



SATO Technologies Corp.

**Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2023 and 2022**

(expressed in Canadian dollars)

(Unaudited)

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These unaudited condensed interim consolidated financial statements have not been subject to a review by our independent auditors

SATO Technologies Corp.

Condensed Interim Consolidated Statements of Financial Position

as at September 30, 2023

(In Canadian dollars)

(Unaudited)

		September 30, 2023	December 31, 2022
		\$	\$
Assets			
Current assets			
Cash		633 621	359 387
Restricted cash	(Note 12)	592 440	-
Trades and other receivables	(Note 5)	2 536 089	1 703 550
Digital assets	(Note 6)	1 285 491	990 602
Prepaid expenses	(Note 4)	66 906	183 085
		5 114 547	3 236 624
Non-current assets			
Restricted cash	(Note 12)	1 122 551	-
Deposits	(Note 7)	432 486	432 486
Property, plant and equipment	(Note 8)	12 081 448	9 120 374
Intangible assets	(Note 9)	263 000	264 018
Right-of-use assets		2 292 997	2 460 777
Total assets		21 307 029	15 514 279
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	(Note 10)	1 507 272	1 892 470
Deferred revenue and customer deposits	(Note 11)	2 263 928	2 478 586
Current portion of borrowings	(Note 12)	3 190 990	1 395 994
Current portion of lease liability		307 771	333 748
		7 269 961	6 100 798
Non-current liabilities			
Borrowings	(Note 12)	6 298 250	2 382 263
Lease liability		2 224 186	2 257 687
Total liabilities		15 792 397	10 740 748
Shareholders' equity			
Share capital	(Note 13)	14 430 320	14 429 238
Contributed surplus		3 511 972	2 596 624
Digital currency revaluation reserve		-	-
Accumulated deficit		(12 427 660)	(12 252 331)
Total Shareholders' equity		5 514 632	4 773 531
Total liabilities and shareholders' equity		21 307 029	15 514 279

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

Approved on behalf of the Board :

"Romain Nouzareth"

Chair of the Board and CEO

"Frank DiTomaso"

Director

SATO Technologies Corp.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the nine months ended September 30, 2023 and 2022

(In Canadian dollars)

(Unaudited)

	Common shares	Share capital	Contributed surplus	Digital asset revaluation reserve	Accumulated deficit	Total
Balance as at December 31, 2022	72 585 465	\$ 14 429 238	\$ 2 596 624	\$ -	\$ (12 252 331)	\$ 4 773 531
Net loss for the period					(175 329)	(175 329)
Common shares deemed to be issued following the election to exercise stock options	(Note 13) 4 000	1 082	(522)			560
Stock-based compensation expense	(Note 13)		733 852			733 852
Issuance of warrants	(Note 13)		182 018			182 018
Balance as at September 30, 2023	72 589 465	14 430 320	3 511 972	-	(12 427 660)	5 514 632
Balance as at December 31, 2021	66 869 748	10 796 628	1 102 246	174 391	(4 251 689)	7 821 576
Net loss for the period					(6 405 441)	(6 405 441)
Issuance of shares from private placement	(Note 13) 3 912 481	3 286 484				3 286 484
Revaluation of digital assets, net of tax				(174 391)		(174 391)
Stock-based compensation expense	(Note 13)		1 575 729			1 575 729
Balance as at September 30, 2022	70 782 229	14 083 112	2 677 975	-	(10 657 130)	6 103 957

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

SATO Technologies Corp.

Condensed Interim Consolidated Statement of Cash Flows

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

(In Canadian dollars)

(Unaudited)

