



CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

SEPTEMBER 30, 2020 AND 2019

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Cypherpunk Holdings Inc.

Opinion

We have audited the accompanying consolidated financial statements of Cypherpunk Holdings Inc. (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2020 and 2019, and the consolidated statements of comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits 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 Consolidated 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 consolidated 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that at September 30, 2020, the Company has a working capital of \$4,244,226 and has accumulated losses of \$14,035,512. As stated in Note 1, the Company invests in cryptocurrencies and blockchain technology which are exposed to risks and uncertainty as they are part of an emerging industry. These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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



We obtained 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. We have nothing to report in this regard.

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

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

In preparing the consolidated 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.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Carmen Newnham.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

December 17, 2020

**CYPHERPUNK HOLDINGS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)**

	September 30, 2020	September 30, 2019
Assets		
Current Assets		
Cash and cash equivalents (Note 4)	\$ 485,379	\$ 1,742,674
Sales tax receivable and prepaid expenses (Note 5)	18,160	30,717
Cryptocurrencies (Note 6)	<u>3,926,801</u>	<u>1,975,762</u>
	4,430,340	3,749,153
Investments (Note 7)	2,412,463	1,724,502
Other assets (Note 8)	<u>12,825</u>	<u>73,612</u>
	<u>\$ 6,855,628</u>	<u>\$ 5,547,267</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Notes 9 &13)	\$ 186,114	\$ 113,883
Shareholders' Equity		
Capital stock (Note 10)	8,547,784	8,187,214
Reserves	12,155,116	11,656,565
Accumulated other comprehensive income	2,126	4,139
Deficit	<u>(14,035,512)</u>	<u>(14,414,534)</u>
	<u>6,669,514</u>	<u>5,433,384</u>
	<u>\$ 6,855,628</u>	<u>\$ 5,547,267</u>

Nature of Operations and Going Concern (Note 1)
Contingent liabilities (Note 15)

SIGNED ON BEHALF OF THE BOARD

(Signed) "Marc Henderson"
Director

(Signed) "Blaise Yerly"
Director

CYPHERPUNK HOLDINGS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(EXPRESSED IN CANADIAN DOLLARS)

Years ended September 30,	2020	2019
Income (loss)		
Interest income	\$ 24,263	\$ 21,613
Net realized gain on cryptocurrencies (Note 6)	111,741	18,323
Net unrealized gain on cryptocurrencies (Note 6)	657,698	161,896
Realized gain on investments (Note 7)	171,311	118,746
Unrealized gain (loss) on investments (Note 7)	361,234	(2,536,318)
	<u>1,326,247</u>	<u>(2,215,740)</u>
Expenses		
General and administrative	\$ 83,801	\$ 103,844
Consulting fees (Note 13)	204,581	180,995
Professional fees (Note 13)	169,709	236,665
Director fees (Note 13)	39,313	51,717
Rent and administrative services (Note 13)	81,280	90,000
Stock-based compensation (Notes 11 & 13)	365,887	48,447
Foreign exchange loss (gain)	2,654	(13,777)
	<u>947,225</u>	<u>697,891</u>
Net income (loss) for the year	\$ 379,022	\$ (2,913,631)
Other comprehensive income (loss)		
Cumulative translation adjustment	(2,013)	4,139
Total comprehensive income (loss)	\$ 377,009	\$ (2,909,492)
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Net income (loss) per share - basic & diluted	\$ 0.00	\$ (0.03)
Weighted average number of shares outstanding	91,104,733	90,166,482

CYPHERPUNK HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(EXPRESSED IN CANADIAN DOLLARS)

	Common Shares	Capital Stock	Reserves	Accumulated Other Comprehensive Income	Deficit	Total
Balance, October 1, 2018	90,166,482	\$ 8,187,214	\$ 11,608,118	\$ -	\$ (11,500,903)	\$ 8,294,429
Stock-based compensation (Note 11)	-	-	48,447	-	-	48,447
Net loss for the year	-	-	-	-	(2,913,631)	(2,913,631)
Other comprehensive income	-	-	-	4,139	-	4,139
Balance September 30, 2019	90,166,482	8,187,214	11,656,565	4,139	(14,414,534)	5,433,384
Units issued for cash in private placement (Note 10)	10,100,000	505,000	-	-	-	505,000
Share issuance costs (Note 10)	-	(11,766)	-	-	-	(11,766)
Issuance of warrants (Note 12)	-	(132,664)	132,664	-	-	-
Stock-based compensation (Note 11)	-	-	365,887	-	-	365,887
Net income for the year	-	-	-	-	379,022	379,022
Other comprehensive loss	-	-	-	(2,013)	-	(2,013)
Balance, September 30, 2020	100,266,482	\$ 8,547,784	\$ 12,155,116	\$ 2,126	\$ (14,035,512)	\$ 6,669,514

