



LIQUID META CAPITAL HOLDINGS LTD.

CONDENSED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in US dollars)

For the three months and six months ended November 30, 2022 and 2021

LIQUID META CAPITAL HOLDINGS LTD.
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
As at November 30, 2022 and May 31, 2022
(Unaudited - Expressed in US dollars)

	Notes	As at November 30, 2022	As at May 31, 2022
		\$	\$
Assets			
Current			
Cash and cash equivalents	7	14,184,509	418,061
Due from broker	7	1,314,789	-
USD coin	7	292,767	20,078,344
Receivable from decentralized platforms	7, 9	1,017,846	1,365,211
Digital assets	8, 9	126,873	13,120
Amounts receivable	7	1,512	1,515
Prepaid expenses		27,077	100,242
Total current assets		16,965,373	21,976,493
Non-current assets			
Equipment	5	6,867	2,983
Total non-current assets		6,867	2,983
Total assets		16,972,240	21,979,476
Liabilities			
Current			
Accounts payable and accrued liabilities	6, 7	543,657	447,493
Digital assets sold short	7	1,013,415	-
Digital asset loans payable - USD coin	7	9,685	-
Total liabilities		1,566,756	447,493
Shareholders' equity			
Share capital	4	24,505,884	24,505,884
Options reserve	4	3,379,108	3,101,900
Warrants reserve	4	1,229,119	1,164,492
Accumulated deficit		(13,708,628)	(7,240,293)
Total shareholders' equity		15,405,483	21,531,983
Total liabilities and shareholders' equity		16,972,240	21,979,476

Subsequent events (note 11)

These condensed interim financial statements were approved for issuance on January 12, 2023 by the Board of Directors and signed on its behalf by:

/s/ Jonathan Wiesblatt (signed)

CEO

/s/ Sindy Shorser (signed)

CFO

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

LIQUID META CAPITAL HOLDINGS LTD.

CONDENSED INTERIM STATEMENT OF LOSS AND COMPREHENSIVE LOSS
For the three months and six ended November 30, 2022 and 2021
(Unaudited - Expressed in US dollars)

	Notes	For the three months ended November 30, 2022		For the six months ended November 30, 2021	
		\$	\$	\$	\$
Revenues					
Net changes in fair value of receivable from decentralized platforms		(684,051)	176,229	(311,802)	676,204
<i>Reward tokens</i>		198,353	164,371	382,581	340,970
<i>Staking</i>		123,186	23,858	135,516	46,234
<i>Trading fee</i>		5,199	-	230,081	-
<i>Realized and unrealized gains/(losses)</i>		(1,010,789)	(12,000)	(1,059,980)	289,000
Net changes in fair value of digital assets sold short	10	(36,702)	(26,371)	(208,203)	(331,216)
Other Revenue		995	-	995	-
Loss from Entity Exposures		(3,912,599)	-	(3,912,599)	-
Expenses		(4,632,357)	149,858	(4,431,609)	344,988
Share based compensation	4, 6	(19,793)	(20,536)	(341,835)	(92,533)
Professional fees	6	(276,252)	(169,566)	(529,364)	(283,749)
Advertising, marketing and investor relations		(14,358)	(13,678)	(37,679)	(15,491)
General and administrative expenses		(217,992)	(11,859)	(426,850)	(15,906)
Information technology		(41,779)	(22,962)	(88,226)	(44,858)
Research and development		(154,919)	(7,500)	(265,290)	(13,167)
Direct transaction costs		(277,218)	(8,457)	(349,557)	(30,988)
Depreciation	5	(807)	(272)	(1,614)	(505)
Exchange gain (loss)		(938)	41	3,689	(45,213)
Net loss and comprehensive loss		(1,004,056)	(254,789)	(2,036,726)	(542,410)
		(5,636,413)	(104,931)	(6,468,335)	(197,422)
Basic loss per common share		(0.10)	(0.01)	(0.12)	(0.02)
Diluted loss per common share		(0.10)	(0.01)	(0.12)	(0.02)
Weighted average number of common shares outstanding - basic		53,837,246	11,668,804	53,837,246	11,635,030
Weighted average number of common shares outstanding - diluted		53,837,246	11,668,804	53,837,246	11,635,030

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

LIQUID META CAPITAL HOLDINGS LTD.

CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended November 30, 2022 and 2021

(Unaudited - Expressed in US dollars)

	Notes	Share capital			Reserves			Total
		Number of shares	Amount	Options	Warrants	Deficit	Total	
		#	\$	\$	\$	\$	\$	
Balance as at May 31, 2021	4	11,601,623	2,129,031	83,410	36,786	(165,605)	2,083,622	
Shares issued		892,636	2,249,999	-	-	-	2,249,999	
Share issuance cost		-	(157,500)	-	-	-	(157,500)	
Share based compensation	4	-	-	29,459	63,074	-	92,533	
Net loss and comprehensive loss for the period		-	-	-	-	(197,422)	(197,422)	
Balance as at November 30, 2021		12,494,259	4,221,530	112,869	99,860	(363,027)	4,071,232	

	Notes	Share capital			Reserves			Total
		Number of shares	Amount	Options	Warrants	Deficit	Total	
		#	\$	\$	\$	\$	\$	
Balance as at May 31, 2022	4	53,837,246	24,505,884	3,101,900	1,164,492	(7,240,293)	21,531,983	
Share based compensation	4	-	-	250,171	64,627	-	314,798	
Net loss and comprehensive loss for the period		-	-	-	-	(6,468,335)	(6,468,335)	
Balance as at November 30, 2022		53,837,246	24,505,884	3,352,071	1,229,119	(13,708,628)	15,378,446	

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

LIQUID META CAPITAL HOLDINGS LTD.

CONDENSED INTERIM STATEMENT OF CASH FLOWS

For the six months ended November 30, 2022 and 2021

(Unaudited - Expressed in US dollars)

For the six months ended	Notes	November 30, 2022	November 30, 2021
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the period		(6,468,335)	(197,422)
Adjustments for non-cash items:			
Share based compensation	4, 6	341,835	92,533
Depreciation	5	1,614	505
Net changes in fair value of receivable from decentralized platforms		(311,802)	87,429
Changes in non-cash working capital:			
Due from broker	7	(1,314,789)	(340,908)
USD coin	7	19,785,577	-
Receivable from decentralized platforms	7, 9	347,365	-
Digital assets	8, 9	198,049	(1,539,774)
Amounts receivable		4	-
Prepaid expenses		73,165	(123,000)
Accounts payable and accrued liabilities	7	96,163	355,844
Digital assets sold short	7	1,013,415	25,744
Digital asset loans payable – USD coin	7	9,685	-
		13,771,946	(1,639,049)
CASH FLOWS FROM INVESTING ACTIVITY			
Purchase of equipment	5	(5,498)	(1,387)
		(5,498)	(1,387)
CASH FLOWS FROM FINANCING ACTIVITIES			
Shares issued		-	2,249,999
Share issuance cost		-	(157,500)
		-	2,092,499
Net (increase)/decrease in cash and cash equivalents		13,766,448	452,063
Cash and cash equivalents, beginning of period		418,061	2,176,609
Cash and cash equivalents, end of period		14,184,509	2,628,672

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

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. During the quarter, the Company continued building proprietary software and tools to access, automate, and scale operations within the decentralized finance (“DeFi”) segment of the cryptocurrency industry. On December 21, 2022, the Company announced that it initiated a process to evaluate potential strategic alternatives and that it was pausing the development of its proprietary software. Please refer to Subsequent Events Note Disclosure (Note 11) for additional details.

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

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 condensed interim financial statements retroactively. On December 22, 2021, the Company’s common shares were listed on the NEO Exchange Inc. under the symbol “LIQD”.

2. BASIS OF PRESENTATION

Basis of preparation

These Unaudited Interim Condensed Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) as applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting and interpretations of the IFRS Interpretation Committee. Accordingly, certain disclosures included in the annual financial statements prepared in accordance with IFRS as issued by the IASB have been condensed or omitted and these Unaudited Interim Condensed Financial Statements should be read in conjunction with the Company’s Audited Financial Statements for the year ended May 31, 2022.

Basis of measurement

These Unaudited Interim Condensed Financial Statements have been prepared on a historical cost basis, except for financial instruments classified at fair value through profit or loss, which are stated at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

3. SIGNIFICANT ACCOUNTING POLICIES

1) Borrowing of digital assets

The Company enters into arrangements with counterparties to borrow digital assets. The Company recognizes the digital assets borrowed at fair value on the date the asset is received and records a corresponding obligation to return the borrowed asset in the same amount within digital asset loans payable on the Unaudited Condensed Interim Statement of Financial Position. Digital asset loans payable in cryptocurrencies other than USD coin are subsequently measured at fair value through profit or loss, and changes in fair value are recognized in profit or loss. The digital assets received from borrowing transactions are accounted for as inventory, and changes in fair value less costs to sell are recognized in profit or loss. Digital assets borrowed are included within digital assets on the Unaudited Condensed Interim Statement of Financial Position. The obligation is fulfilled by returning digital assets in accordance with the contractual terms of the borrowing agreements.

