CLOUD NINE WEB3 TECHNOLOGIES INC.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three months ended December 31, 2022 and 2021
(In Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATMENTS

In accordance with National instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the Interim Financial Statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Cloud Nine Web3 Technologies Inc.

Condensed Interim Consolidated Statements of Financial Position

As at December 31, 2022 and September 30, 2022

(Expressed in Canadian dollars)

	Note	December 31, 2022	September 30, 2022
		$	$
Assets			
Current			
Cash and cash equivalents		840,494	1,104,535
GST recoverable		6,336	6,909
Prepaids and other assets	3	144,721	214,462
		991,551	1,325,906
Intangible assets	4	3,699,349	3,799,705
Investment	5	893,000	903,000
Derivative	5	845,000	861,000
Capital assets		1,658	2,012
		5,439,007	5,565,717
		6,430,558	6,891,623
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		181,286	211,640
Loans and borrowings	6, 7(c)(i)	100,000	158,415
		281,286	370,055
Shareholders' equity			
Share capital	8	16,826,468	16,817,468
Reserves		2,672,370	2,737,346
Deficit		(13,349,566)	(13,033,246)
		6,149,272	6,521,568
		6,430,558	6,891,623

Nature of operations and going concern	1
Subsequent event	3, 11

Approved on behalf of the Board of Directors:

(Signed) "*Allan Larmour*"
Director

(Signed) "*Kant Trivedi*"
Director

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

Cloud Nine Web3 Technologies Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss

Three months ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

	Note	Three months ended December 31, 2022	2021
		$	$
Expenses			
Amortization and depreciation	4	147,106	151,999
Investor and public relations		37,049	39,720
Insurance		20,164	20,000
Marketing		3,352	14,000
Office and administration	7(b)	21,561	34,435
Professional fees		31,004	101,983
Regulatory and transfer agent fees		9,831	31,553
Salaries and benefits	7(a)	92,575	69,931
Share-based compensation	8(d), 8(e)	66,514	81,525
Loss before other items		(429,156)	(545,146)
Other items			
Finance costs		(1,942)	(13,359)
Foreign exchange loss		(1,712)	(478)
Government grant	6	20,000	-
Unrealized gain (loss) on derivative	5	(16,000)	1,225,000
		346	1,211,163
Net loss (income) for the period		(428,810)	666,017
Other comprehensive income			
Unrealized gain on investment	5	(10,000)	1,413,000
Comprehensive (loss) income for the period		(438,810)	2,079,017
Net loss per share - basic and diluted		(0.01)	0.03
Weighted average number of shares outstanding		67,593,275	49,244,340

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

Cloud Nine Web3 Technologies Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

Three months ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

	Share capital		Reserves						
	Number	Amount	Stock Options and RSUs	Warrants	Convertible debentures	Accumulated comprehensive income	Total reserves	Deficit	Total
	#	$	$		$		$	$	$
Balance, September 30, 2022	68,122,653	16,817,468	1,298,211	790,135	-	649,000	2,737,346	(13,033,246)	6,521,568
Vested RSUs	150,000	9,000	(9,000)	-	-	-	(9,000)		
Share-based compensation	-	-	66,514	-	-	-	66,514	-	66,514
Cancelled and forfeited options	-	-	(112,490)	-	-	-	(112,490)	112,490	-
Comprehensive loss for the period	-	-	-	-	-	(10,000)	(10,000)	(428,810)	(438,810)
Balance, December 31, 2022	68,272,653	16,826,468	1,243,235	790,135	-	639,000	2,672,370	(13,349,566)	6,149,272
Balance, September 30, 2021	62,595,653	16,425,140	154,319	122,412	31,063	-	307,794	(9,041,518)	7,691,416
Share-based compensation	-	-	81,525	-	-	-	81,525	-	81,525
Forfeited options	-	-	(223,844)	-	-	-	(223,844)	223,844	-
Comprehensive loss for the period	-	-	-	-	-	1,413,000	1,413,000	666,017	2,079,017
Balance, December 31, 2021	62,595,653	16,425,140	12,000	122,412	31,063	1,413,000	1,578,475	(8,151,657)	9,851,958

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

Cloud Nine Web3 Technologies Inc.

