

Liquid Meta Capital Holdings Ltd.

Financial Statements

For the Years Ended May 31, 2022 and 2021

(Expressed in U.S. dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Liquid Meta Capital Holdings Ltd.

Opinion

We have audited the financial statements of Liquid Meta Capital Holdings Ltd. (the "Company"), which comprise the statement of financial position as at May 31, 2022 and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Company for the year ended May 31, 2021, were audited by another auditor who expressed an unmodified opinion on those financial statements on August 20, 2021.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mike Zenteno.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
August 31, 2022
Toronto, Ontario

Liquid Meta Capital Holdings Ltd.
Statements of Financial Position
As at May 31, 2022 and 2021
(Expressed in U.S. dollars)

	Notes	As at May 31, 2022	As at May 31, 2021
		$	$
Assets			
Current			
Cash and cash equivalents	9	418,061	2,176,609
USD coin	9, 11	20,078,344	-
Receivable from decentralized platforms	9, 11	1,365,211	-
Digital assets	10, 11	13,119	6,676
Amounts receivable	9	1,515	63
Prepaid expenses		100,242	9,375
Total current assets		**21,976,492**	**2,192,723**
Non-current assets			
Equipment	7	2,983	2,798
Intangible assets		-	1
Total non-current assets		**2,983**	**2,799**
Total assets		**21,979,475**	**2,195,522**
Liabilities			
Current			
Accounts payable and accrued liabilities	8, 9	447,492	111,900
Total liabilities		**447,492**	**111,900**
Shareholders' equity			
Share capital	6	24,505,884	2,129,031
Options reserve	6	3,101,900	83,410
Warrants reserve	6	1,164,492	36,786
Accumulated deficit		(7,240,293)	(165,605)
Total shareholders' equity		**21,531,983**	**2,083,622**
Total liabilities and shareholders' equity		**21,979,475**	**2,195,522**

Subsequent events (note 14)

These financial statements were approved for issuance on August 31, 2022 by the Board of Directors and signed on its behalf by:

/s/ Jonathan Wiesblatt (signed)
CEO

/s/ Sendy Shorser (signed)
CFO

Liquid Meta Capital Holdings Ltd.
Statements of Loss and Comprehensive Loss
For the Years Ended May 31, 2022 and 2021
(Expressed in U.S. dollars)

	Notes	Year ended May 31, 2022	Year ended May 31, 2021
Revenues			
Revenue on digital assets, net	12	4,740,467	58
Net changes in fair value of receivable from decentralized platforms		(4,345,018)	-
Other revenue		6,478	33,861
		401,927	**33,919**
Expenses			
Share based compensation	8, 6	(4,358,599)	(108,821)
Listing expenses	5	(1,259,091)	-
Professional fees	8	(973,885)	(64,519)
Advertising, marketing, and investor relations		(313,039)	-
General and administrative expenses		(235,823)	(403)
Information technology		(100,561)	(26,779)
Research and development		(108,964)	-
Direct transaction costs		(71,176)	-
Depreciation	7	(1,202)	-
Exchange gain (loss)		(54,275)	1,052
		(7,476,615)	**(199,470)**
Net loss and comprehensive loss		**(7,074,688)**	**(165,551)**
Basic loss per common share		(0.17)	(0.02)
Diluted loss per common share		(0.17)	(0.02)
Weighted average number of common shares outstanding - basic		**40,955,004**	**7,015,542**
Weighted average number of common shares outstanding - diluted		**40,955,004**	**7,015,542**

Liquid Meta Capital Holdings Ltd.
Statements of Changes in Shareholders' Equity (Deficiency)
For the Years Ended May 31, 2022 and 2021
(Expressed in U.S. dollars)

		Share Capital		Reserves			
	Notes	Number of shares	Amount	Options	Warrants	Deficit	Total
		#	$	$	$	$	$
Balance as at May 31, 2020		6,750,001	1	-	-	(54)	(53)
Shares repurchased	6	(6,750,001)	(1)	-	-	-	(1)
Share issued	6	11,601,623	2,193,212	-	-	-	2,193,212
Share issuance cost		-	(64,181)	-	11,375	-	(52,806)
Share-based compensation	6	-	-	83,410	25,411	-	108,821
Net loss and comprehensive loss		-	-	-	-	(165,551)	(165,551)
Balance as at May 31, 2021		11,601,623	2,129,031	83,410	36,786	(165,605)	2,083,622

		Share Capital		Reserves			
	Notes	Number of shares	Amount	Options	Warrants	Deficit	Total
		#	$	$	$	$	$
Balance as at May 31, 2021		11,601,623	2,129,031	83,410	36,786	(165,605)	2,083,622
Shares issued Pre RTO		870,136	2,249,999	-	-	-	2,249,999
Total Shares Pre-RTO		12,471,759	4,379,030	83,410	36,786	(165,605)	4,333,621
Increase in shares due to share split		19,777,571	-	-	-	-	-
Shares issued in private placements	6	20,575,999	20,575,999	-	-	-	20,575,999
Shares issued for reverse takeover (RTO)	6	802,511	802,511	-	-	-	802,511
Warrants exercised	6	209,406	271,035	-	(201,028)	-	70,007
Share issuance cost		-	(1,522,691)	-	(11,375)	-	(1,534,066)
Share-based compensation	6	-	-	3,018,490	1,340,109	-	4,358,599
Net loss and comprehensive loss		-	-	-	-	(7,074,688)	(7,074,688)
Balance as at May 31, 2022		53,837,246	24,505,884	3,101,900	1,164,492	(7,240,293)	21,531,983

