



SATO Technologies Corp.

**Unaudited Condensed Interim Consolidated Financial Statements
For the three and nine month periods ended September 30, 2024 and 2023**

(expressed in Canadian dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed interim consolidated financial statements for the three and nine month periods ended September 30, 2024.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

SATO Technologies Corp.
Condensed Interim Consolidated Statements of Financial Position

As at September 30, 2024

(In Canadian dollars)

(Unaudited)

		September 30, 2024	December 31, 2023
		\$	\$
Assets			
Current assets			
Cash		523,903	583,151
Restricted cash	(Note 11)	246,531	431,607
Trades and other receivables	(Note 4)	4,339,810	2,876,331
Digital assets	(Note 5)	2,062,451	1,964,570
Insurance prepaid expenses		211,438	109,238
		7,384,133	5,964,897
Non-current assets			
Restricted cash	(Note 11)	201,686	1,182,143
Restricted digital assets	(Note 5)	894,292	280,160
Deposits	(Note 6)	432,486	432,486
Property, plant and equipment	(Note 7, 17)	9,879,217	11,367,676
Intangible assets	(Note 8)	117,189	219,326
Right-of-use assets		2,069,288	2,237,069
		20,978,291	21,683,757
Total assets			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	(Note 9)	857,189	1,110,175
Deferred revenue and customer deposits	(Note 10)	2,316,677	2,316,677
Current portion of borrowings	(Note 11)	3,692,076	3,402,730
Current portion of lease liability		289,587	307,711
		7,155,529	7,137,293
Non-current liabilities			
Borrowings	(Note 11)	3,020,470	5,721,983
Line of credit	(Note 11)	526,130	-
Lease liability		2,145,982	2,204,070
		12,848,111	15,063,346
Total liabilities			
Shareholders' equity			
Share capital	(Note 12)	14,643,659	14,430,320
Contributed surplus		3,692,969	3,665,926
Accumulated deficit		(10,206,448)	(11,475,835)
		8,130,180	6,620,411
Total shareholders' equity			
Total liabilities and shareholders' equity			
		20,978,291	21,683,757

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 Loss and Comprehensive Loss
For the nine months ended September 30, 2024 and 2023
(In Canadian dollars)
(Unaudited)

		Three months ended September 30,		Nine months ended September 30,	
		2024 \$	2023 \$	2024 \$	2023 \$
Revenue					
Digital assets earned	(Note 5)	2,607,717	3,466,580	12,764,579	5,482,868
Hosting		-	591,954	-	6,663,085
Other		5,280	11,726	38,331	45,505
		2,612,997	4,070,260	12,802,910	12,191,458
Cost of operations					
Site operating costs		2,381,151	2,503,683	7,432,731	7,222,112
Salary and benefits		26,910	38,552	85,638	130,179
Depreciation and amortization	(Note 7 and 8)	749,323	772,067	2,201,568	1,726,747
		3,157,384	3,314,302	9,719,937	9,079,038
Gross profit (loss)					
(Loss) gain on use of digital assets	(Note 5)	(111,284)	(128,320)	231,635	222,836
Unrealized (loss) gain on revaluation of digital assets	(Note 5)	97,282	(13,597)	1,194,769	348,247
		(558,389)	614,041	4,509,377	3,683,503
Expenses					
Share based compensation	(Note 12)	48,417	199,918	156,250	733,852
General and administration	(Note 14)	485,739	1,090,858	2,179,335	2,615,869
		534,156	1,290,776	2,335,585	3,349,721
Operating income					
		(1,092,545)	(676,735)	2,173,792	333,782
Other charges (income)					
Foreign exchange loss (gain)		56,824	(155,782)	27,752	(105,233)
Gain on disposal of property, plant and equipment		-	(39,940)	-	(39,940)
Impairment of property, plant and equipment	(Note 7, 17)	16,101	-	16,101	-
Unrealized foreign exchange loss		304,489	20,356	72,650	90,854
Finance expense	(Note 11)	247,097	274,566	787,902	563,430
		624,511	99,200	904,405	509,111
(Loss) Income before income taxes					
		(1,717,056)	(775,935)	1,269,387	(175,329)
Deferred income taxes		-	-	-	-
Net (loss) Income					
		(1,717,056)	(775,935)	1,269,387	(175,329)
Other comprehensive (loss) income					
Items that will not be reclassified to net income					
Revaluation of digital asset, net of tax	(Note 5)	-	-	-	-
Total comprehensive (loss) income					
		(1,717,056)	(775,935)	1,269,387	(175,329)
Basic net income (loss) per share					
	(Note 13)	(0.02)	(0.01)	0.02	(0.002)
Diluted net income (loss) per share					
	(Note 13)	(0.02)	(0.01)	0.02	(0.002)