	Three months ended		Nine months ended	
	September 30, 2023	2022	September 30, 2023	2022
	\$	\$	\$	\$
Operating activities				
Net loss	(775 935)	(1 313 426)	(175 329)	(6 405 441)
Change in non-cash operating items:				
Digital asset earned	(3 466 580)	(903 575)	(5 482 868)	(2 066 604)
Digital assets received for services	-	-	-	(190 411)
Digital assets used for services	54 110	-	58 296	-
Digital assets given as donation	-	-	20 000	31 898
Digital assets purchased	-	-	(1 440)	-
Loss (gain) on use of digital assets	128 320	(22 521)	(222 836)	128 056
Unrealized loss (gain) on revaluation of digital assets	13 597	(49 590)	(348 247)	2 055 823
Gain on disposal of property, plant and equipment	(39 940)	-	(39 940)	-
Depreciation	772 067	907 286	1 726 747	1 568 382
Share based compensation	199 918	208 659	733 852	1 575 729
Foreign exchange loss (gain)	(155 782)	6 051	(105 233)	75 605
Unrealized foreign exchange loss	161 352	-	90 854	-
Deferred income taxes	-	-	-	52 850
Interest on lease liabilities	73 592	50 191	220 054	130 982
	(3 035 281)	(1 116 925)	(3 526 090)	(3 043 131)
Change in non-cash working capital				
Trades and other receivables	(279 333)	(297 534)	(832 539)	(783 822)
Digital assets	3 199 247	1 523 955	5 682 206	1 633 862
Prepaid expenses	68 593	96 232	116 179	179 287
Accounts payable and accrued liabilities	(276 611)	4 379	(385 198)	(1 509 929)
Deferred revenue and customer deposits	(100 209)	1 107 685	(214 658)	1 870 127
Total change in non-cash operating working capital	2 611 687	2 434 717	4 365 990	1 389 525
Net cash provided by (used in) operating activities	(423 594)	1 317 792	839 900	(1 653 606)
Investing activities				
Purchase of property, plant and equipment	(4 088 493)	(3 173 744)	(4 522 220)	(4 846 845)
Disposal of property, plant and equipment	90 000	-	90 000	-
Development of intangible assets	-	(45 545)	(46 863)	(159 573)
Change in restricted cash	(1 714 991)	-	(1 714 991)	-
Net cash used in investing activities	(5 713 484)	(3 219 289)	(6 194 074)	(5 006 418)
Financing activities				
Issuance of long term loan, net of financing costs	10 299 205	3 873 610	10 299 205	3 873 610
Extinguishment of long term loan, net of financing costs	(3 151 252)	-	(3 151 252)	-
Proceed from credit line	-	-	-	956 602
Repayment of credit line	-	(965 557)	-	(974 446)
Repayment of long term loan	(948 640)	(230 805)	(1 527 823)	(242 114)
Issuance of shares and warrants	182 578	-	182 578	3 286 484
Repayment of lease liabilities	(93 178)	(72 830)	(279 533)	(190 168)
Net cash provided by financing activities	6 288 713	2 604 418	5 523 175	6 709 968
Increase in cash	151 635	702 921	169 001	49 944
Cash, beginning of period	326 204	71 793	359 387	794 324
Effect of exchange changes on cash	155 782	211 599	105 233	142 045
Cash, end of period	633 621	986 313	633 621	986 313
Interest paid	\$200 974	\$70 297	\$343 376	\$79 601

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

SATO Technologies Corp.

Condensed Interim Consolidated Statements of Loss and

Comprehensive Loss

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

(In Canadian dollars)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Revenue	\$	\$		
Digital assets earned (Note 6)	3 466 580	903 575	5 482 868	2 066 604
Hosting	591 954	1 876 716	6 663 085	4 349 669
Other	11 726	9 979	45 505	104 905
	4 070 260	2 790 270	12 191 458	6 521 178
Cost of revenue				
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 (Note 8 and 9)	772 067	907 286	1 726 747	1 568 382
	3 314 302	2 620 962	9 079 038	5 538 315
Gross profit	755 958	169 308	3 112 420	982 863
Gain (loss) on use of digital assets (Note 6)	(128 320)	22 521	222 836	(128 056)
Unrealized gain (loss) on revaluation of digital assets (Note 6)	(13 597)	49 590	348 247	(1 992 946)
	614 041	241 419	3 683 503	(1 138 139)
Expenses				
Share based compensation (Note 13)	199 918	208 659	733 852	1 575 729
General and administration (Note 15)	1 090 858	1 001 997	2 615 869	3 134 885
	1 290 776	1 210 656	3 349 721	4 710 614
Operating income (loss)	(676 735)	(969 237)	333 782	(5 848 753)
Other charges				
Foreign exchange (gain) loss	(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 (Note 12)	274 566	120 488	563 430	210 583
	99 200	344 189	509 111	503 838
Loss before income taxes	(775 935)	(1 313 426)	(175 329)	(6 352 591)
Deferred income taxes	-	-	-	52 850
Net loss	(775 935)	(1 313 426)	(175 329)	(6 405 441)
Other comprehensive income				
Items that will not be reclassified to net income				
Revaluation of digital asset, net of tax (Note 6)	-	-	-	(174 391)
Total comprehensive loss	(775 935)	(1 313 426)	(175 329)	(6 579 832)
Net loss per share - basic (Note 14)	(0,01)	(0,02)	(0,002)	(0,09)
Net loss per share - diluted (Note 14)	(0,01)	(0,02)	(0,002)	(0,09)

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

SATO Technologies Corp.

