



## **Management's Discussion and Analysis**

For the three and nine months ended September 30, 2023 and September 30, 2022

Dated November 27th, 2023

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### Introduction

The following analysis concerns the financial situation, operating results and cash flows of SATO Technologies Corp. (Together with its subsidiaries, "SATO" or the "Company") for the three and nine months ended September 30, 2023 and 2022. This Management's Discussion and Analysis ("MD&A") is dated November 27, 2023, and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2023, the audited consolidated financial statements for the years ended December 31, 2022 and 2021, the annual MD&A for the year ended December 31, 2022, and the most recent annual information form ("AIF"), of SATO Technologies Corp. The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), unless otherwise noted. Certain totals, subtotals and percentages may not reconcile due to rounding. All monetary amounts are reported in Canadian dollars unless otherwise noted. These documents, as well as additional information on the Company, are filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and are available online at [www.sedar.com](http://www.sedar.com).

### Forward-Looking Statements

Certain statements in this MD&A are forward-looking statements or contain forward-looking information, which may include, but are not limited to, statements with respect to the future financial or operating performance of SATO and its projects, business strategy, corporate plans, objectives and goals, as well as the market conditions applicable to SATO. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements include, among others: expectations regarding foreign exchange rates; statements relating to the business and future activities of and developments related to SATO; statements relating to the finances of SATO not based on the audited financial statements of SATO; the expected success of business activities; expectations for other economic, business, regulatory and/or competitive factors related to SATO in general, including the price of cryptoassets; the business objectives and milestones of SATO; the amount and principal uses of available funds, including the funds to be used for anticipated investments; and other events or conditions that may occur in the future.

Forward-looking information and statements are based on current expectations, beliefs, assumptions, estimates and forecasts about the Company's business and the industry and markets in which it operates, as of the date of this MD&A. Although the assumptions made by the Company in providing forward looking information or making forward looking statements are considered reasonable by management at the time, there can be no assurance that such assumptions will prove to be accurate.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of SATO to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled "*Risk Factors*" in the Company's most recent AIF, including risks relating to cryptocurrency mining, risks related to SATO's cryptocurrency Mining Operations; risks related to the price of Bitcoin and other cryptocurrencies; risks related to governmental regulation and enforcement; volatility of the common shares of the Company (the "Common Shares"); cybersecurity risks; risks related to electrical power and internet; and tax risks. Although SATO has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein and in the AIF are made as of the date of the respective document in which they are contained and, other than as required by law, SATO disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

**Glossary of Terms**

<p>“\$” means Canadian dollars, unless indicated otherwise; Canadian dollars are also indicated as “C\$” or “CAD”.</p>
<p>“<b>Artificial intelligence</b>” or “<b>AI</b>” refers to the development of computer systems that can perform tasks that typically require human intelligence, such as visual perception, speech recognition, decision-making, and natural language processing.</p>
<p>“<b>ASIC</b>” means an application-specific integrated circuit customized for Mining.</p>
<p>“<b>Bitcoin</b>” is the name of a protocol that allows people to transfer value in a decentralized way, without the need for intermediaries and without the need to trust any counterparty. “Bitcoin” also refers to the name of a distributed ledger called “Blockchain” that stores any valid transaction in the network. Finally, “Bitcoin” is the name of the native currency of the protocol, “<b>₿</b>” is its symbol and “<b>BTC</b>” its currency code.</p>
<p>“<b>Blockchain</b>” is a growing list of records, called Blocks, that are linked together using cryptography.</p>
<p>“<b>Block Reward</b>” means the award of a cryptocurrency to a miner that successfully adds a Block to the Blockchain. The current Block Reward is 6.25 BTC per block.</p>
<p>“<b>Difficulty</b>” is a measure of how difficult it is to mine a Block in terms of computing power and energy spent: to be able to add Blocks to the Blockchain, Miners have to solve a problem and the difficulty of this problem is adjusted approximately every two weeks by the protocol to compensate the entry or exit of Miners and the improvement of mining computers.</p>
<p>“<b>Ether</b>”, “<b>ETH</b>” or “<b>Ethereum</b>” are used interchangeably and refer to the native token of the Ethereum Network, a global, open-source platform for decentralized applications.</p>
<p>“<b>Hashrate</b>” is a measure of mining power whereby the expected revenue from mining is directly proportional to a miner’s hashrate normalized by the total hashrate of the network.</p>
<p>“<b>High Performance Computing</b>” or “<b>HPC</b>” is the use of advanced computing technologies to perform complex computations and process large amounts of data quickly and efficiently.</p>
<p>“<b>Hosting</b>” means the commercial activity whereby a host company (such as a Data Centre) rents space, for a fee that is often based on a price per kWh, to host ASIC or Cryptocurrency Miners to other companies.</p>
<p>“<b>Hydro-Québec</b>” is a public utility that manages the generation, transmission and distribution of electricity in the Province of Québec, Canada, as well as the export of power to portions of the Northeast United States.</p>
<p>“<b>Hydro-Joliette</b>” is the municipal electricity company of the City of Joliette, which manages power from Hydro-Québec and redistributes it to its customers in Joliette, Québec.</p>



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“**Lightning Network**” is a layer two protocol for Bitcoin that is layered on top of the Bitcoin Blockchain to allow cheap and instant payments; the Lightning Networks is a set of Nodes connected one to the other by payment channels; connecting a channel between Nodes is a way for them to create many transactions with a constant cost; the cost is to open and close the channel because there is a need to manipulate the Bitcoin Blockchain; if a channel is involved in 1000 transactions, it means that in a certain way the channel opening and closing costs can be divided among those 1000 transactions.

“**Mining**” refers to the provision of computing capacity (or hashing power) to secure a distributed ledger by creating and broadcasting consensus-valid blocks in the network. In return for each generated block, miners receive rewards and fees denominated in the native token of the network (such as Bitcoin). The collective effort of miners validates transactions within the network.

“**Mining Equipment**” means a single computer system that performs the necessary computations for the purpose of validating transactions on the Bitcoin Blockchain.

“**Mining Pool**” means a group of Bitcoin Miners who regroup their hashrate in order to increase the odds of getting Block rewards on the Bitcoin Blockchain.

“**Network difficulty**” is a measure of how difficult it is to find a hash below a given target.