Condensed Interim Consolidated Statements of Cash Flows

Three months ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

	Three months ended December 31,	
	2022	2021
	$	$
Operating activities		
Net loss for the period	(428,810)	666,017
Items not affecting cash:		
Amortization and depreciation	147,105	151,999
Share-based compensation	66,514	81,525
Accrued interest and accretion expense	1,585	12,722
Foreign exchange loss	1,712	478
Unrealized gain on derivative	16,000	(1,225,000)
Government grant	(20,000)	-
Changes in non-cash working capital items:		
GST recoverable	573	(3,307)
Prepaids and other assets	69,741	79,000
Accounts payable and accrued liabilities	(41,281)	(73,76173,761)
	(186,861)	(310,327)
Investing activities		
Intangible assets development costs	(37,180)	(29,778)
Investment and derivative	-	(250,000)
	(37,180)	(279,778)
Financing activities		
Repayment of loans and borrowings	(40,000)	-
	(40,000)	-
Decrease in cash and cash equivalents	(264,041)	(590,105)
Cash and cash equivalents, beginning of period	1,104,535	2,508,857
Cash and cash equivalents, end of period	840,494	1,918,752
Cash and cash equivalents consist of:		
Cash	40,494	1,118,752
GIC	800,000	800,000

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

1. Nature of operations and going concern

(a) Nature of operations

Cloud Nine Web3 Technologies Inc. (the "Company") was incorporated in the Province of British Columbia on April 14, 2015, under the Business Corporations Act of British Columbia.

The Company is a development stage technology issuer focused on developing and offering peer-to-peer or decentralized infrastructure products and related content including its proprietary Limitless VPN (Virtual Private Network).

The common shares of the Company are listed on the Canadian Securities Exchange (the "Exchange") under the symbol "CNI". The Company's registered office is located at 900 – 885 West Georgia Street, Vancouver, BC, V6C 3H1 and its head office is located at 610 – 700 West Pender Street, Vancouver, BC, V6C 1G8.

(b) Going concern

These condensed interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company has incurred losses and negative operating cash flows since inception. During the three months ended December 31, 2022, the Company incurred a net loss of $428,810 (2021 – net income of $666,017) and as of December 31, 2022, had an accumulated deficit of $13,349,566 (September 30, 2022 - $13,033,246). The continued operations of the Company are dependent on future profitable operations, management's ability to manage costs and the availability of equity and debt financings. Management is committed to raising additional capital to meet its financial obligations and commitments, fund its growth initiatives, capital expenditures and sustain its operations in the normal course of business. Although the Company has raised funds in the past, there can be no assurance that the Company will be able to secure additional adequate financing. These factors indicate the existence of material uncertainties that may cast significant doubt regarding the Company's ability to continue as a going concern. These condensed interim consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that may be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. Significant accounting policies

Basis of presentation and consolidation

These condensed interim consolidated financial statements (the "Financial Statements") have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Financial Statements should be read in conjunction with the Company's annual financial statements as at and for the year ended September 30, 2022 (the "Annual Financial Statements"). The accounting policies and critical estimates applied by the Company in the Financial Statements are the same as those applied in the Annual Financial Statements. The Financial Statements do not include all the information required for full annual financial statements, however, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the most recent Annual Financial Statements.

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

Basis of presentation and consolidation (continued)

The Financial Statements include the accounts of the Company and its wholly-owned subsidiary, BHR Capital Corp. ("BHR").

The Financial Statements were approved and authorized for issue by the Board of Directors of the Company on February 23, 2023.

3. Prepaids and other asset

As at December 31, 2022, included in other assets was a promissory note receivable (the "Note") of $105,000 (September 30, 2022 - $150,000). The Note was unsecured, bore interest at 15% per annum, compounded monthly, and matured on March 15, 2022. In July 2022, pursuant to a settlement agreement, the Note and legal fees of $15,000 were to be repaid by no later than October 15, 2022. The Note was fully settled subsequent to December 31, 2022.

