SKYCHAIN TECHNOLOGIES INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended December 31, 2022

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying interim consolidated financial statements for Skychain Technologies Inc. (the "Company") for the nine months ended December 31, 2022 have been prepared by management in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). These interim consolidated financial statements, which are the responsibility of management, are unaudited and have not been reviewed by the Company's auditors. Management believes these interim consolidated financial statements are free of material misstatement and present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and the results of its operations and its cash flows for the nine months ended December 31, 2022.

SKYCHAIN TECHNOLOGIES INC.
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITIONS
(Expressed in Canadian dollars)

		December 31, 2022 (Unaudited)		March 31, 2022 (Audited)
ASSETS				
Current				
Cash	$	734,354	$	3,161,765
Receivables (Note 4)		217,914		309,931
Prepaid expenses (Note 5)		150,145		91,633
Total current assets		1,102,413		3,563,329
Reclamation deposits (Note6)		15,000		15,000
Investment in Peterific (Note 7)		82,791		-
Garnishment (Note 18)		117,378		-
Deposits for equipment purchases (Note 5)		666,632		666,632
Property and equipment (Note 10 and 11)		2,957,777		2,998,266
Right-of-use assets (Note 9, 12)		-		17,290
Total assets	$	4,941,991	$	7,260,517
LIABILITIES AND EQUITY (DEFICIENCY)				
Current				
Accounts payable and accrued liabilities (Note 13, 16)	$	4,669,980	$	5,395,079
Due to related parties (Note 18)		194,995		128,328
Advance from Miningsky Container Ltd. (Note 8)		-		73,010
Lease liabilities (Note 12)		-		17,401
Government loan (Note 16)		40,000		36,002
Convertible loan (Note 15)		1,876,929		1,099,516
Total liabilities		6,781,904		6,749,336
Equity (deficiency)				
Share capital (Note 17)		14,937,802		14,937,802
Equity component of convertible loan (Note 15)		998,700		998,700
Reserves (Note 17)		1,300,057		1,300,057
Deficit		(19,075,370)		(16,724,262)
Accumulated other comprehensive income		(1,102)		(1,116)
Total equity (deficiency)		(1,839,913)		511,181
Total liabilities and equity (deficiency)	$	4,941,991	$	7,260,517

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
CONTINGENCIES (Note 23)

Approved on behalf of the Board of Directors on March 22, 2023:

/s/ *"William Ying"*
Director

/s/ *"Richard Du"*
Director

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

SKYCHAIN TECHNOLOGIES INC.
INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian dollars)
FOR THE NINE MONTHS ENDED DECEMBER 31, 2022 and 2021
(Unaudited)

	Nine Months Ended December 31, 2022	Nine Months Ended December 31, 2021	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021
EXPENSES				
Accounting and audit	$ 135,464	$ 49,735	$ 53,750	$ 3,325
Accretion and interest (Notes 12, 15, 16)	66,158	178,648	6,352	95,306
Amortization of property and equipment (Note 11)	5,310	8,950	760	5,593
Depreciation of right-of-use assets (Note 12)	5,763	47,456	-	2,881
Consulting and management fees (Note 18)	211,534	300,283	104,000	14,605
Legal fees	286,032	163,049	86,789	33,393
Marketing and corporate communication	-	308,766	-	47,619
Office and miscellaneous	161,360	176,891	21,657	93,565
Filing and listing fees	15,110	67,216	7,831	21,213
Salary and benefits (Note 18)	372,033	943,115	14,165	329,170
Transfer agent	475	4,201	325	2,782
Travel	14,258	47,620	3,058	24,655
Storage and handling	92,047	15,000	23,461	-
Business development	17,634	101,905	13,957	77,215
Bad or doubtful debt	66,005	80,225	-	33,317
Research and development	75,000	63,771	75,000	44,331
Option based compensation (Note 17)	-	813,536	-	362,623
	$ 1,524,183	$ 3,370,367	$ 411,105	$ 1,191,593
Loss before other items	**$ (1,524,183)**	**$ (3,370,367)**	**$ (411,105)**	**$ (1,191,593)**
OTHER ITEMS:				
Government assistance (Note 16)	$ -	$ 163,545	$ -	$ 51,780
Gain (loss) on sale of assets	(1,419)	55,458	-	7,395
Loss on investments (Note 7, 8)	(17,209)	(159,550)	(5,176)	(147,858)
Gain on debt settlement (Note 8)	44,145	36,606	-	-
Gain on lease termination (Note 12)	1,142	-	1,142	-
Miscellaneous loss	-	(1,785)	-	-
Loss on default on Debenture (Note 15)	(853,584)	-	-	-
Net loss for the period	**$ (2,351,108)**	**$ (3,276,093)**	**$ (415,139)**	**$ (1,280,276)**
Other comprehensive loss				
Foreign currency translation adjustment	14	(1,621)	(2)	(273)
Comprehensive loss for the period	**$ (2,351,094)**	**$ (3,277,714)**	**$ (415,141)**	**$ (1,280,549)**
Loss per share – basic and diluted	**$ (0.09)**	**$ (0.19)**	**$ (0.02)**	**$ (0.07)**
Weighted average number of common shares outstanding	**26,835,601**	**17,669,511**	**26,835,601**	**19,637,877**

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

SKYCHAIN TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
(Expressed in Canadian dollars)

	Share Capital		Reserves				
	Number of shares	Amount	Equity component of convertible loan	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
Balance at March 31, 2021 (Audited)	**14,783,007**	**$ 8,559,515**	$ -	**$ 356,764**	**$ 1,296**	**$ (10,089,567)**	**$ (1,171,992)**
Private placement, net of issuance costs	11,606,860	6,088,675	-	129,757	-	-	6,218,432
Shares issued for debt settlement	420,734	282,112	-	-	-	-	282,112
Warrant exercise	25,000	7,500	-	-	-	-	7,500
Equity component of convertible loan	-	-	998,700	-	-	-	998,700
Option based compensation	-	-	-	813,536	-	-	813,536
Net loss	-	-	-	-	-	(6,634,695)	(6,634,695)
Foreign currency translation adjustment	-	-	-	-	(2,412)	-	(2,412)
Balance at March 31, 2022 (Audited)	**26,835,601**	**$ 14,937,802**	**$ 998,700**	**$ 1,300,057**	**$ (1,116)**	**$ (16,724,262)**	**$ 511,181**
Net loss	-	-	-	-	-	(2,351,108)	(2,351,108)
Foreign currency translation adjustment	-	-	-	-	14	-	14
Balance at December 31, 2022 (Unaudited)	**26,835,601**	**$ 14,937,802**	**$ 998,700**	**$ 1,300,057**	**$ (1,102)**	**$ (19,075,370)**	**$ (1,839,913)**