	Notes		
		$	**$**
OPERATING ACTIVITIES			
Net loss for the year		(7,074,688)	(165,551)
Adjustments for non-cash items:			
Share based compensation	8	4,358,599	108,821
Depreciation	7	1,202	-
Listing expenses	5	802,511	-
Net changes in fair value of receivable from decentralized platforms		4,345,018	-
Changes in operating assets and liabilities:			
USD coin		(24,146,542)	-
Receivable from decentralized platforms		(1,642,031)	-
Digital assets	10, 11	(6,443)	(6,676)
Amounts receivable		(1,452)	(62)
Prepaid expenses		(90,867)	(9,375)
Accounts payable and accrued liabilities		335,593	111,900
Cash flows from (used in) operating activities		**(23,119,100)**	**39,057**
Investing Activities			
Purchase of equipment	7	(1,387)	(2,798)
Purchase of intangible assets		-	(1)
Cash used in investing activities		**(1,387)**	**(2,799)**
Financing Activities			
Proceeds from issue of shares	6	22,599,999	2,193,212
Share issuance transaction cost		(1,296,692)	(52,806)
Proceeds from exercise of warrants		58,632	-
Repurchase of shares		-	(1)
Cash flows from financing activities		**21,361,939**	**2,140,405**
Net increase in cash		(1,758,548)	2,176,663
Cash and cash equivalents (bank overdraft), beginning of period		2,176,609	(54)
Cash and cash equivalents, end of period		**418,061**	**2,176,609**
NON-CASH ITEMS			
Shares issued in lieu of services provided		225,999	-
Shares issued during reverse take over		802,511	-
Warrants reserve reclass from share issuance		11,375	-
		1,039,885	-

1. NATURE OF OPERATIONS

Liquid Meta Capital Holdings Ltd. ("Liquid Meta" or the "Company") was incorporated under the laws of British Columbia on January 6, 2020. The Company continues building proprietary software and tools to access, automate, and scale operations within the decentralized finance ("DeFi") segment of the cryptocurrency industry.

The Company's registered address is 700-401 West Georgia Street, Vancouver, British Columbia, V6B 5A1.

These financial statements were approved and authorized for issuance by the Board of Directors on August 31, 2022.

On December 17, 2021, the Company amalgamated with a shell company 1287413 B.C. Ltd. ("413") (the "Amalgamation") in order to effect a reverse takeover of "413" as part of a go public process (the "RTO"). The Amalgamation provided for a split (the "Share Split") of the Company's common shares of 2.5858 post-Amalgamation common shares for each pre-Amalgamation common share. The Share Split has been reflected in the financial statements retroactively.

On December 22, 2021, the Company's common shares were listed on the NEO Exchange Inc. under the symbol "LIQD".

COVID-19

In March 2020, the World Health Organization declared a global pandemic related to COVID-19. Its impact on global economies has been far-reaching and businesses around the world have had to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to business worldwide, resulting in an economic slowdown. Global stock markets have also experience great volatility and significant declines. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of the government and central bank responses, remains unclear at the time. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

The financial statements including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") and Interpretations issued by the International Financial Reporting Standards Interpretations Committee ("IFRIC"). The policies applied to the financial statements are based on IFRS, which have been applied consistently to all periods presented.

(b) Basis of measurement

The financial statements have been prepared on a going concern basis, under the historical cost convention, except for certain financial instruments measured at fair value upon initial recognition.

(c) Functional and presentation currency

The financial statements are presented in United States dollars, which is the Company's functional and presentational currency.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) ***Business combination***

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued, or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Company assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Company's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognized as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognized as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognized and also recognizes additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

(b) Cash and cash equivalents

Cash and cash equivalents include all cash on demand and all highly liquid investments with a maturity of three months or less, at the time of purchase. Cash and cash equivalents also include fiat deposits held at cryptocurrency exchanges used in daily transactions.

(c) Digital assets

Digital assets are generated from the Company's purchased cryptocurrencies through third party exchanges and from its rewards from different blockchains. The Company has assessed that it acts in a capacity as commodity broker trader as defined in IAS 2, *Inventories* ("IAS 2"), in characterizing these digital assets as they are principally acquired for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-

traders' margin. These assets are measured at fair value less cost to sell changes in fair value recognized in profit or loss. Costs are determined on a weighted average cost basis and realized gains or losses when digital assets are sold.

The Company values its digital currency inventories based on the average quoted rates from various cryptocurrency exchanges and other sources like Anchorage, Coingecko, Apeboard, Debank, FTX, Kraken, Sonar Watch, Terra Station and Tokemak. The closing prices were manually taken between 10PM to 11PM Eastern Standard Time on May 31, 2022. The Company believes any price difference amongst the principal market and the average of quoted rates to be immaterial. Management considers this fair value to be a level 2 input under IFRS 13, *Fair Value Measurement* fair value hierarchy as the price on this source represents the average quoted prices on multiple cryptocurrency exchanges.

The Company's determination to classify its holding of cryptocurrencies as current assets is based on management's assessment that Company actively trades these cryptocurrencies to generate a profit from price fluctuations.

(d) Receivables from decentralized platforms

Receivables from decentralized platforms represents the fair value of digital assets held in blockchain-based liquidity pools and decentralized exchanges ("DEX") for peer-to-peer trading of such digital assets. The management has assessed that these digital assets are to be classified as financial assets measured at fair value through profit or loss.