Notes to Condensed Interim Consolidated Financial Statements

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

(In Canadian dollars)

(Unaudited)

1 INCORPORATION, BUSINESS ACTIVITIES AND GOING CONCERN

SATO Technologies Corp. (the "Company" or "SATO") was incorporated under the Ontario Business Corporations Act on May 7, 2008 as Capricorn Business Acquisitions Inc. ("Capricorn"). The Group's head office is located at 66 Wellington Street West, Suite 5300, Toronto, Ontario M5K 1E6 and its only place of business is located at 289 Dugas Joliette, Québec, Canada, J6E 4H1.

Canada Computational Unlimited Inc. was incorporated under the Business Corporations Act of Québec on November 16, 2017.

The Company carried on the business of Canada Computational Unlimited Inc. as a Tier 2 technology issuer under the symbol "SATO". The Company's shares were listed for trading on the TSX Venture Exchange ("TSXV") on September 16, 2021.

In May 2022, the Group underwent a rebranding to better represent its global business focus, changing its name from "Canada Computational Unlimited Corp." to "SATO Technologies Corp."

SATO Corp., the Group's US based subsidiary was incorporated under the Delaware General Corporation Law on October 11, 2023.

The Company and its subsidiaries ("the Group") are in the business of utilizing specialized equipment to solve complex computational problems to validate transactions on the bitcoin blockchain and other. The Group receives digital assets in return for successful service and is primarily engaged in the cryptocurrency mining industry, a highly volatile market with significant inherent risk. A significant decline in the market prices of cryptocurrencies, an increase in the difficulty of cryptocurrency mining, changes in the regulatory environment and adverse changes in other inherent risks can significantly other inherent risks can significantly and negatively impact the Group's operations. In addition, adverse changes to the factors mentioned above may impact the carrying value of the Group's impact the carrying value of the Group's property, plant and equipment resulting in impairment charges being recorded. All the assets of the Group's are located in Joliette, Quebec, Canada one operating segment being the cryptocurrency mining.

Going Concern

As at September 30, 2023, the Group had an accumulated deficit of \$12,427,660, \$12,252,331 as at December 31, 2022 and \$10,657,130 as at September 30, 2022. Net loss for the period ended September 30, 2023 was \$175,329, net loss for the period ended September 30, 2022 was \$6,405,441. The Group had a working capital deficiency of \$2,155,414 as at September 30, 2023 and a working capital deficiency of \$2,864,174 as at December 30, 2022. These conditions raise material uncertainties which may cast significant doubt as to whether the Group will be able to continue as a going concern.

These condensed consolidated financial statements have been prepared on a going concern basis, which presumes realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Group's ability to continue as a going concern, namely its ability to generate sufficient cash resources to meet its obligations for at least twelve months from the end of the reporting year, is dependent upon its ability to arrange future financing, which is largely dependent upon prevailing capital market conditions, continued support of its shareholder base and achieving positive cash flows from operations. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Group be unable to continue in business. Such adjustments could be material.

2 STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

These consolidated interim financial statements have been prepared in a condensed format as of September 30, 2023 and for the three months then ended ("interim consolidated statements"). The interim condensed consolidated financial statements should be read in conjunction with the Group's annual financial statements as of December 31, 2022, and for the year then ended and accompanying note ("annual consolidated financial statements").

Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with IAS 34 Interim financial reporting.

These consolidated financial statements of the Group were reviewed, approved and authorized for issue by the Board of Directors on November 27th, 2023.

Basis of presentation

These consolidated financial statements have been prepared on an accrual basis and under the historical cost basis, except for some financial instruments that have been measured at fair value.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group and its wholly-owned subsidiaries, Canada Computational Unlimited Inc. and SATO Corp..

A subsidiary is an entity which the Group has control. The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is acquired and de-consolidated from the date that control ceases.

The financial statements of the subsidiary are prepared for the same reporting year as the Group, using consistent accounting policies. All intercompany transactions and balances are eliminated upon consolidation.