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

SKYCHAIN TECHNOLOGIES INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)
FOR THE NINE MONTHS ENDED DECEMBER 31, 2022 AND 2021
(Unaudited)

	Nine Months Ended December 31, 2022	Nine Months Ended December 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	$ (2,351,108)	$ (3,276,093)
Items not involving cash:		
Accretion and interest on loans and lease liabilities	51,158	178,648
Loss (gain) on sale of assets	1,419	(55,458)
Amortization of property and equipment	5,310	8,950
Depreciation of right-of-use assets	5,763	47,456
Loss on equity investments	17,209	159,550
Gain on debt settlement	(44,145)	(36,606)
Loss on default on loan	853,584	-
Gain on lease termination	(1,142)	-
Option based compensation	-	813,536
Changes in non-cash working capital items:		
Receivables	92,017	(179,567)
Prepaid expenses	(58,512)	(25,388)
Customer deposits	-	2,996,515
Unearned revenue	-	(6,288)
Accounts payable and accrued liabilities	(725,099)	920,221
Subscription repayable	-	(286,729)
Garnishment	(117,378)	-
Advance from Miningsky Container	(28,865)	15,483
Due to related parties	66,667	(36,009)
Net cash used in operating activities	(2,233,122)	1,238,221
CASH FLOWS FROM INVESTING ACTIVITIES		
Hosting site development	-	(379,290)
Deposit for equipment	-	-
Deposit for hydro infrastructure	-	(1,538,136)
Purchase of property and equipment	(3,036)	(2,501,330)
Disposition of property and equipment	39,900	188,789
Equity investments	(100,000)	(159,550)
Net cash used in investing activities	(63,136)	(4,389,517)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from share issuances	-	5,067,792
Proceeds from (repayment of) convertible loan	(123,071)	1,940,000
Share subscriptions receivable	-	(10,000)
Repayment of short-term loan	-	(135,791)
Repayment of related party loans	-	(466,131)
Lease payments	(4,992)	(278,350)
Net cash provided by (used in) financing activities	(128,063)	6,117,520
Change in cash for the period	(2,424,321)	2,966,224
Effect of foreign currency translation	(3,090)	(307)
Cash, beginning of the period	3,161,765	2,926
Cash, end of the period	$ 734,354	$ 2,968,843
Non-cash transaction in the investing and financing activities		
Shares issued for debt settlement	$ -	$ 314,000
Supplemental disclosures		
Interest paid	$ -	$ 28,356
Income tax paid	$ -	$ -

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Skychain Technologies Inc. ('Skychain" or the "Company") was incorporated in British Columbia and is a public company with its common shares listed for trading on the TSX Venture Exchange. The Company's registered office and principal business address is 605 – 1112 West Pender Street, Vancouver, British Columbia.

On September 18, 2018, the Company completed the acquisition of MiningSky Technology Ltd. ("MiningSky") and changed its business from the junior mining exploration industry to a Tier 2 Technology issuer. MiningSky was incorporated under the Business Corporations Act (British Columbia) on November 10, 2017. On March 7, 2018 MiningSky incorporated a wholly-owned subsidiary MiningSky USA, Inc. ("MiningSky USA") in Washington, United States. On March 27, 2020 and December 9, 2021, Skychain incorporated its wholly-owned subsidiaries MiningSky Technologies (Manitoba) Inc. ("MiningSky Manitoba") and 10117749 Manitoba Ltd. ("101 MB") respectively in the province of Manitoba. MiningSky, MiningSky Manitoba and 101 MB are involved in the business of developing all-in-one solution for cryptominers with warehouse space, low-cost electricity, and maintenance and hosting services. On May 16, 2022, the Company incorporated its wholly-owned subsidiary RBN Digitech Labs Inc. ("RBN") under the Business Corporations Act of British Columbia to be engaged in the business of developing non-fungible tokens ("NFT").

These unaudited consolidated financial statements have been prepared in accordance with IFRS on a going concern basis which assumes the continued realization of assets and satisfaction of liabilities and commitments in the normal course of business.

During the nine months ended December 31, 2022, the Company incurred a net loss of $2,351,108 and as at December 31, 2022, the Company had an accumulated deficit of $19,075,370, which has been funded primarily by the issuance of equity and debt. Management has estimated that the Company will require additional financing in order to meet its obligations and commitments for the next fiscal year. The Company's ability to continue as a going concern and to realize assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs. The Company must secure sufficient external funding to meet its obligations and commitments as they come due to pay ongoing general and administrative costs. This external funding may be achieved in a number of ways, including, but not limited to, the issuance of new debt or equity instruments. While management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or other initiatives will be available for the Company or that they will be available on terms which are acceptable to the Company. If management is unable to obtain new external funding, the Company may be unable to continue as a going concern.

In March 2020, the World Health Organization declared a global pandemic known as COVID-19. The expected impacts on global commerce have been far reaching. Material uncertainties may come into existence that could influence management's going concern assumption. The duration and impact of the COVID-19 outbreak is unknown and it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company. The Company continues to closely evaluate the impact of COVID-19 on its operations.

The aforementioned circumstances indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements.

2. BASIS OF PREPARATION

Statement of compliance

These unaudited interim financial statements ("interim financial statements") are in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted. These interim unaudited financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended March 31, 2022.

These interim consolidated financial statements were authorized for issue by the Board of Directors on March 22, 2023.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit or loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Consolidation

These consolidated financial statements include the financial statements of the Company, its wholly-owned subsidiaries MiningSky, MiningSky Manitoba,101 MB and RBN. All inter-company transactions and balances have been eliminated upon consolidation.

The subsidiaries are consolidated from the date on which control is obtained by the Company and will cease to be consolidated from the date on which control is transferred out of the Company.

Subsidiaries are entities that the Company controls, either directly or indirectly. Control is defined as the exposure, or rights, to variable returns from involvement with an investee and the ability to affect those returns through exerting power over the investee. Power over an investee exists when there are existing rights that give the Company an ability to direct the activities that significantly affect the investee's returns. All significant intercompany transactions and balances have been eliminated on consolidation.

Functional and presentation currency

The Company's consolidated financial statements are presented in Canadian dollars. The functional currency of the Company, MiningSky, MiningSky Manitoba, 101MB and RBN is the Canadian dollar. The functional currency of MiningSky USA is the United States dollar.

Reclassifications

Certain prior period amounts have been reclassified for consistency with the current period presentation.