“**Ordinals**” are a numbering scheme for satoshis that allows tracking and transferring individual sats. These numbers are called ordinal numbers. Satoshis are numbered in the order in which they're mined, and transferred from transaction inputs to transaction outputs first-in-first-out. Both the numbering scheme and the transfer scheme rely on order, the numbering scheme on the order in which satoshis are mined, and the transfer scheme on the order of transaction inputs and outputs. Each satoshi being identifiable and unique, the Ordinals inscription protocol enables the association of any data with a specific satoshi, effectively using it as a carrier for the attached information. Inscriptions could be seen as NFTs (Non-Fungible Tokens, are unique digital assets stored on blockchains that certify ownership and authenticity of specific items, art or real world asset) on Bitcoin.

“**Quarter**”, or “**Q**” followed by a number refers to a three-month period, with Q1 of a particular year being the three months ended March 31, Q2 of a particular year being the three months ended June 30, Q3 of a particular year being the three months ended September 30, and Q4 of a particular year being the three months ended December 31.

“**Semester**”, or “**S**” followed by a number, refers to a six-month period, with S1 of a particular year being the six months ended June 30 and S2 of a particular year being the six months ended December 31.

“**Sats**”, short for satoshis, represent the smallest unit of Bitcoin, with one Bitcoin being divisible into 100 million sats, used primarily for microtransactions and as a measure of value within the Bitcoin network.

“**Wallet**” refers to a software or hardware that helps the user to store and manage cryptoassets.

“**Watt**”, “**kW**” (or “**kilowatt**”), and “**MW**” (or “**Megawatt**”) are units of power; each refers to electricity and measures the amount of energy in a given time. For instance, 1 watt corresponds to 1 joule of energy during 1 second; the more watts a machine needs to work, the more energy it will consume but the more power it will be able to deliver.



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### Company Overview

SATO Technologies Corp. is a public company focused on providing efficient compute power tailored for Digital Asset Mining (Bitcoin), High-Performance Computing (HPC), and AI. SATO currently operates one data center.

SATO Technologies Corp. (formerly known as Canada Computational Unlimited Corp. and Capricorn Business Acquisitions Inc.) was incorporated on May 7, 2008 under the *Business Corporations Act* (Ontario). On September 8, 2021, the Company announced the completion of its "Qualifying Transaction", as defined under Policy 2.4 – *Capital Pool Companies* of the TSX Venture Exchange (the "Exchange"). The Qualifying Transaction was completed through a reverse takeover of Canada Computational Unlimited Inc. ("CCU"). Upon completion of the Qualifying Transaction, the business of CCU Inc. became the business of the Company as a result of CCU becoming a wholly-owned subsidiary of the Company.

CCU was incorporated under the *Business Corporations Act* (Québec) on November 16, 2017, at Bitcoin block number 494673. It was founded by tech entrepreneurs Romain Nouzareth and Mathieu Nouzareth to operate a high-density computation center in Joliette, Québec. The center specializes in advanced cryptocurrency mining, AI data processing, and fintech infrastructure, while maintaining a commitment to social responsibility and environmental care through the use of sustainable energy and heat re-use. In 2018, SATO entered into an agreement with Hydro-Joliette to procure up to 20 MW of hydroelectric power for its cryptocurrency mining operations.

Upon reaching Bitcoin block 700805 on September 16, 2021, SATO transitioned into a publicly traded company in Canada, listed on the TSXV with the symbol SATO. In the United States, it is traded under the ticker OTCQB:CCPU.F.

SATO Corp., a wholly-owned subsidiary of the Company, was incorporated under the Delaware General Corporation Law on October 11, 2022, at Bitcoin block number 758205.

The Company's head office is located at 66 Wellington Street West, Suite 5300, Toronto, Ontario, M5K 1E6, Canada and the Company maintains a place of business located at 289 Dugas, Joliette, Québec J6E 4H1, Canada ("Center One").

SATO owns and operates mining equipment that run 24 hours a day and 365 days per year. These miners produce Hashrate, which is one of the ways to monetize computing power under which the Company sells to a Mining Pool with a Full Pay Per Share ("FPPS") agreement. Under FPPS, Mining Pools compensate Mining companies for their hashrate based on what the Mining Pool would expect to generate in revenue for a given time period if there was no randomness involved, minus a small fee for the service of significantly reducing SATO's reward variance. The proceeds paid by a Mining Pool to the Company for its hashrate may be paid in digital assets or in traditional currencies. The Company accumulates the proceeds it receives or exchanges them for U.S. dollars trading with reputable and well-known trading platforms. Mining Pools generate revenue by Mining with purchased hashrate through the accumulation of Block Rewards and transaction fees issued by the BTC network. Mining Pools purchase hashrate and accept the risk of rewards not being commensurate with compensation paid with the aim to mine more blocks than they should in a given time period based on the computational power they have acquired.

In the future, SATO plans to generate additional revenue through fees collected from the use of applications developed by the company to support the ecosystem.



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### **Center One : The Facility and Electrical contracts**

SATO currently operates Center One, its premier high-capacity computation facility located in Québec, Canada, which is powered by 20 MW of renewable hydroelectric energy. The facility focuses on Bitcoin mining operations, generating roughly 540 PHs of mining hashrate sold to Mining pools. The Company started 2022 with 10 MW and reached maximum capacity of 20 MW in September of that same year.

In February 2018, SATO entered into a 5-year lease for 9,000 square feet of space within a 50,000 sq ft factory. The Company began constructing its first center with performance as a priority, incorporating air filtration, negative pressure, and optimal voltage to ensure efficient energy use without depletion. The lease was first amended on July 1, 2022, extending it to September 30, 2026, and then on December 1, 2022, the leased space was increased to 25,000 square feet. In March 2023, the company signed an amended lease contract for a total of 33,282 square feet. The contract is anticipated to last until September 2033, provided the 5-year renewal option in the contract is exercised.

The facility, which houses approximately 5,600 air-cooled computers, operating continuously, reuses heat, warming the building's factory and reducing its carbon footprint and energy consumption during winter. Center One also served as the site for a collaborative project with the University of Québec that focuses on collecting heat data for widespread applications. The findings of this study were presented at the International Scientific Conference on Power and Electrical Engineering of the Riga Technical University.

In September 2018, SATO signed a 5-year contract for 20 MW of power with Hydro Joliette in Joliette, Québec, where the company is based. On February 23, 2023, SATO extended its 20 MW contract with Hydro-Joliette for an additional five years, to be renewed in September 2028.

Mid 2023, SATO began developing plans to remodel and upgrade sections of its data center, with the primary objective of enhancing their suitability for high-performance computing (HPC) and advanced artificial intelligence (AI) applications. The goal for SATO is to harness excess energy available at Center One that is not deployed for Bitcoin mining for the initial setup and deployment of this cutting-edge infrastructure. Once this preliminary phase has been executed successfully, the Company will be poised to craft and execute a comprehensive strategy aimed at achieving exponential growth.