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

SATO Technologies Corp.
Condensed Interim Consolidated Statements of Cash Flows
For the nine months ended September 30, 2024 and 2023
(In Canadian dollars)
(Unaudited)

	2024	2023
	\$	\$
Operating activities		
Net profit (loss)	1,269,387	(175,329)
Change in non-cash operating items:		
Digital assets earned	(12,764,579)	(5,482,868)
Digital assets used to pay for services	11,801	58,296
Digital assets given as donation	10,000	20,000
Digital assets purchased	-	(1,440)
Gain on use of digital assets	(231,635)	(222,836)
Impairment of property, plant and equipment	16,101	-
Unrealized gain on revaluation of digital assets	(1,194,769)	(348,247)
Gain on disposal of property, plant and equipment	-	(39,940)
Depreciation and amortization	2,201,568	1,726,747
Share-based compensation	156,250	733,852
Foreign exchange loss	72,650	(105,233)
Unrealized foreign exchange loss (gain)	-	90,854
Interest on lease liabilities	213,216	220,054
	(10,240,010)	(3,526,090)
Change in working capital		
Trades and other receivables	(1,128,745)	(832,539)
Deposits and prepaid expenses	(102,200)	116,179
Digital assets	13,457,169	5,682,206
Accounts payable and accrued liabilities	(252,986)	(385,198)
Deferred revenue and customer deposits	-	(214,658)
Total change in operating working capital	11,973,238	4,365,990
Net cash provided by operating activities	1,733,228	839,900
Investing activities		
Change in restricted cash	1,032,794	(1,714,991)
Disposal of property, plant and equipment	-	90,000
Purchase of property, plant and equipment	(794,027)	(4,522,220)
Development of intangible assets	-	(46,863)
Net cash provided by (used in) investing activities	238,767	(6,194,074)
Financing activities		
Repayment of long term loan	(2,446,657)	(1,527,823)
Issuance of long term loan, net of financing costs	-	10,299,205
Extinguishment of long term loan, net of financing costs	-	(3,151,252)
Exercise of stock options	80,950	-
Exercise of compensation warrants	3,182	-
Issuance of shares and warrants	-	182,578
Line of credit	526,130	-
Repayment of lease liabilities	(289,428)	(279,533)
Net cash used by financing activities	(2,125,823)	5,523,175
Change in cash	(153,828)	169,001
Cash, beginning of period	583,151	359,387
Effect of exchange rate changes on cash	94,580	105,233
Cash, end of period	523,903	633,621
Interest paid	574,686	\$343,376

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

SATO Technologies Corp.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the nine months ended September 30, 2024 and 2023

(In Canadian dollars)

(Unaudited)

	Common shares	Share capital	Contributed surplus	Digital asset revaluation reserve	Accumulated deficit	Total
		\$	\$	\$	\$	\$
Balance as at December 31, 2023	72,589,465	14,430,320	3,665,926	-	(11,475,835)	6,620,411
Net income for the period	-	-	-	-	1,269,387	1,269,387
Common shares deemed to be issued following the election to exercise compensation warrants (Note 12)	318,218	61,351	(58,169)	-	-	3,182
Common shares upon the exercise of stock options (Note 12)	370,000	151,988	(71,038)	-	-	80,950
Stock-based compensation expense (Note 12)	-	-	156,250	-	-	156,250
Balance as at September 30, 2024	73,277,683	14,643,659	3,692,969	-	(10,206,448)	8,130,180
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 12)	4,000	1,082	(522)	-	-	560
Stock-based compensation expense	-	-	733,852	-	-	733,852
Issuance of warrants (Note 12)	-	-	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

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 nine months ended September 30, 2024 and 2023
(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 Company 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 Company'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. The Group receives digital assets in return for computing power 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 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 property, plant and equipment resulting in impairment charges being recorded. All the assets of the Group's are located in Joliette, Quebec, Canada and there is one operating segment being provider of compute power for Bitcoin Mining.