New, amended and future accounting pronouncements

Accounting standards and amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes estimates, assumptions and judgements about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The estimates and underlying assumptions are reviewed on an ongoing basis. The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments and estimates in applying accounting policies that have the most significant effect of amounts recognized in the consolidated financial statements is as follows:

Significant accounting estimates

a) Convertible loan

Convertible loans are separated into their liability and equity components on the consolidated statements of financial position. The determination of the fair value of the liability component is based on a number of assumptions, including contractual future cash flows, discount factors, and the presence of any derivative financial instruments.

b) Warranty costs

The accounting for warranties requires management to make assumptions and apply judgments when estimating product failure rates and expected costs.

c) Share-based payment transactions

Management uses the Black-Scholes option pricing model to determine the fair value of stock options and standalone share purchase warrants issued. This model requires assumptions of the expected future price volatility of the Company's common shares, expected life of options and warrants, future risk-free interest rates, and the dividend yield of the Company's common shares.

d) Lease

The critical assumptions and estimates used in determining the present value of future lease payments requires management to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets. Management determines the incremental borrowing rate of each leased asset or portfolio of leased assets by incorporating the Company's creditworthiness, the security, term, and value of the underlying leased asset, and the economic environment in which the leased asset operates. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

Significant accounting judgments

a) Convertible loan

In accordance with the substance of the contractual arrangement, convertible loans are compound financial instruments that are accounted for separately into their financial liability and equity instrument components. The identification of convertible loan components is based on interpretations of the substance of the underlying contractual arrangement and therefore requires management's judgment. The separation of the components affects the initial recognition of the convertible loans at issuance and the subsequent recognition of interest on the liability component.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

Significant accounting judgments (continued)

b) Contingencies

The evaluation of the outcome of contingencies, which can involve significant uncertainty relating to the occurrence or nonoccurrence of one or more future events; in identifying contingencies and estimating their potential financial effect, management gives consideration to all information available prior to completion of the consolidated financial statements.

c) Control

The determination as to whether or not control is evident and the requirement for consolidation of an investment is met is based on the Company's degree of ownership, board representation, and other factors.

d) Going concern

As discussed in Note 1, these interim consolidated financial statements have been prepared under the assumptions applicable to a going concern. If the going concern assumption were not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the consolidated statement of financial position classifications used and such adjustments could be material.

The Company reviews the going concern assessment at the end of each reporting period.

e) Functional currencies

Management is required to assess the functional currency of each entity of the Company. In concluding on the functional currencies of the parent and its subsidiaries, management considers the currency that mainly influences the sale prices of goods and services and the cost of providing goods and services in each jurisdiction in which the Company operates. When no single currency is clearly dominant the Company also considers secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.

f) Lease

Management exercises judgment when contracts are entered into that may give rise to a right-of-use asset that would be accounted for as a lease. Judgment is required in determining the appropriate lease term on a lease by lease basis. Management considers all facts and circumstances that create an economic incentive to exercise a renewal option or to not exercise a termination option at inception and over the term of the lease, including investments in major leasehold improvements, operating performance, and changed circumstances. The periods covered by renewal or termination options are only included in the lease term if management is reasonably certain to exercise that option. Changes in the economic environment may impact the assessment of the lease term and any changes in the estimate of lease terms may have a material impact on the Company's consolidated statement of financial position.

g) Valuation of deferred tax assets and liabilities

Deferred tax assets and liabilities require management judgment in order to determine the amounts to be recognized. This includes assessing the timing of the reversal of temporary differences to which deferred income tax rates are applied. Deferred tax assets are estimated with consideration given to the timing, sources and amounts of future taxable income.

(Expressed in Canadian dollars)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

Significant accounting judgments (continued)

h) Valuation and useful lives of property and equipment

Changes in technology or the intended use of these assets as well as changes in economic or industry factors may create indicators of impairment or cause the estimated useful lives of these assets to change. Where impairment is indicated, the Company estimates the fair value of the assets and charges the difference between the fair value and the carrying amount, if any, to impairment expense. The estimates of the useful lives of property and equipment are reviewed on an annual basis. Depreciation or amortization is adjusted on a prospective basis, if and when required.

Management's judgment is also required in assessing whether property and equipment are considered to be in the location and condition necessary for such to be capable of operating in the manner intended by management.

i) Extinguishment of financial liability

Management's judgment is required in assessing whether an extinguishment of an existing financial liability involving a creditor that is also a direct or indirect shareholder of the Company, is one in which the creditor is also acting in its capacity as such.

j) Impairment assessment of trade receivables and net investment in sublease

The Company measures loss allowances for trade receivables and net investment in sublease at an amount equal to lifetime expected credit losses ("ECLs"). When estimating ECL the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

4. RECEIVABLES

Receivables are comprised of the following:

	December 31, 2022	March 31, 2022
	$	$
Deposit refund receivable	-	103,030
Goods and sales tax receivable	217,914	206,901
	217,914	**309,931**

5. PREPAID EXPENSES

Prepaid expenses are comprised of the following:

	December 31, 2022	March 31, 2022
	$	$
Current:		
Prepaid expenses	150,145	91,633
	150,145	91,633
Long-term:		
Hosting equipment deposit	666,632	666,632
	816,777	**758,265**

6. RECLAMATION DEPOSITS

As at December 31, 2022, the Company has $15,000 (March 31, 2022 - $15,000) in term deposits, recorded at cost, which are held as security for the Provincial Government of British Columbia related to certain exploration and evaluation assets called Wood Mining Group claims in British Columbia, Canada.

7. INVESTMENT IN PETERIFIC STUDIOS INC.

On May 16, 2022, the Company incorporated its wholly-owned subsidiary RBN Digitech Labs Inc. ("RBN") under the Business Corporations Act of British Columbia to be engaged in the business of developing non-fungible tokens ("NFT").

During June, 2022, RBN invested $100,000 in exchange for 39.39% of the capital of Peterific Studios, Inc. ("Peterific"), a British Columbia corporation developing a novel application of the "movement to earn" and "share to earn" systems. The Company's investment in Peterific is recorded as an equity investment. During the nine months ended December 31, 2022 the Company recorded a loss on equity investment in Peterific of $17,209.

8. INVESTMENT IN MININGSKY CONTAINER LTD.

Pursuant to the Joint Investment Agreement between the Company and Marvelous Peach Capital Limited and Houston BC Mining Power Corp. dated July 5, 2021, MiningSky Container Ltd. ("MiningSky Container") was incorporated under the laws of the province of British Columbia to be engaged in the business of manufacturing and marketing containers for use in cryptocurrency mining. In accordance with MiningSky Container's Shareholder Investment Agreement executed on August 6, 2021, the Company originally was to make a total capital investment of US$250,000 in exchange for 25% of the total common shares issued and outstanding. On August 23, 2021, the Company made a capital investment of $159,550 (US$125,000), ultimately representing 25% of the total share capital of Miningsky Container. The Company provided technical knowledge and labour services towards the manufacture of containers for Miningsky Container.

During the nine months ended December 31, 2021, the Company recorded an impairment loss of the entire investment of $159,550 as management determined the investment was no longer recoverable due to uncertainty as to the feasibility of Miningsky Container's business plan.