In the normal course of business, the Company engages in liquidity mining and yield farming activities where it acts a liquidity provider and deposits the relevant tokens into liquidity pools and DEXs. Transactions within liquidity pools are governed by a self-executing code referred to as smart contracts. As consideration for providing liquidity, the Company receives reward tokens and earns a share of accumulated trading fees. The reward tokens are measured based on the fair value of the digital currency received and recognized as revenue on a daily basis. The fair value is determined based on the price of the reward tokens when they are earned. The reward tokens received are recorded on the statement of financial position as digital assets classified as inventories.

The Company also earns trading fees in the form of LP tokens based on their pro-rata share of the total LP tokens issued by the DEX or liquidity pool. The fair value is determined based on the price of the LP token when they are earned. The LP tokens received are fair valued throughout the investment period.

Upon redemption of the LP tokens, realized gain or loss is determined based on the fair value of the LP tokens at redemption compared to the cost of obtaining them. This is included within "net changes in fair value of receivable from decentralized platforms" in the statements of loss and comprehensive loss.

(e) Equipment

Equipment consists of computer equipment and is recorded at cost less related accumulated depreciation and impairment losses. Cost includes all expenditures incurred to bring asset to the location and condition necessary for them to be operated in the manner intended by management. Depreciation is recognized based on the cost of the item less its estimated residual value, over its estimated useful life on a straight life basis over three years.

The assets' residual values, useful lives and methods of depreciation are reviewed at each reporting date and adjusted prospectively if appropriate.

An item of equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of income (loss) and comprehensive income (loss) when the asset is derecognized.

(f) Impairment of long-lived assets

As of the end of each reporting period, the Company reviews the carrying amounts of its equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Long-lived assets with indefinite useful life, or those not yet available for use, are tested for impairment annually. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than it's carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequent reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(g) Financial instruments

Financial assets

Initial recognition and measurement

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as "financial assets at fair value" as either fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FVOCI"), and "financial assets at amortized costs" as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company's business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVTPL, directly attributable transaction costs of the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial instruments at FVTPL are subsequently measured at fair value, with gains and loss on disposition and unrealized gains and loss from changes in fair value are recognized in the statements of income (loss) and comprehensive income (loss).

Financial assets were classified as follows:

Classification	**IFRS 9**
Cash	Amortized cost
USD coin	Amortized cost
Receivable from decentralized platforms	Fair value through profit or loss

Subsequent measurement – financial assets at amortized cost

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

Impairment

At each reporting date, the Company assesses whether financial assets carried at amortized costs and debt financial assets carried at FVOCI are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer.
- A breach of contract such as a default of past due event.
- The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise.
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

The Company's management, using both historical analysis and forward-looking information, has evaluated its exposure to expected credit losses on its financial assets measured at amortized cost and concluded that the probability of default is minimal as all financial assets carried at amortized cost were short-term in duration and the counterparties have a strong capacity to meet their contractual obligations in the near term. Therefore, allowance recognized for expected credit losses is insignificant.

Financial liabilities

Initial recognition and measurement

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL, as is the case with derivative instruments, or the Company as opted to measure the financial liability at FVTPL. All financial liabilities are recognized initially at fair value, and where applicable net of directly attributable transaction costs.

Subsequent measurement – financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or expires with any associated gain or loss recognized in other income or expense in the statement for profit or loss.

Financial liabilities were classified as follows:

Classification	**IFRS 9**
Accounts payable and accrued liabilities	Amortized cost

Offsetting
Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

Fair value measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument, which is considered level 1 inputs. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs (level 2 inputs) and minimize the use of unobservable inputs (level 3 inputs). The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any observable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolio of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Company on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustment –e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. The Company recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(h) Revenue recognition

Revenue is recognized at an amount that reflects the consideration to which the Company is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Company: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognizes revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Sale of digital assets

Sales of digital assets are recognized at the point in time when the Company has delivered the cryptocurrencies to the buyer's wallet accounts or to the decentralized platforms. The Company has control of the cryptocurrencies either in its custody or with the exchanges prior to the sale. Accordingly, the Company records the gain from the sale as revenue and presented as net in the statement of loss and comprehensive loss.

(i) Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income (loss), in which case it is recognized in equity or other comprehensive income (loss).

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for changes to tax payable with regards to previous periods.

Deferred tax is recognized using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary difference do not result in deferred tax assets or liabilities: the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; difference relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statements of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(j) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or entities. A transaction is considered to be a related party transaction when there is transfer of resources or obligations between related parties.

(k) Share capital

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of common shares, options and warrants are recognized as a deduction from equity, net of tax, from the proceeds.

(l) Warrants

The Company follows the relative fair value method with respect to the measurement of common shares and warrants issued as units. The proceeds from the issuance of units are allocated between share capital and warrants. The warrant component is recorded in warrant reserve. Unit proceeds are allocated to common shares and warrants using the Black-Scholes option pricing model and the share price at the time of financing. If and when the warrants are exercised, consideration paid by the warrant holder, together with the amount previously recognized in warrant reserve, is recorded as an increase to share capital. For any warrants that do not vest upon issuance, a forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of warrants that vest. Upon expiration of warrants, the amount applicable to expired warrants is moved to contributed surplus.