Going Concern

As at September 30, 2024, the Group had an accumulated deficit of \$10,206,448, \$11,475,835 as at December 31, 2023 and \$12,427,660 as at September 30, 2023. Net income for the nine months ended September 30, 2024 was \$1,269,387, net loss for the nine month period ended September 30, 2023, was \$175,329. The Group had working capital of \$228,604 as at September 30, 2024, and \$1,172,396 as at December 31, 2023. These conditions raise material uncertainties which may cast significant doubt as to whether the Group will be able to continue as a going concern.

The cryptocurrency mining industry is subject to halving events, which are pre-determined and scheduled occurrences that reduce the reward for mining transactions by half. A halving event occurred on April 19, 2024. This event will have an impact on the Group's revenues. These conditions indicate the existence of material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

In assessing the Group's ability to continue as a going concern, management has made significant judgments and estimates. These include projections of digital assets prices, the impact of the halving event on the Group's revenues, the exchange rate and the effectiveness of the mitigation actions mentioned below. These judgments are subject to a high degree of inherent uncertainty, given the volatile nature of the cryptocurrency market and regulatory environment.

These condensed interim 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 depends on its ability to generate sufficient cash recourses to meet its obligations for at least twelve months from the end of the reporting period.

Management has implemented in the past a series of measures to address this concern and will continue to do so if required in order to improve the Group's financial position, including:

- Cost review initiatives: the Group has undertaken a comprehensive review of its cost structure and would implement possible measures to reduce its cost of operations and general and administration expenses.

SATO Technologies Corp.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023
(In Canadian dollars)
(Unaudited)

1. INCORPORATION, BUSINESS ACTIVITIES AND GOING CONCERN (continued)

- Equity financing: Management regularly monitors capital markets and considers opportunities presented to it for equity offerings, and believes, based on these offers and recent activity among other companies in the industry, that there are reasonable prospects for obtaining equity financing.

As a result, these condensed interim consolidated financial statements do not include adjustments to the amounts and classification of assets and liabilities that might be necessary should the Group be unable to continue a going concern. Such adjustments could be material.

2. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

Statement of compliance

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with IAS 34 Interim financial reporting. These financial statements of the Group were reviewed, approved and authorized for issue by the Board of Directors on November 21, 2024.

Basis of presentation

These condensed interim 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 condensed interim 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 subsidiaries are prepared for the same reporting year as the Group, using consistent accounting policies. All intercompany transactions and balances are eliminated upon consolidation.

3. SELECTED MATERIAL ACCOUNTING POLICIES

Revenue recognition

The Group records revenue from contracts with customers in accordance with IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). The core principle of this standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

- Step 1 - Identifying the contract with and its customer;
- Step 2 - Identifying the performance obligations in the contract;
- Step 3 - Determining the transaction price, which is the total consideration provided by the customer;
- Step 4 - Allocating the transaction price among the performance obligations in the contract based on their relative fair values; and
- Step 5 - Recognizing revenue when (or as) the Company satisfies a performance obligation.

SATO Technologies Corp.
Notes to Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2024 and 2023
(In Canadian dollars)
(Unaudited)

3. SELECTED MATERIAL ACCOUNTING POLICIES (continued)

In order to identify the performance obligations in a contract with a customer, a company must assess the promised goods or services in the contract and identify each promised good or service that is distinct. A performance obligation meets IFRS 15 definition of a “distinct” good or service (or bundle of goods or services) if both of the following criteria are met: The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e., the good or service is capable of being distinct), and the entity’s promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e., the promise to transfer the good or service is distinct within the context of the contract).

If a good or service is not distinct, the good or service is combined with other promised goods or services until a bundle of goods or services is identified that is distinct.

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

- Variable consideration
- Constraining estimates of variable consideration
- The existence of a significant financing component in the contract
- Non-cash consideration
- Consideration payable to a customer

Variable consideration is included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The transaction price is allocated to each performance obligation on a relative standalone selling price basis. The transaction price allocated to each performance obligation is recognized when that performance obligation is satisfied, at a point in time or over time as appropriate.

