gross proceeds of \$300,000. Each unit consists of one common share and one-half of one common share purchase warrant, with each whole warrant entitling the holder to acquire one additional common share at a price of \$0.40 per common share for a period of three years;
- f) completed a non-brokered private placement by issuing 625,000 units at a price of \$0.80 per unit for gross proceeds of \$500,000. Each unit consists of one common share and one-half of one common share purchase warrant, with each whole warrant entitling the holder to acquire one additional common share at a price of \$1.00 per common share for a period of three years. In connection with the offering, the Company incurred share issuance costs of \$2,250; and
- g) completed a private placement by issuing 29,630,002 units at a price of \$1.35 per unit for gross proceeds of \$40,000,503. Each unit consists of one common share and one-half of one common share purchase warrant, with each whole warrant entitling the holder to acquire one additional common share at a price of \$1.75 per common share for a period of three years. Of the proceeds, \$5,037,100 was allocated to warrant reserves using the residual value method. The Company paid a finder's fee of \$2,800,035 and issued 2,222,250 non-transferrable finder's warrants exercisable for a period of three years at a price of \$1.6875 per warrant. The finder's warrants were valued at \$2,157,605 using the Black-Scholes valuation model with the following assumptions: stock price of \$1.18, volatility of 166.24%, expected life of three years, and risk-free interest rate of 0.49%. In connection with the closing, the Company incurred additional share issuance costs of \$374,271.

Share Purchase Warrants and Stock Options

Stock option and share purchase warrant transactions are summarized as follows:

	Warrants		Stock Options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, August 31, 2021	21,488,075	\$ 1.45	10,075,000	\$ 0.55
Issued	-	-	400,000	0.60
Outstanding, August 31, 2022	21,488,075	\$ 1.45	10,475,000	\$ 0.55
Issued	-	-	1,975,000	0.23
Outstanding, November 30, 2022	21,488,075	\$ 1.45	12,450,000	\$ 0.50
Number currently exercisable	21,488,075	\$ 1.45	12,450,000	\$ 0.50

The weighted average remaining contractual life of the warrants and stock options as at November 30, 2022 was 1.31 years (August 31, 2022 - 1.56 years) and 8.27 years (August 31, 2022 - 8.23 years, respectively).

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

10. SHARE CAPITAL (continued)**Share Purchase Warrants and Stock Options (continued)**

As at November 30, 2022, the following incentive stock options were outstanding:

	Number	Exercise price	Expiry date
Stock Options	5,875,000	\$ 0.20	January 21, 2031
	4,200,000	\$ 1.03	April 28, 2031
	400,000	\$ 0.60	November 25, 2023
	1,975,000	\$ 0.23	September 21, 2032
	<u>12,450,000</u>		

As at November 30, 2022 the following common share purchase warrants were outstanding:

	Number	Exercise price	Expiry date
Warrants	625,000	\$ 0.130	May 22, 2023
	837,500	\$ 0.130	December 3, 2023
	714,286	\$ 0.175	December 3, 2023
	1,500,000	\$ 0.294	February 16, 2024
	461,538	\$ 0.40	March 2, 2024
	312,500	\$ 1.00	March 31, 2024
	14,815,001	\$ 1.75	April 16, 2024
	2,222,250	\$ 1.6875	April 16, 2024
	<u>21,488,075</u>		

Share-based compensation

The Company has a stock option plan under which it is authorized to grant options to directors, employees and consultants to acquire up to 10% of the issued and outstanding common stock. The exercise price of each option is based on the market price of the Company's stock for a period preceding the date of grant. The options can be granted for a maximum term of 10 years and vest as determined by the board of directors.