CYPHERPUNK HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)

Years ended September 30,

2020

2019

Cash and cash equivalents (used in) provided by:

Operating activities

Net income (loss) for the year **\$ 379,022** **\$ (2,913,631)**

Adjustments for:

Net unrealized gain on cryptocurrencies (Note 6) **(657,698)** (161,896)

Net realized gain on cryptocurrencies (Note 6) **(111,741)** (18,323)

Unrealized loss (gain) on investments (Note 7) **(361,234)** 2,536,318

Realized gain on investments (Note 7) **(171,311)** (118,746)

Stock-based compensation (Note 11) **365,887** 48,447

Foreign exchange **4,191** 14,769

Net change in non-cash working capital items:

Sales tax receivable and prepaid expenses **12,557** (2,310)

Reallocation of other assets **8,100** 8,100

Net purchases of cryptocurrencies (Note 6) **(1,190,717)** (1,942,066)

Accounts payable and accrued liabilities **72,231** (13,056)

Cash used in operating activities **(1,650,713)** **(2,562,394)**

Financing Activities

Private placement, net of issue costs (Note 10) **493,234** -

Cash provided by financing activities **493,234** -

Investing Activities

Purchase of investments (Note 7) **(445,027)** -

Sale of investments (Note 7) **292,491** 232,746

Sale of guaranteed investment certificate (Note 8) **52,720** -

Cash (used in) provided by investing activities **(99,816)** **232,746**

Change in cash and cash equivalents **(1,257,295)** (2,329,648)

Cash and cash equivalents, beginning of the year **1,742,674** 4,072,322

Cash and cash equivalents, end of the year **\$ 485,379** **\$ 1,742,674**

Supplementary cash flow information

Purchase of investments with cryptocurrencies (Note 6) **\$ -** **\$ 126,516**

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

1. NATURE OF OPERATIONS AND GOING CONCERN

Cypherpunk Holdings Inc. (the "Company" or "Cypherpunk") is a publicly listed company incorporated in Canada under the legislation of the Province of Ontario. The registered office of the Company is located at The Exchange Tower, 130 King Street West, Suite 3680, Toronto, Ontario, Canada M5X 1B1. Since February 4, 2019, the Company's common shares trade on the Canadian Securities Exchange ("CSE") under the trading symbol "HODL".

The Company business plan is focused on investments centred on the thesis that technologies and cryptocurrencies with strong privacy will have strong market demand; consequently, its targeted portfolio is shared between cryptocurrencies and investments in entities which enhance the overall privacy of the internet or enable further decentralization of blockchain networks.

At September 30, 2020, the Company has a working capital of \$4,244,226 (September 30, 2019 - \$3,635,270), and has accumulated losses of \$14,035,512 (September 30, 2019 - \$14,414,534). The Company business model is to make investments in cryptocurrencies and blockchain technology which are exposed to risk and uncertainty as they are part of an emerging industry, all of which creates material uncertainty and casts significant doubt upon the Company's ability to continue as a going concern.

The Company's cryptocurrencies may be subject to significant fluctuations in value and are subject to risks unique to the asset class and different from traditional financial assets (Note 16). Additionally, certain assets are held in cryptocurrency exchanges or with custodians that are limited in oversight by regulatory authorities.

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. 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 and its operating subsidiary, or on its ability to raise capital to fund operations, in future periods.

On December 17, 2020, the Board of Directors approved the consolidated financial statements for the years ended September 30, 2020 and 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") and their interpretations issued by the IFRS Interpretations Committee.

Basis of Presentation

The consolidated financial statements as at September 30, 2020 and 2019 have been prepared and presented on a going concern basis.

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Principles of Consolidation

The consolidated financial statements include all entities over which the Company has control. For accounting purposes, control is established by an investor when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are no longer consolidated on the date control ceases.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary located in Netherlands, Khan Resources B.V. (“KRBV”).

Intercompany balances and any unrealized gains and losses or income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value and cryptocurrencies which are measured at fair value less cost to sell. In addition, the consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow disclosure.

Functional and Presentation Currency

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency determinations were conducted through an analysis of the consideration factors identified in International Accounting Standard (“IAS”) 21. The functional currency of the parent company Cypherpunk Holdings Inc. is the Canadian dollar and the functional currency of the wholly owned subsidiary KRBV is the Euro. The presentation currency for the Company is the Canadian dollar.