During September, 2022, the Company disposed of its 25% equity interest in Miningsky Container to the 70% equity holder of Miningsky Container for gross proceeds of $1, whereby Miningsky Container and the Company agreed to mutual general release of all existing and future claims and obligations, immediately prior to which the Company had an advance of $44,145 from Miningsky Container for services. As a result, the Company recorded a debt settlement gain of $44,145 on balance forgiven by Miningsky Container. As at December 31, 2022 and the date of this report $Nil balance (March 31, 2022 - $73,010) was owed to Miningsky Container.

9. BIRTLE HOSTING SITE

In June 2020, MiningSky Manitoba entered into a lease agreement with an arm's length party ("Lessor") for a 1.6-acre (0.65-hectare) parcel of land in the town of Birtle, Manitoba for a 12MW capacity cryptocurrency mining hosting facility (the "Birtle Site"). Monthly payments of $25,000 were to commence October 1, 2020 for a two-year term. The term was renewable for a second term of 36 months at $40,000 per month and then renewable for a 60-month term at market price. Manitoba Hydro power permits and construction contract were assigned from the Lessor with the lease agreement. The Lessee had an option to acquire the land prior to the end of the three lease terms or March 1, 2030 for an exercise price at market price but not lower than $3,000,000. The lease agreement was subsequently amended on August 1, 2021 to extend the lease payment commencement date to August 1, 2021 and lease termination date to July 23, 2023. An additional payment of $50,000 was made to the Lessor as consideration for the extension. The Birtle Site lease was recorded as a right-of-use asset (Note 12).

(Expressed in Canadian dollars)

9. BIRTLE HOSTING SITE *(continued)*

On March 14, 2022, the Company terminated the lease agreement. As part of the termination, the additional $50,000 paid to the Lessor was applied towards the final two months' rent. As a result of the termination, the Company recognized a loss on lease settlement of $40,071.

As at March 14, 2022, a total of $1,093,780 had been paid or payable to the hydro authority for design and construction of the power connection and $439,815 on development of the Birtle Site. As a result of the termination of the lease, the Company wrote-off $1,533,595 comprised of $1,093,780 of costs relating to power connection and infrastructure and $439,815 of site work that was unable to be removed from the facility.

10. MELITA HOSTING SITE

On December 15, 2021, the Company acquired a four-acre property with a manufacturing structure in the town of Melita, Manitoba for a total cost of $210,730 (Note 11) with the intention of developing a cryptocurrency mining hosting facility on the property (the "Melita Site"). As at December 31, 2022, no site work has been commenced at the Melita Site.

11. PROPERTY AND EQUIPMENT

	Vehicles	Office furniture and equipment	Transformers	Containers	Forklift	Parts and tools	Manitoba Hosting Equipment	Land	Total
	$	$	$	$	$	$	$	$	$
Cost									
Balance, March 31, 2021	15,354	-	154,389	124,713	21,889	898,318	-	-	1,214,663
Additions	53,200	3,777	-	-	-	191,410	2,114,778	210,730	2,573,895
Dispositions	-	-	-	-	-	(124,691)	-	-	(124,691)
Impairment	(20,653)	-	-	-	-	(278,118)	(31,704)	-	(330,475)
Foreign currency translation	-	-	-	-	-	(2,646)	-	-	(2,646)
Balance, March 31, 2022	47,901	3,777	154,389	124,713	21,889	684,273	2,083,074	210,730	3,330,746
Additions	734	2,301	-	-	-	-	-	-	3,035
Dispositions	(48,635)	-	-	-	-	(14,806)	-	-	(63,441)
Foreign currency translation	-	-	-	-	-	3,104	-	-	3,104
Balance, December 31, 2022	-	**6,078**	**154,389**	**124,713**	**21,889**	**669,467**	**2,083,074**	**210,730**	**3,273,444**
Accumulated amortization									
Balance, March 31, 2021	15,080	-	154,389	124,713	18,806	11,563	-	-	324,551
Additions	3,821	1,025	-	-	3,083	-	-	-	7,929
Balance, March 31, 2022	18,901	1,025	154,389	124,713	21,889	11,563	-	-	332,480
Additions	3,222	2,088	-	-	-	-	-	-	5,310
Dispositions	(22,123)	-	-	-	-	-	-	-	(22,123)
Balance, December 31, 2022	-	**3,113**	**154,389**	**124,713**	**21,889**	**11,563**	-	-	**315,667**
Net book value									
Balance, March 31, 2022	29,000	2,752	-	-	-	672,710	2,083,074	210,730	2,998,266
Balance, December 31, 2022	-	**2,965**	-	-	-	**657,904**	**2,083,074**	**210,730**	**2,957,777**

During the nine months ended December 31, 2022 and 2021, amortization expense of $5,310 and $8,950 respectively was recorded as operating expenses.

(Expressed in Canadian dollars)

12. LEASE

a) *Right-of-use assets*

A reconciliation of the Company's right-of-use assets for the nine months ended December 31, 2022 and the year ended March 31, 2022 is as follows:

	Office	Vehicle	Site	Total
Balance, March 31, 2021	$ 44,574	$ -	$ -	$ 44,574
Addition	-	23,054	586,372	609,426
Depreciation of ROU	(44,574)	(5,764)	(178,461)	(228,799)
Lease termination	-	-	(407,911)	(407,911)
Balance, March 31, 2022	$ -	$ 17,290	$ -	$ 17,290
Depreciation of ROU	-	(5,763)	-	(5,763)
Lease termination	-	(11,527)	-	(11,527)
Balance, December 31, 2022	**$ -**	**$ -**	**$ -**	**$ -**

b) *Lease liabilities*

A reconciliation of the Company's lease liabilities for the nine months ended December 31, 2022 and the year ended March 31, 2022 is as follows:

	Office	Vehicle	Manitoba Hosting Site	Total
Balance, March 31, 2021	$ (48,790)	$ -	$ -	$ (48,790)
Addition	-	(23,054)	(586,372)	(609,426)
Accretion of interest	(1,569)	(328)	(31,468)	(33,365)
Lease payments	50,359	5,981	250,000	306,340
Lease termination	-	-	367,840	367,840
Balance, March 31, 2022	$ -	$ (17,401)	$ -	$ (17,401)
Accretion of interest	-	(260)	-	(260)
Lease payments	-	4,992	-	4,992
Lease termination	-	12,669	-	12,669
Balance, December 31, 2022	**$ -**	-	**$ -**	**$ -**

On March 14, 2022, the Company terminated the Manitoba Site lease agreement and recorded a loss of $40,071 in relation to the termination (Note 9).

The Company measured the present value of its vehicle lease liabilities using the actual lease rate of 3.9% for the vehicle. During the nine months ended December 31, 2022 the Company terminated the vehicle lease and recorded a gain on lease termination of $1,142.