### **City of Joliette, Québec**

The Company has proudly operated Center One in Joliette, Québec, Canada since 2017. With the support of the city's administrative team, including the outstanding energy experts from Hydro Joliette, the city and surrounding areas have established Joliette as a hub for growing businesses in Québec and Canada.

Since 2017, the company has successfully partnered with local contractors and industrialists, employed residents, and in 2022, paid over CA\$5,600,000 to Hydro Joliette, contributing 19% of the city's electricity revenues that were forecasted in their 2022 budget.

SATO utilizes previously unused energy in Joliette and ceases operations through curtailment when the energy is required by the local population or other industries. Although Bitcoin mining is often criticized for wasting energy, SATO demonstrates in Joliette that Bitcoin miners can actually make use of otherwise wasted/unused capacity, while also delivering significant value to the municipality and its residents.

The Company is also a proud supporter of the arts, having made Bitcoin donations to the MAJ Foundation. The Musée d'Art de Joliette Foundation is a charitable organization dedicated to creating an endowment fund to ensure the museum's long-term stability and contribute to the future of Québec's cultural heritage.



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### Growing Computing Power

SATO had hoped to increase the power capacity for Bitcoin mining, contingent on power availability in Québec for crypto mining. However, in late 2022, the Régie de l'Énergie paused the allocation process for Hydro-Québec's remaining 270 MW under Phase 3 of the "Allocation of the block of electricity dedicated to cryptographic use". On September 20, 2023, the Régie de l'Énergie via its report D-2023-109 exposed that the remaining 270MW was hereby cancelled. Thus meaning that only the 32.6 MW that remains contractualized between Hydro-Quebec and the concerned parties can be put online. As such, there's no potential way to scale in the Province of Quebec except if the situation were to change in the future.

SATO aims to enhance its electrical and computational capacities for future centers in the next few months and years by incorporating additional blocks of energy. This growth strategy is designed to strengthen the company's competitive position in both the Bitcoin mining sector and the HPC, Web3, and AI processing industries. If successful, SATO will be capable of generating more Bitcoin, fostering the growth of the Bitcoin ecosystem, and delivering advanced services in artificial intelligence.

As an initial phase of this progression, the Company will look for ways to leverage the 6 MW of surplus power equipment it acquired. In parallel, SATO's management team is actively investigating new site developments and expansion opportunities, both organically and via acquisitions. Furthermore, the management team is formulating strategies to procure more cutting-edge mining rigs at competitive prices.

### Efficiency in the Crypto Winter

SATO's leadership and management team is composed of technology entrepreneurs, electrical and ventilation experts, a robust finance and legal team, network specialists, international projects manager, talented mathematician (quant), developers, and designers who are all united by their passion for innovative technologies, blockchain and Bitcoin. From its inception, SATO has been dedicated to promoting environmental responsibility and enhancing the efficiency of bitcoin mining.

Amidst the latest and current bear market, SATO capitalized on the chance to fortify its workforce and enhance performance while preserving cost-efficiency. The leadership team is dedicated to sustaining a streamlined organization, with an emphasis on the forthcoming halving event in mid-2024. Center One will generate revenue and stability, the team is eager to advance the company's growth, prioritizing the rapid expansion of computing power.

The Company has recently completed the development of DataMan V2, a proprietary software designed for managing large-scale computing equipment with an emphasis on efficiency through effective data and information management. Utilizing a secure and accurate data set starting from 2018, the development team has equipped the operational team with a powerful tool to oversee the sites and its external components (temperature, humidity, air inflows, etc). Simultaneously, the software enables precise identification of computers requiring repairs, ensuring the entire suite of computers is regularly monitored for long-term performance and increased efficiency, measured in Joules per Watt (J/W). Throughout 2022 and the first 9 months of 2023, the Company maintained an average efficiency of <35 J/W for its fleet of miners – a competitive achievement in the industry. In terms of efficiency, measured by the number of Bitcoins generated per Exahash (EH/s), Center One's performance often places SATO at scale among the top most efficient publicly listed mining companies worldwide based on the information available, provided by our peers. The Company is now working on DataMan V3 to bring more data knowledge.

Cultivating a conscientious environmental approach is a constant priority for all team members. Throughout its operations, the Company harnesses the heat generated by its data center, with new developments that could lead to transforming byproduct heat into transportable energy for industries, municipalities, and farming production. This effort contributes to achieving the decarbonization objectives set by Québec and much of the global community. In mid-2022, the Company initiated a collaboration with the University of Québec, partnering with the LIREI (Laboratoire d'innovation de recherche en énergie intelligente). This alliance aims to facilitate the handling and



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visualization of accurate data about heat transfer produced from Bitcoin Mining Data Centers, which in turn assists in the implementation and design of new centers in close collaboration with future local partners. The study is available at <https://www.bysato.com/#nowaste>.

To demonstrate the Company's genuine commitment to environmental responsibility, as well as to combat greenwashing, the Company diligently monitors its ESG Scope 1 and Scope 2 emissions which refers to the Company's direct greenhouse gas emissions and indirect emissions associated with the production of the energy that the Company consumes, totaling 145.5 tonnes of CO<sub>2</sub>e in 2022. Following its commitment to become net zero, just like in 2021, the Company has opted to maintain its collaboration with SeaTrees, a non-profit organization dedicated to planting mangrove trees, kelp, coral reefs and so on, in the ocean, something the Company values from the fact that most of its energy is coming from the Water itself. By purchasing carbon credits, the Company offsets its carbon footprint, equivalent to 145.5 tonnes CO<sub>2</sub>e, a figure comparable to the emissions of powering 19 average American homes for a year ; based on the EPA calculator available online at : <https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator>.

This might seem insignificant when considering the millions of households across the United States, and that is because of the emission factor in the Province of Québec of around 0.0012 kgCO<sub>2</sub>e/kWh (*Canada NIR 2018*) when compared to 0.4226 kgCO<sub>2</sub>e/kWh on the ERCOT grid (*EPA, "Emission Factors for Greenhouse Gas Inventories," Table 6 Electricity, March 9, 2018*). By operating in the Province of Quebec as opposed to Texas, for example, SATO reduces its carbon emissions by 35,117% for each kWh consumed to generate Bitcoins.