Digital assets earned

The Group has entered into arrangements, as amended from time to time, with mining pools operators and has undertaken the performance obligation of performing hash computations (i.e., hashrate) to the mining pools in exchange for non-cash consideration in the form of digital asset. The provision of computing power to mining pools is an output of the Group’s ordinary activities. The Group has the right to decide the point in time and duration for which it will provide hash computation services to the mining pools. As a result, the Company’s enforceable right to compensation only begins when, and continues as long as, the Company provides computing power to the mining pool operator. The contracts are terminable at any time by either party without substantive compensation to the other party for such termination. Upon termination, the mining pool operator (i.e., the customer) is required to pay the Group any amount due related to previously satisfied performance obligations. Therefore, the Group has determined that the duration of the contract is less than 24 hours and that the contract continuously renews throughout the day. The Company has determined that this renewal right is not a material right as the terms, conditions, and compensation amounts are at then market rates. There is no significant financing component in these transactions.

In exchange for providing computing power, which represents the Group’s only performance obligation, the Group is entitled to non-cash consideration in the form of digital assets, calculated under a payout methods, depending on the mining pool. The payout method used by the mining pools in which the Group participated are the Full Pay Per Share (“FPPS”). This payout methods contain three components, (1) a fractional share of the fixed cryptocurrency award from the mining pool operator (referred to as a “block reward”), (2) transaction fees generated from (paid by) blockchain users to execute transactions and distributed (paid out) to individual miners by the mining pool operator, and (3) mining pool operating fees retained by the mining pool operator for operating the mining pool. The Company’s total compensation is the sum of the Company’s share of (1) block rewards and transaction fees, less (3) mining pool operating fees:

SATO Technologies Corp.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

(In Canadian dollars)

(Unaudited)

3. SELECTED MATERIAL ACCOUNTING POLICIES (continued)

- (1) Block rewards earned by the Group is are calculated by the mining pool operator based on the proportion of hashrate the Group contributed to the mining pool to the total network hashrate used in solving the current algorithm. The Group is entitled to its relative share of consideration even if a block is not successfully added to the blockchain by the mining pool.
- (2) Transaction fees refer to the total fees paid by users of the network to execute transactions. Under FPPS, the Company is entitled to a pro-rata share of the total network transaction fees. The transaction fees paid out by the mining pool operator to the Group is based on the proportion of hashrate the Group contributed to the mining pool to the total network hashrate. The Group is entitled to its relative share of consideration even if a block is not successfully added to the blockchain by the mining pool.
- (3) Mining pool operating fees are charged by the mining pool operator for operating the mining pool as set forth in a rate schedule to the mining pool contract. The mining pool operating fees reduce the total amount of compensation the Group receives and are only incurred to the extent that the Group has generated mining revenue pursuant to the mining pool operators' payout calculation.

Because the consideration to which the Group expects to be entitled for providing computing power is entirely variable (block rewards, transaction fees and pool operating fees), as well as being non-cash consideration, the Group assesses the estimated amount of the variable non-cash consideration to which it expects to be entitled for providing computing power at contract inception and subsequently, to determine when and to what extent it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty associated with the variable consideration is subsequently resolved. For each contract under the FPPS payout method, the Company recognizes the non-cash consideration on the same day that control of the contracted service transfers to the mining pool operator, which is the same day as the contract inception. The Group measures non-cash consideration at the cryptocurrency closing price of the day on the date of contract inception, as determined by the Company's principal market, which is Coinbase Prime.

Management considers the prices quoted on Coinbase Prime to be a Level 1 input under IFRS 13, Fair Value Measurement ("IFRS 13"). Any difference between the fair value of digital assets recorded upon receipt from selling hashrate activities and the actual realized price upon disposal are recorded as a gain or loss on disposition of digital assets.

Hosting

The Group provided hosting services. The Group's hosting contracts were service contracts that contain a single performance obligation. The service the Group provided included the provision of mining equipment, energized space typically includes monitoring and various maintenance levels for the mining equipment.

Hosting revenue was recognized over time as the customer simultaneously receives and consumes the benefits of the Group's performance. The Group recognized hosting revenue to the extent that a significant reversal of such revenue will not occur. All consideration to which the Group is entitled under its hosting services agreements is in the form of cash. Customer contracts can include advance payment terms in the form of monthly prepayments and/or upfront payments at contract inception. Advance payments were recorded as deferred revenue and recognized over time (generally, the month of hosting service to which they relate) as the customer simultaneously receives and consumes the benefits of the Group's performance.