Short-term leases are not included in the calculation of lease liabilities and are recognized as cost of operations.

13. CUSTOMER DEPOSITS

The Company usually requests a deposit upon entering the hosting service agreements with customers, which apply to the first months and last months of the service agreements. As at March 31, 2022 the Company received customer deposits of $3,000,036 for services to be provided at Manitoba Site, of which $37,289 was refunded to a customer during the nine months ended December 31, 2022, and for the remaining $2,962,747 the customer requested immediate refund in June, 2022 (Note 23).

Upon termination of the lease agreement related to the Birtle Site (Note 9) a total of $3,000,036 in customer deposits was reclassified to accounts payable as at March 31, 2022, of which $2,962,747 was outstanding at December 31, 2022.

14. LOAN FROM HOUSTON BC MINING POWER CORP.

On June 18, 2019, MiningSky received a loan facility of up to $150,000 from Houston BC Mining Power Corp. (the "Lender").

The proceeds were to be used to build a higher-voltage power substation. The loan was due and repayable (the "Maturity") commencing on the date that is the earlier of i) August 15, 2020, and ii) when the substation becomes fully permitted for operation. The loan bears interest at a rate of 12% per annum starting August 15, 2019 and repayable at the following schedule:

i) 25% of the loan principal plus any accrued interest on the last day of the 6th month following the Maturity;
ii) 25% of the loan principal plus any accrued interest on the last day of the 12th month, 18th month, and 24th month following the Maturity.

MiningSky provided all of its present and future property as security to the Lender.

During the year ended March 31, 2021, the Company received loan proceeds of $Nil, accrued interest expense of $13,563 and recognized the total balance of $132,811 as a short-term loan.

During the year ended March 31, 2022, the Company accrued interest expense of $2,415 on the loan, and the total loan proceeds and accrued interest balance of $135,226 were repaid to the Lender with the issuance of the Company's common shares (Note 17).

15. CONVERTIBLE LOANS

<u>December 2019 Convertible Loan from Related Party</u>

In December 2019, the Company issued a convertible promissory note of $141,000 to a relative of a director of the Company. The convertible promissory note was unsecured, had a maturity date of December 31, 2020, bore a simple interest rate of 3.5% per annum, convertible into common shares in the capital of the Company at a price of $0.10 per share.

For accounting purposes, the convertible promissory note is separated into its liability and equity components by first valuing the liability component. The fair value of the liability component at the time of issue was calculated as the discounted cash flows of the loan assuming a 15% discount rate, which was the estimated rate for a similar loan without a conversion feature. The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the face value of the loan and the fair value of the liability component.

(Expressed in Canadian dollars)

15. CONVERTIBLE LOANS *(continued)*

December 2019 Convertible Loan from Related Party *(continued)*

The following table summarizes accounting for the convertible promissory note during the years ended March 31, 2022 and 2021.

	Short-term Loan	Liability Component	Equity Component
Convertible debenture – March 31, 2020 balance	$ -	$ 131,508	$ 14,578
Interest accretion	-	14,602	-
Convertible debenture – balance upon maturity	-	146,110	14,578
Reclassified to contributed surplus	-	-	(14,578)
Reclassified to short-term loan from related party	146,110	(146,110)	-
Accrued interest	1,230	-	-
Loan from related party – March 31, 2021 balance	147,340	-	-
Accrued interest	1,148	-	-
Repayment	(148,488)	-	-
Loan from related party – December 31 and March 31, 2022 balance	$ -	$ -	$ -

The convertible promissory note matured on December 31, 2020, upon which the equity component of $14,578 was reclassified to contributed surplus. The loan principal and accrued interest was repaid during the year ended March 31, 2022.

June 2021 Convertible Loan

On June 3, 2021, the Company issued a convertible debenture of $2,000,000 to The9 Limited (“The9”) (the “Debentures”), which bears simple annual interest at a rate of 1% and payable every nine months after the issuance date, matures four years from the issuance date subject to an option on the part of the holder to extend the maturity for an additional 12 months, is convertible into the Company’s common shares at $0.85 per share, and is secured against certain equipment of the Company. A finder’s fee of $60,000 was paid in relation to the convertible debenture.

For accounting purposes, upon issuance the convertible promissory note is separated into its liability and equity components by first valuing the liability component. The fair value of the liability component at the time of issue was calculated as the discounted cash flows of the loan assuming a 20% discount rate, which was the estimated rate for a similar loan without a conversion feature. The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the face value of the loan and the fair value of the liability component.

As the Company defaulted on its obligations relating to the completion of the Birtle Hosting Site (Note 23), in June, 2022 The9 demanded the immediate repayment of the entire loan of $2,000,000. As a result, the Company recorded a loss of $853,584 on default of the Debentures increasing their carrying value to the full balance of $2,000,000. During July, 2022 The9 garnished $123,071 from the Company as funds for repayment of the Debentures.

(Expressed in Canadian dollars)

15. CONVERTIBLE LOANS *(continued)*

June 2021 Convertible Loan *(continued)*

The following table summarizes accounting for the net proceeds of $1,940,000 from the issuance of the convertible promissory note during the nine months ended December 31, 2022 and the year ended March 31, 2022.

	Accrued Interest	Liability Component	Equity Component
Convertible debenture at issuance	$ -	$ 941,300	$ 998,700
Interest accretion	-	158,216	-
Accrued interest	16,493	-	-
Interest repayment	(15,000)	-	-
Balance – March 31, 2022	1,493	1,099,516	998,700
Interest accretion	-	46,900	-
Loss on default	-	853,584	-
Accrued interest	15,000	-	-
Repayment	-	(123,071)	-
Balance - December 31, 2022	**$ 16,493**	**$ 1,876,929**	**$ 998,700**

16. GOVERNMENT LOAN PAYABLE AND GRANT

Canada Emergency Rent Subsidy (“CERS”)

Due to the outbreak of the COVID-19 pandemic, the federal government of Canada introduced the Canada Emergency Rent Subsidy (“CERS”) which provides eligible businesses the ability to claim a subsidy on eligible expenses including rent.

The amount of subsidy received is based on an entity’s decrease in revenue and can be a maximum of 65% of the eligible expense. During the nine months ended December 31, 2022 and 2021, the amount received by the Company from the CERS totaled $Nil and $45,652, respectively, which is included as part of other income in the consolidated statement of loss and comprehensive loss.

Canada Emergency Business Account (“CEBA”)

Due to the outbreak of the COVID-19 pandemic, the federal government of Canada introduced the Canada Emergency Business Account (“CEBA”) which provides an interest-free loan (“CEBA loan”) of $40,000 to eligible businesses. Repayment of $30,000 of the $40,000 loan balance on or before December 31, 2023 will result in a loan forgiveness of the remaining $10,000.

