



NEPTUNE DIGITAL ASSETS CORP.

Condensed Consolidated Interim Financial Statements
For the Three and Nine Month Periods Ended May 31, 2022 and 2021

(Unaudited)
(Expressed in Canadian Dollars)

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

As at	May 31, 2022	August 31, 2021
ASSETS		
Current		
Cash	\$ 589,016	\$ 154,803
Amounts receivable and prepaid expenses	366,793	213,756
USD Coin (Note 3)	83,245	10,965,496
Digital currencies related to lending activities (Note 3)	-	22,248,793
Loans receivable (Note 4)	22,456,329	-
Short-term investments (Note 5)	638,162	3,327,316
	24,133,545	36,910,164
Digital currencies (Note 3)	11,467,170	14,968,205
Property and equipment (Note 6)	11,442,678	2,797,312
	\$ 47,043,393	\$ 54,675,681
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 7)	\$ 329,510	\$ 769,083
Equity		
Share capital (Note 8)	56,762,630	56,762,630
Reserves (Note 8)	16,893,944	16,709,730
Accumulated other comprehensive income (Note 9)	776,529	8,745,032
Deficit	(27,719,220)	(28,310,794)
	46,713,883	53,906,598
Total Liabilities and Equity	\$ 47,043,393	\$ 54,675,681

Nature and continuance of operations (Note 1)
Contingency (Note 15)
Subsequent events (Note 16)

On behalf of the Board on August 2, 2022:

"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 ended		For the nine months ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Mining revenue (Note 3)	\$ 291,812	\$ 54,347	\$ 1,057,444	\$ 54,347
Mining expenses				
Operating and maintenance costs (Note 3)	111,957	-	233,286	-
Gross profit	179,855	54,347	824,158	54,347
Expenses				
Consulting fees (Note 7)	198,250	107,792	525,500	267,543
Depreciation (Note 6)	264,475	52,763	683,981	52,763
Directors' fees (Note 7)	24,800	21,000	96,800	48,000
Foreign exchange loss (recovery)	262,308	(39,550)	55,782	(39,550)
Marketing	1,998	31,444	44,049	64,124
Office and miscellaneous	73,594	32,840	142,261	55,465
Professional fees	281,451	42,074	630,097	96,775
Share-based compensation (Note 8)	-	4,289,275	184,214	5,589,958
	(1,106,876)	(4,537,638)	(2,362,684)	(6,135,078)
Loss before other items	(927,021)	(4,483,291)	(1,538,526)	(6,080,731)
Other items				
Other income (Note 3)	1,394,952	579,393	5,792,321	719,546
Gain on settlement of accounts payable	-	-	-	13,740
Realized gain (loss) on settlement of loan receivable	(52,400)	962,423	71,491	962,423
Unrealized loss on loan receivable	-	(3,006,730)	-	(243,235)
Unrealized gain (loss) on short-term investments (Note 5)	(5,250,657)	(547,324)	(2,663,614)	1,436,007
Realized gain on redemption of short-term investments (Note 5)	-	-	17,004	-
Realized gain on sale of digital currencies (Note 3)	724,208	56,388	1,064,216	275,102
Revaluation of digital currencies (Note 3)	(309,576)	(576,036)	(1,271,821)	(518,906)
Impairment loss on equipment (Note 6)	(879,497)	-	(879,497)	-
Net income (loss)	(5,299,991)	(7,015,177)	591,574	(3,436,054)
Other comprehensive income (loss)				
Revaluation of digital currencies (Note 3)	(9,813,621)	(827,929)	(7,968,503)	1,908,704
Comprehensive loss	\$(15,113,612)	\$(7,843,106)	\$(7,376,929)	\$(1,527,350)
Weighted Average Number of Common Shares Outstanding				
Basic	124,909,811	108,814,460	124,909,811	94,939,378
Diluted	127,542,960	108,814,460	127,542,960	94,939,378
Income (loss) per Common Share				
Basic	\$ (0.04)	\$ (0.06)	\$ 0.00	\$ (0.04)
Diluted	\$ (0.04)	\$ (0.06)	\$ 0.00	\$ (0.04)

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

Neptune Digital Assets Corp.