(m) Stock options

Each tranche of an award with graded vesting periods is considered a separate grant at each grant date for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted, the estimated volatility, estimated risk-free rate and estimated forfeitures. The value of the options granted is recognized over the vesting period in share-based compensation expense in the statements of income (loss) and comprehensive income (loss), and in options reserve. Upon exercise, shares are issued from treasury and the amount reflected in options reserve is credited to share capital, along with any consideration paid. Upon expiration of options, the amount applicable to expired options is moved from options reserve to contributed surplus.

If a grant of the share-based payments is cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the Company accounts for the cancellation or settlement as an acceleration of vesting and recognizes immediately the amount that otherwise would have been recognized for services over the remainder of the vesting period.

The amount recognized for goods or services received during the vesting period are based on the best available estimate of the number of equity instruments anticipated to vest. The Company revises that estimate, if necessary, if subsequent information indicates that the number of share options anticipated to vest differs from

previous estimates. On vesting date, the Company revises the estimate to equal the number of equity instruments that ultimately vested. After vesting date, the Company makes no subsequent adjustment to total equity for goods or services received if the share options are later forfeited or they expire at the end of the share options' life.

If a grant of the share-based payment is modified during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied) and the fair value of the new instruments is higher than the fair value of the original instrument, the incremental fair value granted is included in the measurement of the amount recognized for services received over the period form modification date until the date when the modified equity instruments vests, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period of the original instrument.

(n) Loss per share

Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the period. Dilutive earnings per share reflect the potential dilution of securities that could share in the earnings/loss of an entity. In periods where a net loss is incurred, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive and basic and diluted loss per common share is the same. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted earnings per share assumes that the proceeds to be received on the exercise of diluted stock options and warrants are used to repurchase common shares at the average price during the period.

(o) Acquisitions

As a 'Reverse Takeover' does not meet the definition of a business combination under IFRS 3 Business Combinations, "1287413 B.C. Ltd." (413) is treated as the acquiree and Liquid Meta Capital Holdings Ltd is treated as acquirer, and the equity consideration to the "413" shareholders is measured at fair value, using the acquisition method of accounting, and the costs of RTO, including the shares issued, are expensed as listing costs. The go-forward entity is deemed to be a continuation of Liquid Meta and Liquid Meta is deemed to have acquired control of the assets and operations of "413" in consideration for the issuance of shares.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Preparation of the financial statements 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 revenue and expenses during the reporting period. Actual outcomes could differ from these estimates. The financial statements include estimates which, by their nature, are uncertain. The impact of such estimates is pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised, and the revision affects both the current and future periods.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

(a) Functional currency

The functional currency of the Company has been assessed by management based on consideration of the currency and economic factors that mainly influence the Company's digital currencies, production and operating costs, financing, and related transactions. Specifically, the Company considers the currencies in which digital

currencies are most denominated and the currencies in which expenses are settled, by each entity, as well as the currency in which each entity receives or raises financing. Changes to these factors may have an impact on the judgment applied in the determination of the Company's functional currency.

(b) Accounting for digital assets and receivables from decentralized platforms

IFRS does not include specific guidance on the accounting for digital assets and there is no clear industry practice and, accordingly, the accounting for digital assets could fall into a variety of different standards. The Company has assessed that it acts in a capacity as a commodity broker-trader as defined in IAS 2 Inventories ("IAS 2") in characterizing its holding of digital assets. The Company holds these digital assets for sale in the ordinary course of business. Although 'commodity' is not defined in IAS 2, the Company has concluded that its holding of digital assets is a commodity or similar to a commodity and measured them at fair value less costs to sell.

Based on the Company's business model associated with liquidity mining and yield farming, characteristics of decentralized platforms such as liquidity pools, the nature of LP tokens including its redeemability feature at the discretion of the holder, the documentation within decentralized platforms that outlines the trading and redemption process, token price determination including final value at redemption, incentives for participation and other factors, the Company has applied judgment and used certain IFRS by analogy which led to a conclusion that LP tokens are to be classified and measured as financial assets at fair value through profit or loss on the basis that these LP tokens are held like an investment with the objective of earning reward tokens and trading fees including possibly realized gains upon redemption. Consequently, revenues earned from these decentralized platforms were accounted for similar to investment income.

***(c)* Valuation of digital assets and receivable from decentralized platforms**

Digital assets and receivable from decentralized platforms consist of cryptocurrency denominated assets whose fair values are based on prices at cryptocurrency exchanges and other sources like Anchorage, Coingecko, Apeboard, Debank, FTX, Kraken, Sonar Watch, Terra Station and Tokemak. The cryptocurrency 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 cryptocurrency could have a significant impact on the Company's earnings and financial position.

(d) Share-based payments

The fair value of share-based compensation expenses is estimated using the Black-Scholes option pricing model and rely on a number of estimates, such as the expected life of the option, the volatility of the underlying share price, the risk-free rate of return, and the estimated rate of forfeiture of options or warrants granted.

(e) Going concern

In order to assess whether it is appropriate for the Company to continue as a going concern, management is required to apply judgment and make estimates with respect to future cash flow projections.

In arriving at this judgment, there were a number of assumptions and estimates involved in calculating the future cash flow projections. This includes making estimates regarding the timing and amounts of future expenditures and the ability and timing of raising additional financing.