SATO Technologies Corp.

Notes to Condensed Interim Consolidated Financial Statements

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

(In Canadian dollars)

(Unaudited)

3 SELECTED SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Digital asset mining

The Group recognizes revenue from the transaction verification services within digital asset networks, commonly termed "cryptocurrency mining". As consideration for these services, the Group receives digital assets from each specific cryptocurrency mining pool in which it participates. Revenue is measured based on the fair value of the digital assets received. The fair value is determined using the spot price of the digital assets on the date of receipt. Digital assets are considered earned on the completion and addition of a block to the blockchain, at which time the benefit is received and can be reliably measured.

Hosting

The Group has also entered into hosting contracts where it operates third party own mining equipment within its facilities. Revenue from hosting contracts is measured as the Group meets its obligation of operating the hosted equipment as per the contract.

Digital assets

Digital assets consist of Bitcoin and other cryptocurrencies. Digital assets meet the definition of intangible assets in IAS 38 Intangible Assets as they are identifiable non-monetary assets without physical substance. They are initially recorded at cost and the revaluation method is used to measure the digital assets subsequently. Where digital assets are recognized as revenue, the fair value of the digital asset received is considered to be the cost of the digital assets. Under the revaluation method, increases in fair value are recorded in other comprehensive income, while decreases are recorded in profit or loss. The Group revalues its digital assets at the end of each quarter. There is no recycling of gains from other comprehensive income to profit or loss. However, to the extent that an increase in fair value reverses a previous decrease in fair value that has been recorded in profit or loss, that increase is recorded in profit or loss. Decreases in fair value that reverse gains previously recorded in other comprehensive income are recorded in other comprehensive income. Gains and losses on digital assets sold between revaluation dates are included in profit or loss.

Digital assets are measured at fair value using the quoted price on Google Finance. Google Finance is a pricing aggregator, as the principal market or most advantageous market is not always known. The Group believes any price difference amongst the principal market and an aggregated price to be immaterial. Management considers this fair value to be a Level 2 input under IFRS 13 Fair Value Measurement fair value hierarchy as the price on this source represents an average of quoted prices on multiple digital asset exchanges.

Critical accounting judgement:

Income, valued added, withholding and other taxes

The Group is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Group'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 Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Group's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Group'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 consolidated 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.

4 PREPAID EXPENSES

	September 30, 2023	December 31, 2022
	\$	\$
Insurance prepaid expenses	66 906	183 085
Total prepaid expenses	66 906	183 085

5 TRADES AND OTHER RECEIVABLES

	September 30, 2023	December 31, 2022
	\$	\$
Sales taxes receivable	1 848 726	823 227
Import taxes receivable (Note 11) (i)	1 171 519	1 171 519
Other receivables	51 739	20 696
Provision for taxes receivables (ii)	(535 895)	(311 892)
Total trades and other receivables	2 536 089	1 703 550

(i) During the period ended September 30, 2023, the Group imported mining equipment for a non-resident entity so that it operates for commercial purposes in Canada. Once the payment is received by Canadian Authorities, the Group will have to repay its client.

(ii) During the period ended September 30, 2023, the Group determined that its sales taxes receivables balance related to Goods and Services Tax ("GST") and Québec Sales Tax ("QST") may not be collectible. As a result, a provision for the balance of \$535,895 has been recorded.

SATO Technologies Corp.
Notes to Condensed Interim Consolidated Financial Statements

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

(In Canadian dollars)

(Unaudited)

6 DIGITAL ASSETS

The Group's holdings of digital assets consist of the following:

For the three months ended September 30, 2023					
	\$	Number of Bitcoin	\$	Number of Other Digital assets	Total \$
Balance, beginning of period	1 210 890	30	3 295	1	1 214 185
Digital assets earned	3 466 580	93	-	-	3 466 580
Digital assets traded for cash	(3 199 247)	(86)	-	-	(3 199 247)
Digital assets paid for services	(53 937)	(2)	(173)	-	(54 110)
Loss on use of digital assets	(128 320)	-	-	-	(128 320)
Revaluation of digital assets	(13 076)	-	(521)	-	(13 597)
Balance, end of period	1 282 890	35	2 601	1	1 285 491