LIQUID META CAPITAL HOLDINGS LTD.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended November 30, 2022 and 2021

(Unaudited - Expressed in US dollars)

- 2) In addition to the significant accounting policies noted above, these Unaudited Interim Condensed Financial Statements and the accompanying notes were prepared using the accounting policies described in Note 3 of the Company's Audited Financial Statements for the year ended May 31, 2022.

- 3) *Newly adopted standards, amendments and interpretations*

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on June 1, 2022, that have a material effect on the Unaudited Condensed Interim Financial Statements of the Company.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after June 1, 2022 and have not been early adopted in preparing these Unaudited Condensed Interim Financial Statements. None of these are expected to have a material effect on the Unaudited Condensed Interim Financial Statements of the Company.

These Unaudited Interim Financial Statements were approved and authorized for issuance by the Board of Directors on January 12, 2023.

LIQUID META CAPITAL HOLDINGS LTD.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended November 30, 2022 and 2021

(Unaudited - Expressed in US dollars)

4. SHAREHOLDERS' EQUITY

(a) Authorized share capital

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

(b) Shares issued

There were no shares issued during the six months ended November 30, 2022.

(c) Stock options

The movement in stock options for six months ended November 30, 2022 is summarized as follows:

	Outstanding	Weighted average exercise price
	#	\$
Balance, May 31, 2021	300,000	0.75
Pre RTO options revised	(300,000)	(0.75)
Outstanding as of December 17, 2021	-	-
Options granted	775,755	0.29
Granted post RTO	4,125,000	1.00
Balance, May 31, 2022	4,900,755	0.89
Options granted	150,000	0.90
Options Reversed	(596,963)	1.00
Balance, November 30, 2022	4,453,792	0.89

There were 596,963 options (\$262,642) that were reversed due to resignations or terminations of certain option holders during the period. There were no options exercised during the six months ended November 30, 2022. The following table is a summary of the Company's options outstanding as at November, 2022:

As at November 30, 2022		
Outstanding	Exercise price	Expiry date
#	\$	
775,755	0.29	May 31, 2026
2,000,000	1.00	December 17, 2026
400,000	1.00	November 28, 2022
100,000	1.00	September 20, 2022
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
56,250	1.00	November 30, 2022
21,787	1.00	February 28, 2023
100,000	0.80	September 9, 2027
4,453,792	0.89	

For the six months ended November 30, 2022, with a reversal of \$262,642, the Company recorded net share-based compensation expense of \$341,835 on stock options and \$3,379,108 was cumulatively recognized in options reserve as at that date.

LIQUID META CAPITAL HOLDINGS LTD.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended November 30, 2022 and 2021

*(Unaudited - Expressed in US dollars)**(d) Warrants*

The movement in warrants for six months ended November 30, 2022 is summarized as follows:

	Outstanding	Weighted average exercise price
	#	\$
Balance, May 31, 2021	279,856	0.73
Pre RTO warrants revised	(279,856)	(0.73)
Outstanding as of December 17, 2021	-	-
Warrants granted	723,651	0.28
Granted post RTO	1,081,992	1.00
Exercised	(209,406)	0.28
Balance, May 31, 2022	1,596,237	0.77
Warrants granted	-	-
Balance, November 30, 2022	1,596,237	0.77

The following table is a summary of the Company's warrants outstanding as at November 30, 2022:

As at November 30, 2022		
Outstanding	Exercise price	Expiry date
#	\$	
437,044	0.28	May 1, 2026
77,201	0.28	May 1, 2023
1,081,992	1.00	December 17, 2023
1,596,237	0.77	

For the six months ended November 30, 2022, the Company recorded share-based compensation expense of \$64,627 on warrants and \$1,229,119 was cumulatively recognized in warrants reserve as at that date.

Liquid Meta Capital Holdings Ltd.

