



## Management's Discussion and Analysis

For the three and nine months ended September 30, 2024 and September 30, 2023

Dated November 21, 2024



## Management Discussion and Analysis

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### Introduction

The following analysis concerns the financial situation, operating results and cash flows of SATO Technologies Corp. (together with its subsidiaries, “SATO” or the “Company”) for the three and nine months ended September 30, 2024, and 2023. The discussion should be read in conjunction with the Company’s unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2024, the audited consolidated financial statements for the years ended December 31, 2023, and 2022, the annual MD&A for the year ended December 31, 2023, and the most recent annual information form (“AIF”), of SATO Technologies Corp. The Company’s financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). All monetary amounts are reported in Canadian dollars unless otherwise noted. These documents, as well as additional information on the Company, are filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR+) and are available online at [www.sedarplus.ca](http://www.sedarplus.ca).

### Forward-Looking Statements

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

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

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

## Glossary

<p>“\$” means Canadian dollars, unless indicated otherwise; Canadian dollars are also indicated as “C\$” or “CAD”.</p>
<p>“ASIC” means an application-specific integrated circuit customized for Mining.</p>
<p>“<b>Bitcoin</b>” is the name of a protocol that allows people to transfer value in a decentralized way, without the need for intermediaries and without the need to trust any counterparty. “Bitcoin” also refers to the name of a distributed ledger called “Blockchain” that stores any valid transaction in the network. Finally, “Bitcoin” is the name of the native currency of the protocol, “<b>₿</b>” is its symbol and “BTC” its currency code.</p>
<p>“<b>Blockchain</b>” is a growing list of records, called Blocks, that are linked together using cryptography.</p>
<p>“<b>Block Reward</b>” means the award of a cryptocurrency to a miner that successfully adds a Block to the Blockchain. Following the Halving that occurred on April 19th, 2024, the current Block Reward is 3.125 BTC per block.</p>
<p>“<b>Difficulty</b>” is a measure of how difficult it is to mine a Block in terms of computing power and energy spent: to be able to add Blocks to the Blockchain, Miners have to solve a problem and the difficulty of this problem is adjusted approximately every two weeks by the protocol to compensate the entry or exit of Miners and the improvement of mining computers.</p>
<p>“<b>Ether</b>”, “<b>ETH</b>” or “<b>Ethereum</b>” are used interchangeably and refer to the native token of the Ethereum Network, a global, open-source platform for decentralized applications.</p>
<p>“<b>Halving</b>” is the name given to a predetermined event whereby the Block Reward for Bitcoin mining is cut in half, which takes place every four years. The halving policy was written into Bitcoin's mining algorithm to counteract inflation by maintaining scarcity.</p>
<p>“<b>Hashrate</b>” means the number of Hash operations per unit of time, commonly expressed in petahash per second (PHs) or exahash per second (EHs), and Hash means a fixed length number which is the output used to build mathematical lockers to lock Bitcoins and to design the problems that Miners need to solve to be able to add a Block to the Blockchain.</p>
<p>“<b>Hosting</b>” means the commercial activity whereby a host company (such as a Data Centre) rents space, for a fee that is often based on a price per kWh, to host ASIC or Cryptocurrency Miners to other companies.</p>
<p>“<b>Hydro-Québec</b>” is a public utility that manages the generation, transmission and distribution of electricity in the Province of Québec, Canada, as well as the export of power to portions of the Northeast United States.</p>
<p>“<b>Hydro-Joliette</b>” is the municipal electricity company of the City of Joliette, which manages power from Hydro-Québec and redistributes it to its customers in Joliette, Québec.</p>
<p>“<b>Mining</b>” refers to the provision of computing capacity (or hashing power) to secure a distributed ledger by creating and broadcasting consensus-valid blocks in the network. In return for each generated block, miners receive rewards and fees denominated in the native token of the network (such as Bitcoin). The collective effort of miners validates transactions within the network.</p>

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

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

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

“**Network Hashrate**” is the total of all hashrate devoted to Bitcoin mining by all Mining Pools and independent Miners.

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

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

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



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### Company Overview

SATO Technologies Corp. is a public company focused on providing efficient compute power. SATO currently operates one data center tailored for Digital Asset Mining (Bitcoin) but may look to expand or add additional centers.

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

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

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

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

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

SATO owns and operates Bitcoin mining equipment that runs 24 hours a day and 365 days per year, unless required by Hydro-Québec or Hydro-Joliette to reduce operations in response to extreme demands on the electrical grid or maintenance. This mining equipment produces computing power, referred to as hashrate, which the Company sells to Mining Pool operators.

Mining Pool operators aggregate the hashrate and devote it to mining Bitcoin, which they receive as a Block Reward. Mining is a competitive process where only the successful processor of each transaction earns the Block Reward. Mining Pool operators purchase hashrate and accept the risk of the randomness of Block Rewards with the aim to mine more Blocks than they statistically should in a given time period based on the hashrate they have acquired as a percentage of the Network Hashrate. SATO regularly reviews the Mining Pools to which it sells its hashrate and allocates hashrate to pools based on the firmware and fee structure of the Mining Pool operators. SATO only sells to Mining Pool operators with a Full Pay Per Share (“FPPS”) payout method.