(f) Taxes

Determination of the Company's tax expense for the period and deferred tax assets and liabilities involves significant estimation and judgment by management. In determining these amounts, management interprets tax legislation and makes estimates of the expected timing of the reversal of deferred tax assets and liabilities, the deferral and deductibility of certain items and interpretation of the treatment for tax purposes of cryptocurrencies by taxation authorities. Management also makes estimates of future earnings, which affect the extent to which potential future tax benefits may be used. The Company is subject to assessments by various taxation authorities, which may interpret legislation differently. Such differences may affect the final amount or the timing of the payments of taxes. The Company provides for such difference where known based on management's best estimate of the probable outcome of these matters.

Income tax expense is recognized based on management's estimate of the weighted average effective annual income tax rate for the full financial year. The estimated annual tax rate used for the financial year ended May 31, 2022 is 26.5%.

5. RTO

On December 17, 2021, the Company amalgamated with 413 in order to effect a reverse takeover of 413 as part of a go public process. The Amalgamation provided for a split of the Company's common shares of 2.5858 post-Amalgamation common shares for each pre-Amalgamation common share. Prior to completion of the transaction, the common shares of 413 were consolidated on the basis of 5.5146 pre-consolidation common shares of 413 for each one post-consolidation common share of Liquid Meta. The option holders and warrant holders of Liquid Meta received 2.5858 options and warrants respectively, of Liquid Meta for each option or warrant respectively, of Liquid Meta held immediately prior to completion of the transaction, with the exercise prices adjusted accordingly. The Share Split has been reflected in these financial statements retroactively.

The RTO has been accounted for in accordance with IFRS 2 *Share-based payment* s. The RTO is considered to be a reverse take-over of 413 by Liquid Meta. An RTO transaction involving a non-public operating entity and a non-operating public company is in substance a shared based payment transaction rather than a business combination. The transaction is equivalent to the issuance of common shares by the non-public operating entity Liquid Meta, for the net assets and the listing status of the non-operating public company, 413. The transaction was negotiated and completed at arm's length.

At the date of the Acquisition the RTO was recorded as follows:

Consideration	$
Fair value of 802,511 common shares	802,511
Total consideration	**802,511**
Net assets acquired (liabilities assumed):	
Cash	11,005
Other receivables	1,220
Accounts payable and accrued liabilities	(52,531)
Due to related parties	(16,266)
Total net liabilities assumed	(56,572)
Listing fee	**859,083**
Other listing expenses	400,008
Total listing expenses	**1,259,091**

The value of the shares issued to 413 plus the excess of fair value of net liabilities assumed is considered an expense of acquiring a public listing and as a result, the listing fee expense is $859,083.

6. SHAREHOLDERS' EQUITY

(a) Authorized

The authorized capital of the Company consists of an unlimited number of common shares.

(b) Issued

During the year ending May 31, 2022, the Company issued commons shares as listed below:

- On November 24, 2021, the Company issued 870,136 common shares at $2.59 per share for aggregate proceeds of $2,249,999. 249,998 of these common shares were issued to an individual who became a director in December 2021.

- On the Closing Date of December 17, 2021, Liquid Meta shares were sub divided on the basis of one pre-Share split Liquid Meta Share for 2.5858 post-Share split Liquid Meta Shares. Thus, resulting in the split of number of outstanding shares of 11,601,623 into 29,999,477. 870,136 shares issued on November 24, 2021 were split into 2,249,853 post RTO valued at $1.00 per share

- On December 17, 2021, the Company issued 20,000,000 common shares at the value of $1 each share for subscription receipts done on November 30, 2021.

- On December 17, 2021, the Company issued 350,000 common shares at the value of $1 each share for subscription receipts done on December 2, 2021.

- On December 17, 2021, the Company issued 125,999 common shares at the value of $1 each share in consideration for the services rendered by an agent.

- On December 17, 2021, the Company issued 100,000 common shares at the value of $1 each share in consideration for capital markets support and advisory services.

- On December 17, 2021, the Company issued 802,511 common shares with a fair value of $1 per share to complete the Amalgamation (see note 5).

- On February 3, 2022, 209,406 warrants were converted to 209,406 common shares at an exercise price of $0.28 per share for aggregate gross proceeds of $58,632.

The following table is the summary of shares issued and split during the year ended May 31, 2022:

Date	Description	Number of shares
24-Nov-21	Pre-IPO - Private placement	870,136
17-Dec-21	Increase in shares due to share split	19,777,571
17-Dec-21	Post-IPO - Private placement	20,575,999
17-Dec-21	Post-IPO - Reverse takeover (RTO)	802,511
03-Feb-22	Post-IPO - Warrants exercised	209,406
Total		**42,235,623**

During the year ended May 31, 2021, the Company issued and repurchased commons shares as listed below:

- On January 6, 2020, the Company issued 1 common share on incorporation for $0.01 and 6,750,000 shares for $1.00
- During the previous year, on January 6, 2021, the Company repurchased the "1 common share" issued on incorporation for $0.01
- On May 6, 2021, the Company repurchased the 6,750,000 shares issued on January 6, 2020, for $1.00
- On May 7, 2021, the Company issued 10,000,000 shares for proceeds of $1,000,000, of which 1,000,000 shares were issued to members of key management of the Company
- On May 18, 2021, the Company issued 1,601,623 shares for proceeds of $1,193,212. The Company paid cash share issuance costs of $52,806 and issued 29,856 finders warrants with a value of $11,375

No dividends have been paid or declared by the Company since inception until May 31, 2022.