Notes to Condensed Interim Financial Statements

For the six months ended November 30, 2022 and 2021

(Unaudited - Expressed in US dollars)

5. EQUIPMENT

Equipment is as follows:

Cost	\$
Balance, May 31, 2021	2,798
Additions	1,387
Balance, May 31, 2022	4,185
Additions	5,498
Balance, November 30, 2022	9,683
Accumulated amortization	
Balance, May 31, 2021	-
Charge for the period	1,202
Balance, May 31, 2022	1,202
Charge for the period	1,614
Balance, November 30, 2022	2,816
Net book value:	
As at November 30, 2021	3,680
As at November 30, 2022	6,867

6. RELATED PARTY

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) Accounts payable and accrued liabilities include amounts payable to related party as below:

Payable to	As at November 30, 2022	As at November 30, 2021
Officers of the Company	22,007	61,741
Shareholder*	16,544	16,544
TOTAL PAYABLE	65,344	95,145

*Payable to a shareholder who has 27.84% of the Company's shares in exchange for USD coin and SOL digital currency

- b) Included in professional fees for the three months ended November 30, 2022, is \$ (November 30, 2021 - \$175,550) incurred with the officers of the Company.
- c) Included in the share-based compensation for the three months ended November 30, 2022, is \$218,212 (November 30, 2021 – Nil) incurred with directors and officers of the Company.

Liquid Meta Capital Holdings Ltd.

Notes to Condensed Interim Financial Statements

For the six months ended November 30, 2022 and 2021

(Unaudited - Expressed in US dollars)

7. FINANCIAL INSTRUMENTS

	As at November 30, 2022	As at May 31, 2022
Financial assets, FVTPL, measured at fair value		
Receivable from decentralized platforms*	1,017,846	1,365,211
Financial assets, measured at amortized costs		
Cash and cash equivalents		
Restricted	-	-
Non-restricted	14,184,509	418,061
Amounts receivable	1,512	1,515
USD coin	292,767	20,078,344
Due from broker	1,314,789	-
Financial liabilities, FVTPL, measured at fair value		
Digital asset loans payable	-	-
Financial liabilities, measured at amortized costs		
Accounts payable and accrued liabilities	543,657	447,493
Digital asset loans payable – USD coin	9,685	-
Digital assets sold short	1,013,415	-

*“Receivable from decentralized platforms” does not include any USD Coin or other digital asset as of November 30, 2022 as collateral within various decentralized applications (\$7,843,505 worth of USD coin as of May 31, 2022 is used as collateral).

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.

Liquid Meta Capital Holdings Ltd.

Notes to Condensed Interim Financial Statements

For the six months ended November 30, 2022 and 2021

(Unaudited - Expressed in US dollars)

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, receivable from broker 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 Company performs due diligence checks before investing in any decentralized platforms. As at November 30, 2022, the following financial assets were deemed to be impaired:

The Company held assets with the exchange FTX and had net assets exposed totaling \$3,912,599 as of November 11, 2022, following its bankruptcy filing. This comprised of the following:

	As of November 11, 2022
	\$
Assets	
USD coin	4,860,126
Digital Assets	43,035
	4,930,161
Liabilities	
Digital Loans Payable	990,562
Net Assets	3,912,599

The Company has decided to write off the above assets in its accounts at this time, given the uncertainty surrounding both the recoverable amount and its timing.

(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 November 30, 2022, the Company had working capital of \$15,398,617 (As at May 31, 2022 - \$21,529,000)

(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.

Liquid Meta Capital Holdings Ltd.

Notes to Condensed Interim Financial Statements

For the six months ended November 30, 2022 and 2021

(Unaudited - Expressed in US dollars)

I. 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 has leverage facilities in place and its digital asset loans payables in various digital assets come with a rate of interest ranging from 2.8% to 25.9% annually. The Company's digital asset loans payable in various digital assets can be settled in digital assets at the option of the borrower. As of November 30, 2022, the Company's interest-bearing financial instruments is limited to its cash and cash equivalents and digital asset loans payable in USD coin and other crypto currencies. There is no significant interest rate risk as the interest bearing financial instruments were settled as of November 30, 2022.

II. Foreign 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. 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 Canadian dollars, the Company held Canadian dollars on an exchange. Had the United States dollar strengthened or weakened by 1% in relation to all currencies as at November 30, 2022, with all other variables remaining constant, net loss and comprehensive loss for the period would have increased or decreased by \$7. (May 31, 2021 - \$21).

III. 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.

Receivable from decentralized platforms includes underlying digital assets with prices that are volatile and affected by various factors including global supply and demand, interest rates, exchanges rates, inflation or deflation and the political and economic conditions. Supply and demand for such assets rapidly change from time to time affecting by regulations and general economic trends. A decline in the market prices of digital assets could impact the Company's future operations. The management of the Company constantly monitors the exposure in response to the market conditions.