The Group's hosting contracts contained service level agreement clauses, which guarantee a certain percentage of time the power will be available to its customer. In the rare case that the Group may incur penalties under these clauses, the Company recognizes the payment as variable consideration and a reduction of the transaction price and, therefore, of revenue, when not in exchange for a good or service from the customer.

SATO Technologies Corp.
Notes to Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2024 and 2023
(In Canadian dollars)
(Unaudited)

3. SELECTED MATERIAL ACCOUNTING POLICIES (continued)

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 Coinbase Prime. Coinbase Prime 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 1 input under IFRS 13, 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. TRADES AND RECEIVABLES

	September 30, 2024	December 31, 2023
	\$	\$
Sales taxes receivable (i)	3,668,205	2,539,461
Import taxes receivable (Note 10) (ii)	1,171,519	1,171,519
Provision for taxes receivables (i)	(834,649)	(834,649)
Insurance proceeds receivable (iii)	334,735	-
Total trades and other receivable	4,339,810	2,876,331

- (i) During the period ended September 30, 2024, and the year ended December 31, 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 in the amount of \$834,649 was recorded at December 31, 2023, with no additional provision for the nine months ended September 30, 2024.

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 18, 2023. According to Revenue Quebec which based its findings on the newly 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 input tax credits ("ITCs") and input tax refunds ("ITRs") correctly.

SATO Technologies Corp.
Notes to Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2024 and 2023
(In Canadian dollars)
(Unaudited)

4. TRADES AND RECEIVABLES (continued)

At this point in time, the Group believes that their claims net of the provision are legitimate and that the provision that has been recorded is reasonable.

(ii) During the year ended December 31, 2022, 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.

(iii) During the reporting period, various equipment was damaged by a fire in the Company's Centre One facility (Notes 7 & 17). The Company, in conjunction with its insurance provider, assessed the extent of the cost and the potential for recovery. As at September 30, 2024, the Company had recorded a receivable for \$334,735 of insurance proceeds for the damaged equipment, which was received subsequent to the period end.

5. DIGITAL ASSETS

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

For the nine months ended September 30, 2024

	\$	Number of Bitcoin	\$	Number of Other Digital assets	Total \$
Balance, beginning of year	2,241,280	40	3,450	1	2,244,730
Digital assets earned	12,764,579	161	-	-	12,764,579
Digital assets traded for cash	(13,457,169)	(167)	-	-	(13,457,169)
Digital assets used to pay for services	(11,633)	-	(168)	-	(11,801)
Digital assets given as a donation	(10,000)	-	-	-	(10,000)
Gain on use of digital assets	231,635	-	-	-	231,635
Unrealized gain on revaluation of digital assets	1,192,474	-	2,295	-	1,194,769
Balance, end of period	2,951,666	34	5,577	1	2,956,743

For the nine months ended September 30, 2023

	\$	Number of Bitcoin	\$	Number of Other Digital assets	Total \$
Balance, beginning of year	986,876	44	3,726	2	990,602
Digital assets earned	5,482,868	152	-	-	5,482,868
Digital assets purchased	-	-	1,440	-	1,440
Digital assets traded for cash	(5,681,415)	(159)	(791)	(1)	(5,682,206)
Digital assets used to pay 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
Unrealized gain on revaluation of digital assets	349,848	-	(1,601)	-	348,247
Balance, end of period	1,282,890	35	2,601	1	1,285,491

SATO Technologies Corp.
Notes to Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2024 and 2023
(In Canadian dollars)
(Unaudited)

5. DIGITAL ASSETS (continued)

For the year ended December 31, 2023

	\$	Number of Bitcoin	\$	Number of Other Digital assets	Total \$
Balance, beginning of year	986,876	44	3,726	2	990,602
Digital assets earned	10,843,066	260	-	-	10,843,066
Digital assets purchased	-	-	1,440	-	1,440
Digital assets traded for cash	(10,493,236)	(257)	(791)	(1)	(10,494,027)
Digital assets used to pay for services	(373,543)	(7)	(253)	-	(373,796)
Digital assets given as a donation	(20,000)	-	-	-	(20,000)
Gain on use of digital assets	778,903	-	(466)	-	778,437
Unrealized gain on revaluation of digital assets	519,214	-	(206)	-	519,008
Balance, end of year	2,241,280	40	3,450	1	2,244,730