The weighted average fair value of options granted during the three-month period ended November 30, 2022 was \$0.23 (2021 - \$0.60). Total share-based compensation recognized in the statement of shareholders' equity for the three-month period ended November 30, 2022, was \$443,069 (2021 - \$184,214) for stock options granted and vested and was recognized in profit or loss. The fair value of options at the date of grant was estimated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	November 30, 2022	November 30, 2021
Weighted average share price	\$0.23	\$0.60
Risk-free interest rate	3.73%	1.05%
Expected life of option	10 years	2 years
Expected annualized volatility	184.66%	153.22%
Expected dividend rate	Nil	Nil

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

11. REVALUATION SURPLUS

Revaluation surplus arises on revaluation of digital currencies – intangible assets, including those related to lending activities. The change in revaluation surplus is as follows:

	November 30, 2022	August 31, 2022
Balance, beginning of period	\$ 9,435,424	\$ 7,302,765
Revaluation increase on digital currencies	-	2,132,659
Balance, end of period	\$ 9,435,424	\$ 9,435,424

12. CAPITAL DISCLOSURES

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to acquire more cryptocurrencies and fund the operations and investments of the Company. To secure the additional capital necessary to pursue these plans, the Company intends to raise additional funds through the equity or debt financing. The Company is not subject to any capital requirements imposed by a regulator.

14. FINANCIAL INSTRUMENTS**Classification of financial instruments**

	November 30, 2022	August 31, 2022
Financial assets at amortized cost		
Cash and cash equivalents	\$ 2,002,621	\$ 4,755,064
Short-term investments	11,080,325	1,311,100
USD Coin	-	91,663
Loans receivable	5,257,373	11,691,162
Financial assets at fair value through profit or loss		
Digital currencies receivable from centralized exchanges	-	4,403,263
Loan receivable with put option	-	891,548
Investments in equity instruments at fair value through profit or loss	2,546,126	2,643,444
Total	\$ 20,886,445	\$ 25,787,244

	November 30, 2022	August 31, 2022
Financial liabilities at amortized cost		
Accounts payable and accrued liabilities	\$ 411,491	\$ 890,787
Financial liabilities at fair value through profit or loss		
Embedded derivative on receivables from decentralized platforms relating to liquidity pool tokens	403,346	264,177
Total	\$ 814,837	\$ 1,154,964

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

14. FINANCIAL INSTRUMENTS (continued)

Classification of financial instruments (continued)

The carrying amounts of cash and cash equivalents, short-term investments, USD Coin, USD Coin receivable, loans receivable, and accounts payable and accrued liabilities approximate their fair values because of the short-term nature of these instruments.

Financial risk management

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to discharge an obligation. Financial instruments which are potentially subject to credit risk for the Company consist of primarily cash and cash equivalents, short-term investments, USD Coin, loans receivable, receivables from decentralized platforms relating to liquidity pool tokens and digital currencies receivable from centralized exchanges. The carrying amount of financial assets represents the maximum credit exposure. The Company has gross credit exposure at November 30, 2022, related to these assets of \$19,066,908. All cash is held at Canadian chartered banks and U.S. Federal Deposit Insurance Corporation insured commercial banks in the United States, which minimizes credit risk. USD Coin risk is mitigated by the fact that it is fully backed by cash and equivalents and short-duration U.S. Treasuries. The reserve account backing the USD Coin includes cash balances that exceed the U.S. Federal Deposit Insurance Corporation deposit insurance limit of \$250,000 USD per institution. The Company's loans receivable are issued to arm's length parties with which it has previously issued loans. Credit risk is mitigated by loaning funds to companies based on the size, credit quality and reputation of these arm's length parties that are based and regulated in the United States.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when 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.

Interest risk

Interest risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in market risk. The Company's exposure to interest rate risk is limited and only relates to its ability to earn interest income on cash balances and USD Coin at variable rates. Changes in short term interest rates will not have a significant effect on the fair value of the Company's cash account and USD Coin.

Price risk

Price risk is the risk that the value of a security or investment will decrease. The Company is exposed to price risk on its holdings in USD Coin. As USD Coin is tied to the US Dollar, fluctuations in foreign exchange rates may impact the valuation of the Company's assets. A 10% fluctuation in the price of USD Coin would not result in a material change to profit or loss.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

14. FINANCIAL INSTRUMENTS (continued)**Financial risk management (continued)**

Price risk of digital currencies receivable and embedded derivatives on receivables from decentralized platforms relating to liquidity pool tokens

Digital asset prices are volatile and affected by various factors including global supply and demand, interest rates, exchanges rates, inflation or deflation and the political and economic conditions. Supply and demand for such assets rapidly change from time to time affected by regulations and general economic trends. A decline in the market prices of digital assets could impact the Company's future operations. The management of the Company constantly monitors the exposure in response to the market conditions.