Condensed Consolidated Interim Statement of Changes in Equity

(Expressed in Canadian Dollars)

(Unaudited)

	Number of Common Shares	Share Capital	Share-based Payments	Warrant Reserve	Revaluation Surplus	Deficit	Total
Balance, September 1, 2020	85,869,178	\$ 25,171,684	\$ 3,042,311	\$ 1,132,276	\$ 494,304	\$ (26,275,435)	\$ 3,565,140
Private placement	35,981,649	36,325,903	-	5,037,100	-	-	41,363,003
Share issuance costs – cash	-	(3,192,997)	-	-	-	-	(3,192,997)
Share issuance costs – brokers’ warrants	-	(2,157,605)	-	(2,157,605)	-	-	-
Restricted share units	557,199	224,840	(224,840)	-	-	-	-
Warrant exercises	2,376,785	341,125	-	-	-	-	341,125
Option exercises	125,000	49,680	(24,680)	-	-	-	25,000
Share-based compensation (Note 8)	-	-	5,589,958	-	-	-	5,589,958
Loss for the period	-	-	-	-	-	(3,436,054)	(3,436,054)
Revaluation of digital currencies	-	-	-	-	1,908,704	-	1,908,704
Balance, May 31, 2021	124,909,811	\$ 56,762,630	\$ 8,382,749	\$ 8,326,981	\$ 2,403,008	\$ (29,711,489)	\$ 46,163,879
Balance, September 1, 2021	124,909,811	\$ 56,762,630	\$ 8,382,749	\$ 8,326,981	\$ 8,745,032	\$ (28,310,794)	\$ 53,906,598
Share-based compensation (Note 8)	-	-	184,214	-	-	-	184,214
Income for the period	-	-	-	-	-	591,574	591,574
Revaluation of digital currencies (Note 3)	-	-	-	-	(7,968,503)	-	(7,968,503)
Balance, May 31, 2022	124,909,811	\$ 56,762,630	\$ 8,566,963	\$ 8,326,981	\$ 776,529	\$ (27,719,220)	\$ 46,713,883

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

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

For the nine months ended	May 31, 2022	May 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) for the period	\$ 591,574	\$ (3,436,054)
Items not affecting cash:		
Depreciation	683,981	52,763
Interest income related to lending activities	(1,114,879)	(542,541)
Realized gain on sale of digital currencies	(1,064,216)	(275,102)
Realized gain on settlement of loans	(71,491)	(962,423)
Realized gain on redemption of short-term investments	(17,004)	-
Revaluation of digital currencies	1,271,821	518,906
Other income – Dash, Fantom, ATOM and MEMO earned	(3,640,596)	(176,316)
Mining revenue	(1,057,444)	(54,347)
Share-based compensation	184,214	5,589,958
Unrealized foreign exchange loss (recovery)	212,837	(39,600)
Unrealized loss on loans receivable	-	243,235
Unrealized (gain) loss on short-term investments	2,663,614	(1,436,007)
Impairment loss on equipment	879,497	-
Gain on settlement of debt	-	(13,740)
Changes in non-cash working capital items:		
Amounts receivable and prepaid expenses	(153,037)	(31,203)
Accounts payable and accrued liabilities	(439,573)	(89,814)
Net cash flows used in operations	<u>(1,070,702)</u>	<u>(652,285)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(4,100,679)	-
Issuance of loans receivable	(40,092,973)	-
Settlement of loans receivable	35,577,774	-
Proceeds on disposals of digital currencies	16,469,961	405,131
Purchase of digital currencies	(6,349,168)	(38,303,578)
Net cash flows from (used in) investing activities	<u>1,504,915</u>	<u>(37,898,447)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from private placements	-	41,363,003
Share issuance costs	-	(3,192,997)
Proceeds from warrant exercises	-	341,125
Proceeds from option exercises	-	25,000
Net cash flows from financing activities	<u>-</u>	<u>38,536,131</u>
Net change in cash	434,213	(14,601)
Cash, beginning of period	154,803	117,558
Cash, end of period	\$ 589,016	\$ 102,957
Non-cash Investing and Financing Transactions:		
Digital currencies sold for digital currencies	\$ 4,507,023	\$ -
Digital currencies purchased with digital currencies	\$ 4,871,526	\$ -
Digital currencies issued to settle accounts payable	\$ -	\$ 1,392,615
Fair value of digital currencies loaned as part of lending activities	\$ 17,766,308	\$ 34,905,179
Digital currency received on redemption of short-term investments	\$ 42,544	\$ -
Digital currency received on settlement of digital currency loan	\$ 12,713,960	\$ 945,000
Fair value of digital currencies and USD Coin used for equipment purchased	\$ 6,108,165	\$ -
Reclassification of digital currencies to non-current	\$ -	\$ 121,752
Revaluation of digital currencies through Other Comprehensive Income	\$ 7,962,503	\$ 1,908,704
Fully vested restricted share units	\$ -	\$ 224,840

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 and nine month periods ended May 31, 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. 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 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.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s ability to raise funds in the future, however the Company has not been significantly impacted by the outbreak and its effects.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on August 2, 2022.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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.