In April 2020, the Company received $40,000 in accordance with the CEBA loan. In December 2020, the federal government of Canada introduced an expansion to the CEBA in the amount of $20,000 (“CEBA expansion”) whereby eligible businesses can receive this amount in addition to the original $40,000. The Company received the $20,000 expansion to the CEBA loan in error as it is not considered a CCPC (Canadian Controlled Private Corporation). The $20,000 CEBA expansion is recorded in accounts payable.

As at December 31 and March 31, 2022, the Company had not made any repayments of the CEBA loan. Any loan balance remaining after December 31, 2023 will be converted to a term loan with an interest rate of 5% per annum paid monthly effective January 1, 2024. The full balance must be repaid by no later than December 31, 2025.

16. GOVERNMENT LOAN PAYABLE AND GRANT *(Continued)*

Canada Emergency Business Account ("CEBA") *(Continued)*

This liability is recognized in accordance with IFRS 9, *Financial Instruments*, as a financial liability at amortized cost. The benefit of below-market rate was measured as the difference between the initial carrying value of the loan (being the present value of a similar loan at market rates) and the proceeds received.

The Company has estimated the initial carrying value of the first CEBA loan at $27,506, using a discount rate of 15%, which was the estimated rate for a similar loan without the interest-free component. The difference of $12,494 is accreted to each CEBA loan liability over the term of the CEBA loan and offset to other income on the consolidated statement of loss and comprehensive loss.

During the nine months ended December 31, 2022 and 2021, total accretion expense recognized for the CEBA loans amounted to $3,998 and $3,476, respectively.

Canada Emergency Wage Subsidy ("CEWS")

On April 11, 2020, the Federal Government of Canada passed legislation enacting the Canada Emergency Wage Subsidy ("CEWS"). The CEWS is a wage subsidy for eligible Canadian employers whose business has been affected by COVID-19. The CEWS helps businesses keep employees on the payroll and encourages employers to rehire workers previously laid off, and better positions businesses to bounce back following crises. The CEWS is originally for up to 24 weeks, retroactive from March 15, 2020 to June 6, 2020.

During the nine months ended December 31, 2022 and 2021, an amount of $Nil and $117,893 in CEWS was recorded as other income in the consolidated statement of loss and comprehensive loss, respectively. There are no unfulfilled conditions and outstanding contingencies regarding the CEWS.

17. SHARE CAPITAL

Authorized

Unlimited common shares without par value

As at December 31, 2022, 26,835,601 (March 31, 2022 – 26,835,601) common shares were issued and outstanding.

Share subscription repayable

During the year ended March 31, 2021, the Company received $286,729 as subscription for 301,820 private placement units at $0.95 per unit. This private placement was cancelled. The amount was included in accounts payable and accrued liabilities on March 31, 2021 and repaid to the subscribers during the year ended March 31, 2022.

Escrow shares

In connection with the acquisition of MiningSky completed during the year ended March 31, 2019, the Company entered into an Escrow Agreement dated September 18, 2018, whereby 2,086,658 post-consolidation common shares were held in escrow and are scheduled for release in accordance with the terms of the Escrow Agreement. As at December 31 and March 31, 2022, there were no common shares in escrow.

17. SHARE CAPITAL *(continued)*

Share issuance

During the nine months ended December 31, 2022 there were no common share transactions.

During the year ended March 31, 2022, the Company carried out the following common share transactions.

a) On June 3, 2021, the Company closed a non-brokered private placement by issuing 2,631,579 Units at $0.76 per Unit for gross proceeds of $2,000,000. Each Unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company at an exercise price of $1.22 per share for three years from the closing date. The proceeds of $2,000,000 were allocated entirely to share capital using the residual value method. The Company paid finders' fee of $60,000 related to the private placement, which was recorded as share issuance costs.

b) On June 10, 2021, the Company issued 25,000 common shares for warrants exercised at $0.30 per share for gross proceeds of $7,500.

c) On July 16 and August 3, 2021, the Company closed a private placement by issuing a total of 516,395 Units at $0.78 per Unit for gross proceeds of $402,788. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one common shares of the Company at an exercise price of $1.50 per share for nine months from the closing date. The proceeds of $402,788 were allocated to share capital of $316,602 and to share purchase warrants of $86,186 using the residual value method.

d) On July 28, 2021, the Company issued 243,590 common shares with a fair value of $170,513 to settle debt of $190,000 comprised of $135,226 loan amount (Note 14) and $54,744 in payables with arm's length creditors of the Company and recognized a gain on debt settlement of $19,487.

e) On August 20, 2021, the Company closed a private placement by issuing 619,500 Units at $0.80 per Unit for gross proceeds of $495,600. Each Unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one common shares of the Company at an exercise price of $1.20 per share for two years from the closing date. The proceeds of $495,600 were allocated to share capital of $458,430 and to share purchase warrants of $37,170 using the residual value method.

f) On September 22, 2021, the Company closed a private placement by issuing 320,006 Units at $0.70 per Unit for gross proceeds of $224,004. Each Unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one common shares of the Company at an exercise price of $1.20 per share for one year from the closing date. The proceeds of $224,004 were allocated to share capital of $217,604 and to share purchase warrants of $6,400 using the residual value method.

g) On November 17, 2021, the Company issued 177,144 common shares with a fair value of $111,600 to settle debt of $124,000 with arm's length creditors of the Company and Skyrendering and recognized a gain on debt settlement of $12,400 (Note 19).

h) On December 23, 2021, the Company closed a private placement by issuing 4,761,905 common shares of the company at $0.42 per share for gross proceeds of $2,000,000.

i) On January 13, 2022, the Company closed a private placement by issuing 2,757,475 common shares of the company at $0.42 per share for gross proceeds of $1,158,140.

(Expressed in Canadian dollars)

17. SHARE CAPITAL *(continued)*

Stock options

The Company has established a stock option plan for directors, employees, and consultants. The aggregate number of shares issuable pursuant to options granted under the plan is limited to 10% of the Company's issued shares at the time the options are granted. 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 five years. The vesting periods of stock options issued under the plan are determined at the discretion of the Board of Directors.

On July 8, 2021, the Company granted 950,000 options to directors and officers of the Company. The options are exercisable into the Company’s common shares at $0.80 per share for two years. The fair value of $450,913 in respect of this grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 0.47%, expected volatility of 164.47%, an expected option life of 2 years and no expected dividends, and is recorded as contributed surplus.

On December 30, 2021, the Company granted 1,100,000 options to directors and officers of the Company. The options are exercisable into the Company’s common shares at $0.35 per share for five years. The fair value of $362,623 in respect of this grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 1.26%, expected volatility of 168.23%, an expected option life of 5 years and no expected dividends, and is recorded as contributed surplus.