For the nine months ended September 30, 2023					
	\$	Number of Bitcoin	\$	Number of Other Digital assets	Total \$
Balance, beginning of period	986 876	44	3 726	2	990 602
Digital assets earned	5 482 868	152	-	-	5 482 868
Digital assets traded for cash	(5 681 415)	(159)	(791)	(1)	(5 682 206)
Digital assets purchased	-	-	1 440	-	1 440
Digital assets paid for services	(58 123)	(2)	(173)	-	(58 296)
Digital assets given as a donation	(20 000)	-	-	-	(20 000)
Gain on use of digital assets	222 836	-	-	-	222 836
Revaluation of digital assets	349 848	-	(1 601)	-	348 247
Balance, end of period	1 282 890	35	2 601	1	1 285 491

For the year ended December 31, 2022					
	\$	Number of Bitcoin	\$	Number of Other Digital assets	Total \$
Balance, beginning of period	3 002 880	51	251 251	53	3 254 131
Digital assets earned	2 737 763	86	51 325	20	2 789 088
Digital assets purchased	108 921	4	-	-	108 921
Digital assets traded for cash	(2 651 795)	(102)	(119 809)	(61)	(2 771 604)
Digital assets received for services	190 411	5	-	-	190 411
Digital assets given as a donation	-	-	(31 898)	(10)	(31 898)
Loss on use of digital assets	(171 354)	-	(6 456)	-	(177 810)
Revaluation of digital assets	(2 229 950)	-	(140 687)	-	(2 370 637)
Balance, end of period	986 876	44	3 726	2	990 602

Digital assets held are revaluated each reporting period based on the fair market value for the price of Bitcoin and Ethereum on the reporting period date. As of September 30, 2023, the price of Bitcoin was \$36,653 (\$US 27,110) (December 31, 2022 - \$22,429 (\$US 16,669)) and the price of Ethereum was \$2,260 (\$US1,671) (December 31, 2022 - \$1,622 (\$US 1,206)), resulting in an unrealized gain on revaluation of digital assets for the nine months ended September 30, 2023 of \$348,247 net of taxes of nil (unrealized loss on revaluation of digital assets of \$13,597 net of tax of nil for the three months ended September 30, 2023).

As at September 30, 2022, the price of Bitcoin was \$26,908 (\$US 19,631) and the price of Ethereum was \$1,838 (\$US 1,341), resulting in an unrealized gain on revaluation of \$49,950 net of taxes of nil for the three net of taxes of nil for the three months ended September 30, 2022 (unrealized loss on revaluation of digital assets of \$1,992,946 net of tax of \$174,391 for the nine months ended September 30, 2022).

Those were recorded in the profit and loss.

5 Bitcoins are used as collateral on the long term loan (Note 12).

SATO Technologies Corp.
Notes to Condensed Interim Consolidated Financial Statements

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

(In Canadian dollars)

(Unaudited)

7 DEPOSITS

	September 30, 2023	December 31, 2022
	\$	\$
Deposits related to electricity supply under Electricity Supply Agreement (i)	417 486	417 486
Other deposits	15 000	15 000
Total non-current deposits	432 486	432 486

(i) Security deposit for future electricity usage.

8 PROPERTY, PLANT AND EQUIPMENT

	Miners	Computer Equipment	Industrial Equipment	Leasehold improvement	Small equipment	In construction - Industrial Equipment	In construction - Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
Balance - December 31, 2021	3 282 649	243 849	1 525 379	209 997	42 194	2 736 692	63 910	8 104 670
Additions	2 669 297	12 059	-	449 543	1 500	2 549 872	-	5 682 271
Write-off	(1 044 279)	(3 799)	-	-	-	-	-	(1 048 078)
Transfert (i)	8 436	-	4 803 034	55 474	-	(4 803 034)	(63 910)	-
Balance - December 31, 2022	4 916 103	252 109	6 328 413	715 014	43 694	483 530	-	12 738 863
Additions	4 499 410	-	22 810	-	-	-	-	4 522 220
Disposal	-	-	-	-	-	(50 060)	-	(50 060)
Balance - September 30, 2023	9 415 513	252 109	6 351 223	715 014	43 694	433 470	-	17 211 023
Accumulated depreciation								
Balance - December 31, 2021	1 702 116	218 159	247 977	52 846	14 492	-	-	2 235 590
Depreciation	1 289 829	16 279	322 524	46 251	5 690	-	-	1 680 573
Impairment (ii)	682 581	-	-	-	-	-	-	682 581
Write-off	(978 577)	(1 678)	-	-	-	-	-	(980 255)
Balance - December 31, 2022	2 695 949	232 760	570 501	99 097	20 182	-	-	3 618 489
Depreciation	970 466	7 981	475 486	53 626	3 527	-	-	1 511 086
Balance - September 30, 2023	3 666 415	240 741	1 045 987	152 723	23 709	-	-	5 129 575
Net carrying value								
As at December 31, 2022	2 220 154	19 349	5 757 912	615 917	23 512	483 530	-	9 120 374
As at September 30, 2023	5 749 098	11 368	5 305 236	562 291	19 985	433 470	-	12 081 448