Foreign currency risk

Currency risk relates to the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign exchange rates. Exchange rate fluctuations may affect the costs that the Company incurs in the future in its operations as well as the currency in which the Company has historically raised capital. Other than currency risk exposure of USD Coin, the Company is currently exposed to currency risk as its loans receivable are denominated in US Dollars. A 10% fluctuation in the US Dollar would result in a change to profit or loss of \$400,000.

15. FAIR VALUE MEASUREMENT

The Company classifies its fair value measurements in accordance with an established hierarchy that prioritizes the inputs in valuation techniques used to measure fair value as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – Inputs that are not based on observable market data for the asset or liability.

The following table sets forth the Company's assets (liability) measured at fair value by level within the fair value hierarchy as at November 30, 2022 and August 31, 2022.

November 30, 2022	Level 1	Level 2	Level 3
Digital currencies – intangible assets	\$ -	\$ 7,228,398	\$ -
Embedded derivative on receivables from decentralized platforms relating to liquidity pool tokens	-	(403,346)	-
Digital currencies related to lending activities	-	927,256	-
Investments in equity instruments at FVTPL	-	125,046	2,421,080
Total	\$ -	\$ 7,877,354	\$ 2,421,080

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

15. FAIR VALUE MEASUREMENT (continued)

August 31, 2022	Level 1	Level 2	Level 3
Digital currencies – intangible assets	\$ -	\$ 4,105,225	\$ -
Digital currencies receivable from centralized exchanges	-	4,403,263	-
Loan receivable with put option	-	891,548	-
Embedded derivative on receivables from decentralized platforms relating to liquidity pool tokens	-	(264,177)	-
Investments in equity instruments at FVTPL	-	357,444	2,286,000
Total	\$ -	\$ 9,493,303	\$ 2,286,000

Management determined fair value as follows:

- The fair value of digital currencies – intangible assets (including those related to lending activities) and digital currencies receivable from centralized exchanges is determined by reference to the volume average weighted price provided by www.cryptocompare.com, an independent third-party pricing aggregator that makes publicly available, for each relevant digital asset, volume weighted average price calculated from various exchanges, as well as price and volume data by exchange.
- The fair value of loan receivables with a put option approximates the carrying value because of its short-term maturity.
- Investments in equity instruments at FVTPL consist of investments in private funds, US private company and Canadian private company. The fair values of the investments in private funds are remeasured based on monthly valuation reports provided to the Company by the investee fund administrator. The fair value of the US private company is based on the arm's length funding rounds of the investee or underlying investment. The fair value of the Canadian private company is based on the arm's length funding rounds of the investee.
- The fair value of embedded derivative liability is determined based on quoted prices of digital assets underlying the liquidity pool tokens taken at 7:00 am UTC from certain exchanges and the proportionate number of underlying digital assets associated with the hypothetical redemption of a given liquidity pool token that the Company held as of November 30, 2022 and August 31, 2022.

There were no transfers between any levels during the year.

16. DIGITAL CURRENCY RISKS*Price risk related to digital currencies – intangible assets*

Digital asset prices are volatile and affected by various factors including global supply and demand, interest rates, exchanges rates, inflation or deflation and the political and economic conditions. Supply and demand for such assets rapidly change from time to time affected by regulations and general economic trends. A decline in the market prices of digital assets could impact the Company's future operations. The management of the Company constantly monitors the exposure in response to the market conditions.

Digital assets that the Company deals within its operating and investing activities are various digital currencies which can be traded in a number of public exchanges or through over-the-counter market. The Company's exposure to price risk arises from digital currencies – intangible assets which are measured at revalued amounts.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

16. DIGITAL CURRENCY RISKS (continued)

Price risk related to digital currencies – intangible assets (continued)

At November 30, 2022, if the prices of digital currencies – intangible assets (except stablecoins) held by the Company had decreased by 15% (being a reasonably expected change determined based on average monthly price movements) in the principal markets with other variables held constant, the impact on revaluation surplus arising from changes in fair value of digital currencies – intangible assets (including digital currencies related to lending activities) would have been \$1.1 million lower. This decrease shall be recognized in income or loss. However, the decrease shall be recognized in revaluation surplus to the extent of any credit balance in the revaluation surplus in respect of that asset. Conversely, if the prices of digital currencies – intangible assets (except stablecoins) had been 15% higher and all other variables were held constant, other comprehensive income would increase by \$1.1 million. This increase shall be recognized in other comprehensive income and accumulated in equity.