Digital assets held are reevaluated 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, 2024, the price of Bitcoin was \$87,310 (\$US 64,544) (December 31, 2023 - \$56,741 (\$US 42,771)) and the price of Ethereum was \$3,556 (\$US 2,629) (December 31, 2023 - \$3,450 (\$US 2,300)), resulting in an unrealized revaluation gain for the period ended September 30, 2024 of \$1,194,769 net of taxes of \$nil for which \$1,194,769 goes through the profit and loss statement and \$nil through the other comprehensive income (\$519,008 gain net of taxes of nil for the year ended December 31, 2023). As at September 30, 2023, the price of Bitcoin was \$36,653 (\$US 27,110) and the price of Ethereum was \$2,260 (\$US 1,671), resulting in a revaluation gain of \$348,247 net of taxes of \$nil. 10 (5 as of December 31, 2023) Bitcoins are used as collateral on the long-term loan (Note 11).

The Bitcoin Halving took place on April 19, 2024. Following each Halving, the block reward for miners was reduced from 6.25 BTC to 3.125 BTC.

6. DEPOSITS

	September 30, 2024	December 31, 2023
	\$	\$
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 current electricity usage.

SATO Technologies Corp.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

(In Canadian dollars)

(Unaudited)

7. PROPERTY, PLANT AND EQUIPMENT

	Miners	Computer Equipment	Industrial Equipment	Leasehold improvement	Small equipment	In construction - Industrial Equipment	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
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
Write-off	(666,502)	-	-	-	-	-	666,502
Balance - December 31, 2023	8,749,011	252,109	6,351,223	715,014	43,694	433,470	16,544,521
Additions	641,751	-	152,276	-	-	-	794,027
Impairment (i)	(1,509,014)	-	(378,455)	-	-	-	(1,887,469)
Balance - September 30, 2024	7,881,748	252,109	6,125,044	715,014	43,694	433,470	15,451,079
<u>Accumulated depreciation</u>							
Balance - December 31, 2022	2,695,949	232,760	570,501	99,097	20,182	-	3,618,489
Depreciation	1,504,031	10,642	633,982	71,501	4,702	-	2,224,858
Write-off	(666,502)	-	-	-	-	-	(666,502)
Balance - December 31, 2023	3,533,478	243,402	1,204,483	170,598	24,884	-	5,176,845
Depreciation	1,392,414	3,592	479,197	53,626	2,821	-	1,931,650
Impairment (i)	(1,238,150)	-	(298,483)	-	-	-	(1,536,633)
Balance - September 30, 2024	3,687,742	246,994	1,385,197	224,224	27,705	-	5,571,862
<u>Net carrying value</u>	\$	\$	\$	\$	\$	\$	\$
As at December 31, 2023	5,215,533	8,707	5,146,740	544,416	18,810	433,470	11,367,676
As at September 30, 2024	4,194,006	5,115	4,739,847	490,790	15,989	433,470	9,879,217

- (i) During the reporting period, various equipment was damaged by a fire in the Company's Centre One facility (Note 17). The Company, in conjunction with its insurance provider, assessed the extent of the cost and the potential for recovery, and determined that equipment with a net book value of \$350,836 was impaired. Subsequent to September 30, 2024, the Company received insurance proceeds for the damaged equipment of \$334,735 (Note 4). As at September 30, 2024, the Company had recorded an impairment of \$16,101 for the damaged equipment.

SATO Technologies Corp.
Notes to Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2024 and 2023
(In Canadian dollars)
(Unaudited)

8. INTANGIBLE ASSETS

	Total
	\$
Cost	
Balance - December 31, 2022	319,115
Additions - internally developed	46,863
Balance - December 31, 2023 and September 30, 2024	365,978
Accumulated depreciation	
Balance - December 31, 2022	55,097
Amortization	91,555
Balance - December 31, 2023	146,652
Amortization	102,137
Balance - September 30, 2024	248,789
Net carrying value	\$
As at December 31, 2023	219,326
As at September 30, 2024	117,189

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2024	December 31, 2023
	\$	\$
Accounts payable	162,538	105,214
Accrued liabilities (i)	-	488,269
Amounts owed to related parties (i)	661,369	458,294
Salaries and vacation payable	33,282	58,398
Total	857,189	1,110,175

(i) As of September 30, 2024, a balance of \$661,369 (\$456,545 as at December 31, 2023) remains to be paid to management and board members.