The 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, 2021.

These condensed consolidated interim financial statements are prepared on the historical cost basis, except for financial instruments classified as fair value through profit or loss 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. The functional currency of the Company is Canadian dollars.

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.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

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 inter-company balances and transactions are eliminated on consolidation.

Foreign currency

Assets and liabilities are translated into the reporting currency using the exchange rates in effect on the condensed consolidated interim statement of financial position dates. Equity accounts are translated at historical rates, except for the change in deficit during the year, which is the result of the condensed consolidated interim statement of income (loss) translation process. Revenue and expense accounts are translated using the weighted average exchange rate during the period. The cumulative translation adjustments associated with the net assets of the foreign subsidiary is recorded in accumulated other comprehensive income/loss in the accompanying condensed consolidated interim statement of changes in equity.

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.

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 condensed consolidated interim statements of financial position and income and comprehensive income.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended May 31, 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)

- (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.
- (iii) Digital currency transactions and balances – 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. 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.

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 condensed consolidated interim 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.

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.

- (iv) Short-term investments – 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.

Included in short-term investments is a 34.42% investment in an investment fund. Management accounted for such investment 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.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended May 31, 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

- (i) Digital currency valuation – Digital currencies consist of cryptocurrency denominated assets (Note 3). Digital currencies are revalued to their fair value determined based on volume weighted average price from www.cryptocompare.com at 7:00 am UTC. 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.
- (ii) 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.

3. DIGITAL CURRENCIES AND USD COIN

Digital currencies 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 7:00am UTC. During the period ended May 31, 2021, the Company reclassified the balance of its current digital currencies to non-current assets. A summary of the digital currency balances is as follows:

	Holdings, May 31, 2022	Fair Value, May 31, 2022	Holdings, August 31, 2021	Fair Value, August 31, 2021
Bitcoin	198	\$ 7,946,190	110	\$ 6,533,978
ATOM ⁽¹⁾	155,341	2,025,662	144,384	4,166,227
Ethereum	320	784,604	302	1,309,157
TOMB Finance LP liquidity tokens ⁽¹⁾⁽²⁾	-	329,168	-	-
Dash ⁽¹⁾	2,194	178,637	2,091	591,566
MEMO ⁽¹⁾	540	89,251	-	-
Polkadot	3,873	50,698	3,632	143,690
Litecoin	349	28,253	348	74,810
Bitcoin Cash	95	24,452	92	73,784
Nacho LP liquidity tokens ⁽¹⁾⁽³⁾	-	5,808	-	-
Stellar	12,788	2,438	12,784	5,521
Tether	673	851	595,414	750,222
Neo	42	613	44	2,864
Qtum	52	273	52	821
OMG Network	77	269	77	619
Fantom ⁽¹⁾	5	3	1,447,503	1,314,946
Balance		\$ 11,467,170		\$ 14,968,205

(1) Digital currencies used for staking

(2) TOMB Finance LP liquidity tokens created through the exchange of 1,388,854 Fantom to create FTM/TSHARE and FTM/TOMB liquidity tokens

(3) Nacho LP liquidity tokens created through the exchange of 43,532 Matic to create MATIC/NSHARE liquidity tokens

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

3. DIGITAL CURRENCIES AND USD COIN (continued)

The Company's digital currencies are remeasured as of the reporting date. The following overview shows the difference between fair value and carrying amounts as at May 31, 2022 and August 31, 2021.