While the Company's primary focus is on rapidly expanding its infrastructure dedicated to Bitcoin mining and computing power for AI and HPC, it is also committed to developing applications and software for Bitcoin's infrastructure layers like the Lightning Network. This effort aims to encourage more people to adopt Bitcoin, benefiting miners and promoting global adoption.

As a result, the Company is working on projects aimed at discovering inventive ways to generate additional Bitcoin through services built on the Bitcoin blockchain. These services, developed by SATO's team, include Lightning services, Lightning Service Providers (LSPs), Inscription & Ordinals, and soon DeFi on Bitcoin. By developing application services for Bitcoin, the Company seeks to add value fees per transaction, with this value originating from the applications released by the Company. This approach increases the potential to earn more Bitcoin following the halving event and into the future.

The following initiatives were made available to the public in the first nine months of the year 2023:

- Hordes Wallet**, a non-custodial iOS and Android application for the safe management and storage of Ordinals inscriptions and rare or exotic sats. This novel taproot Bitcoin wallet, 100% non-custodial, is now available for users at: <https://hordeswallet.com/>.

- A unique platform that empowers users to inscribe ordinals in a simple, non-custodial manner, available at: <https://inscribe.bysato.com>. As part of this initiative, SATO's platform helped release a new collection from the Japanese artist, Takeru Amano, featuring his VNUS.

- A rare sat extractor, open source solution, for partners to scan Bitcoin addresses and allow to extract rare sats to a specific address for later uses, all non-custodial: <https://github.com/SATO-Technologies/raresats>.



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In summary, the first nine months of 2023 proved to be successful for SATO. The Company is now making significant progress towards achieving its primary objectives and goals centered around generating value for shareholders. These goals include:

- Maximizing the value derived from the power and location by utilizing sustainable energy sources
- Maintaining our historical efficiency
- Expanding globally to bolster the company's computing power
- Find ways to deploy the available 6 MW of power equipment to rapidly deploy computing power
- Expanding the Company's data center operations, looking to add HPC, Web3, and AI processing
- Exploring additional methods for heat re-utilization to enhance tangible decarbonization impact
- Enhancing DataMan, SATO's proprietary large-scale rig management system for improved performance at scale
- Creating applications that promote the adoption of Bitcoin, the Lightning Network, and blockchain technologies
- Boosting the company's visibility in the industry and within the investment community by proactively engaging in pertinent industry events and conducting roadshows for financial communities

During the first nine months of 2023, the Company dedicated its efforts towards improving the effectiveness and productivity of its mining operations. This was achieved by expanding the mining power at the organization's Center One through the integration of new mining rigs and by testing several underclocking/overclocking strategies in order to maximise the quantity of hashrate deployed per watt of electricity consumed within Center One. Concurrently, the team embarked on a mission to identify and secure additional centers, with a particular focus on North America and Europe, as well as various other regions around the world, to further bolster mining activities.

In addition to these efforts, the team also placed emphasis on building and solidifying relationships with financial partners. This strategic move aims to ensure a strong network of financiers who could provide the necessary capital for future deployment and facilitate the Company's growth and expansion in the ever-evolving landscape of mining operations.

### Other Company Information

- Fully operational, high-grade, ≈100% renewable energy based data center designed and built in-house generating consistent revenue and allowing the Company to optimize temperature, air flow and ultimately miner equipment life
- Efficiently earning Bitcoin since 2017
- ≈540 PHs of mining power, utilizing approximately 20 MW of energy currently in operation
- Plans for additional centers to support future expansion, with 6 MW of power equipment ready for deployment
- Leveraging renewable energy sources to meet global demand for computing power, including high-quality crypto-mining, AI data processing, Web 3 applications, and fintech infrastructure
- Developing the software infrastructure for Bitcoin's infrastructure layers
- All earned coins are freshly created and traceable

### **Three-year growth plan discussions**

As Center One operates at maximum capacity and at full efficiency, the Company is concentrating on future expansion, developing infrastructure in order to increase its computing power. It is actively investigating the addition of new locations with sufficient energy capacity, aiming to replicate Center One's efficiency by utilizing cost-effective infrastructure and achieving high-performance returns.

The Company's primary objective is to manage Center One in operation, maximizing revenue and margin by extracting as much Bitcoin as possible. Simultaneously, the Company will focus on strategically raising funds through cost



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effective debt or equity, and may pursue a dual listing to access a wider pool of investors. The funds raised will be used to establish new sites, in line with the Company's growth target.

The Company anticipates that the demand for AI and HPC computing capacity will exceed the current supply. The industry is entering a phase where infrastructure will be constructed and managed by specialists prioritizing efficiency. Although the Company is not the only one targeting this market, the Company expects its experience in constructing and overseeing a data center for Bitcoin mining will provide a competitive edge in developing HPC/AI centres, even though there will be some distinct differences and also complementarities.

In order to achieve explosive growth and expand our operations, the Company is actively exploring potential acquisition targets that can complement and enhance our current business portfolio. These targets include running Bitcoin miners around the world, acquiring Power Purchase Agreements (PPA), energy companies, or investing in new projects that align with our business objectives. Through strategic acquisitions, we aim to increase our market share, grow our computing power, broaden our customer base, and enter new markets. Furthermore, we believe that acquisitions can bring significant operational and financial synergies, allowing us to achieve economies of scale and increase profitability. As such, we are committed to thoroughly evaluating potential acquisition targets and conducting due diligence to ensure that any potential acquisition aligns with our long-term business strategy and creates value for our stakeholders. The Company's years of experience and expertise offer a significant advantage in identifying suitable sites and teams.

The Company is also committed to nurturing a team of professionals who are devoted to both SATO's prosperity and the flourishing of Bitcoin.

The Company intends to capitalize on DataMan's benefits and explore the integration of Generative AI to enhance the performance of our fleet of computing equipment through intelligent management.

Moreover, the Company envisions that the future of Bitcoin mining will involve exploring novel ways to generate Bitcoin revenues beyond just earning Bitcoin through the sell of compute power. Efforts will be made to develop additional uses for Bitcoin through the introduction of innovative solutions utilizing the Lightning Network or new technologies developed on Bitcoin such as Ordinals.

### **Cryptocurrency Trends and risks**

Following highs in November 2021, there has been a significant correction in cryptocurrency prices, which generally continued through the year of 2022 and into 2023. The falling cryptocurrency markets along with the volatility in the stock market overall put downward pressure on our stock price, along with our peers. Nonetheless, mining economics are still relatively healthy on a historical basis (comparing the last 3 years) and considering the electrical cost to produce 1 BTC that is around USD\$15,969 in Q3 2023 (USD\$14,022 in Q2 2023 ; USD\$11,115 in Q1 2023). SATO has low operating expenses, and a focused team enabling it to manage through a crypto winter, as it has done in the past, by taking advantage of lower costs. The Company continues to believe in the future of the cryptocurrency markets and is focused on the long-term growth of the Company.