Under FPPS, the calculation of the payout is based on three components, where the Company’s total compensation is the sum of the Company’s share of (1) and (2), less (3):

- (1) an amount in respect of Block Rewards is calculated by the Mining Pool operator based on the proportion of hashrate the Company contributed to the Mining Pool’s total hashrate, and the proportion of the hashrate the Mining Pool contributed to the total network hashrate used in adding the Block. The Company is entitled to its relative share of consideration even if a Block is not successfully added to the Blockchain by the Mining Pool.



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- (2) an amount in respect of transaction fees paid by users of the network to execute transactions is calculated by the Mining Pool operator as a proportion of the total network transaction fees based on the same hashrate proportions used in the calculation of number (1). The Company is entitled to its relative share of transaction fees even if a Block is not successfully added to the Blockchain by the Mining Pool.
- (3) an amount in respect of Mining Pool operating fees, 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 Company receives and are only incurred to the extent that the Company is otherwise entitled to payment under (1) and (2).

As a consequence of how the payments are calculated, SATO's revenues depend on both the amount of hashrate SATO supplies and the total Network Hashrate. The Company's participation in the Mining Pools may be terminated at any time without penalty, and SATO may switch from one pool to another at its discretion, with the result that SATO's revenues are not dependent on any one Mining Pool. The proceeds paid by a Mining Pool operator to the Company for its hashrate may be paid in digital assets or in traditional currencies. The Company accumulates the Bitcoin earned or exchanges them for traditional currencies with reputable and well-known trading platforms. A portion of the Bitcoin generated by the Company's activities representing approximately 18.5% of each payment received by the Company is allocated directly to a wallet with Sygnum Bank for the monthly payment owing on the Company's secured loan.

In the future, SATO may seek to generate additional revenue by charging user fees for applications that may be developed by the Company to support the Bitcoin ecosystem, but as yet the Company has not developed any such applications that would be expected to contribute material revenue.

On July 25, 2024, the Company announced Club Mining, an iOS and Android app designed for solo Bitcoin miners and Bitcoin enthusiasts globally. Initially, SATO allocated some of its mining power to the first users, giving out mining sats, for free, especially during the Bitcoin Conference in Nashville.

On October 24, 2024, the Company announced expansion of its business strategy. Building on its expertise in the blockchain sector, subject to obtaining the additional financing required, SATO plans to expand its digital infrastructure offerings to include advanced and efficient computing infrastructures for Artificial Intelligence (AI), High Performance Computing (HPC), and future-ready technologies such as zero proof knowledge, or quantum computing. SATO plans to utilize its existing 20 MW of hydro-electricity from Québec to power the first phase of its next-generation data center.

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

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

In February 2018, SATO entered into a 5-year lease for 9,000 square feet of space within a 50,000 sq ft factory. The lease was first amended on July 1, 2022, extending it to September 30, 2026, and then on December 1, 2022, the leased space was increased to 25,000 square feet. In March 2023, the company signed an amended lease contract for a total of 33,282 square feet. The contract is anticipated to last until September 2033, provided the 5-year renewal option in the contract is exercised.

The facility, which houses approximately 5,600 air-cooled computers, operating continuously, reuses heat, warming the building's factory and minimizing its energy consumption during winter. Center One also served as the site for a collaborative project with the University of Québec collecting heat data for widespread applications. The findings of this study were presented at the International Scientific Conference on Power and Electrical Engineering of the Riga Technical University. As of today, the Company does not have additional plans or projects for third parties to use its



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

On June 1, 2024, a minor fire occurred in the building housing Center One, impacting approximately 40 PHs of the 560 PHs operating at the facility. During the third quarter, the team focused on rebuilding the damaged area, and by the end of Q3, the repairs were completed, restoring the center to full operational capacity. Following a detailed assessment, it was concluded that 413 machines, accounting for 30 PH, were beyond repair and have yet to be replaced.

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

#### **City of Joliette, Québec**

The Company has operated Center One in Joliette, Québec, Canada since 2017. The Company has successfully partnered with local contractors and industrialists, and in 2023, paid over CA\$9,180,000 to Hydro Joliette, contributing 26% of the electricity revenues forecasted in the city's 2023 budget.

SATO utilizes energy that was previously surplus capacity in Joliette and ceases operations through curtailment during periods of high demand. Although Bitcoin mining is often criticized for wasting energy, SATO demonstrates in Joliette that Bitcoin miners can actually make use of this otherwise unused energy, while also delivering significant value to the municipality and its residents.