(i) As at September 30, 2023 and December 31, 2022, industrial equipment that was being constructed was transferred into the appropriate asset categories. From the original amount of nil (\$4,803,034 as at December 31, 2022) an amount of nil (\$4,803,034 as at December 31, 2022) was transferred to industrial equipment.

(ii) As a result of the decline in the Bitcoin price during the year, the Group performed an evaluation of the recoverable amount of its miners as at December 31, 2022 and September 30, 2023. The recoverable amount of the miners was determined based on the higher of the value in use and fair value less costs of disposal calculation, based on specific judgment and assumptions. The fair value less costs to sell determined to sell determined the recoverable amount. As a result, the Group recorded an impairment charge over its miners of nil (\$682,581 as at December 31, 2022). The impairment was based on an assessment of the performance of the miners in relation to prevailing replacement costs and the downturn of the prices of the Group's digital currencies and the fair value of the miners was based on quote prices on global ASIC marketplace (Level 2).

SATO Technologies Corp.
Notes to Condensed Interim Consolidated Financial Statements

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

(In Canadian dollars)

(Unaudited)

9 INTANGIBLE ASSETS	Software	Total
	\$	\$
Cost		
Balance - December 31, 2021	77 586	77 586
Additions - internally developed	285 952	285 952
Write-off	(44 423)	(44 423)
Balance - December 31, 2022	319 115	319 115
Additions - internally developed	46 863	46 863
Balance - September 30, 2023	365 978	365 978
Accumulated depreciation		
Balance - December 31, 2021	11 993	11 993
Depreciation	69 019	69 019
Write-off	(25 915)	(25 915)
Balance - December 31, 2022	55 097	55 097
Depreciation	47 881	47 881
Balance - September 30, 2023	102 978	102 978
Net carrying value	\$	\$
As at December 31, 2022	264 018	264 018
As at September 30, 2023	263 000	263 000
10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	September 30,	December 31,
	2023	2022
	\$	\$
Accounts payable (i) (ii)	644 082	968 374
Accrued liabilities (i) (ii)	801 588	861 625
Salaries and vacation payable	61 602	62 471
Total	1 507 272	1 892 470
<p>(i) Including industrial equipment and miners, as at September 30, 2023, for nil (\$166,060 as at December 31, 2022).</p> <p>(ii) As of September 30, 2023, a balance of \$914,206 (\$714,274 as at December 31, 2022) remains to be paid to management and board members.</p>		
11 DEFERRED REVENUE AND CUSTOMER DEPOSITS	September 30,	December 31,
	2023	2022
	\$	\$
Deferred revenue	-	128 347
Customer deposits	1 092 409	1 178 720
Customer advance - Import taxes (Note 5)	1 171 519	1 171 519
Total	2 263 928	2 478 586

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12 BORROWINGS

	September 30, 2023	December 31, 2022
	\$	\$
Long term loan, 9.5% payable in monthly instalments of CHF\$217,504 (\$321,601) maturing in July 2026 (i)	9 459 240	-
Long term loan, 8% (i)	-	3 730 936
Note payable, 3%	-	17 321
Emergency Loan for Canadian Businesses (ii)	30 000	30 000
Credit line (iii)	-	-
Total long term debt	9 489 240	3 778 257
Current portion of long term debt	3 190 990	1 395 994
Long term portion of long term debt	6 298 250	2 382 263

(i) On July 18, 2022, the Group signed a loan agreement to finance the purchase of mining equipment. An initial tranche of CHF\$3,000,000 (CAD\$3,873,610) net of financing costs of \$98,600 was allocated. The capital is repayable over a 3-year term and bears interest at 8%.