4. Intangible assets

The changes in the carrying amount of intangible assets are as follows:

	IP Assets	Digital Curriculum	Total
	$	$	$
Cost			
Balance, September 30, 2021	5,231,500	402,972	5,634,472
Development costs	174,609	-	174,609
Balance, September 30, 2022	5,406,109	402,972	5,809,081
Development costs	46,397	-	46,397
Balance, December 31, 2022	5,452,506	402,972	5,855,478
Accumulated amortization			
Balance, September 30, 2021	-	339,849	339,849
Amortization	534,785	47,096	581,881
Impairment	1,087,646	-	1,087,646
Balance, September 30, 2022	1,622,431	386,945	2,009,376
Amortization	137,300	9,453	146,753
Balance, December 31, 2022	1,759,731	396,398	2,156,129
Net book value			
September 30, 2022	3,783,678	16,027	3,799,705
December 31, 2022	3,692,775	6,574	3,699,349

(Expressed in Canadian dollars)

5. Investment and derivative

The Company entered into a share purchase agreement dated June 28, 2021, as amended, with Next Decentrum Technologies Inc. ("Next Decentrum"), a private technology corporation focused on iconic art and culture non-fungible tokens ("NFTs") and emerging technologies pursuant to which the Company acquired an aggregate of 2,673,792 units of Next Decentrum at a price of $0.187 per unit for a total investment of $500,000. Each unit is comprised of one common share and one share purchase warrant exercisable at $0.2805 per share expiring December 31, 2026.

The share component of the investment is classified as equity investment at fair value through other comprehensive income (loss) (FVOCI). Based on Next Decentrum's closing price of $0.34 (US$0.246) from their last financing, the 2,673,792 shares had a fair value of approximately $893,000 as at December 31, 2022 (September 30, 2022 - $903,000). For the three months ended December 31, 2022, the Company recognized an unrealized loss on the fair value of the investment of $10,000 in OCI (2021 – unrealized gain of $1,413,000).

The warrant component of the investment is classified as a derivative at fair value through profit or loss (FVTPL). As at December 31, 2022, the fair value of the 2,673,792 warrants of $845,000 was estimated using the Black-Scholes pricing model based on the following weighted average assumptions: risk free rate of 3.41%; dividend yield of 0%; stock price volatility of 186%; and expected life of 4 years. For the three months ended December 31, 2022, the Company recognized an unrealized loss on the fair value of the derivative of $16,000 (2021 - unrealized gain of $1,225,000).

6. Loans and borrowings

The Company secured a loan in the aggregate amount of $60,000 from the Government of Canada under the Canada Emergency Business Account ("CEBA") COVID -19 relief loan. The loan carries no interest and matures on December 31, 2023. Under the terms of the loan, if the Company repays $40,000 on or before December 31, 2023, the remaining amount of $20,000 will be forgiven. During the three months ended December 31, 2022, the Company repaid $40,000 and the forgiven amount of $20,000 was classified as a government grant.

7. Related party transactions

Key management compensation for the three months ended December 31, 2022 and 2021 consisted of:

(a) Compensation of key management personnel

	Three months ended December 31,	
	2022	2021
	$	$
CEO management fee	30,000	-
CFO salary	58,575	41,250
Share-based compensation (1)	20,098	55,181

(1) Share-based compensation represents the fair value of options and RSUs vested to directors and officers of the Company.

(Expressed in Canadian dollars)

7. Related party transactions (continued)

(b) Related party transactions

	Three months ended December 31,	
	2022	2021
	$	$
Office and administration [1]	-	15,000

[1] Shared office expenses paid to a company with common directors and officers.

(c) Related party balances

The following related party amounts were included in (i) loans and borrowings and (ii) accounts payable and accrued liabilities as at December 31, 2022 and September 30, 2022:

	December 31, 2022	September 30, 2022
	$	$
(i) Loan from a former director [1]	100,000	100,000
(ii) Due to directors and an officer [2]	50,000	50,000

[1] Pursuant to a promissory note dated September 30, 2014, the loan is unsecured, non-interest bearing and due on September 30, 2015. The loan was extended to December 1, 2016, for a one-time interest charge of $20,000.

[2] Amount due is unsecured, non-interest-bearing and without fixed terms of repayment.

8. Share capital

(a) Authorized

The authorized share capital of the Company is an unlimited number of common shares without par value.