Foreign currency transactions are translated into the functional currency of the respective entity or division, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in foreign currency at period-end exchange rates are recognized in profit or loss. Non-monetary items that are not re-translated at period end are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value, which are translated using the exchange rates as at the date when fair value was determined. Gains and losses are recorded in profit or loss.

The results and financial position of entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows: (i) assets and liabilities for each statement of financial position presented are translated at the rate of exchange in effect as at the date of the statement of financial position; (ii) income and expense items are translated at the average rates of exchange in effect during the reporting period; and (iii) all resulting exchange differences are recognized in accumulated other comprehensive income (loss).

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cryptocurrencies

The Company's cryptocurrencies are primarily traded in active markets and are purchased with the intent to resell in the near future, generating a profit from the fluctuations in prices or margins. As a result, the Company has determined that its holding of cryptocurrencies should be accounted for under IAS 2, Inventories, and it meets the definition of a commodity broker-trader. Under IAS 2, cryptocurrencies are measured at fair value less cost to sell, with changes in fair value recognized in profit or loss. In accordance with IAS 2, commodity broker-traders are those who buy or sell commodities for others or on their own account. The inventories held by commodity broker-traders are principally acquired for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin. As these inventories are measured at fair value less costs to sell, they are excluded from only the measurement requirements of IAS 2.

Cash and cash equivalents

This category consists of cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash within ninety days of purchase.

Financial Instruments

Initial recognition and measurement (financial assets and financial liabilities) - The Company initially recognizes financial assets and financial liabilities when it becomes party to the contractual provisions of the financial instrument. Initial measurement of the financial instrument is at fair value, plus for those financial assets and liabilities not classified at fair value through profit or loss ("FVTPL"), directly attributable transaction costs.

Financial assets – subsequent classification and measurement - Financial assets are classified in their entirety including any embedded derivatives. Two criteria are used to determine how financial assets should be classified and measured: (a) the Company's business model for managing the financial assets; and (b) the contractual cash flow characteristics of the financial asset. Key management personnel have determined that the Company's financial assets (excluding investments in equity investments) are held within a business model whose objective is to hold financial assets in order to collect cash flows.

Where the contractual cash flow characteristics of financial assets, taken on an instrument-by-instrument basis, give rise, on specified dates, to cash flows that are solely payments of principal and interest then a financial asset is classified as subsequently measured at amortized cost using the effective interest method. This is called the SPPI criterion. A financial asset that does not meet the SPPI criterion is always measured at FVTPL.

In addition, at initial recognition, the Company may make an irrevocable election to present in other comprehensive income ("OCI"), subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination. Such an equity instrument is classified as subsequently measured at fair value through other comprehensive income ("FVOCI"). Gains and losses recognized in OCI are not subsequently transferred to profit or loss, although the Company may determine to transfer the cumulative gain or loss within equity. Dividends are still recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment. The Company classifies all investments in equity instruments as FVTPL.

Reclassification - Financial assets are only reclassified between measurement categories, when and only when, the Company's business model for managing them changes. This is a significant event and thus is expected to be uncommon.

Impairment of financial assets - All of the Company's financial assets are subject to an impairment test at each reporting date. It also includes any off balance sheet loan commitments and financial guarantees.

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities – subsequent classification and measurement - Financial liabilities are subsequently measured at amortized cost using the effective interest method or FVTPL. Financial liabilities include accounts payable and accrued liabilities.

Derecognition - The Company will derecognize a financial asset when the rights to the cash flows from the financial asset have expired or where the Company has transferred substantially all risks and rewards associated with the financial asset and has relinquished control of the financial asset.

The Company will derecognize a financial liability only when extinguished — i.e., when the obligation specified in the contract is discharged, cancelled or it expires.

Impairment

The Company continually reviews and evaluates the events or changes in the economic environment that indicates a risk of impairment of assets to determine whether the carrying amount of the asset or group of assets under consideration exceeds its or their recoverable amount. Impairment of the assets is evaluated at the cash generating unit ("CGU") level which is the smallest identifiable group of asset that generates cash inflows, independent of the cash inflows from other assets, as defined by IAS 36 "Impairment of assets". Recoverable amount is defined as the higher of an asset's fair value (less costs to sell) and its value in use. The active market or a binding sale agreement provides the best evidence for the determination of the fair value, but where neither exists, fair value is based on the best information available to reflect the amount the Company could receive for the CGU in an arm's length transaction. Value in use is equal to the present value of future cash flows expected to be derived from the use and sale of the asset.