(c) Stock options

The Company has established a share option plan (the "Option Plan") for directors, officers, employees and consultants of the Company. The Company's Board of Directors determines, among other things, the eligibility of individuals to participate in the Option Plan, the term and vesting periods, and the exercise price of options granted to individuals under the Option Plan.

The following is a summary of option issuances for the year ended May 31, 2022:

	2022		**2021**	
	Outstanding	**Weighted average exercise price**	**Outstanding**	**Weighted average exercise price**
	#	**$**	**#**	**$**
Balance at the beginning of the year	300,000	0.75	-	-
Pre RTO options revised	(300,000)	(0.75)	-	-
Outstanding as of December 17, 2021	-		-	
Options granted	775,755	0.29	300,000	0.75
Granted post RTO	4,125,000	1.00	-	-
Balance at the end of the year	**4,900,755**	**0.89**	**300,000**	**0.75**

There were no options that expired, forfeited, or were exercised during the years ended May 31, 2022, and 2021.

The following table is a summary of the Company's options outstanding as at May 31, 2022 and May 31, 2021:

As at May 31, 2022			As at May 31, 2021		
Outstanding	**Exercise price**	**Expiry date**	**Outstanding**	**Exercise price**	**Expiry date**
#	**$**	**$**			
775,755	0.29	May 31, 2026	300,000	0.75	May 31, 2026
2,900,000	1.00	December 17, 2026			
400,000	1.00	June 22, 2022			
100,000	1.00	October 25, 2026			
400,000	1.00	January 9, 2027			
100,000	1.00	January 30, 2027			
225,000	1.00	March 23, 2027			
4,900,755	**0.89**		**300,000**	**0.75**	

After reversing an accumulated balance of $83,410, for the year ended May 31, 2022, $3,018,490 was recognized in options reserve and share-based compensation. For the year ended May 31, 2021, $83,410 was recognized in options reserve and share-based compensation.

(d) Warrants

	2022		2021	
	Outstanding	**Weighted average exercise price**	**Outstanding**	**Weighted average exercise price**
	#	**$**	**#**	**$**
Balance at the beginning of the year	279,856	0.75	-	-
Pre-RTO options revised	(279,856)	(0.73)	-	-
Outstanding as of December 17, 2021	-			
Options granted	723,651	0.28	279,856	0.73
Granted post RTO	1,081,992	1.00	-	-
Exercised	(209,406)	0.28	-	-
Balance, May 31, 2022	**1,596,237**	**0.77**	**279,856**	**0.73**

The following table is a summary of the Company's warrants issuance as of May 31, 2022 and May 31, 2021:

As at May 31, 2022			As at May 31, 2021		
Outstanding	**Exercise price**	**Expiry date**	**Outstanding**	**Exercise price**	**Expiry date**
#	**$**	**$**			
437,044	0.28	May 1, 2026	250,000	0.73	May 31, 2026
77,201	0.28	May 1, 2023	29,856	0.73	May 31, 2023
1,081,992	1.00	December 17, 2023			
1,596,237	**0.77**		**279,856**	**0.73**	

After reversing an accumulated balance of $11,375 from share issuance cost and $25,411 from share-based compensation, for the year ended May 31, 2022, $1,340,109 was recognized in warrants reserve and share-based compensation. For the year ended May 31, 2021, $36,786 was recognized as share-based compensation.

(e) Escrowed Securities

As per the Escrow Agreement signed on December 17, 2021, between the Company and Odyssey Trust Company in connection with the RTO, the Company's 21,218,097 shares and 775,755 options beneficially owned by certain directors and officers of the Company were placed in escrow with an escrow agent. 1/4 of these shares and options were released on December 20, 2021. The remaining escrowed securities to be released from escrow are as follows:

- 1/3 of the remaining escrowed securities are to be released on June 20, 2022;
- 1/2 of the remaining escrow securities are to be released on December 20, 2022;
- Any remaining escrow securities are to be released on June 20, 2023;

As of May 31, 2022, 15,906,076 common shares are held in escrow. Additionally, 10,000 shares in Clearing and Depository Services are to be added to the escrow.

(f) Voluntary pooling arrangement

In addition, 33,038,265 common shares were subject to a voluntary pooling arrangement pursuant to which common shares are subject to resale restrictions.

- 25% of these shares were released on December 17, 2021,
- 25% were released on March 17, 2022
- Remaining 50% are be released on June 17, 2022

As of May 31, 2022, 16,519,157 common shares are subject to resale restrictions.

7. EQUIPMENT

Equipment is as follows:

	$
Cost	
Balance, May 31, 2021	2,798
Additions	1,387
Balance, May 31, 2022	**4,185**
Accumulated amortization	
Balance, May 31, 2021	-
Charge for the period	1,202
Balance, May 31, 2022	**1,202**
Net book value:	
May 31, 2021	2,798
May 31, 2022	2,983

8. RELATED PARTY TRANSACTIONS

Key management includes personnel having the authority and responsibility for planning, directing and controlling the Company as a whole. The Company has determined its key management personnel to be executive officers and directors of the Company.

a) Included in accounts payable as at May 31, 2022 is $16,544 (May 31, 2021 - $4,882) payable to a shareholder who has 27.84% of the Company's shares in exchange for USDC (USD Coin, a fiat-backed digital asset coin) and SOL digital currency.

b) Included in professional fees, are expenses for the year ended May 31, 2022 are $189,374 incurred with officers of the Company (2021 - $nil) and Consulting fees for the year ended May 31, 2022, equal to $310,108, incurred with officers of the Company (2021 - $36,621).

c) Included in the share-based compensation for the year ended May 31, 2022 is $2,600,017 incurred with directors and officers of the Company (2021 – nil).