(b) Issued and outstanding

As at December 31, 2022, the Company’s outstanding share capital consisted of 68,272,653 (September 30, 2022 – 68,122,653) issued and fully paid common shares.

During the three months ended December 31, 2022, an aggregate of 150,000 common shares were issued for vested RSUs. $9,000 was reclassified from reserves to share capital on the issuance of these shares.

(Expressed in Canadian dollars)

8. Share capital (continued)

(c) Share purchase warrants

Each whole warrant entitles the holder to purchase one common share of the Company. As at December 31, 2022, the weighted average contractual life of the warrants was 0.98 years (2021 - 1.40 years).

	Warrants	Weighted average exercise price
	#	$
Balance, September 30, 2021	19,322,861	0.29
Issued	4,000,000	0.07
Exercised	(1,277,000)	0.07
Expired	(47,796)	0.75
Balance, September 30, 2022 and December 31, 2022	21,998,065	0.15

The following table summarizes the warrants outstanding as at December 31, 2022:

Exercise Price	Expiry date	Warrants
$		#
0.40(1)	May 31, 2023(2)	558,078
0.40(4)	December 31, 2023(3)(4)	4,723,654
0.07	February 18, 2023 – January 18, 2024	16,716,333
		21,998,065

(1) On January 14, 2022, the Company reduced the exercise price of these warrants from $1.75 to $0.40 per share. During the year ended September 30, 2022, the Company recorded a fair value incremental change of $58,488 on the modification of the warrants. The value of the warrant modification was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions at the time of modification: risk free rate of 1.13%; dividend yield of 0%; stock price volatility of 129.82%; and an expected life of 0.32 years.

(2) On April 26, 2022, the expiry date of these warrants was extended to May 31, 2023. During the year ended September 30, 2022, the Company recorded a fair value incremental change of $42,295, on the modification of the warrants. The value of the warrant modification was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions at the time of modification: risk free rate of 2.43%; dividend yield of 0%; stock price volatility of 119.18%; and an expected life of 1.10 years.

(3) On January 14, 2022, the Company extended the expiry date of these warrants from February 2022 to August 31, 2022. During the year ended September 30, 2022, the Company recorded a fair value incremental change of $337,312 on the modification of the warrants. The value of the warrant modification was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions at the time of modification: risk free rate of 1.13%; dividend yield of 0%; stock price volatility of 122.22%; and an expected life of 0.63 years.

(Expressed in Canadian dollars)

8. Share capital (continued)

(c) Share purchase warrants (continued)

(4) On June 27, 2022, the Company reduced the exercise price of these warrants from $0.75 to $0.40 per share and extended the expiry date of these warrants to December 31, 2023. During the year ended September 30, 2022, the Company recorded a fair value incremental change of $252,682, on the modification of the warrants. The value of the warrant modification was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions at the time of modification: risk free rate of 3.16%; dividend yield of 0%; stock price volatility of 167.21%; and an expected life of 1.51 years.

(d) Stock options

In 2021, the Company adopted an Omnibus Equity Incentive Plan (“2021 Plan”) which provides that the Board of Directors of the Company may from time to time, at its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants of the Company, equity-based incentive awards in the form of stock options (“Options”), restricted share units (“RSUs”), performance share units (“PSUs”) and deferred share units (“DSUs”). The 2021 Plan is a rolling plan which provides that the aggregate maximum number of common shares that may be issued upon the exercise or settlement of awards granted under the 2021 Plan shall not exceed 10% of the Company’s issued and outstanding common shares from time to time.

A summary of the status of the options outstanding is as follows:

	Stock options	Weighted average exercise price
	#	$
Balance, September 30, 2021	610,000	0.71
Granted	3,800,000	0.10
Cancelled and forfeited(1)	(935,000)	0.47
Balance, September 30, 2022	3,475,000	0.10
Granted	250,000	0.06
Forfeited(2)	(450,000)	0.14
Balance, December 31, 2022	3,275,000	0.09

(1) During the year ended September 30, 2022, the Company cancelled 240,000 options and recorded share-based compensation of $81,525 on the accelerated vesting of cancelled options. The incremental fair value of the cancelled options was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions at the time of cancellation: risk free rate of 0.45%; dividend yield of 0%; stock price volatility of 196%; and an expected life of 3 years. An aggregate of $225,907 was transferred from reserves to deficit for the cancelled and forfeited options.