	Fair Value, May 31, 2022	Cost, May 31, 2022	Fair Value, August 31, 2021	Cost, August 31, 2021
Bitcoin	\$ 7,946,190	\$ 7,849,813	\$ 6,533,978	\$ 3,010,742
ATOM	2,025,662	1,501,109	4,166,227	957,380
Ethereum	784,604	639,535	1,309,157	564,244
TOMB Finance LP liquidity tokens	329,168	318,605	-	-
Dash	178,637	1,836,230	591,566	1,821,633
MEMO	89,251	621,004	-	-
Polkadot	50,698	146,613	143,690	138,779
Litecoin	28,253	74,278	74,810	72,144
Bitcoin Cash	24,452	66,281	73,784	64,692
Nacho LP liquidity tokens	5,808	116,988	-	-
Stellar	2,438	4,955	5,521	4,954
Tether	851	861	750,222	746,567
Neo	613	3,101	2,864	3,215
Qtum	273	984	821	991
OMG Network	269	1,164	619	1,164
Fantom	3	3	1,314,946	72,144
Balance	\$ 11,467,170	\$ 13,181,524	\$ 14,968,205	\$ 7,458,649

The following is a reconciliation of digital currencies as at May 31, 2022 and August 31, 2021:

	May 31, 2022	August 31, 2021
Balance, beginning of period	\$ 14,968,205	\$ 2,445,726
Dash, Fantom, ATOM and MEMO earned	3,640,596	240,118
Bitcoin mining	1,057,444	358,701
Purchase of digital currencies	4,871,526	38,921,702
Disposal of digital currencies	(4,507,023)	(1,431,857)
Digital currencies loaned as part of lending activities	(130,564)	(47,952,639)
Digital currencies received as interest	834,325	979,986
Digital currency received as part of borrowing activities	-	945,000
Digital currency received on redemption of short-term investments	42,544	-
Digital currencies used to pay for expenses and equipment purchases	(87,816)	(1,196,126)
Digital currency used to settle digital currency borrowed	-	(945,000)
Digital currencies received to settle digital currencies loaned as part of lending activities	-	13,930,877
Revaluation of digital currencies	(9,222,067)	8,671,717
Balance, end of period	\$ 11,467,170	\$ 14,968,205

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

3. DIGITAL CURRENCIES AND USD COIN (continued)

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 period.

Other income for the period ended May 31, 2022 and 2021 is comprised of the following:

	For the three months ended		For the nine months ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Dash earned	\$ 4,314	\$ 10,908	\$ 17,176	\$ 29,382
ATOM earned	234,857	86,482	574,812	146,934
Fantom earned from TOMB Finance LP liquidity token staking	257,299	-	2,628,263	-
MEMO earned	166,156	-	420,345	-
Interest earned on digital currency and USD Coin loans	-	305,300	192,935	319,431
Interest earned on digital currency balances	212,382	176,703	510,073	223,799
Interest earned on loans receivable (Note 4)	519,944	-	1,448,717	-
Other income	\$ 1,394,952	\$ 579,393	\$ 5,792,321	\$ 719,546

Bitcoin

As at May 31, 2022, the Company has 198 units (August 31, 2021 – 110 units) of Bitcoin with a fair value of \$7,946,190 (August 31, 2021 - \$6,533,978). During the year ended August 31, 2021, the Company commenced Bitcoin mining operations. Included within net and comprehensive income for the nine-month period ended May 31, 2022 is \$1,057,444 (2021 - \$54,347) related to 20 (2021 – 1) Bitcoins mined during the period. As at May 31, 2022, the fair value of Bitcoin is as follows:

	Number	Value
Balance, August 31, 2020	5	\$ 76,584
Bitcoin acquired	48	1,874,025
Interest received	4	155,682
Mining revenue	8	358,701
Bitcoin loans returned	90	1,324,522
Bitcoin loans made	(40)	(695,517)
Bitcoin disposals	(5)	(66,640)
Revaluation	-	3,506,621
Balance, August 31, 2021	110	\$ 6,533,978
Bitcoin acquired	60	3,354,700
Interest received	7	384,383
Mining revenue	20	1,057,444
Bitcoin received on redemption of short-term investment	1	42,544
Revaluation	-	(3,426,859)
Balance, May 31, 2022	198	\$ 7,946,190

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

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

3. DIGITAL CURRENCIES AND USD COIN (continued)**ATOM**

On May 28, 2019, the Company announced its intent to add a Cosmos Validator node to its inventory of node assets. The Company executed this transaction through dismantling a single Dash masternode and used the proceeds of disposition to purchase sufficient ATOM in order to setup a Cosmos Validator node.