On July 21, 2023, the Group refinanced the loan, stated above, to finance the purchase of additional mining equipment. From the initial tranche of CHF\$3,000,000, an additional increment of CHF\$3,790,000 was added for a total principal of CHF\$6,790,000 (CAD\$10,299,204). The capital is repayable over a 3-year term and bears interest at 9.5%. As of September 30, 2023, the net book value of miners collateralized under the loan is \$9,415,513.

The Group also has a restricted cash position of \$1,714,991, which represents 20% of the outstanding principal, and 5 BTC as collateral on the long term loan. As at September 30, 2023, the current portion of the restricted cash position is \$592,440.

(ii) On April 16, 2020, the Group received \$40,000 under the Emergency Loan for Canadian Business Program. The interest is for 3 years and is guaranteed by the Canadian government. Up to 25% of the loan (\$10,000) will be forgiven if repaid in full by December 31, 2023. If the Group has not repaid the loan before December 31, 2023, the loan will be automatically renewed until December 31, 2025 at an interest rate of 5%, and the Group will not be able to benefit from the grant of \$10,000.

Since \$10,000 of the government assistance is forgivable if the Group repays \$30,000 by December 31, 2023, the amount was recognized in earnings at the time the government assistance was granted.

(iii) The Group has a \$1,554,800 (\$US 1,150,000) revolving line of credit agreement, to support its continuing working capital needs. This line of credit is secured by a security interest on part of the Group's current digital assets. Borrowings under the credit agreement bear interest at a fixed rate of 4.50%. As of September 30, 2023, the credit line was not used.

Finance expense	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Interest expense on long term loan	200 974	60 754	343 246	60 754
Interest expense on lease liabilities	73 592	50 191	220 054	130 982
Interest on credit line	-	8 955	-	17 844
Interest on note payable	-	588	130	1 003
	274 566	120 488	563 430	210 583

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13 EQUITY

Share Capital

Authorized

An unlimited number of common shares, voting, participating and without par value.

Issued

	Number of common shares	Amount \$
Balance, December 31, 2021	66 869 748	10 796 628
Issuance of shares from a private placement	3 912 481	3 286 484
Common shares deemed to be issued following the election to exercise warrants and stock options	1 803 236	18 032
Balance, December 31, 2022	72 585 465	14 101 144
Common shares deemed to be issued following the election to exercise warrants and stock options	4 000	560
Balance, September 30, 2023	72 589 465	14 101 704

Compensation Warrants

The warrant activity is as follows:

	Number of warrants	Weighted average exercise price \$
Balance, December 31, 2021	2 745 407	0,09
Exercised	(1 803 236)	(0,01)
Balance, December 31, 2022 and September 30, 2023	942 171	0,29

Warrants

The warrant activity is as follows:

	Number of warrants	Weighted average exercise price \$
Balance, December 31, 2022	1 234 901	0,75
Issued	520 000	0,25
Balance, September 30, 2023	1 754 901	0,60

Stock options

On June 28, 2019, the Group has adopted an incentive stock option plan which provides that the Board of Directors of the Group may grant to certain employees. The option price shall be determined by the Board of Directors and shall not be less than the fair market value of the share.

The Group maintains a stock option plan (the "Plan") whereby certain officers, directors and consultants may be granted stock options for common shares of the Group. Options are granted at the fair market value of the shares on the day granted, and vest over various terms. Stock-based compensation is recognized over the vesting period. The Board may from time to time, in its discretion, grant to officers, directors and consultants of the Group, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed ten percent (10%) of the issued and outstanding common shares exercisable for a period of up to five years from the date of grant. The plan also contains certain specifications when a trigger event occurs that would accelerate vesting.

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13 EQUITY (continued)

The following table reflects the continuity of stock options outstanding and exercisable for the periods presented below in accordance with the exchange ratio of 10.607 for the Transaction:

	Number of stock options	Weighted average exercise price \$
Balance, December 31, 2021	1 073 999	0,45
Granted	4 945 600	0,64
Expired	(312 747)	(0,44)
Granted	109 000	0,14
Balance, December 31, 2022	5 913 260	0,64
Granted	710 000	0,25
Granted	60 000	0,38
Expired	(125 000)	(0,64)
Exercised	(4 000)	(0,14)
Balance, September 30, 2023	6 554 260	0,62

During the periods ended September 30, 2023 and 2022, the Group recorded an expense of respectively \$733,852 and \$1,575,729. The compensation expense was based on the fair value of each stock option on the date of the grant using the Black-Scholes option pricing model.