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

#### **Computing Power**

In order to grow its business, the Company would require access to additional electricity. Hydro-Québec had previously allocated additional capacity for cryptographic use, which the Company had hoped would form part of its expansion plans, however, in late 2022, the Régie de l'Énergie paused the allocation process for Hydro-Québec's remaining 270 MW under Phase 3 of the "Allocation of the block of electricity dedicated to cryptographic use". On September 20, 2023, the Régie de l'Énergie in its report D-2023-109 cancelled the remaining 270MW. As a result, there is no potential way to increase the Company's business in the Province of Québec unless the Company is able to acquire an existing allocation of electrical capacity.

SATO aims to acquire electrical and computational capacities for future centers or to seek new capacity both in Quebec and abroad. This growth strategy is designed to strengthen the Company's competitive position in the Bitcoin mining sector and allow the Company to expand into complementary processing industries. If successful, SATO will be capable of generating more Bitcoin, fostering the growth of the Bitcoin ecosystem, and delivering advanced computing services.

#### **Efficiency**

SATO is focused on operational efficiency to maintain the viability of the business even during periods of volatility in Bitcoin prices and with an eye on the impacts of the halving event that occurred on April 19, 2024, the effect of which on the Bitcoin Price is yet to be seen.

The Company has developed DataMan, a proprietary software designed for managing large-scale computing equipment with an emphasis on efficiency through effective data and information management. Utilizing a secure and





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detailed data set starting from 2018, the development team has equipped the operational team with a powerful tool to oversee the sites and its external components (temperature, humidity, air inflows, etc). Simultaneously, the software enables precise identification of computers requiring repairs, ensuring the entire suite of computers is regularly monitored for long-term performance and increased efficiency. In terms of efficiency, measured by the number of Bitcoins generated per Exahash (EH/s), Center One's performance places SATO among the most efficient publicly listed Mining companies based on the publicly available information. The Company is planning to continue working on DataMan to bring more data knowledge to the software.

Cultivating a conscientious environmental approach is a constant priority for all team members. Throughout its operations, the Company harnesses the heat generated by its data center for ambient heating of the building and is exploring solutions that could lead to transforming byproduct heat into transportable energy for industries, municipalities, and farming production. In mid-2022, the Company initiated a collaboration with the University of Québec, partnering with the LIREI (Laboratoire d'innovation de recherche en énergie intelligente). This alliance aims to facilitate the handling and visualization of accurate data about heat transfer produced from Bitcoin Mining Data Centers, which in turn assists in the implementation and design of new centers in close collaboration with future local partners. The study is available at <https://www.bysato.com/#nowaste>.

The Company tracks its Scope 1 and Scope 2 emissions, which refers to the Company's direct greenhouse gas emissions and indirect emissions associated with the production of the electrical energy that the Company consumes. The Company does not track Scope 3 emissions, which are the emissions associated with the Company's supply chain and the use of the Company's products. Using calculation tools provided by the Greenhouse Gas Protocol (<https://ghgprotocol.org/>) the Company calculated that its Scope 1 and Scope 2 emissions totaled 208.04 metric tonnes of carbon dioxide equivalent ("MTCO<sub>2e</sub>") in 2023. The Company purchased carbon credits to offset its Scope 1 and Scope 2 emissions, following a practice it has done every year since 2021. The Company purchased the offset credits from SeaTrees, a non-profit organization dedicated to planting mangrove trees, kelp, coral reefs and so on, in the ocean. There is no guarantee that offset credits will continue to be available for purchase or that the Company will continue to have the resources to purchase credits sufficient to offset the Scope 1 and Scope 2 emissions generated by the Company in the future.

While the Company's primary focus is on expanding its infrastructure dedicated to compute power for Bitcoin Mining, it is also exploring services built on the Bitcoin blockchain. The Company has not incurred, or committed to incur, significant development expenses in relation to these projects and to date none of these projects is sufficiently advanced to have a reasonable prospect of generating material revenues for the Company. By exploring services for Bitcoin, the Company is seeking to identify alternative revenue streams within the Bitcoin environment that are not subject to the randomness of the Mining process and will not be affected by future halving events.

During the year of 2023, the Company dedicated its efforts towards improving the effectiveness and productivity of its compute power operations. This was achieved by expanding the compute power at the Center One through the integration of new mining equipment and by testing several underclocking/overclocking strategies in order to maximise the quantity of hashrate produced per watt of electricity consumed within Center One. Concurrently, the team reviewed opportunities for additional centers to expand Mining activities but did not identify any opportunities that management deemed worthy of pursuing.

In addition to these efforts, the team also sought to solidify relationships with financial partners to facilitate accessing the necessary capital for the Company's growth and expansion.

#### Summary strategy discussions

With the exception of the 413 miners representing 30ph, which were damaged in the previously mentioned fire, Center One currently operates at maximum capacity and full efficiency with the current fleet of miners owned by the Company, but it could be upgraded to reach 1 EHs with new-generation miners, which the company plans to buy. As well, the Company is actively investigating the addition of new locations with sufficient energy capacity, aiming to



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replicate Center One's efficiency. The Company is also actively seeking acquisition opportunities in locations worldwide. To fund this expansion, the Company will need to raise capital through debt or equity.