(2) During the three months ended December 31, 2022, an aggregate fair value of $112,490 was transferred from reserves to deficit on forfeited options.

(Expressed in Canadian dollars)

8. Share capital (continued)

(d) Stock options (continued)

The following table summarizes the options outstanding and exercisable as at December 31, 2022:

Exercise Price	Expiry date	Options outstanding	Options exercisable
$		#	#
0.12	October 25, 2024	75,000	75,000
0.095(1)	February 14, 2027	2,500,000	2,500,000
0.095	July 20, 2027	200,000	200,000
0.095	August 30, 2027	150,000	150,000
0.095	September 21, 2027	100,000	100,000
0.06	November 30, 2027	250,000	250,000
		3,275,000	3,275,000

(1) During the year ended September 30, 2022, the Company reduced the exercise price of these options from $0.42 to $0.095 per share. As a result, during the year ended September 30, 2022, the Company recorded a fair value incremental change of $28,504 on the modification of the options. The value of the options modification was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions at the time of modification: risk free rate of 3.64%; dividend yield of 0%; stock price volatility of 153.87%; and an expected life of 2.46 years.

As at December 31, 2022, the weighted average contractual life of the stock options was 4.20 years (September 30, 2022 – 4.27 years).

During the three months ended December 31, 2022, the Company recorded share-based compensation of $66,514 (2021 – $81,525) for stock options granted and vested during the period. The fair value of stock options granted was determined using the Black-Scholes option pricing model based on the following weighted average assumptions at the time of grant:

	Three months ended December 31,	
	2022	2021
Risk-free annual interest rate	3.73%	0.45%
Expected annual dividend yield	0%	0%
Expected stock price volatility	162.29%	196%
Expected life of options (years)	3	3
Forfeiture rate	15%	15%

The weighted average fair value of stock options granted during the three months ended December 31, 2022 was $0.04 (2021 - $0.36) per option.

(Expressed in Canadian dollars)

8. Share capital (continued)

(e) Restricted share units ("RSUs")

Under the terms of the 2021 Plan, RSUs may be awarded to directors, officers, employees and consultants of the Company which will be released as common shares at the end of each vesting period. Each RSU gives the participant the right to receive one common share of the Company.

A summary of the status of the RSUs outstanding is as follows:

	RSUs	Weighted average issue price
	#	$
Balance, September 30, 2021	-	-
Granted	2,100,000	0.39
Released	(250,000)	0.41
Cancelled	(187,500)	0.41
Balance, September 30, 2022	1,662,500	0.39
Granted	250,000	0.06
Released	(150,000)	0.41
Cancelled	(250,000)	0.41
Balance, December 31, 2022	1,512,500	0.33

The following table summarizes the RSUs outstanding and released as at December 31, 2022:

Issue Price	Expiry date	RSUs outstanding
$		#
0.41	February 14, 2024	1,162,500
0.095	July 20, 2024	50,000
0.095	August 30, 2024	50,000
0.06	November 30, 2022	250,000
		1,512,500

During the three months ended December 31, 2022, the Company recorded share-based compensation of $55,692 (2021 - $Nil) for RSUs granted and vested during the period. The weighted average fair value of RSUs granted during the three months ended December 31, 2022 was $0.06 per share (2021 - $Nil). The weighted average remaining contractual life of RSUs is 1.29 years.

9. Fair value of financial instruments

At December 31, 2022, the Company's financial instruments consist of cash and cash equivalents, other assets, accounts payable and accrued liabilities and loans and borrowings. The carrying amounts of these financial instruments approximate fair value due to their immediate or short-term maturity.

The fair value of the Company's investments and derivative approximates their carrying values measured based on level 2 and level 3 of the fair value hierarchy, respectively.

10. Segment disclosure

The Company has one operating segment, being the development and marketing of its technology platforms, and its operations and long-term assets are located in North America.

11. Subsequent event

Subsequent to December 31, 2022, the Company extended the expiry date of 16,716,333 warrants exercisable at $0.07 per share, expiring between February 18, 2023 to January 18, 2024, to January 31, 2024.