14 NET LOSS PER SHARE

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	\$	\$	\$	\$
Net loss for the period	(775 935)	(1 313 426)	(175 329)	(6 405 441)
Net loss per share - basic	(0,01)	(0,02)	(0,002)	(0,09)
Net loss per share - diluted (i)	(0,01)	(0,02)	(0,002)	(0,09)
Weighted average number of shares outstanding - basic	72 586 132	69 804 109	72 586 132	69 804 109
Weighted average number of shares outstanding - diluted	72 586 132	69 804 109	72 586 132	69 804 109

(i) In calculating the diluted loss per share, dilutive potential ordinary shares such as stock options, compensation warrants and warrants have not been included as that would have the effect of decreasing the loss per share. Decreasing the loss per share would be anti-dilutive. Details of stock options, compensation warrants and warrants issued that could potentially dilute earnings per share in the future are given in Note 13.

15 GENERAL AND ADMINISTRATION

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 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	8 768	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
	1 090 858	1 001 997	2 615 869	3 134 885

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16 CAPITAL MANAGEMENT

The Group manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Group consists of equity comprised of issued share capital, reserves and borrowings. The Group manages its capital structure and makes adjustments to it in light of economic conditions. The Group, upon approval from its Board of directors, will balance its overall capital structure through new share issuances or by undertaking other activities as deemed appropriate under the specific circumstances. The Group is not subject to externally imposed capital requirements and the Group's overall strategy with respect to capital risk management remains unchanged from the period ended September 30, 2023 and year ended December 31, 2022.

17 FINANCIAL INSTRUMENTS

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

Fair value

The fair value of the Group's financial instruments, including cash, trades 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).

Credit Risk

Financial instruments that potentially subject the Group to a concentration of credit risk consist primarily of cash. The Group 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 Group'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 Group's cash account.

Liquidity Risk

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

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

As at September 30, 2023, the contractual maturities of financial liabilities, and other amounts payable including estimated interest payments are as follows:

	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years	5+ years
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1 507 272	1 507 272	1 507 272	-	-	-
Customer deposits	1 092 409	1 092 409	1 092 409	-	-	-
Long term loan	9 459 240	9 459 240	744 606	3 160 990	5 612 755	-
Long term loan - interest	1 361 078	1 361 078	220 197	689 222	451 659	-
Emergency loan for Canadian Businesses	30 000	30 000	30 000	-	-	-
	13 449 999	13 449 999	3 594 484	3 850 212	6 064 414	-

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, which represents the functional currency of the Group. The Group's functional currency is the Canadian dollar and most purchases are transacted in Canadian dollars. Management currently does not hedge its foreign exchange risk.

The table below indicates the foreign currencies to which the Group has significant exposure in Canadian dollar terms:

	September 30, 2023	September 30, 2022	December 31, 2022
	\$	\$	\$
Cash - \$US	254 861	514 913	33 363
Cash - \$CHF	30 983	-	-
Restricted Cash - \$CHF	1 714 991	-	-
Cash - \$EUR	11 265	-	-
Accounts payable and accrued liabilities - \$US	12 453	194 335	231 459
Borrowings - \$CHF	9 459 240	3 644 063	3 730 936

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17 FINANCIAL INSTRUMENTS (continued)

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 Group is directly related to the current and future market price of digital assets; in addition, the Group may not be able 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 Group's future operations. The Group 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 Group's digital assets currently solely consist of bitcoin and ether.

At September 30, 2023 had the market price of the Group's holdings of digital assets increased or decreased by 10% with all other variables held constant, the corresponding asset value increase or decrease respectively would amount to \$128,549 (\$90,060 at December 31, 2022).

18 SUBSEQUENT EVENTS

On December 14 2022, the Group received a Confirmation of Audit and request for registers and documents from Revenu Quebec regarding SATO's treatment of its commodity taxes. Following the audit, the Group received a draft notice of assessment on October 18th, 2023. According to Revenue Quebec which based its findings on the yet to be approved adjustment of article 188(2), which was introduced in Canada Revenue Agency's notice 324 on numerical services, crypto mining entities operating in Canada were not claiming their ITC/ITR correctly.

At this point in time, the Group believes that their claims are legitimate and that the provision that has been recorded on the books (Note 5) is reasonable.