During the period ended May 31, 2022, the Company earned 14,656 (2021 – 9,602) ATOM valued at \$574,812 (2021 - \$146,934) recorded within other income. During the period ended May 31, 2022, the Company exchanged 3,699 ATOM with a cost of \$31,083 and a fair value of \$130,858 for 2.5 Bitcoin.

As at May 31, 2022, the fair value of ATOM digital tokens is as follows:

	Number	Value
Balance, August 31, 2020	134,762	\$ 1,266,680
ATOM earned	12,951	204,377
Disposal	(3,329)	(19,676)
Revaluation of digital currencies	-	2,714,846
Balance, August 31, 2021	144,384	\$ 4,166,227
ATOM earned	14,656	574,812
ATOM exchanged	(3,699)	(31,083)
Revaluation of digital currencies	-	(2,684,294)
Balance, May 31, 2022	155,341	\$ 2,025,662

Bitcoins related to lending activities

On July 10, 2020, the Company entered into a loan agreement whereby it loaned 50 Bitcoins to a third party originally maturing October 13, 2020 and repaid during the year ended August 31, 2021. The loan bears interest at 6.5% per annum, accrued daily and payable monthly in Bitcoins. Bitcoins received as interest were valued based on daily average price. During the year ended August 31, 2021, the Company entered into another loan agreement with the same party by lending 20 Bitcoins. The new loan bears interest at 4.0% per annum with no fixed maturity date. Both loans were repaid during the year ended August 31, 2021. During the year ended August 31, 2021 the Company borrowed \$750,000 Tether (valued at \$945,000 on issuance) from a third party at zero percent interest rate secured against a 20 Bitcoins loan with a fair value of \$1,281,109. Both loans were repaid during the year ended August 31, 2021. On repayment, the Company also received 153,980 Tether valued at \$193,245.

The change in the Bitcoins related to lending activities for the period ended May 31, 2022 is as follows:

	Number	Amount
Balance, August 31, 2020	50.27	\$ 765,638
Bitcoin loaned	40.00	695,517
Bitcoin loan repaid	(90.00)	(1,324,522)
Interest accrued	2.56	100,605
Interest received	(2.83)	(104,729)
Revaluation	-	(132,509)
Balance, August 31, 2021 and May 31, 2022	-	\$ -

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

3. DIGITAL CURRENCIES AND USD COIN (continued)**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:

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

Interest on above loans is 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 period ended May 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 4).

The change in the Tether and USD Coin related to lending activities for the nine-month period ended May 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 impact	-	-	535
Revaluation of loan	-	-	(6,122)
Balance, May 31, 2022	-	-	\$ -

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

3. DIGITAL CURRENCIES AND USD COIN (continued)

USD Coin

The Company held \$83,245 of USD Coin as at May 31, 2022 (August 31, 2021 - \$10,965,496). 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.

	Number	Amount
Balance, August 31, 2020	-	\$ -
USD Coin received to settle loans	10,000,000	12,606,354
USD Coin interest received	235,518	292,215
USD Coin used to settle accounts payable	(1,543,600)	(1,945,308)
Foreign exchange	-	12,235
Balance, August 31, 2021	8,691,918	\$ 10,965,496
USD Coin interest received	53,568	67,476
USD Coin advanced for equipment deposits	(4,806,000)	(6,056,359)
USD Coin used for loan receivable issuance	(3,900,000)	(4,914,559)
USD Coin acquired	5,001,331	6,312,180
USD Coin disposed	(4,975,000)	(6,278,853)
Foreign exchange	-	(12,136)
Balance, May 31, 2022	65,817	\$ 83,245

4. LOANS RECEIVABLE

During the period ended May 31, 2022, the Company entered into a series of loans whereby it loaned an aggregate of USD 45,506,090 with the following interest rates and maturities:

- 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;
- USD 10,000,000 valued at \$12,700,000, bearing 9% interest, matured April 4, 2022;
- 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;
- USD 3,999,980 valued at \$5,039,975, bearing 9% interest with an open term, settled March 9, 2022;
- USD 7,500,110 valued at \$9,600,000, bearing 10.5% interest, maturing March 15, 2023;
- USD 5,000,000 valued at \$6,250,000, bearing 9% interest, maturing October 8, 2022;
- USD 4,000,000 valued at \$5,215,600, bearing 8% interest with an open term;
- 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 Bitcoins if the price per Bitcoin is at or below USD 27,000 upon maturity on June 24, 2022.
- 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 Bitcoins if the price per Bitcoin is at or below USD 26,000 per Bitcoin upon maturity on June 24, 2022.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