Credit risk

The Company's digital currencies related to lending activities are exposed to credit risk. The Company limits its credit risk for digital currencies related to lending activities by placing these digital assets with high quality counterparties that are believed to have sufficient capital to meet their obligations as they come due and on which the Company has performed due diligence procedures. The Company's due diligence procedures may include review of the financial position of the borrower, liquidity levels of the borrower in applicable assets, review of the borrower's management, review of certain internal control procedures of the borrower, review of market information, and monitoring the Company's risk exposure thresholds.

The Company also limits its credit risk by placing its cryptocurrencies with crypto trading exchanges on which the Company has performed internal due diligence procedures.

The Company deems these procedures necessary as some trading exchanges are unregulated and not subject to regulatory oversight. Furthermore, trading exchanges may engage in the practice of commingling client assets in exchange wallets. When cryptocurrencies are commingled, individual transactions and balances are not recorded on the applicable blockchain ledger but are only recorded by the exchange. Therefore, there is a risk around the occurrence of transactions or the existence of period end balances represented by exchanges.

Loss of access risk

The loss of access to the private keys associated with the Company's digital asset holdings may be irreversible and could adversely affect the future operation. Digital assets are controllable only by an individual that possesses both the unique public key and private key or keys relating to the "digital wallet" in which the digital asset is held. To the extent a private key is lost, destroyed or otherwise compromised and no backup is accessible the Company may be unable to access the digital assets. It is the policy of the Company to conduct due diligence surrounding private key management performed by custodians as part of the onboarding process in order to mitigate this risk.

Irrevocability of transactions

Digital asset transactions are irrevocable and if stolen or incorrectly transferred digital assets may be irretrievable. Once a transaction has been verified and recorded in a block that is added to the blockchain, an incorrect transfer or theft generally will not be reversible, and the Company may not be capable of seeking compensation. The Company seeks to mitigate risk by establishing policies and procedures to require a careful review of each transaction before execution.

16. DIGITAL CURRENCY RISKS (continued)

Hard fork and airdrop risks

When a proposed modification to the digital currency network is not accepted by the vast majority of miners and users but is nonetheless accepted by a substantial population of participants in the network, a “fork” in the blockchain occurs, resulting in two separate digital currency networks. A “hard fork” is a software upgrade that introduces a new rule to the network that is not compatible with the older software, while a “soft fork” is any change that is backward compatible. Holders of digital currency on the original digital currency network, at the time the block is mined and the fork occurs, can then also typically receive an identical amount of new tokens on the new network. Hard forks could affect the value and harm the sustainability of the affected digital currencies.

Airdrops occur when the promoters of a new digital asset send amounts of the new digital asset to holders of another digital asset that they will be able to claim a certain amount of the new digital asset for free. The Company may not be able to realize the economic benefit of a hard fork or airdrop, either immediately or ever, for various reasons. For instance, the Company may not have any systems in place to monitor or participate in hard forks or airdrops. Therefore, the Company may not receive any new digital assets created as a result of a hard fork or airdrop, thus losing any potential value from such digital assets.

For the three-month period ended November 30, 2022 and year ended August 31, 2022, there were no losses relating to a hard fork or airdrop.

Regulatory oversight risk

Regulatory changes or actions may restrict the use of digital assets or the operation of digital asset networks or exchanges in a manner that adversely affects investments held by the Company. The Company consistently engages with external legal counsels or regulatory advisors to understand any updates on the regulatory landscape which might have impacts on its businesses.

Cybersecurity risk

While the Company’s security technology is designed to prevent, detect, and mitigate inappropriate access to its systems, it is possible that hackers, employees or service providers acting contrary to its policies, or others could circumvent these safeguards to improperly access its systems or documents, or the systems or documents of its business partners, agents, or service providers, and improperly access, obtain, misuse its digital currencies and USD Coin held in hot wallets.