10. DEFERRED REVENUE AND CUSTOMER DEPOSITS

	September 30, 2024	December 31, 2023
	\$	\$
Customer deposits	1,145,158	1,145,158
Customer advance - import taxes (Note 4 (ii))	1,171,519	1,171,519
Total	2,316,677	2,316,677

11. BORROWINGS

	September 30, 2024	December 31, 2023
	\$	\$
Long term loan, 9.5% payable in monthly instalments of CHF\$217,504 (\$342,743) maturing in July 2026 (i)	6,712,546	9,094,713
Emergency Loan for Canadian Businesses	-	30,000
Credit line (ii)	526,130	-
Total long term debt	7,238,676	9,124,713
Current portion of long term debt	3,692,076	3,402,730
Long term portion of long term debt	3,546,600	5,721,983

SATO Technologies Corp.
Notes to Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2024 and 2023
(In Canadian dollars)
(Unaudited)

11. BORROWINGS (continued)

- (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\$6,639,781 (CAD\$10,103,755) net of financing costs of \$195,449. The capital is repayable over a 3-year term and bears interest at 9.5%. As of September 30, 2024, the net book value of miners collateralized under the loan is \$4,194,006.

The Group also has a restricted cash position of \$464,939 and 10 BTC, representing 20% of the outstanding principal, as collateral on the long term loan. As of September 30, 2024, the current portion of the restricted cash position is \$246,531 (\$431,607 as of December 31, 2023).

- (ii) The Group has a \$1,558,250 (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. As at September 30, 2024, the Company has an outstanding balance of \$526,130.

	Three months ended		Nine months ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Finance expense	\$	\$	\$	\$
Interest expense on long term loan	176,240	200,974	574,686	343,246
Interest on lease liability	70,857	73,592	213,216	220,054
Interest on note payable	-	-	-	130
	247,097	274,566	787,902	563,430

12. EQUITY

Share Capital

Authorized

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

Effective September 7, 2021, the Group consolidated its issued and outstanding common shares on the basis of one post-consolidation share for 2.7 pre-consolidation shares. Unless otherwise stated, all share and per share amounts have been restated retrospectively to reflect this share consolidation.

Issued

	Number of common shares	Amount \$
Balance, December 31, 2022	72,585,465	14,429,238
Common shares deemed to be issued following the election to exercise of stock options	4,000	1,082
Balance, December 31, 2023	72,589,465	14,430,320
Common shares deemed to be issued following the election to exercise of compensation warrants (i)	318,218	61,351
Common shares issued upon the exercise of stock options (ii)	370,000	151,988
Balance, September 30, 2024	73,277,683	14,643,659

SATO Technologies Corp.
Notes to Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2024 and 2023
(In Canadian dollars)
(Unaudited)

12. EQUITY (continued)

- (i) 318,218 common shares were issued on the exercise of 318,218 warrants for cash proceeds of \$3,182. The warrants had a recorded value of \$58,169, which was re-allocated to share capital on the exercise.
- (ii) 370,000 common shares were issued on the exercise of 370,000 stock options for cash proceeds of \$80,950. The options had a recorded value of \$71,038, which was re-allocated to share capital on the exercise.

Compensation Warrants

The warrant activity is as follows:

	Number of compensation warrants	Weighted average exercise price \$
Balance, December 31, 2022 and 2023	942,170	0.26
Exercised	(318,218)	(0.01)
Balance, September 30, 2024	623,952	0.25

Warrants

The warrant activity is as follows:

	Number of warrants	Weighted average exercise price \$
Balance, December 31, 2023 and September 30, 2024	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.

	Number of stock options	Weighted average exercise price \$
Balance, December 31, 2022	5,815,851	0.61
Granted	710,000	0.25
Granted	60,000	0.38
Expired	(147,727)	(0.64)
Exercised	(4,000)	(0.14)
Balance, December 31, 2023	6,434,124	0.56
Granted	30,000	0.46
Expired	(3,248,940)	(0.64)
Exercised	(370,000)	(0.22)
Balance, September 30, 2024	3,845,184	0.59

SATO Technologies Corp.
Notes to Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2024 and 2023
(In Canadian dollars)
(Unaudited)

12. EQUITY (continued)

On April 25, 2024, the Group granted options to acquire 30,000 common shares until March 31, 2029, at a price of \$0.46 to a director. As at September 30, 2024, each option is vested and exercisable.