4. LOANS RECEIVABLE (continued)

The change in the loan receivable for the period ended May 31, 2022 is as follows:

	Amount
Balance, August 31, 2021	\$ -
Additions	57,859,282
Repayments	(35,506,284)
Interest accrued	1,448,717
Interest payments received	(1,132,014)
Foreign exchange	(213,372)
Balance, May 31, 2022	\$ 22,456,329

As at May 31, 2022, management considers loans receivable are assessed to be low credit risk as counterparties have adequate ability to meet their contractual cash flow obligations in the near term. The Company has assessed that the expected credit losses for these loans receivable are immaterial under 12-month expected credit losses method. Thus, for the three and nine month periods ended May 31, 2022, no loss allowance provision was recognized on these balances.

5. SHORT-TERM INVESTMENTS

The Company's short-term investments include two investments into private funds made during the years ended August 31, 2021 and 2020. The change in short-term investments for the period ended May 31, 2022 is as follows:

	May 31, 2022	August 31, 2021
Balance, beginning of period	\$ 3,327,316	\$ 392,088
Redemptions	(25,540)	-
Unrealized gain (loss) on short-term investments	(2,663,614)	2,935,228
Balance, end of period	\$ 638,162	\$ 3,327,316

During the period ended May 31, 2022 the Company redeemed one of its short-term 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 May 31, 2022, the Company's short-term investments 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. Management considers the fair value of short-term investments to be Level 2 under IFRS 13 fair value hierarchy. There has been no change in the valuation techniques during the period.

6. PROPERTY AND EQUIPMENT

During the period ended May 31, 2022, the Company through its subsidiary purchased real estate in New York City valued at \$3,999,193. The building portion is depreciated on a straight-line basis of 40 years.

Furniture was purchased and installed during the period ended May 31, 2022 and is depreciated on a declining balance basis at a rate of 20% per year

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

6. PROPERTY AND EQUIPMENT (continued)

Equipment is comprised of Bitcoin miners acquired during the period ended May 31, 2022 and year ended August 31, 2021 and are depreciated on a declining balance basis at a rate of 50% per year.

	Property	Equipment	Furniture	Total
Cost:				
Balance, August 31, 2020	\$ -	\$ -	\$ -	\$ -
Additions	-	2,975,076	-	2,975,076
Balance, August 31, 2021	-	2,975,076	-	2,975,076
Additions	3,999,193	6,108,165	101,486	10,208,844
Impairment of equipment	-	(1,057,261)	-	(1,057,261)
Balance, May 31, 2022	3,999,193	8,025,980	101,486	12,126,659
Accumulated depreciation:				
Balance, August 31, 2020	-	-	-	-
Depreciation	-	177,764	-	177,764
Balance, August 31, 2021	-	177,764	-	177,764
Depreciation	36,659	639,272	8,050	683,981
Impairment of equipment	-	(177,764)	-	(177,764)
Balance, May 31, 2022	36,659	639,272	8,050	683,981
Net book value:				
August 31, 2021	\$ -	\$ 2,797,312	\$ -	\$ 2,797,312
May 31, 2022	\$ 3,962,534	\$ 7,386,708	\$ 93,436	\$ 11,442,678

Impairment of equipment

On November 29, 2021, 298 mining rigs that were part of litigation discussed in Note 15 were returned to the Company. Management, having the appropriate level of authority, committed to a formal plan to sell these mining rigs. 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 period ended May 31, 2022, management determined there is no longer any economic value for these mining rigs and the net book value of \$879,497 has been recognized as an impairment loss.

7. 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 to be a related party transaction when there is a transfer of resources or obligations between related parties.

During the period ended May 31, 2022, the Company incurred the following related party transactions:

	For the three months ended		For the nine months ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Consulting fees	\$ 160,167	\$ 99,167	\$ 470,167	\$ 241,668
Directors' fees	24,800	21,000	96,800	48,000
Share-based compensation	-	4,136,086	-	5,331,549

Key management includes directors and key officers of the Company, including the President, Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer. 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.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

7. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

As at May 31, 2022, there was \$69,456 (August 31, 2021 - \$599,082) due to directors and officers of the Company. The balances to related parties are unsecured, non-interest bearing and without fixed repayment terms and are included in accounts payable and accrued liabilities.