Staking risk

Digital currency prices are volatile and can drop quickly. If any of the Company’s staked assets suffer a large price drop, that could outweigh any staking income earned on them. Staking can require the Company to lock up its digital currencies for a minimum amount of time. Staking also exposes the Company to slashing. Slashing is a penalty enforced at the protocol level associated with malicious attack against the network by a validator.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

16. DIGITAL CURRENCY RISKS (continued)

Smart contract risk

DeFi, in several ways, substitutes custodial risk prevalent with centralized finance platforms with smart contract risk, allowing hackers and attackers to seize funds and tokens escrowed in smart contracts. Smart contracts are constantly exploited across the blockchain ecosystem, with hackers taking advantage of flaws in the code. DeFi smart contracts are managed using admin keys. These allow the key holder to make significant changes to the code, such as protocol upgrades. One way cyberattacks occur is when hackers gain control of private or admin keys, allowing them to deplete all or some of the liquidity within pools of certain projects, among others.

As at November 30, 2022, the smart contract risk is limited to the receivables from decentralized platforms relating to liquidity pool tokens of \$388,909 (August 31, 2022 - \$528,078).

Reliance on Decentralized Exchanges (DEXs)

As a liquidity provider on a variety of decentralized protocols and applications, the Company is dependent on these public DEXs in its liquidity mining. There is no guarantee that DEXs will continue to scale or upgrade over time such that their functionality improves or continues to be used by users. Additionally, the risks inherent to public blockchains, such as smart contract risks or cybersecurity risks, continue to apply to DEXs. There is also no certainty as to the future regulatory environment regarding DEXs or DeFi and any adverse changes could substantially impact the Company's ability to conduct its business.

Reliance on Centralized Exchanges (CEXs)

The Company relies on certain centralized exchanges to hold its fiat and digital currency deposits in order to earn fiat and interest in digital assets. The Company also exchanges fiat and other forms of capital into digital assets that can then be used across various protocols and applications. The Company is reliant on these CEXs for the exchange of fiat/digital assets. Any change to the CEXs business models, practices, ability to custody assets, ability to send or receive payments, solvency, swap or exchange assets, or be subject to security breaches or hacks could have a meaningful impact on the Company's operations and potential loss of some or all of its assets.

During the year ended August 31, 2022, the Company recognized an impairment loss of \$1,265,901 on certain digital currencies held with an exchange that filed for bankruptcy on July 13, 2022. During the three-month period ended November 30, 2022, the bankruptcy proceedings were ongoing and the outcome of which is still unknown.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

17. SEGMENTED INFORMATION

The Company operates in Canada and the United States. The Company's chief operating decision makers currently review the operating results of the Company as one operating segment.

Information about geographic areas

Revenue from cryptocurrency mining and rewards earned from providing liquidity in liquidity pools was all generated in Canada.

The following table analyzes the Company's non-current assets by geographical location. The basis for attributing the assets is the location of the assets.

	November 30, 2022		August 31, 2022	
Canada	\$	7,228,398	\$	4,105,225
United States	\$	5,185,439	\$	5,299,775
Total	\$	12,413,837	\$	9,405,000

Information about a major customer

For three-month period ended November 30, 2022, mining revenue from one customer represents 100% (2021 – 100%) of the total revenue. Revenue from rewards from providing liquidity and trading fees from one customer represents 100% (2021 – 100%).

18. CONTINGENCY

The Company has filed a claim against a company located in Alberta (the "Defendant") arising out of the breach of Master Service Agreement entered into between the Company and the Defendant on February 27, 2021. Under the Master Service Agreement, the Defendant agreed to procure and operate 300 Bitcoin mining rigs at its facility in Alberta. The Defendant's facility was subsequently shut down due to failure to have appropriate consents, licenses and approvals from the Alberta Utilities Commission. The Company sought from the Defendant for (a) damages for losses sustained between May 1, 2021 and August 27, 2021, (b) future lost profits, (c) damages for bad faith and (d) punitive damages. The Company also sought for the return of the mining rigs. In the opinion of management and legal counsel, the Company has a valid claim and is entitled to a certain payment. Because the amount is indeterminable, the claim has not been reflected in the condensed consolidated interim financial statements.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