Moreover, the Company envisions that the future of Bitcoin mining will involve exploring novel ways to generate Bitcoin beyond just mining, and the Company may seek to participate in these alternative revenue streams.

#### Cryptocurrency industry trends and risks

Following highs in November 2021, there has been a significant volatility in cryptocurrency prices, generally, continuing through the year of 2022, 2023 and 2024. Bitcoin started the year strong, reaching new highs in March, peaking at around USD\$73,000. However, by May, it had dropped below USD\$60,000. The price saw a rebound mid-year, driven by easing selling pressures and regulatory changes in Germany. Despite these gains, Bitcoin's price remained volatile, ending Q2 down by about 11.9%, settling at around USD\$62,000. Bitcoin's price continued to rebound in Q3 ending at around USD\$65,000. The recent volatility has been particularly influenced by broader macroeconomic factors and recent political events, including the U.S. presidential election. Following the announcement of the election results in early November, Bitcoin's value surged by over 15%, reaching new all-time highs above \$93,000 on November 12, 2024. This surge is attributed to Donald Trump's support for cryptocurrencies, a contrast to the more regulatory-focused approach of the Biden administration.

The approval of Bitcoin ETFs, particularly spot ETFs, has also impacted Bitcoin and the broader cryptocurrency market in 2024 by enhancing Bitcoin's legitimacy, improving market liquidity, and making Bitcoin more accessible to a wider range of investors.

The Company continues to believe in the future of the cryptocurrency markets and is focused on the long-term growth of the Company. During these volatile uncertain times, the Company focused on preserving financial resources and growing its asset base.

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

By design, the Bitcoin Block Reward is expected to be reduced by half at each Bitcoin halving event ("Halving"). The most recent Halving took place on April 19, 2024, and the next one will be in 2028. Following each Halving, companies selling compute power for Bitcoin processing, including SATO, earn half the quantity of Bitcoin for the same amount of hashrate as they did prior to such Halving. The block reward for miners was reduced from 6.25 BTC to 3.125 BTC in the recent Halving. The immediate impact of the Halving event did not see a dramatic spike in the price of Bitcoin. For the nine months ended September 30, 2024, the Company reported positive cash flow from operating activities, however, a drop in Bitcoin prices, an increase in difficulty, or an increase in operating costs could have a greater effect on the Company's profitability.

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

In 2022 and 2023, regulators in various countries, including the USA, developed or advanced new legal frameworks that the Company believes could potentially hinder innovation for Bitcoin. Canada has also experienced challenges, with power availability for Bitcoin mining becoming more restricted in some provinces. Additionally, tax authorities in some jurisdictions, including Canada, have taken unfavourable positions that put financial strain on companies who provide compute power, making those jurisdictions less attractive for operations or expansion.



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In Québec, electricity prices are determined by the Régie de l'Énergie with a fixed price for crypto mining (CB rate); however, the Company remains susceptible to potential price increases if mandated by the Government, the Régie de l'Énergie or Hydro Québec. An increase of 6.5%, applicable for all industrial clients of Hydro Québec took effect on April 1st, 2023. Hydro-Québec applied an increase of 3.3% for the industrial clients and 5.1% for all other commercial clients (including the entities having the CB rate), starting on April 1st, 2024.

#### **Custody of assets**

SATO generally only converts its Bitcoin to currency when necessary to pay for operating expenses, and otherwise retains the Bitcoin it earns in a combination of self-custodied wallets and custodial wallets with third-parties. SATO has implemented internal controls, secure technology, and appropriate custody arrangements to minimize the risk of loss or theft of the retained digital assets, mainly Bitcoins.

##### *Self-custody wallet*

Some of the Bitcoin received by the Company is deposited to multi-signature wallets that the Company controls, which are secured by Fireblocks Inc. ("Fireblocks"), which is classified as a non-custodial technology provider according to the Department of Financial Services of New York. Fireblocks secures access to the Company's wallet and the transfers in and out of the wallet, but at no time does Fireblocks exercise control over SATO's Bitcoin. Fireblocks utilizes a secure hot vault and secure transfer environment to help establish connections between wallets, exchanges, counterparties, and networks. Fireblocks utilizes multi-party computation ("MPC") protection layers to distribute private key secrets across multiple locations to ensure there is no single point of failure associated with the private keys. The use of MPC ensures private keys are never concentrated to a single device at any point in time. Fireblocks is not a fiduciary or a licensed custodian under any banking or trust laws of any jurisdiction. Fireblocks is not a related party of the Company.

Fireblocks is SOC 2 Type II certified and undergoes a SOC 2 review on an annual basis. SATO reviews the Fireblocks SOC 2 report to ensure that Fireblocks maintains a secure technology infrastructure and that their systems are designed and operating effectively. Fireblocks maintains insurance coverage for losses resulting from failures of technology and cybersecurity, and for professional liability, however, the Company cannot ensure that the coverage from this policy would be available to the Company or, if available, sufficient to make the Company whole for any BTC that might be lost or stolen. The Company is unaware of: (i) any security breaches involving Fireblocks, and (ii) anything with regards to Fireblocks' operations that would adversely affect the Company's ability to obtain an unqualified audit opinion on its audited financial statements. The Company's digital assets secured by Fireblocks would continue to be owned and recoverable by the Company in the event of bankruptcy by Fireblocks.