During the year ended August 31, 2021, the Company settled an aggregate of \$63,000 in consulting fees to two officers of the Company through the issuance of 50,000 Tether with a fair value of \$63,000.

8. SHARE CAPITAL

Authorized Capital

Unlimited common shares without par value

Shares issued

There were no shares issued during the period ended May 31, 2022.

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

- a) 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;
- b) issued 2,376,785 common shares on the exercise of warrants for gross proceeds of \$341,125;
- c) 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;
- 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

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

8. SHARE CAPITAL (continued)

- 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, 2020	1,250,000	\$ 0.13	-	\$ -
Exercised	(2,376,785)	0.14	(125,000)	0.20
Issued	<u>22,614,860</u>	<u>1.38</u>	<u>10,200,000</u>	<u>0.54</u>
Outstanding, August 31, 2021	21,488,075	\$ 1.45	10,075,000	\$ 0.55
Issued	<u>-</u>	<u>-</u>	<u>400,000</u>	<u>0.60</u>
Outstanding, May 31, 2022	<u>21,488,075</u>	<u>\$ 1.45</u>	<u>10,475,000</u>	<u>\$ 0.55</u>
Number currently exercisable	21,488,075	\$ 1.45	10,475,000	\$ 0.55

The weighted average remaining contractual life of the warrants and stock options as at May 31, 2022 was 1.81 years (August 31, 2021 – 2.56 years) and 8.48 years (August 31, 2021 – 9.51 years), respectively.

As at May 31, 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
	<u>400,000</u>	<u>\$ 0.60</u>	<u>November 25, 2023</u>
	<u>10,475,000</u>		

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

8. SHARE CAPITAL (continued)

As at May 31, 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
	<u>2,222,250</u>	\$ 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 period ended May 31, 2022 was \$0.46 (2021 - \$0.54). Total share-based compensation recognized in the statement of shareholders' equity for the three-month period ended May 31, 2022 was \$nil (2021 - \$4,289,275) and nine-month period ended May 31, 2022, was \$184,214 (2021 - \$5,589,958) 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:

	May 31, 2022	August 31, 2021
Weighted average share price	\$0.60	\$0.54
Risk-free interest rate	1.05%	1.14%
Expected life of option	2 years	10 years
Expected annualized volatility	153.22%	159.89%
Expected dividend rate	Nil	Nil

Restricted share units

The Company has a long-term restricted share unit plan ("RSU's"). The RSU's entitle directors, officers or employees to common shares of the Company upon vesting, based on vesting terms determined by the Company's Board of Directors at the time of grant.

During the year ended August 31, 2018, the Company granted 1,580,000 RSU's which vest over the course of three years, such that 33.33% vest every 12 months. During the year ended August 31, 2019, 30,000 RSU's were forfeited. During the year ended August 31, 2020 of the remaining unvested 1,033,333 RSU's, 533,333 RSU's held by former officers and directors were cancelled. In connection with the cancellation, the Company recognized a recovery to share-based compensation of \$113,039. During the year ended August 31, 2020, the second tranche of RSU's vested and the Company issued 250,000 common shares.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

8. SHARE CAPITAL (continued)

Restricted share units (continued)

For the year ended August 31, 2021, the Company recognized \$16,204 in share-based compensation related to the remaining RSU's. During the year ended August 31, 2021, the final tranche of RSU's vested and the Company issued 250,000 common shares.

During the year ended August 31, 2020, the Company granted 280,001 RSU's to certain consultants, officers, and directors. The RSU's vested immediately and shares were issued concurrent with the tranche of vested RSU's as discussed above. The new RSU's were valued at \$0.145 per RSU and \$40,600 was recognized directly to share-based compensation. The aggregate impact of the cancelled RSU's and the new issuance resulted in the recognition of a recovery of \$72,439 to share-based compensation on the consolidated statement of income and comprehensive income for the year ended August 31, 2020.