The Company anticipates a significant increase in mining Difficulty. If the Bitcoin price keeps pace with the rising Difficulty, the current state of the Bitcoin mining market will be maintained; however, a decrease in price combined with increased Difficulty could negatively impact the market conditions for Bitcoin mining and publicly listed companies.

National and global economies are currently facing high inflation, leading central banks to increase key interest rates and implement other measures to control inflation. Aggressive central bank policies reduce market liquidity, resulting in the sale of highly liquid assets such as cryptocurrencies and stocks. If central banks persist with steep rate hikes, Bitcoin may suffer a downturn, negatively affecting Bitcoin mining market conditions.



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Regulators in various countries, including the USA, have been developing or advancing new legal frameworks regarding digital assets. The Company believes that this could potentially hinder innovation for both Bitcoin and environmental efficiency. Canada has also experienced its own challenges, with power distribution becoming more restricted in provinces such as British Columbia, Manitoba and Québec while other provinces remain more open, for the time being. Additionally, tax authorities may be exerting increased pressure, as evidenced by Canada's proposed decision that makes the performance of a mining activity no longer qualify for GST reimbursements since February 2022, which in turn puts financial strain on the miners.

In Québec, electricity prices are determined by the Régie de l'Énergie with a inflation-indexed price for crypto mining (CB rate); however, the Company remains susceptible to potential price increases if mandated by the Government, the Régie de l'Énergie or Hydro Québec. An increase of 6.5% was implemented for all industrial clients of Hydro Québec on April 1st, 2023.

### Custody of assets

A Custodial Agreement was entered into with Fireblocks Inc. ("Fireblocks") to provide wallet and vault services to SATO.

Fireblocks is a leading enterprise-grade platform delivering a secure infrastructure for moving, storing, and issuing digital assets. Fireblocks enables banks, fintechs, exchanges, liquidity providers, OTCs and hedge funds to securely manage digital assets across a wide range of products and services. The technology consists of the Fireblocks Network and MPC-based Wallet Infrastructure. Fireblocks has a unique insurance policy that covers assets in storage & transit and offers 24/7 global support.

SATO utilizes the Fireblocks platform to maintain custody, to transfer, and to secure a material portion of its digital assets. Fireblocks, with locations in New York and Tel Aviv, utilizes a secure hot vault and secure transfer environment to help establish connections between the Partnership's wallets, exchanges, counterparties, and networks. Fireblocks utilizes multi-party computation ("MPC") protection layers to distribute private key secrets across multiple locations to ensure there is no single point of failure associated with the private keys. The use of MPC ensures private keys are never concentrated to a single device at any point in time. Fireblocks is SOC 2 Type II certified and undergoes a SOC 2 review on an annual basis. SATO reviews the Fireblocks SOC 2 report to ensure they maintain a secure technology infrastructure and that their systems are designed and operating effectively. Fireblocks maintains an insurance policy which has coverage for technology, cyber, and professional liability and is rated "A" by A.M. Best based on the strength of the policy and has had no known security breaches or incidents reported to date.

Fireblocks is independent of SATO.

A second custodial agreement was entered into with Sygnum to provide wallet and vault services to SATO. Sygnum is a leading bank with a secure infrastructure for moving, storing, and issuing digital assets. It utilizes six security levels including a transaction signature process audited by PwC (ISAE 3000/ ISAE 3402 which is the equivalent of SOC 1) and HSMs fully compliant (FIPS-140.2 Level 3) and is compliant with the highest security standards.

Sygnum is independent of SATO.

SATO holds a diversified fiat position, primarily in USD, CAD, CHF and EUR, across multiple bank accounts with two Canadian banks and one Swiss bank. The Company avoids concentrating its cash in a single account or bank.



## Management's Discussion and Analysis

For the three and nine months ended September 30, 2023 and September 30, 2022

### Highlights of the three and nine months ended September 30, 2023

#### Financial Highlights

- Total revenue grew 46% and 87% for the three and nine months ended September 30, 2023, compared to the same periods in 2022 ;
- Gross margin of 37.5% and 38.6% for the three and nine months ended September 30, 2023, when excluding depreciation ;
- Gross profit of \$3,112,420 for the nine months ended September 30, 2023, compared to a gross profit of \$982,863 for the same period in 2022 ;
- 152 BTC earned during the first nine months of 2023, compared to 57 for the same period 2022 ;
- Net loss of \$175,329 in the first nine months of 2023 compared to a net loss of \$6,405,441 for the same period in 2022 ;
- Digital assets held at September 30, 2023 was \$1,285,491 compared to \$990,602 at December 31, 2022 ;
- Operating cash flow of \$839,900 in the first nine months of 2023 compared to negative operating cash flow of \$(1,653,606) for the same period in 2022.

### Results of Operations for the three and nine months ended September 30, 2023 and 2022

#### Financial highlights

	Three months ended September 30,			Nine months ended September 30,		
	2023	2022	% change	2023	2022	% change
Revenue	4,070,260	2,790,270	46%	12,191,458	6,521,178	87%
Cost of revenue	3,314,302	2,620,962	26%	9,079,038	5,538,315	64%
Gross profit	755,958	169,308	346%	3,112,420	982,863	217%
Gain (loss) on use of digital assets	(128,320)	22,521	N/A	222,836	(128,056)	N/A
Unrealized gain (loss) on revaluation of digital assets	(13,597)	49,590	N/A	348,247	(1,992,946)	N/A
Expenses	1,290,776	1,210,656	7%	3,349,721	4,710,614	-29%
Operating income (loss)	(676,735)	(969,237)	N/A	333,782	(5,848,753)	N/A
Other charges	99,200	344,189	-71%	509,111	503,838	1%
Loss before income taxes	(775,935)	(1,313,426)	N/A	(175,329)	(6,352,591)	N/A
Deferred income taxes	-	-	N/A	-	52,850	N/A
Net loss	(775,935)	(1,313,426)	N/A	(175,329)	(6,405,441)	N/A
Total comprehensive loss	(775,935)	(1,313,426)	N/A	(175,329)	(6,579,832)	N/A
<b>Mining Profit</b>	<b>1,388,241</b>	<b>697,664</b>	<b>99%</b>	<b>2,562,578</b>	<b>1,558,807</b>	<b>64%</b>
<b>EBITDA</b>	<b>270,698</b>	<b>(285,655)</b>	<b>N/A</b>	<b>2,114,848</b>	<b>(4,573,626)</b>	<b>N/A</b>
<b>Adjusted EBITDA</b>	<b>787,874</b>	<b>168,496</b>	<b>368%</b>	<b>2,368,471</b>	<b>(559,292)</b>	<b>N/A</b>



## Management's Discussion and Analysis

### For the three and nine months ended September 30, 2023 and September 30, 2022

#### Revenue

For the three month period ended September 30, 2023, SATO earned 93 Bitcoin, resulting in revenue of \$3,466,580, compared to 32 Bitcoins earned and 3 Ether in the same period in 2022 with revenue of \$903,575.