9. FINANCIAL INSTRUMENTS

	As at May 31, 2022	As at May 31, 2021
	$	$
FVTPL, measured at fair value		
Assets		
Cash and cash equivalents	418,061	2,176,609
Amounts receivable	1,515	63
USD coin	20,078,344	-
Receivable from decentralized platforms	1,365,211	-
Financial liabilities, measured at amortized costs:		
Accounts payable and accrued liabilities	447,492	111,900

The Company has determined the estimated fair value of its financial instruments, if any, based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. The fair values of the Company's financial instruments, if any, are not materially different from their carrying values.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in levels 1 to 3 of the fair value hierarchy based on the degree to which inputs used in measuring fair value is observable:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. There are no financial instruments measured at fair value which are classified as Level 1.

Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). Receivable from decentralized platforms and USD coin as indicated in the statement of financial position are classified as level 2 financial instruments.

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Company does not have any level 3 financial instruments.

Risk exposure and management

The Company's financial instruments are exposed to certain financial risks, which include the following:

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The maximum exposure to credit risk at the reporting date to recognized financial assets is the carrying amount of cash and cash equivalents, USD coin and receivable from decentralized platforms as disclosed in the statement of financial position. The Company does not hold any collateral.

The Company manages credit risk, in respect of cash and cash equivalents, by maintaining bank accounts at highly rated financial institutions. The USD coin position is held with Anchorage, a federally chartered crypto bank in the U.S. The Company performs due diligence checks before investing in any decentralized platforms. As at May 31, 2022 and 2021, these financial assets are not impaired.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations when they become due. The Company manages liquidity risk by maintaining adequate cash reserves, by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. In addition, as outlined above the daily liquidity management function monitors and manages amounts deposited with digital asset custodians.

As at May 31, 2022 and 2021, the Company had working capital of $21,529,000 and $2,080,823, respectively.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and price risk. These are discussed further below.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's interest-bearing financial instruments is limited to its cash and cash equivalents and therefore is not exposed to significant interest rate risk.

(e) Foreign currency risk

Currency risk relates to the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company holds positions in various crypto currencies which have a market value stated in US dollars. Exchange rate fluctuations affect the costs that the Company incurs in its operations. The Company's presentation currency is the US dollar and major purchases are transacted in US dollars. The fluctuation in foreign currencies in relation to the Canadian dollar will consequently impact the profitability of the Company and may also affect the value of the Company's assets and liabilities.

Other than the operating cost incurred in CAD, the Company has CAD deposited in the bank and held on the

crypto currency exchange. Had the United States dollar strengthened or weakened by 1% in relation to all currencies as at May 31, 2022, with all other variables remaining constant, net loss and comprehensive loss for the period would have increased or decreased by $21 (2021 - $58).

(f) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company shorts the contracts underlying of digital assets inventory on exchanges to minimize the value fluctuation of digital assets and receivable from decentralized platforms. Had the value of the contracts increased or decreased by 10% as at May 31, 2022, with all other variables remaining constant, net loss and comprehensive loss for the period would have increased or decreased by $68,623. (2021 – nil)

10. DIGITAL ASSETS

Digital assets classified as Inventories ("IAS 2") are measured at fair value less cost to sell changes in fair value recognized in profit or loss. The balance of digital assets as at the May 31, 2022, and 2021 are as follows:

	2022	2021
	$	$
Digital assets	13,119	6,676

11. DIGITAL ASSETS RISK

Access to digital assets can be disrupted by a number of matters including:

- Loss of access risk, such as to private keys;
- Irrevocable transactions given that transactions cannot be changed or corrected once a transaction has been verified and recorded on the blockchain;
- Fluctuations in digital asset prices due to global forces, interest rate, exchange, inflation, political/economic conditions;
- Vulnerability of crypto networks to hacking; and
- Unregulated crypto exchanges.

Smart contract risk

DeFi, in several ways, substitutes custodial risk prevalent with centralized finance platforms with smart contract risk, allowing hackers and attackers to seize funds and tokens escrowed in smart contracts. Smart contracts are constantly exploited across the blockchain ecosystem, with hackers taking advantage of flaws in the code. DeFi smart contracts are managed using admin keys. These allow the key holder to make significant changes to the code, such as protocol upgrades. One way cyberattacks occur is when hackers gain control of private or admin keys, allowing them to deplete all or some of the liquidity within pools of certain projects, among others.

As at May 31, 2022, the smart contract risk is limited to the receivable from decentralized platforms $1,365,211 (2021 – nil).

Reliance on Decentralized Exchanges (DEXs)

As a liquidity provider on a variety of decentralized protocols and applications, Liquid Meta is dependent on these public DEXs in the normal course of business. There is no guarantee that DEXs will continue to scale or upgrade over time such that their functionality improves or continues to be used by users. Additionally, the risks inherent to public blockchains, such as smart contract risks or cybersecurity risks, continue to apply to DEXs. There is also no certainty as to the future regulatory environment regarding DEXs or DeFi and any adverse changes could substantially impact our ability to conduct our business.