During the year ended August 31, 2021, the Company granted 307,199 RSU's to certain consultants, officers, and directors. The RSU's vested immediately and shares were issued concurrent with the final tranche of vested RSU's as discussed above. The new RSU's were valued at \$0.325 per RSU and \$99,840 was recognized directly to share-based compensation.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

Revaluation surplus arising from revaluation of digital currencies, including those related to lending activities, is presented under accumulated other comprehensive income.

The change in revaluation surplus is as follows:

	May 31, 2022	August 31, 2021
Balance, beginning of period	\$ 8,745,032	\$ 494,304
Revaluation increase (decrease) on digital currencies	(7,968,503)	8,250,728
Balance, end of period	\$ 776,529	\$ 8,745,032

10. 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 equity or debt financing. The Company is not subject to any capital requirements imposed by a regulator.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

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

	May 31, 2022	August 31, 2021
Financial assets at amortized cost		
Cash	\$ 589,016	\$ 154,803
USD Coin	83,245	10,965,496
Loans receivable	22,456,329	-
Financial assets at fair value to profit or loss		
Short-term investments	638,162	3,327,316
Total	\$ 23,766,752	\$ 14,447,615

	May 31, 2022	August 31, 2021
Financial liabilities at amortized cost		
Accounts payable and accrued liabilities	\$ 329,510	\$ 769,083

The carrying amounts of cash, amounts receivable, USD Coin, 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 USD Coin. The carrying amount of financial assets represents the maximum credit exposure. The Company has gross credit exposure at May 31, 2022, related to cash of \$589,016, USD Coin of \$83,245, and loans receivable of \$22,456,329. 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 receivables 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.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

11. FINANCIAL INSTRUMENTS (continued)

Financial risk management (continued)

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.

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 \$2.2 million.

12. 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.

The following table sets forth the Company's assets measured at fair value by level within the fair value hierarchy as at May 31, 2022.

May 31, 2022	Level 1	Level 2	Level 3
Digital currencies	\$ -	\$ 11,467,170	\$ -
Short-term investments	-	638,162	-
Total	\$ -	\$ 12,105,332	\$ -
August 31, 2021	Level 1	Level 2	Level 3
Digital currencies	\$ -	\$ 14,968,205	\$ -
Digital currencies related to lending activities	-	22,248,793	-
Short-term investments	-	3,327,316	-
Total	\$ -	\$ 40,544,314	\$ -

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

12. FAIR VALUE MEASUREMENT (continued)

The fair values of digital currencies, including those related to lending activities, are based on volume weighted average price from www.cryptocompare.com at 7:00 am UTC. The fair values of the short-term investments are remeasured based on monthly valuation reports provided to the Company by the investee fund administrator. There were no transfers between any levels during the period ended May 31, 2022.

13. DIGITAL CURRENCY RISKS

Price risk related to digital currencies

Digital asset prices are volatile and affected by various factors including global supply and demand, interest rates, exchange rates, inflation or deflation and the political and economic conditions. Supply and demand for such assets rapidly change from time to time affecting 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 which are measured at revalued amounts.

At May 31, 2022, if the prices of digital currencies (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 accumulated other comprehensive income arising from changes in fair value of digital currencies (including digital currencies related to lending activities) would have been \$1,719,947 lower. This decrease shall be recognized in income or loss. However, the decrease shall be recognized in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset.

If the prices of digital assets (except stablecoins) had been 15% higher and all other variables were held constant, other comprehensive income would increase by \$1,719,947. 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. As at May 31, 2022, and subsequently, the Company does not expect a material loss on any of its digital currencies related to lending activities.

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.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

13. DIGITAL CURRENCY RISKS (continued)

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.

Hard fork and air drop 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.

Air drops 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 air drop, 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 period ended May 31, 2022, there was no loss 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.

Neptune Digital Assets Corp.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

13. DIGITAL CURRENCY RISKS (continued)

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.

14. 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 and, therefore, segmented information is not presented.

15. 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.

16. SUBSEQUENT EVENTS

Subsequent to the period ended May 31, 2022 the Company:

- a) On June 12, 2022, 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. As at May 31, 2022, the Company had digital currencies and USD Coin valued at \$1,753,258 and \$83,245, respectively, in hot wallets with the third party.
- b) On June 27, 2022, through its subsidiary, Neptune USA invested USD 1,799,984 into a private US company whose sole purpose is to invest in a US spacecraft manufacturer, space launch provider, and satellite communications provider.

17. RECLASSIFICATION OF ACCOUNTS

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.