On April 16, 2024, SATO signed a contract with a 3rd party blockchain protection company, which will provide the following services to protect Bitcoin funds kept on Fireblocks:

- RSA Key Pair;
- Secure Key Storage that will be kept offline with zero net work exposure;
- Device Access Recovery which will allow a soft recovery package passphrase in the event that the Customer loses access
- Account Access Recovery;
- Theft Protection.

##### *Custodian wallet*

The balance of the Bitcoin received by the Company is deposited directly to wallets held with Sygnum Bank AG ("Sygnum"), pursuant to the Company's Loan Agreement with Sygnum. Sygnum is a Swiss-based fiduciary and qualified custodian under Swiss banking law and is licensed in Switzerland to custody digital assets. Currently, Sygnum does not use a sub-custodian. Sygnum is not a related party of the Company.



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Sygnum is ISAE 3402 Type II certified and undergoes a ISAE 3402 review on an annual basis. SATO reviews the Sygnum ISAE 3402 report to ensure that Sygnum maintains a secure technology infrastructure and that their systems are designed and operating effectively.

Sygnum has insurance coverage of CHF 10 million for digital assets under its custody, however, the Company cannot ensure that the limits of this policy would be available to the Company or, if available, sufficient to make the Company whole for any BTC that are lost or stolen. The Company is unaware of: (i) any security breaches involving Sygnum, and (ii) anything with regards to Sygnum's operations that would adversely affect the Company's ability to obtain an unqualified audit opinion on its audited financial statements. The Company's digital assets held in custody with Sygnum are held off-balance sheet and are therefore ring-fenced from Sygnum's own assets. This means that the Company's assets would not become part of the bankruptcy estate in the event of bankruptcy by Sygnum.

The Company is required to maintain a combination of Bitcoin and cash, with a value of at least 20% of the outstanding amount of the secured loan, with Sygnum at all times as security for the Company's secured loan.

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

### Highlights of the three and nine months ended September 30, 2024, to the date of the MD&A

#### Financial Highlights

- As noted earlier, the Halving event occurred on April 19, 2024 resulting in the Company earning half the number of Bitcoin for the same amount of hashrate.
- Revenue from digital assets decreased by 25% for the three months ended September 30, 2024, but increased 133% for the nine months ended September 30, 2024, compared to the same periods in 2023.
- Total revenue decreased by 36% for the three months ended September 30, 2024 but grew 5% for the nine months ended September 30, 2024, compared to the same periods in 2023.
- Gross profit (loss) was \$(544,387) and \$3,082,973 for the three and nine months ended September 30, 2024, respectively, compared to a gross profit of \$755,958 and \$3,112,420 for the three and nine months ended September 30, 2023.
- Net (loss) income was \$(1,717,056) and \$1,269,387 for the three and nine months ended September 30, 2024, respectively, compared to a net loss of \$775,935 and \$175,329 for the three and nine months ended September 30, 2023.
- The Company earned 31 BTC and 161 BTC in the three and nine months ended September 30, 2024, respectively, compared to 93 BTC and 152 BTC in for the three and nine months ended September 30, 2023.
- The digital assets balance at September 30, 2024, was \$2,956,743 compared to \$2,244,730 at December 31, 2023.
- EBITDA of \$(720,636) and \$4,258,857 for the three and nine months ended September 30, 2024, respectively, compared to an EBITDA of \$270,698 and \$2,114,848 for the three and nine months ended September 30, 2023.

#### Warrants and Stock Options

In January 2024, 318,218 common shares were issued following the exercise of warrants for proceeds of \$3,182.

On April 1, 2024, the Company granted stock options to purchase an aggregate of 30,000 common shares to a director pursuant to the Company's Amended and Restated Stock Option Plan. The Options are exercisable into common shares of the Company at a price of \$0.46 per share for a period of 5 years from date of grant.

On July 9, 2024, the Company issued 60,000 common shares upon the exercise of 60,000 stock options at an exercise price of \$0.14 per share (for proceeds of \$8,400).



## Management Discussion and Analysis

### For the three and nine months ended September 30, 2024, and September 30, 2023

On July 10, 2024, the Company issued 45,000 common shares upon the exercise of 45,000 stock options at an exercise price of \$0.14 per share (for proceeds of \$6,300).

On July 23, 2024, the Company issued 265,000 common shares upon the exercise of 265,000 stock options at an exercise price of \$0.25 per share (for proceeds of \$66,250).