The fair value of the option was \$11,000 (the fair value per option \$0.37). The fair value was calculated using Black & Scholes option pricing model and the following weighted average assumptions:

Share price at the date of the grant	\$0.385
Expected life	4.93 years
Risk-free interest rate	3.89%
Expected volatility (1)	178.37%
Dividend	-
Exercise price at the date of grant	\$0.46

During the periods ended September 30, 2024 and 2023, the Group recorded a share based compensation expense of respectively \$156,250 and \$733,852.

13. (LOSS) INCOME PER SHARE

	Three months ended		Nine months ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Net (loss) income for the period	(1,717,056)	(775,935)	1,269,387	(175,329)
Net (loss) income per share - basic	(0.02)	(0.01)	0.02	(0.002)
Net (loss) income per share - diluted	(0.02)	(0.01)	0.02	(0.002)
Weighted average number of shares outstanding - basic	73,750,633	72,586,132	72,979,347	72,586,132
Weighted average number of shares outstanding - diluted	73,750,633	72,586,132	73,551,145	72,586,132

14. GENERAL AND ADMINISTRATION

	Three months ended		Nine months ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
		\$		\$
Salaries, benefits and remuneration	209,032	417,034	1,022,954	1,276,616
Advertising, promotion, and investor relations	55,928	43,746	356,949	81,241
Directors' and officers' insurance	42,987	64,135	128,962	187,374
Professional fees	34,201	246,607	269,669	313,388
Legal fees	39,411	41,123	106,020	102,573
Software subscriptions	36,625	9,578	36,625	33,012
Regulatory cost	26,993	-	102,455	-
Custodian fees	12,387	7,163	31,774	21,262
Provision for sales taxes receivable	-	39,281	-	224,003
Other	28,175	222,191	123,927	376,400
	485,739	1,090,858	2,179,335	2,615,869

SATO Technologies Corp.
Notes to Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2024 and 2023
(In Canadian dollars)
(Unaudited)

15. 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, 2024 and year ended December 31, 2023.

16. 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, restricted cash, other receivables, accounts payable and accrued liabilities, approximates their carrying value due to their short-term nature. The fair value of borrowings approximates their carrying amounts based on actualized cash flows (Level 2).

Digital assets are measured at fair value using the quoted price on Coinbase Prime (Level 1).

Credit Risk

Financial instruments that potentially subject the Group to a concentration of credit risk consist primarily of cash and restricted 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, 2024, 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	857,189	857,189	857,189	-	-	-
Customer deposits	1,145,158	1,145,158	1,145,158	-	-	-
Credit line	526,130	526,130	-	526,130	-	-
Long term loan	6,712,546	6,712,546	3,692,076	3,020,470	-	-
Long term loan - interest	607,202	607,202	484,838	122,364	-	-
	9,848,225	9,848,225	6,179,261	3,668,964	-	-

SATO Technologies Corp.
Notes to Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2024 and 2023
(In Canadian dollars)
(Unaudited)

16. FINANCIAL INSTRUMENTS (continued)

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, 2024	September 30, 2023	December 31, 2023
		\$	\$
Cash - \$US	88,030	254,861	234,748
Cash - \$CHF	(3,867)	30,983	-
Restricted cash - \$CHF	448,217	1,714,991	1,613,750
Cash - \$EUR	-	11,265	-
Accounts payable and accrued liabilities - \$US	8,309	12,453	361
Long term loan - \$CHF	6,712,546	9,459,240	9,094,713
Line of credit - \$US	526,130	-	-

Digital assets and risk management

Digital assets are measured using Level 1 Fair values, determined by taking the rate from Coinbase Prime.

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, 2024, if 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 \$295,674 (\$224,473 at December 31, 2023).

17. CONTINGENCY

During the reporting period, some equipment was damaged by a fire in the Company's Centre One facility. The damage affected approximately 40 petahashes out of the 560 petahashes operating in Center One. The Company, in conjunction with its insurance provider, assessed the extent of the cost and the potential for recovery and determined that equipment with a net book value of \$350,836 was impaired. Subsequent to September 30, 2024, the Company received insurance proceeds for the damaged equipment of \$334,735. As at September 30, 2024, the Company had recorded an impairment of \$16,101 for the damaged equipment.