For the nine month period ended September 30, 2023, SATO earned 152 Bitcoin, resulting in revenue of \$5,482,868, compared to 57 Bitcoins earned and 18 Ether in 2022 with revenue of \$2,066,604.

The increase in Bitcoins earned is the result of acquiring and operating additional mining machines in the period. In July 2023, SATO terminated its hosting service and acquired around 414 Ph/s of mining equipment. The increase in digital asset earned revenue was also the result of a decreased number of hours of winter load shedding in Q1 2023 compared to the previous year, which reduces the power utilization of the Company's operations during the extreme cold winter months to help conserve power and support the grid. Winter conditions in January 2022 were particularly harsh, with -20°C temperatures recorded for at least 15 days. Mandatory curtailment of the Company's energy usage under the agreement with Hydro-Joliette in Q1 2023 decreased by 168 hours when compared to Q1 2022. Under the terms of SATO's contract with Hydro-Joliette, the maximum load-shedding percentage that Hydro-Joliette may require is 4.6%.

SATO earned hosting revenue of \$591,954 and \$6,663,085 for the first three and nine months ended September 30, 2023, compared to \$1,876,716 and \$4,349,669 for the same periods in 2022. Hosting contracts are where SATO operates mining equipment on behalf of third parties within its facilities. The increase in hosting revenue was the result of adding hosted mining equipment to utilize our energy and infrastructure following the build out during 2022. In a fluctuating market, providing hosting services proved to be a reliable means of generating income, which was received in US dollars. However, as mentioned above, SATO switched from hosting to operating its own rigs at 100% in July 2023.

Other revenue for the three and nine months ended September 30, 2023 were \$11,726 (\$9,979 in 2022) and \$45,505 (\$104,905 in 2022), respectively. This consisted of management revenue and of shipping cost from the hosting contracts.

The cost of operations for the three and nine months ended September 30, 2023 was \$3,314,302 and \$9,079,038, compared to \$2,620,962 and \$5,538,315 in the same periods in 2022. These costs directly relate to the costs incurred for selling the compute power to Mining Pools which include site operating costs (such as electricity, insurance and regular maintenance cost), salaries and benefits, and depreciation. The increase in site operating costs was related to the increase in consumption of electricity resulting from the increase in mining machines in operation and the increase in installed capacity from 10 MW in January 2022 to 20 MW in August 2022. Depreciation increased for the same reason, as industrial equipment that was in construction became fully operational and depreciated during the year.

Below is a breakdown of the cost of operations for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
<b>Cost of operations</b>				
Site operating costs	2,503,683	1,667,444	7,222,112	3,834,700
Salary and benefits	38,552	46,232	130,179	135,233
Depreciation	772,067	907,286	1,726,747	1,568,382
	<b>\$ 3,314,302</b>	<b>\$ 2,620,962</b>	<b>\$ 9,079,038</b>	<b>\$ 5,538,315</b>



## Management's Discussion and Analysis

### For the three and nine months ended September 30, 2023 and September 30, 2022

SATO had a gain (loss) on the use of digital assets for the first three and nine months ended September 30, 2023 of \$(128,320) and \$222,836, compared to a gain (loss) of \$22,521 and \$(128,056) in the prior year periods. These losses and gains are the result of exchanging Bitcoin for cash during the period. SATO also had an unrealized gain (loss) on the revaluation of digital assets for the first three and nine months ended September 30, 2023 of \$(13,597) net of taxes of nil and \$348,247 net of taxes of nil, as a result of increasing Bitcoin prices, compared to an unrealized gain (loss) on revaluation of digital asset of \$49,590 net of taxes of nil and \$(2,114,487) (\$174,391) going through the other comprehensive income) net of taxes of \$52,850.

#### Expenses

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Share based compensation	199,918	208,659	733,852	1,575,729
General and administration	1,090,858	1,001,997	2,615,869	3,134,885
	<b>\$1,290,776</b>	<b>\$ 1,210,656</b>	<b>\$ 3,349,721</b>	<b>\$ 4,710,614</b>

Share based compensation represents the value of stock options that have vested during the quarter which is a non-cash expense. In Q1 2023, the Company granted 710,000 options to directors, officers, consultants and employees compared to 5,054,600 in Q1 2022. The decrease in overall expenses is due to SATO's restrictive cashflow policy that was applied in late 2022 in which some consultants and employees have seen their number of work hours being reduced. SATO also reduced spending in marketing, travel and business relations related fields. The increase in expenses in Q3 2023 reflects the signing of the loan agreement with Sygnum AG for which SATO incurred professional and legal fees, and the issuance of 520,000 warrants related to a potential additional Center.

#### General and administrative expenses

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Salaries, benefits and remuneration	417,034	354,895	1,276,616	1,062,326
Directors and officers insurance	64,135	110,194	187,374	459,293
Professional fees	246,607	106,520	313,388	337,654
Legal fees	41,123	18,893	102,573	275,356
Custodian fees	7,163	8,769	21,262	24,516
Software subscriptions	9,578	11,979	33,012	39,906
Advertising, promotion, and investor relations	43,746	130,212	81,241	375,782
Provision for sales taxes receivable	39,281	94,892	224,003	225,711
Other	222,191	165,644	376,400	334,341
	<b>\$ 1,090,858</b>	<b>\$ 1,001,997</b>	<b>\$ 2,615,869</b>	<b>\$ 3,134,885</b>

**Management's Discussion and Analysis****For the three and nine months ended September 30, 2023 and September 30, 2022***Other charges/income*