A summary of stock options activity is as follows:

	Number of options	Weighted average exercise price
	#	$
Balance, March 31, 2021	-	-
Granted	2,050,000	0.56
Cancelled	(350,000)	0.80
Balance, March 31, 2022	1,700,000	0.51
Forfeited	(400,000)	0.69
Balance, December 31, 2022	**1,300,000**	**0.45**

As at December 31, 2022 the following options are outstanding:

Number of Options	Exercise Price	Expiry Date
	$	
300,000	0.80	July 8, 2023
1,000,000	0.35	December 29, 2026
1,300,000		

(Expressed in Canadian dollars)

17. SHARE CAPITAL *(continued)*

Warrants

A summary of share purchase warrant activity is as follows:

	Number of warrants	Weighted average exercise price $
Balance, March 31, 2021	312,500	0.3
Exercised	(25,000)	0.3
Expired	(803,895)	1.07
Issued	4,087,480	1.25
Balance, March 31, 2022	3,571,085	1.21
Expired	(320,006)	1.20
Balance, December 31, 2022	**3,251,079**	**1.22**

As at December 31, 2022, the following warrants were outstanding:

Number of Warrants	Exercise Price $	Expiry Date
619,500	1.20	August 20, 2023
2,631,579	1.22	June 3, 2024
3,251,079		

18. RELATED PARTY TRANSACTIONS AND BALANCES

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.

Key management compensation

The Company has identified its directors and certain senior officers of the Company, who have the authority and responsibility for planning, directing and controlling the activities of the Company, as key management personnel. Key management personnel compensation is comprised of the following for the nine months ended December 31, 2022 and 2021:

		Nine Months Ended December 31, 2022		Nine Months Ended December 31, 2021
Salaries and bonus, CEO, former CFO	$	64,000	$	84,316
Salaries and consulting fees, a former director		-		60,600
Salaries, former CEO		-		226,250
Consulting fees, a director		10,000		
Consulting fees, a director		27,000		-
Salaries, CFO		90,000		-
Management fees, President		150,000		-
Total	**$**	**341,000**	**$**	**371,166**

18. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

Balances and other transactions

As at December 31, 2022, $83,333 (March 31, 2022 - $16,667) was owed to the President of the Company for management fees, `an advance of $32 (March 31, 2022 - $31) was owed to a director, and advances of $111,630 (March 31, 2022 - $115,379) were owed to the former CEO and private companies controlled by the former CEO. During April, 2022, $117,378 was garnished from the Company as funds for the repayment of the former CEO's advances. In September, 2022 the Company filed a claim against the former CEO for damages (Note 23).

The above amounts due to related parties are unsecured, non-interest bearing, and have no specific term of repayment.

Related party loans

During the year ended March 31, 2021, the Company extended a promissory note of $250,000 from the former CEO of the Company, which bears a simple annual interest rate of 6%, is unsecured, and repayable upon demand. During the year ended March 31, 2022, interest expense of $2,712 (2021 - $493) was recorded on the loan, and the total loan principal and accrued interest of $253,205 was repaid with no balance outstanding.

During the year ended March 31, 2021, the Company extended a promissory note of $63,300 from a director of the Company, which bears a simple annual interest rate of 4%, is unsecured, and repayable upon demand. During the year ended March 31, 2022 an interest expense of $548 (2021 - $590) was recorded on the loan, and the total loan principal and accrued interest of $64,438 was repaid with no balance outstanding.

19. SKYRENDERING

On April 26, 2021, the Company and a joint venture partner (the "JV Partner") jointly incorporated Skyrendering Technologies Inc. ("Skyrendering") under the laws of British Columbia to establish a rendering farm and data center. On June 29, 2021, the Company and the JV Partner signed an investment agreement (the "Investment Agreement") whereby the Company and the JV Partner each agreed to make a capital investment of $600,000 and $600,001 respectively in exchange for 600,000 and 600,001 common shares respectively of Skyrendering common shares. At any time after October 26, 2023, the JV Partner has the option to require the Company to repurchase all of the JV Partner's common shares of Skyrendering at $1.00 per share, for which the Company has the option to issue common shares of the Company subject to approval of the TSX Venture Exchange.

From Skyrendering's inception to March 31, 2022, the Company provided various services for and made payments on behalf of Skyrendering. These service contributions and payments were made in furtherance of the Company's commitments under the Investment Agreement towards an entitlement to receive Skyrendering common shares. Although management believes the Company fully satisfied its contribution obligations under the Investment Agreement in this regard, the JV Partner has disputed this and the Company has not ever received the Skyrendering common share certificate it believes it is entitled to. As a result, management considers that the Company does not have the exposure or rights to variable returns arising from its contributions made in Skyrendering that would be required to demonstrate control or significant influence over Skyrendering.

At present, as a result of the JV Partner's challenge to the Company's rights to the Skyrendering common shares, the Company recorded a total of $188,321 in reimbursable expenditures paid on behalf of Skyrendering as doubtful receivable as at December 31 and March 31, 2022. The Company is seeking legal advice on recovering the amounts advanced.

20. CAPITAL RISK MANAGEMENT

The Company defines capital as the items included in shareholders' equity (deficiency). The Company's objectives in managing capital are to safeguard the Company's ability to continue as a going concern, ensure sufficient capital and liquidity to complete its technology developments, establish commercial markets and purse its growth strategy.

To support these objectives, the Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. In order to maximize the development efforts, the Company does not pay out dividends during its development stage.

The Company is not subject to any externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the reporting period.

21. FAIR VALUE OF FINANCIAL INSTRUCMENTS AND RISK MANAGEMENT

Fair Values and Classification of Financial Instruments

As at December 31 and March 31, 2022, the Company's financial instruments comprised cash, receivables, accounts payable, due to related parties, convertible loan, government loan, and lease liabilities. With the exception of cash, which is measured at FVTPL, all financial instruments held by the Company are measured at amortized cost.

Financial instruments measured at fair value on a recurring basis are classified into one of three levels in the fair value hierarchy based on the degree to which the inputs used to determine the fair value are observable. The three levels of the fair value hierarchy are:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3 - inputs for the asset or liability that are not based on observable market data.

At December 31, 2022, cash of $734,354 (March 31, 2022 - $3,161,765) was classified as Level 1. There were no transfers into or out of Level 2 or Level 3 during the year ended March 31, 2022 or the nine months ended December 31, 2022.

Currency risk

A minor portion of the Company's expenses are incurred in United States dollars and financial instrument balances are held in this currency. A change in the currency exchange rates between the Canadian dollar relative to the United States dollar could have a negative effect on the Company's results of operations, financial position or cash flows. However, as the Company does not maintain significant cash balances in foreign currencies and settles any transactions in foreign currencies quickly, its exposure to currency risk is considered insignificant as at December 31 and March 31, 2022.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's maximum exposure to credit risk is limited to its cash. The Company limits exposure to credit risk by maintaining its cash with large Canadian financial institutions.