Provisions

A provision is recognized on the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Income Tax

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting year, and any adjustment to tax payable in respect of previous years. Deferred taxes are recorded for temporary differences existing at closing date between the tax base value of assets and liabilities and their carrying amount on the balance sheet.

Deferred tax assets and liabilities are measured at the expected tax rates for the year during which the asset will be realized or the liability settled, based on tax rates (and tax regulations) enacted or substantively enacted at year-end. They are reviewed at the end of each year, in line with any changes in applicable tax rates.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of tax losses and unused tax credits, insofar as it is probable that a taxable profit will be available, or when a current tax liability exists, to make use of those deductible temporary differences, tax loss carry forwards and unused tax credits, except where the deferred tax asset associated with the deductible temporary difference is generated by initial recognition of an asset or liability in a transaction which is not a business combination, and which, at the transaction date, does not impact earnings, tax income or loss.

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income

Interest income is recognized at the time persuasive evidence of an agreement exists, the amount is fixed and determinable, and its collection is reasonably assured.

Stock-based Compensation

The Company offers a share option plan. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured using the Black-Scholes option pricing model. Compensation expense is recognized as a charge to profit or loss over the tranche's vesting period by increasing reserves based on the number of awards expected to vest. Any consideration paid on exercise of share options is credited to capital stock. The reserves resulting from stock-based payment is transferred to capital stock when the options are exercised.

For equity settled transactions with non-employees, the Company measures goods or services received at their fair value, unless that fair value cannot be estimated reliably, in which case, the Company measures their value by reference to the fair value of the equity instruments granted.

Unit offering

The Company accounts for unit offering financing using the relative fair value method. Under this method, the fair values of the shares and share purchase warrants are determined separately and prorated to the actual proceeds received. The fair value of shares is determined using the share price at the issue date. The fair value of share purchase warrants is measured using the Black-Scholes valuation model at the issue date.

Earnings (Loss) per Share

Basic earnings (loss) per share amounts are calculated by dividing net profit (loss) for the year attributable to common shareholders by the basic weighted average number of common shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit (loss) attributable to common shareholders of the Company by the weighted average number of shares outstanding during the period plus the weighted average number of diluted shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares. The options and warrants of the Company are anti-dilutive as of September 30, 2019. For fiscal 2020, there were no options or warrants that were in-the-money, therefore there is no impact on dilutive earnings per share.

Segmental Reporting

The Company has only a single operating segment, and therefore one reportable segment.

New accounting standards

The Company has adopted the following revised or new IFRS that have been issued: IFRS 16 Leases. IFRS 16 was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Company adopted all of the requirements of IFRS 16, effective October 1, 2019. There was no impact on the adoption of IFRS 16 on the Company's consolidated financial statements.

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

3. ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in compliance with IFRS requires the Company's management to make certain estimates and assumptions that they consider reasonable and realistic. Despite regular reviews of these estimates and assumptions, based in particular on past achievements or anticipations, facts and circumstances may lead to changes in these estimates and assumptions which could impact the reported amount of the Company's assets, liabilities, income and expenses. Actual results may differ from those estimates.

Significant Judgements

Classification of cryptocurrencies as current assets - The Company has determined to classify its holding of cryptocurrencies as current assets, based on its assessment that they are considered to be commodities, and the availability of liquid markets to which the Company may sell such assets to generate a profit from price fluctuations.

Accounting for cryptocurrencies - The Company applied judgement in the determination that its holding of cryptocurrencies should be accounted for under IAS 2, Inventories, since it meets the definition of a commodity broker-trader. The inventories held by commodity broker-traders are principally acquired for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin.

Valuation techniques - The fair value of investments are measured using an income or market approach (Note 16). The determination of the fair value requires significant judgement by the Company. The Company acts in good faith to fair value its investments on the date of purchase and on a quarterly basis thereafter, consistent with fair value accounting guidance in accordance with IFRS 13, Fair Value Measurement.

Significant Estimates

Valuation of cryptocurrencies and investments - The Company's cryptocurrencies are traded in active markets and are valued based upon quoted prices at period end as of 24:00 UTC (less any costs to sell) but some of the Company's investments are not actively traded and are valued based upon quoted prices for similar assets or based upon unobservable inputs. These valuations require the Company to make significant estimates and assumptions.

Realized gains and losses from the sale and disposition of cryptocurrencies and investments, whether by conversion to cash or other cryptocurrencies, are recorded as net realized gain (loss) on cryptocurrencies and net realized gain (loss) on investments, respectively. Unrealized gains and losses on cryptocurrencies and investments due to the change in fair market value are recorded as net unrealized gain (loss) on cryptocurrencies and net unrealized gain (loss) on investments, respectively.