19. CORRECTION OF AN ERROR

Subsequent to the issuance of the consolidated financial statements for the year ended August 31, 2021 and condensed consolidated interim financial statements for the three months ended November 30, 2021, errors with respect to the classification of digital assets held in third-party platforms as digital currencies receivable dating back to February 2021 were discovered. Accordingly, the consolidated financial statements for the year ended August 31, 2021, were restated to reflect adjustments made as a result of this correction of error. The following is a summary of the impacts to the statement of financial position as at August 31, 2021 and the statement of comprehensive income and the statement of cash flows for the three-month period ended November 30, 2021:

	August 31, 2021 As previously reported	Adjustments	August 31, 2021 As restated
Consolidated Statement of Financial Position			
USD Coin	10,965,496	(10,965,496)	-
USD Coin receivable from centralized exchanges	-	10,965,496	10,965,496
Digital currencies – intangible assets	14,968,205	(8,864,941)	6,103,264
Digital currencies receivable from centralized exchanges	-	8,864,941	8,864,941
Revaluation surplus	8,745,032	(1,442,267)	7,302,765
Deficit	(28,310,794)	1,442,266	(26,868,528)
Consolidated Statement of Loss and Comprehensive Income			
Three months ended November 30, 2021			
	As previously reported	Adjustments	Three months ended November 30, 2021 As restated
Changes in fair value of receivables from decentralized platforms relating to liquidity pool tokens	-	(206,158)	(206,158)
Realized gain (loss) on sale of digital currencies – intangible assets	350,629	(434,638)	(84,009)
Revaluation of digital currencies – intangible assets	(119,153)	(6,272,507)	(6,391,660)
Change in fair value of digital currencies receivable from centralized exchanges	-	2,305,631	2,305,631
Net income	6,697,769	(4,195,356)	2,502,413
Income per common share (basic and diluted)	0.05	(0.03)	0.02
Consolidated Statement of Cash Flows			
Three months ended November 30, 2021			
	As previously reported	Adjustments	Three months ended November 30, 2021 As restated
Changes in fair value of receivables from decentralized platforms relating to liquidity pool tokens	-	206,158	206,158
Realized gain (loss) on sale of digital currencies – intangible assets	(350,629)	(434,638)	84,009
Revaluation loss on digital currencies – intangible assets	119,153	6,272,507	6,391,660
Change in fair value of digital currencies receivable from centralized exchanges	-	(2,305,631)	(2,305,631)

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

20. SUBSEQUENT EVENTS

Subsequent to the three-month period ended November 30, 2022, the Company:

- a) On January 19, 2023, the full-service digital currency brokerage that halted withdrawals on its lending platform on November 16, 2022, filed for relief under Chapter 11 of the United States Bankruptcy Code. The outcome of the Chapter 11 proceedings is unknown. It is unknown if or when withdrawals will resume. As at November 30, 2022, the Company had loans receivable and interest accrued valued at \$5,257,373 and digital currencies related to lending activities valued at \$927,256 with the third party.
- b) On December 31, 2022, the Company submitted for redemption in full, its investment in a private fund for USD 73,288 or equivalent to \$99,261 and recognized a loss on redemption of \$246,189.
- c) On March 12, 2023, the Company learned a full-service commercial US bank was seized by the New York State Department of Financial Services. As at November 30, 2022, the Company had cash deposits valued at \$34,163 with the US bank which are insured by the Federal Deposit Insurance Corporation of the US government. The Company does not believe its liquidity or financial condition will be impacted by this event and will continue to monitor the situation as it evolves.

21. RECLASSIFICATION OF ACCOUNTS

Certain figures in the comparative period condensed consolidated interim statement of income (loss) and comprehensive income (loss) and condensed consolidated interim statement of cash flows have been reclassified to meet the current presentation.

- a) Depreciation of equipment of \$159,818 has been reclassified from expenses to cost of mining revenue.
- b) Transfer agent expenses of \$312 have been included in office and miscellaneous.