(Expressed in Canadian dollars)

21. FAIR VALUE OF FINANCIAL INSTRUCMENTS AND RISK MANAGEMENT *(continued)*

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. As at December 31, 2022, the Company had a cash balance of $734,354 to settle current liabilities of $6,781,904. The Company needs to raise additional funds to sustain its operation for the next 12 months. As described in Note 1, the Company's access to financing is uncertain. There can be no assurance of continued access to adequate equity funding.

Contractual undiscounted cash flow requirements for financial liabilities as at December 31, 2022 are as follows:

	In 12 Months
Accounts payable and accrued liabilities	$ 4,669,980
Advances from related parties	194,995
Government loan	40,000
Convertible loan	1,876,929
	$ 6,781,904

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk is insignificant.

Price risk

The Company is providing hosting services to cryptocurrency miners. Although the Company does not mine cryptocurrency by itself, the fluctuation of cryptocurrency prices will affect the Company's customers and therefore the Company's operation indirectly.

22. SEGMENTED INFORMATION

The Company has one reportable segment. The Company manufactures and sells parts for cryptocurrency miner containers, provides consulting services and provides cryptominers an all-in-one solution by offering warehouse space, low-cost electricity, and maintenance and hosting services in Canada.

23. CONTINGENCIES

AIP Asset Management Inc.

On December 16, 2020, the Company signed a letter of intention with AIP Asset Management Inc. ("AIP") whereby AIP undertook to assist the Company to finance certain acquisitions (the "LOI"). On June 10, 2021, AIP delivered a without prejudice settlement agreement in draft to the Company to settle any and all claims arising from the LOI in the total amount of $100,000. The Company subsequently delivered a counteroffer. As at December 31 and March 31, 2022, the negotiation for settlement is ongoing and the amount at which a settlement may potentially be reached is not determinable. No amount in this regard has been recorded in the consolidated financial statements.

23. CONTINGENCIES *(continued)*

Proficana Solutions Ltd.

On February 26, 2021, Proficana Solutions Ltd. ("Proficana"), a client of MiningSky Technology Ltd., filed a notice of civil claim in the Supreme Court of British Columbia against MiningSky for a payment of $631,043 for damages arising from an agreement signed between the parties in and around December 2019.

In April 2020, MiningSky responded to the action by filing a response to civil claim and filed a counterclaim against Proficana for $995,469 for damages from two agreements signed between the parties, both in and around December 2019. The pleading period has now closed. The next stage is the discovery process in the litigation. Proficana, as a plaintiff, has not delivered its list of documents, and has not taken any step after its filing of response to counterclaim on May 20, 2021. The potential outcome of the respective claims is not determinable. No amount in this regard has been recorded in the consolidated financial statements.

Litigations with the Former CEO

In February, 2022, after receiving the results of an investigation of the former CEO's prior conduct as the CEO of the Company and its subsidiaries, the board of directors of the Company dismissed him with cause from all his management positions with the Company and the Company's subsidiaries and replaced him as a director of the Company's subsidiaries. In accordance with the terms and conditions of an employment agreement between the former CEO and the Company he was deemed to have resigned from the board of directors of the Company upon his dismissal with cause.

In March, 2022, the former CEO filed a wrongful dismissal claim in the Supreme Court of British Columbia. The Company has denied the claim in its filed defense.

In September, 2022, the Company filed a separate claim against the former CEO for unspecified damages arising from his conduct during his tenure as an officer of the Company.

Due to the early-stage nature of these actions, neither the outcome nor damages can reasonably be assessed.

Anova Energy Inc. Action

On January 18, 2018, Miningsky entered into an agreement (the "Supply Agreement") with Anova Energy Inc. ("Anova") pursuant to which Miningsky retained Anova to introduce energy suppliers to Miningsky. Under the terms and conditions of the agreement, Anova was to be paid a commission for power purchased from suppliers it introduced to Miningsky.

In September 2018, the Company completed its acquisition of Miningsky. (Note 1).

On June 22, 2022, Anova filed a Statement of Claim in the Court of Queen's Bench of Alberta against the following defendants: the Company, Miningsky, Miningsky Manitoba, Miningsky USA, 1151203 B.C. Ltd., 1151152 B.C. Ltd., Ningtao Zhang and Walson Wang. Anova claims against all of the defendants, jointly and severally, for damages in the sum of $1,000,000 as a result of breaches of contract, inducement of breach of contract, intentional interference with economic relations, conspiracy, bad faith and unjust enrichment; and punitive, or in the alternative, aggravated damages in the sum of $500,000. The Company and its subsidiaries deny any and all of the claims.

At present, no documents have been exchanged and no discoveries have taken place. It is too early at this stage in the proceeding to assess the strengths of Anova's claim or the defenses of Miningsky or Skychain to that claim.

23. CONTINGENCIES *(continued)*

The9 Limited Actions

On July 21, 2021, the Company and The9 completed a financing transaction (the "Transaction") whereby The9 invested $4 million with the Company through the acquisition of $2 million of equity securities and $2 million in the Debentures. The purpose of the Transaction was to finance development of a cryptocurrency hosting facility at the Company's Birtle Site. (Note 9, 13 and 15).

On November 29, 2021, the Company was notified that its Birtle Site had been issued a "stop work" order by the City of Birtle due to various technical concerns about the Company's project. Although the Company worked diligently and incurred substantial costs attempting to resolve these concerns, the Company was unable to get the City of Birtle to permit the project.

Under the terms and conditions of the Transaction, the Company was contractually obligated to obtain certain approvals and permits for the Birtle Project prior to June 30, 2021, and to complete the project by December 7, 2021. The Company failed to meet either of these target dates. On May 6, 2022 the Company announced that the Birtle Site project was terminated on the basis that it would be uneconomic for the Company to proceed with it.

On July 6, 2022, The9 brought an application for summary judgment on its claim against the Company for breach of the Financing Agreement (the "Summary Judgment Application"). On September 1, 2022, The9 filed a separate application seeking to appoint a receiver over all the assets, property, and undertakings of the Company (the "Receivership Application"). On September 20, 2022, the Supreme Court of British Columbia granted the Summary Judgment Application, ordering the Company to pay to The9 $2,006,800 inclusive of interest to July 6, 2022, plus prejudgment contractual interest of $4,164 from July 7, 2022 to September 20, 2022. Also on September 20, 2022, the Court dismissed The9's Receivership Application.

A subsidiary corporation of The9, NBTC Limited ("NBTC"), filed suit against the Company's wholly-owned subsidiary, Miningsky Manitoba with respect to alleged breaches of a hosting services agreement entered into between NBTC and Miningsky Manitoba, and requested the repayment of the hydro deposit of $2,962,747. At present, NBCT's claims remain outstanding and it is too early to assess the strength of NBTC's claims against the Company.