The Company shorts the contracts underlying of digital assets inventory on exchanges to minimize the value fluctuation of receivable from decentralized platforms. The Company is exposed to price risk on receivable from decentralized platforms. Had the value of receivable from decentralized platforms increased or decreased by 10% as at November 30, 2022, with all other variables remaining constant, net loss and comprehensive loss for the period would have increased or decreased by \$101,785 (May 31, 2022 - \$1,365,211)

Liquid Meta Capital Holdings Ltd.

Notes to Condensed Interim Financial Statements

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(Unaudited - Expressed in US dollars)

8. 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 November 30, 2022 and May 31, 2022 are as follows:

	November 30, 2022	May 31, 2022
	\$	\$
Digital assets	126,873	13,120

9. 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.

(a) 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 November 30, 2022, the smart contract risk is limited to the receivable from decentralized platforms of \$1,017,846 (May 31, 2022—\$1,365,211).

(b) Reliance on Decentralized Exchanges (DEXs) BAN

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.

(c) Reliance on Centralized Exchanges (CEXs)

As a liquidity provider to DeFi projects and platforms, Liquid Meta relies 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

Liquid Meta Capital Holdings Ltd.

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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.

(d) Price risk relating to digital assets

Digital asset prices are volatile and affected by various factors including global supply and demand, interest rates, exchanges rates, inflation or deflation and the political and economic conditions. Supply and demand for such assets rapidly change from time to time affecting by regulations and general economic trends. A decline in the market prices of digital assets could impact the Company's future operations. The management of the Company constantly monitors the exposure in response to the market conditions.

As at November 30, 2022, if the prices of digital assets (excluding USD coin and receivable from decentralized platforms) held by the Company had decreased by 10% in the principal markets with other variables held constant, the impact on net loss and comprehensive net loss arising from changes in fair value of digital assets would have been \$12,687 lower (As at May 31, 2022 – 1,312). If the prices of digital assets (excluding USD Coin and receivables from decentralized platforms) had been 10% higher and all other variables were held constant, net loss and comprehensive loss for the period would increase by \$12,687 (As at May 31, 2022 – 1,312).

10. NET CHANGES IN FAIR VALUE OF DIGITAL ASSETS SOLD SHORT

During the three and six months ended November 30, 2022, and 2021 components of revenue earned from contracts sold short are:

	For the three months ended		For the six months ended	
	November 30		November 30	
	2022	2021	2022	2021
	\$	\$	\$	\$
Realized loss from contracts sold short	153,655	61,939	509,577	315,164
Unrealized (loss) gain, net	(116,954)	(35,567)	(301,374)	16,053
	36,702	26,371	208,203	331,216

Liquid Meta Capital Holdings Ltd.

Notes to Condensed Interim Financial Statements

For the six months ended November 30, 2022 and 2021

(Unaudited - Expressed in US dollars)

11. SUBSEQUENT EVENTS

Unstaking of Digital Assets

Certain digital assets were scheduled to be un-staked but were subject to a 21 day unlock period. As such, \$1,017,846 of digital assets were still staked as of November 30, 2022. In addition, the company hedged against the price risk of these assets until they were fully unlocked. Both positions were closed immediately following completion of the un-staking of the assets on December 5, 2022. The net result of these positions is a gain of \$32,226.

Exploration of Strategic Alternatives

On December 21, 2022, the Company announced that its Board of Directors initiated a process to evaluate potential strategic alternatives to preserve or maximize shareholder value. As part of the process, the Board will consider a range of options that may include, but are not limited to, a sale, merger, divestiture, return of capital, other strategic transactions, or continuing to operate as an independent public company. There can be no assurance that the evaluation of strategic alternatives will result in any strategic alternative, or any assurance as to its outcome or timing. The Company has not set a timetable for completion of the process and does not intend to disclose developments related to the process unless and until the evaluation of strategic alternatives has been completed or the Board of Directors has concluded it is necessary or appropriate.

Discontinued Development of the MetaBridge

On December 21, 2022, the Company announced that in order to preserve the cash position of the Company, Liquid Meta has discontinued the development of the MetaBridge as well as any other related development work pending conclusion of the strategic alternative evaluation process (see "Exploration of Strategic Alternatives" disclosure in Note 11), plus taking other actions to immediately reduce cash burn to better position the Company for this strategic alternatives process.

Termination of additional options

On December 28, 2022, 3 employees were terminated along with their options as set out by each respective agreement. As per Equity Incentive Plan, in case of termination of an eligible participant, the number of options that may vest is subject to pro ration over the applicable vesting period and shall expire on the earlier of ninety days after the termination date, or the expiry date of the options. As such, 142,778 options will be terminated and reversed subsequently.