Reliance on Centralized Exchanges (CEXs)

As a liquidity provider to DeFi projects and platforms, Liquid Meta rely on centralized exchanges such as Kraken, FTX and Binance. It is necessary for exchanging capital with the Company's traditional banking partners. The Company exchanges fiat and other forms of capital into digital assets that can then be used across various protocols and applications. Liquid Meta will also from time to time hold some of its assets including traditional fiat currencies (notably USD) on these CEXs. Liquid Meta is reliant on these CEXs for the exchange of fiat/digital assets and at times the custodial services they provide for capital not being deployed on the DEXs. Any change to the CEXs business models, practices, ability to custody assets, ability to send or receive payments, solvency, swap or exchange assets, or be subject to security breaches or hacks could have a meaningful impact on Liquid Meta's operations and potential loss of some or all of our assets.

Regulatory changes or actions may alter the nature of an investment in the Company or restrict the use of digital assets in a manner that adversely affects the Company's operations.

Due to their global nature, digital assets are subject to regulatory fragmentation due to different treatment depending on jurisdiction. Certain governments have categorized cryptocurrencies as illegal while others have embraced their utility and have approved them for trade. Ongoing and/or future regulatory actions may alter the ability of the Company or any digital assets that the Company may stake, exchange, trade, mine, harvest, purchase or sell impossible to predict and may have a substantial impact on the Company's business operations. Governments may take regulatory actions that prohibit or restrict the right to acquire, own, hold, sell, use or trade digital assets, or to exchange digital assets for fiat currency.

12. REVENUE FROM DIGITAL ASSETS, NET

During the year ended May 31, 2022, components of revenue earned from cryptocurrencies classified as inventory are:

	2022	2021
Realized gain on sale of cryptocurrencies	4,742,230	-
Unrealized (loss) gain, net	(1,763)	58
	4,740,467	58

13. SECURITY BREACH – RONIN NETWORK

On March 29, 2022, the Ronin Network announced a security breach whereby the Sky Mavis' Ronin validator nodes were compromised, resulting in 173,600 Ethereum and 25.5M USD coin being drained from the Ronin bridge in two transactions. As a result of the hack, certain DEXs and the Ronin blockchain were halted and the support teams of the Ronin blockchain immediately attempted to try and recover these funds. A number of the DEXs resumed trading activities.

While the Company did not have any direct exposure to the hack and none of the Liquid Meta's position on the Ronin bridge were stolen, it had approximately $2.3 million of exposure on the Ronin network DEX at the date of the hack. On April 6, 2022, Sky Mavis announced that it had successfully raised $150M from lead investors in order to return some of the funds that were stolen as a result of the hack and that the Ronin bridge is officially open and ready for use. Users including liquidity providers such as Liquid Meta have been able to make deposits and withdrawals to and from the Ronin (RON) network since that date.

None of Liquid Meta's exposure to the Ronin Network security breach resulted in a material reduction of its capital base and Liquid Meta is able to continue collecting fees from the liquidity pools mining for the full duration of the bridge closure. At year-end, the value of tokens held within the Ronin network amounted to $855,789, $678,980 of which is in USD coin.

14. SUBSEQUENT EVENTS

(a) Stock option issuance

On July 5, 2022, the Company issued 50,000 options at an exercise price of $1.00 to an employee. The options expire on July 5, 2025. The vesting schedule is as follows:

- 12,500 options shall vest on October 5, 2022;
- 12,500 options shall vest on July 5, 2023;
- 12,500 options shall vest on July 5, 2024; and
- 12,500 options shall vest on July 5, 2025.

(b) Digital assets loan

On May 5, 2022, the Company entered into an agreement to receive loan in US Dollars or digital assets from a related party. On June 10, 2022, $2,000,000 was received in digital assets. With a maturity date of 12 months from the loan start date, the terms of lending arrangement are as follows:

- fixed monthly payment of 0.5% of the value of the loaned digital assets, accrued and payable monthly in arrears; and
- and a variable fee payment representing 50% of the return generated via the deployment of the loaned assets by the borrower through decentralized blockchain protocols and related platforms and which return shall consist primarily of transaction fee revenues and token rewards (or the proceeds derived therefrom).

(c) OTCQB Exchange

On July 25, 2022, the Company commenced trading at the open of the market on the OTCQB Exchange under the Ticker Symbol "LIQQF". "OTCQB" is the over-the-counter (OTC) market exchange for the middle tier of three marketplaces for trading OTC stocks offered by the OTC Markets Group.

Existing U.S. shareholders of Liquid Meta shares, previously quoted on the OTC Pink Open Market, will now be quoted on the OTCQB without any further action needed.

(d) Security Breach – Crema Finance

Crema Finance ("Crema") is a concentrated liquidity protocol on Solana blockchain. Liquid Meta is one of the largest liquidity providers on Crema and it has deposited $1,460,395 (in USD tether and USD coin) in Crema's liquidity pools subsequent to May 31, 2022.

On July 2, 2022, a vulnerability in the ticks account caused an exploit on 'Crema Finance'. A total of $1,460,395 funds were stolen because of the vulnerability on the platform. Crema was able to negotiate the return of 84% of the compromised funds from the hacker, the remaining 16% was to be paid as a ransom to the hacker. Crema repaid 84% of the liquidity funds provided in USDC and USDT stable coins to all their liquidity providers proportionately, including Liquid Meta. The remaining 16% was paid back in Crema tokens which vest in equal monthly installments for 12-months starting August 1, 2022.

Accordingly, the Company received 792,578.79 in USDT and 433,913.88 in USDC on July 15, 2022. Out of the remainder (16%) receivable in CRM tokens, 1/12 (190,725.888986 CRM tokens) were received on August 1, 2022.