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Foreign exchange loss (gain)	(155,782)	6,051	(105,233)	75,605
Gain on disposal of property, plant and equipment	(39,940)	-	(39,940)	-
Unrealized foreign exchange loss	20,356	217,650	90,854	217,650
Finance expense	274,566	120,488	563,430	210,583
	<b>\$ 99,200</b>	<b>\$ 344,189</b>	<b>\$ 509,111</b>	<b>\$ 503,838</b>

***Selected Quarterly Information***

The following table summarizes SATO's financial information for the last eight quarters:

<b>Financial Results</b>	<b>Q3 2023 \$</b>	<b>Q2 2023 \$</b>	<b>Q1 2023 \$</b>	<b>Q4 2022 \$</b>	<b>Q3 2022 \$</b>	<b>Q2 2022 \$</b>	<b>Q1 2022 \$</b>	<b>Q4 2021 \$</b>
Revenue	4,070,260	4,212,596	3,908,602	4,100,045	2,790,270	2,021,642	1,709,266	2,026,598
Gross Profit	755,958	1,126,750	1,129,245	1,347,736	169,308	532,857	280,698	190,399
Total Expenses	1,290,776	961,184	997,294	1,604,988	1,210,656	1,174,018	2,327,161	360,815
Net Income (Loss)	(775,935)	89,861	510,745	(1,593,979)	(1,313,426)	(2,955,450)	(2,097,787)	(512,590)

Revenue generated from the Company's mining operations is the primary contributor to the quarterly variations in revenue and net income or loss, and can vary depending upon the price of Bitcoin, which is volatile. Winter months typically generate fewer mining outputs due to load shedding. The increase in expenses and net loss in Q1 2022 was due to the share-based compensation (non-cash expense) for the stock options granted and vested in the quarter. Q2 & Q3 2022, were negatively affected by the drop in the price of Bitcoin during the quarters. In Q1 2023, the Company's results reflect operating at full capacity as well as the benefits of cost optimization efforts implemented in Q4 2022. While the Bitcoin mining industry experiences volatility, it is typically not subject to seasonality. Seasonal fluctuations in electricity supply, however, may impact the Company's operations. All of the Company's operations during the above periods were in Québec. Changing weather may impact seasonal electricity needs across the province, and periods of extreme cold or extreme hot weather may thus contribute to service interruptions in cryptocurrency mining operations so that electricity can be redirected to other users.



## Management's Discussion and Analysis

For the three and nine months ended September 30, 2023 and September 30, 2022

### *Liquidity and Capital Resources*

As at September 30, 2023, SATO had a working capital deficiency of \$2,155,414 compared to a deficiency of \$2,864,174 as at December 31, 2022.

Net cash generated (used) by operating activities for the three and nine month period ended September 30, 2023 was \$(423,594) and \$839,900, respectively. Cash used in investing activities in the same periods amounted to \$5,713,484, and \$6,194,074 related to the purchase of equipment and development of intangible assets, respectively. Cash provided by financing activities in the same periods was \$6,288,713 and \$5,523,175, respectively.

As at September 30, 2023, SATO had cash on hand of \$633,621 (December 31, 2022 - \$359,387), restricted cash of \$1,714,991 (December 31, 2022 - nil) and digital assets of \$1,285,491 (December 31, 2022 - \$990,602).

SATO's ability to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business is dependent upon maintaining sustained profitability. There are various risks and uncertainties affecting SATO's operations including, but not limited to, the viability of the economics of Bitcoin mining, the liquidity of Bitcoin, and SATO's ability to maintain the security of its digital assets and execute its business plan.

SATO's strategy to mitigate these risks and uncertainties is to execute a business plan aimed at maintaining security, operational efficiency, revenue growth, and overall mining profitability while managing operating expenses and working capital requirements, including the securing of additional financing as needed through loans and equity investments. However, given the volatility in financial markets it may be difficult to raise financing when needed. Failure to implement SATO's business plan could have a material adverse effect on its financial condition or financial performance. Accordingly, there are material risks and uncertainties that cast significant doubt over SATO's ability to continue as a going concern.

The Company regularly engages with various counterparties for potential financing options, to assess the availability of financing and to be prepared to take advantage of opportunities to strengthen the Company's balance sheet, with a view to ensuring the Company has liquidity when required.



## Management's Discussion and Analysis

For the three and nine months ended September 30, 2023 and September 30, 2022

### Non-IFRS Performance Measures

This MD&A makes reference to certain measures that are not recognized under IFRS and do not have a standardized meaning prescribed by IFRS. They are therefore not necessarily comparable to similar measures presented by other companies. The Company uses non-IFRS measures including "Adjusted EBITDA" and "Mining Profit" as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from Management's perspective. The following tables reconcile non-IFRS measures used by the Company to analyze the operational performance of the Company to its nearest IFRS measure, and should be read in conjunction with the consolidated statement of operations and comprehensive income (loss) and consolidated statement of cash flows included in the consolidated financial statements for the three and nine months ended September 30, 2023 and 2022.

### Mining Profit

Mining profit represents gross profit of selling the Bitcoin compute power (revenue less cost of revenue), excluding depreciation and revenue and site operating costs directly attributable to hosting revenue and other revenue. The Company uses it to assess the performance of the core business.

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
<b>Gross profit</b>	<b>\$ 755,958</b>	<b>\$ 169,308</b>	<b>\$ 3,112,420</b>	<b>\$ 982,863</b>
<i>Add (deduct)</i>				
Hosting revenue	(591,954)	(1,876,716)	(6,663,085)	(4,349,669)
Other revenue	(11,726)	(9,979)	(45,505)	(104,905)
Site operating costs attributable to hosting	463,896	1,517,340	4,432,001	4,234,658
Depreciation	477,340	897,711	954,860	1,558,807
<b>Mining Profit</b>	<b>\$ 1,388,241</b>	<b>\$ 697,664</b>	<b>\$ 2,562,578</b>	<b>\$ 2,321,754</b>



## Management's Discussion and Analysis

For the three and nine months ended September 30, 2023 and September 30, 2022

### Adjusted EBITDA

Adjusted EBITDA represents net loss excluding finance income, finance expense, income taxes, depreciation and amortization, and adjusted for non-cash and one-time non-recurring transactions. The Company uses it as an additional measure to assess profitability.