### Results of Operations for the three and nine months ended September 30, 2024 and 2023

#### Financial highlights

	Three months ended September 30,			Nine months ended September 30,		
	2024	2023	% change	2024	2023	% change
Revenue	2,612,997	4,070,260	(36)%	12,802,910	12,191,458	5%
Cost of revenue	3,157,384	3,314,302	(5)%	9,719,937	9,079,038	7%
Gross profit	(544,387)	755,958	(172)%	3,082,973	3,112,420	(1)%
Gain (loss) on use of digital assets	(111,284)	(128,320)	(13)%	231,635	222,836	4%
Unrealized gain (loss) on revaluation of digital assets	97,282	(13,597)	N/A	1,194,769	348,247	243%
Expenses	(534,156)	(1,290,776)	(59)%	(2,335,585)	(3,349,721)	(30)%
Operating income (loss)	(1,092,545)	(676,735)	61%	2,173,792	333,782	551%
Other charges	(624,511)	(99,200)	530%	(904,405)	(509,111)	78%
Profit (loss) before income taxes	(1,717,056)	(775,935)	121%	1,269,387	(175,329)	N/A
Deferred income taxes	-	-	N/A	-	-	N/A
Net income (loss)	(1,717,056)	(775,935)	121%	1,269,387	(175,329)	N/A
Total comprehensive income (loss)	(1,717,056)	(775,935)	N/A	1,269,387	(175,329)	N/A
<b>Gross mining profit</b>	<b>199,656</b>	<b>1,388,241</b>	<b>(86)%</b>	<b>5,246,210</b>	<b>2,562,578</b>	<b>105%</b>
<b>EBITDA</b>	<b>(720,636)</b>	<b>270,698</b>	<b>N/A</b>	<b>4,258,857</b>	<b>2,114,848</b>	<b>N/A</b>
<b>Adjusted EBITDA</b>	<b>(381,732)</b>	<b>787,874</b>	<b>N/A</b>	<b>5,914,161</b>	<b>2,341,748</b>	<b>N/A</b>

#### Revenue

For the three months ended September 30, 2024, SATO earned 31 Bitcoin resulting in revenue of \$2,607,717, compared to revenue of \$3,466,580 from 93 Bitcoin in the three months ended September 30, 2023. For the nine months ended September 30, 2024, SATO earned 161 Bitcoin resulting in revenue of \$12,764,579, compared to revenue of \$5,482,868 from 152 Bitcoin in the nine months ended September 30, 2023.

The decrease in Bitcoin earned in Q3 was due to the most recent Halving that took place on April 19, 2024, an increase in the network hashrate, and a reduction in operational capacity caused by a fire in June 2024. However, revenue from Digital assets earned was positively impacted by the increase in the price of Bitcoin from USD\$16,669, on January 1st, 2023, to USD\$64,544 as of September 30, 2024. The 287% increase in the price of BTC offset the 140% increase of the network hashrate (caused by the Halving) (598 Eh/s versus 249 Eh/s as of January 1st, 2023), which has a direct impact on the quantity of Bitcoin earned. As a result, SATO's operations were more profitable for the nine months ended September 30, 2024 as compared to the same period in 2023.



## Management Discussion and Analysis

### For the three and nine months ended September 30, 2024, and September 30, 2023

The Company also benefited from reduced load shedding in Q1 2024 compared to 2023. Load shedding is typically required in the winter when Hydro-Joliette requires the Company to reduce the power utilization of its computing operations during periods of extreme cold to help conserve power and support the grid. In 2023, SATO had 141.27 hours of load shedding and 135.5 hours of shutdowns for operational reasons, for a total of 276.77 downtime hours, which represents around 3.16% of all operating hours. In Q1 2024, SATO incurred 45 hours of load shedding and 2 hours of operational shutdowns, for a total of 47 downtime hours, which represents around 0.50%. Load shedding has only materially affected the Company in the winter months of Q1.

SATO earned no Hosting revenue in 2024, compared to \$591,954 and \$6,663,085 during the three and nine months ended September 30, 2023. The decrease in Hosting revenue was the result of terminating the Company's Hosting contracts and increasing compute power capacity. Other revenue for the three and nine months ended September 30, 2024 was \$5,280 and \$38,331, respectively. Other revenue for the three and nine months ended September 30, 2023 was \$11,726 and \$45,505, respectively. This consisted of management revenues.

The cost of operations for the three months ended September 30, 2024, was \$3,157,384, compared to \$3,314,302 for the three months ended September 30, 2023. The cost of operations for the nine months ended September 30, 2024, was \$9,719,937, compared to \$9,079,038 for the nine months ended September 30, 2023. These costs directly relate to the costs incurred for earning Bitcoin and include site operating costs (such as electricity, insurance and regular maintenance cost), salaries and benefits, and depreciation. The increase in site operating costs was related to the increased electrical rates and insurance costs associated with the transition from Hosting most of the miners in Center One to owning and operating them.