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
<b>Net loss</b>	<b>\$ (775,935)</b>	<b>\$ (1,313,426)</b>	<b>\$(175,329)</b>	<b>\$(6,405,441)</b>
<i>Add (deduct)</i>				
Finance expense	274,566	120,488	563,430	210,583
Deferred income taxes	-	-	-	52,850
Depreciation	772,067	907,283	1,726,747	1,568,382
<b>EBITDA</b>	<b>\$ 270,698</b>	<b>\$ (285,655)</b>	<b>\$ 2,114,848</b>	<b>\$ (4,573,626)</b>
Share based compensation	199,918	208,659	733,852	1,575,729
Loss (Gain) on use of digital assets	13,597	(22,521)	(348,247)	128,056
Unrealized foreign exchange (gain) loss	128,320	217,650	(222,836)	217,650
Unrealized loss (gain) on revaluation of digital assets	20,356	(49,590)	90,854	1,992,946
Financing fees	154,985	99,953	154,985	99,953
<b>Adjusted EBITDA</b>	<b>\$ 787,874</b>	<b>\$ 168,496</b>	<b>\$ 2,368,471</b>	<b>\$ (559,292)</b>

### Off-Balance Sheet Arrangements

As of the date of this MD&A, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.



## Management's Discussion and Analysis

For the three and nine months ended September 30, 2023 and September 30, 2022

### Financial Instruments and Business Risks

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

#### *Fair value*

The fair value of the Company's financial instruments, including cash, trade and other receivables, accounts payable, and accrued liabilities, approximates their carrying value due to their short-term nature. The fair value of borrowings, except the loan payable, approximates their carrying amounts based on actualized cash flows (Level 2).

Digital assets and loan payables are measured at fair value using the quoted price on Google Finance (Level 2).

The conversion option is measured at fair value using the Monte Carlo option pricing model (Level 2).

#### *Credit Risk*

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions.

#### *Interest Rate Risk*

Interest rate risk is the risk that the fair value of 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 limited and relates to its ability to earn interest income on cash balances. Changes in short term interest rates will not have a significant effect on the fair value of the Company's cash account.

#### *Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash and digital assets.

The Company has a planning and budgeting process to help determine the funds required to support the Company's normal spending requirements on an ongoing basis and its expansionary plans.

#### *Currency Risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash) that are denominated in a currency other than Canadian dollars. The Company's functional currency is the Canadian dollar and most purchases are transacted in Canadian dollars. Management currently does not hedge its foreign exchange risk.

#### *Digital assets and risk management*

Digital assets are measured using the rate from Google Finance.

Digital asset prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and the global political and economic conditions. The profitability of the Company is directly

related to the current and future market price of digital assets. In addition, the Company may not be able to liquidate its inventory of digital assets at its desired price if required. A decline in the market prices for digital assets could negatively impact the Company's future operations. The Company has not hedged the conversion of any of its sales of digital assets.

Digital assets have a limited history and the fair value historically has been very volatile. Historical performance of digital assets is not indicative of their future price performance. The Company's digital assets currently solely consist of Bitcoin and Ether.

### **Critical Accounting Estimates and Accounting Policies**

The preparation of these financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the year in which the estimate is revised and future years if the revision affects both current and future years. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

#### *Income from digital assets mining*

The Company recognizes income from digital assets mining from the provision of transaction verification services within digital asset networks, commonly termed cryptocurrency mining. As consideration for these services, the Company receives digital assets from each specific network in which it participates. Income from selling the compute power is measured based on the fair value of the digital assets received. The fair value is determined using the spot price of the digital asset on the date of receipt. The digital assets are recorded on the statement of financial position at their fair value less costs to sell, and re-measured at each reporting date. Revaluation gains or losses, as well as gains or losses on the sale of digital assets for traditional (fiat) currencies are included in profit or loss in accordance with the Company's treatment of its digital assets as a traded commodity.

There is currently no specific definitive guidance in IFRS or alternative accounting frameworks for the accounting for the mining and strategic selling of digital assets, and management has exercised significant judgement in determining appropriate accounting treatment for the recognition of income from mining of digital assets. Management has examined various factors surrounding the substance of the Company's operations, including the stage of completion, being the completion and addition of a block to a blockchain, and the reliability of the measurement of the digital assets received.

#### *Going concern*

The assessment of the Company's ability to continue as a going concern involves judgment regarding future funding available for its operations and working capital requirements.

#### *Leases - Incremental borrowing rate*



## Management's Discussion and Analysis

For the three and nine months ended September 30, 2023 and September 30, 2022

Judgment is applied when determining the incremental borrowing rate used to measure the lease liability of each lease contract, including an estimate of the asset-specific security impact. The incremental borrowing rate should reflect the interest rate the Company would pay to borrow at a similar term and with similar security.

### *Income, valued added, withholding and other taxes*

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the year in which such determination is made.

### *Useful lives of property, plant and equipment*

Depreciation of data miners and equipment are an estimate of its expected life. In order to determine the useful life of computing equipment, assumptions are required about a range of computing industry market and economic factors, including required hashrates, technological changes, availability of hardware and other inputs, and production costs.

### *Digital asset valuation*

Digital assets consist of cryptocurrency denominated assets and are included in current assets. Digital assets are carried at their fair value determined by the spot rate less costs to sell. The digital asset 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 assets would have a significant impact on the Company's earnings and financial position.

### *Impairment of Miners*

Impairment of miners was estimated based on the recoverable amount of mining equipment based on current market prices and hash rate power per miner type. The recoverable amount represents the higher value between an asset's fair value less costs to sell and its value in use. Hash rate power refers to the computational power of the mining equipment, which directly affects the mining efficiency and potential revenue generation. As the market prices for mining equipment and hash rate power can vary significantly over time, these factors are considered in estimating the recoverable amount of the assets. The current market prices for mining equipment are obtained from various sources, including manufacturers, distributors, and marketplaces for used equipment. Management reviews and compares these prices regularly to ensure the accuracy and relevance of the data.

## **Capital Management**

The Company's capital currently consists of Common Shares. The Company's capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient capital to be able to identify, evaluate and then acquire an interest in a business or assets. The Company does not have any externally imposed capital requirements to which it is subject. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares.



## **Management's Discussion and Analysis**

**For the three and nine months ended September 30, 2023 and September 30, 2022**

### **Share Capital**

As of the date of this MD&A, the Company has issued and outstanding share capital consisting of 72,589,465 Common Shares, 6,554,260 stock options, 942,171 compensation warrants and 1,754,901 warrants, of which 15,295,768 shares and 346,609 compensation warrants are under escrow.

### **Risk Factors**

The Company's business is subject to a number of risk factors which are described in the most recent AIF filed on SEDAR. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of the Common Shares to decline. If any of the noted risks actually occur, our business may be harmed and the financial condition and results of operations may suffer significantly. In that event, the trading price of the Common Shares could decline, and shareholders may lose all or part of their investment.