Below is a breakdown of the cost of operations for the three and nine months ended September 30, 2024, and 2023:

	Three months ended		Nine months ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
<b>Cost of operations</b>	\$	\$	\$	\$
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	749,323	772,067	2,201,568	1,726,747
	3,157,384	3,314,302	9,719,937	9,079,038

SATO had a loss of \$111,284 and a gain of \$231,635 on the use of digital assets for the first three and nine months ended September 30, 2024, compared to a loss of \$128,320 and gain of \$222,836 in the comparative periods. These gains are the result of exchanging Bitcoin for cash, donations and for services. SATO also had an unrealized gain of \$97,282 and gain of \$1,194,769 on the revaluation of digital assets for the first three and nine months ended September 30, 2024, as a result of the increasing Bitcoin price to the end of Q3 2024. The Company had an unrealized loss on revaluation of digital assets of \$13,597 and a gain of \$348,247 in the comparative periods.



## Management Discussion and Analysis

### For the three and nine months ended September 30, 2024, and September 30, 2023

#### Expenses

A summary of expenses for the three and nine months ended September 30, 2024, and 2023 is as follows:

	Three months ended		Nine months ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
	\$		\$	
Salaries, benefits and remuneration (i)	209,032	417,034	1,022,954	1,276,616
Advertising, promotion, and investor relations (ii)	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
Custodian fees	12,387	7,163	31,774	21,262
Provision for sales taxes receivable	-	39,281	-	224,003
Other	55,168	222,191	226,382	376,400
	<b>485,739</b>	<b>1,090,858</b>	<b>2,179,335</b>	<b>2,615,869</b>

- (i) The decrease is related to the reduction in personnel and the related salaries and benefits.
- (ii) The increase during the nine months ended September 30, 2024 is the result of measures taken by the Company to increase SATO's visibility and exposure to the general public via marketing and investors relations campaigns (primarily in Q1-Q2 2024).

Share based compensation represents the value of stock options that have vested during the quarter, which is a non-cash expense. The Company granted 30,000 stock options during the nine months ended September 30, 2024, compared to 710,000 stock options granted during the nine months ended September 30, 2023, which explains the decrease in the expense.

#### Other charges/income

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
	\$		\$	
Foreign exchange (gain) loss	56,824	(155,782)	27,752	(105,233)
Gain on disposal of property, plant and equipment	-	(39,940)	-	(39,940)
Impairment loss	16,101	-	16,101	-
Unrealized foreign exchange (gain) loss	304,489	20,356	72,650	90,854
Finance expense	247,097	274,566	787,902	563,430
	<b>624,511</b>	<b>99,200</b>	<b>904,405</b>	<b>509,111</b>

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.



## Management Discussion and Analysis

### For the three and nine months ended September 30, 2024, and September 30, 2023

The Company had a comprehensive loss of \$1,700,955 and a comprehensive income of \$1,285,488 for the three and nine months ended September 30, 2024, compared to a comprehensive loss of \$775,935 and \$175,329 for the three and nine months ended September 30, 2023.

#### *Selected Quarterly Information (in accordance with IFRS)*

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

<b>Financial Results</b>	<b>Q3 2024</b> \$	<b>Q2 2024</b> \$	<b>Q1 2024</b> \$	<b>Q4 2023</b> \$	<b>Q3 2023</b> \$	<b>Q2 2023</b> \$	<b>Q1 2023</b> \$	<b>Q4 2022</b> \$
Revenue	2,612,997	4,275,158	5,914,755	5,369,198	4,070,260	4,212,596	3,908,602	4,100,045
Gross Profit (Loss)	(544,387)	942,422	2,684,938	2,159,366	755,958	1,126,750	1,129,245	1,347,736
Total Expenses	534,156	903,020	898,409	1,066,993	1,290,776	961,184	997,294	1,604,988
Net Income (Loss)	(1,717,056)	(924,526)	3,910,969	951,825	(775,935)	89,861	510,745	(1,593,979)

Revenue generated from the Company's sale of computing power for Bitcoin is the primary contributor to the quarterly variations in revenue and net income or loss, and can vary depending upon the price of Bitcoin, which is volatile. Winter months typically generate fewer mining outputs due to load shedding. While the Bitcoin mining industry experiences volatility, it is typically not subject to seasonality. Seasonal fluctuations in electricity supply, however, may impact the Company's operations. All of the Company's operations during the above periods were in Québec. Changing weather may impact seasonal electricity needs, and periods of extreme cold or extreme hot weather may thus contribute to service interruptions in cryptocurrency mining operations.

#### *Liquidity and Capital Resources*

As at September 30, 2024, SATO had working capital of \$228,604 compared to deficiency of \$1,172,396 as at December 31, 2023.

Net cash provided by operating activities for the period ended September 30, 2024, was \$1,733,228, and cash provided by investing activities amounted to \$238,767, related to the purchase of equipment and withdrawals from the restricted cash position. Cash used in financing activities was \$2,125,823.

As at September 30, 2024, SATO had cash on hand of \$523,903 (December 31, 2023 - \$583,151), restricted cash of \$448,217 (December 31, 2023 - \$431,607), digital assets of \$2,956,743 (December 31, 2023 - \$1,964,570) and restricted digital assets of \$894,292 (December 31, 2023 - \$280,160).

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

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





## Management Discussion and Analysis

### For the three and nine months ended September 30, 2024, and September 30, 2023

performance. Accordingly, there are material risks and uncertainties that cast significant doubt over SATO's ability to continue as a going concern.

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

#### Non-IFRS Performance Measures

This MD&A makes reference to certain measures that are not recognized under IFRS and do not have a standardized meaning prescribed by IFRS. They are therefore not necessarily comparable to similar measures presented by other companies. The Company uses non-IFRS measures including "Adjusted EBITDA" and "Compute Profit" as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from Management's perspective. The following tables reconcile non-IFRS measures used by the Company to analyze the operational performance of the Company, to its nearest IFRS measure and should be read in conjunction with the audited consolidated statement of operations and comprehensive income (loss) and consolidated statement of cash flows included in the consolidated financial statements for the three and nine months ended September 30, 2024, and 2023.

#### Compute Power Profit (formerly called "Mining Profit")

Compute Power profit represents gross profit (revenue earned from Mining Pool operators less cost of revenue), excluding (i) depreciation, (ii) revenue and site operating costs directly attributable to hosting revenue, and (iii) other revenue.

The following is a reconciliation of gross profit to the non-IFRS measure of Compute Power profit:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
<b>Gross profit</b>	<b>(544,387)</b>	<b>755,958</b>	<b>3,082,973</b>	<b>3,112,420</b>
<i>Add (deduct)</i>				
Hosting revenue	-	(591,954)	-	(6,663,085)
Other revenue	(5,280)	(11,726)	(38,331)	(45,505)
Site operating costs attributable to hosting	-	463,896	-	4,432,001
Depreciation	749,323	772,067	2,201,568	1,726,747
<b>Compute Power Profit</b>	<b>199,656</b>	<b>1,388,241</b>	<b>5,246,210</b>	<b>2,562,578</b>



## Management Discussion and Analysis

For the three and nine months ended September 30, 2024, and September 30, 2023

### Adjusted EBITDA

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

		Three months ended		Nine months ended	
		September 30,		September 30,	
		2024	2023	2024	2023
<b>Net income (loss)</b>		<b>(1,717,056)</b>	<b>(775,935)</b>	<b>1,269,387</b>	<b>(175,329)</b>
<i>Add (deduct)</i>					
	Finance expense	247,097	274,566	787,902	563,430
	Deferred income taxes	-	-	-	-
	Depreciation	749,323	772,067	2,201,568	1,726,747
<b>EBITDA</b>		<b>(720,636)</b>	<b>270,698</b>	<b>4,258,857</b>	<b>2,114,848</b>
	Share based compensation	48,417	199,918	156,250	733,852
	Financing fees	-	154,985	-	154,985
	Loss (Gain) on use of digital assets	(111,284)	13,597	231,635	(348,247)
	Unrealized foreign exchange (gain) loss	304,489	128,320	72,650	(222,836)
	Unrealized gain on revaluation of digital assets	97,282	20,356	1,194,769	(90,854)
<b>Adjusted EBITDA</b>		<b>(381,732)</b>	<b>787,874</b>	<b>5,914,161</b>	<b>2,341,748</b>

### Off-Balance Sheet Arrangements

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

### Financial Instruments and Business Risks

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

#### *Fair value*

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



## Management Discussion and Analysis

For the three and nine months ended September 30, 2024, and September 30, 2023

### *Credit Risk*

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

### *Interest Rate Risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

### *Liquidity Risk*

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

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

### *Currency Risk*

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

### *Digital assets and risk management*

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

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

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

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates that, by their nature, are uncertain. The impacts of such

estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the year in which the estimate is revised and future years if the revision affects both current and future years. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

#### *Income from digital assets earned*

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

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

#### *Going concern*

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

#### *Leases - Incremental borrowing rate*

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

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

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



## Management Discussion and Analysis

For the three and nine months ended September 30, 2024, and September 30, 2023

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

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

### *Digital asset valuation*

Digital assets consist of cryptocurrency denominated assets and are included in current assets. Digital assets are carried at their fair value determined by the spot rate less costs to sell. The digital asset market is still a new market and is highly volatile; historical prices are not necessarily indicative of future value; a significant change in the market prices for digital assets would have a significant impact on the Company's earnings and financial position.

### *Impairment of non-financial assets*

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

## **Capital Management**

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

## **Share Capital**

As of the date of this MD&A, the Company has issued, and outstanding share capital consisted of 73,277,683 Common Shares, 3,845,184 stock options and 2,378,853 warrants. 20,941,095 securities are under escrow.

## **Risk Factors**

The Company's business is subject to a number of risk factors, which are described in the AIF that was filed on SEDAR+ on May 15, 2024. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of the Common Shares to decline. If any of the noted risks actually occur, our business may be harmed and the financial condition and results of operations may suffer significantly. In that event, the trading price of the Common Shares could decline, and shareholders may lose all or part of their investment.