Stock-based compensation and valuation of warrants in units offerings - The Company generally utilizes the Black-Scholes option pricing model to determine the fair values of the stock-based payments and warrants issued in units offerings. The Company uses significant judgement in the evaluation of the input variables in the Black-Scholes calculation which includes: risk free interest rate, expected stock price volatility, expected life and expected dividend yield.

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

3. ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Deferred income taxes - In assessing the probability of realizing deferred income taxes, the Company makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, the Company gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers relevant tax planning opportunities that are within the Company's control, are feasible and within management's ability to implement. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred taxes. The Company reassesses unrecognized income tax at each reporting period.

4. CASH AND CASH EQUIVALENTS

The balance consists of funds in cash and banks immediately available for their use in the Company's operations and cashable guaranteed investment certificates ("GIC"). Any cashable GIC pledged as security is presented as restricted cash in the other assets account.

	September 30, 2020	September 30, 2019
Cash in banks	\$ 231,629	\$ 387,474
Guaranteed investment certificates - GIC	253,750	1,355,200
	\$ 485,379	\$ 1,742,674

5. SALES TAX RECEIVABLE AND PREPAID EXPENSES

The balances are comprised as follows:

	September 30, 2020	September 30, 2019
Prepaid expenses and advances	11,736	19,835
Harmonized sales tax	6,424	10,882
	\$ 18,160	\$ 30,717

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

6. CRYPTOCURRENCIES

Cryptocurrencies are digital currencies that are typically part of a decentralized system of recording transactions and issuance of new units and that rely on cryptography to secure its transactions, to control the creation of additional units, and to verify the transfer of assets.

As at September 30, 2020 and 2019, the balance of cryptocurrencies at cost and at market value is as follows:

	Quantity	Cost (USD) (a)	Cost (a)	Market Value
Bitcoin	263.7	\$ 2,286,650	\$ 3,050,162	\$ 3,793,134
Ethereum	278.4	100,202	133,659	133,667
Balance at September 30, 2020		\$ 2,386,852	\$ 3,183,821	\$ 3,926,801

	Quantity	Cost (USD) (a)	Cost (a)	Market Value
Bitcoin	179.9	\$ 1,375,857	\$ 1,813,866	\$ 1,975,762
Balance at September 30, 2019		\$ 1,375,857	\$ 1,813,866	\$ 1,975,762

(a) The cost is determined as the historical weighted average cost of the cryptocurrencies acquisitions and disposals of which \$657,698 has been recognized as an unrealized gain on cryptocurrencies during the year ended September 30, 2020 (2019 - \$161,896).

The continuity of the cryptocurrencies account is as follows:

Balance at October 1, 2018	\$ -
Cash purchases	1,942,066
Purchases with other cryptocurrencies	846,450
Transfers to other cryptocurrencies	(828,127)
Cryptocurrencies used for purchase of investment	(126,516)
Net unrealized gain on cryptocurrencies	161,896
Foreign exchange	(20,007)
Balance at September 30, 2019	1,975,762
Cash purchases	1,190,717
Purchases with other cryptocurrencies	553,018
Transfers to other cryptocurrencies	(441,277)
Net unrealized gain on cryptocurrencies	657,698
Foreign exchange	(9,117)
Balance at September 30, 2020	\$ 3,926,801

The Company's net realized gain on cryptocurrencies of \$111,741 (2019 - \$18,323) is calculated as the proceeds received, utilizing the closing price on www.coinmarketcap.com for crypto-to-crypto transactions, less its assigned average cost as at the transaction date. The Company's net unrealized gain or loss on cryptocurrencies is calculated as the change in fair value of the cryptocurrency from the beginning of the period.

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

7. INVESTMENTS

The Company's investments in equity instruments are classified as FVTPL and are carried at fair value. The detail is as follows:

	Quantity	September 30, 2020	Quantity	September 30, 2019
Hydro66 Holdings Corp. - Shares (a)	3,842,000	\$ 1,440,750	4,600,000	\$ 1,196,000
Hydro66 Holdings Corp. - Warrants (a)	-	-	5,000,000	4,696
Chia Network Inc. - SAFE (b)	-	400,170	-	397,290
Streetside Development, LLC (formerly Katana Cryptographic Ltd.) - Interest (c)	1,429	126,516	1,429	126,516
zkSnacks Limited - Shares (d)	4,500	445,027	-	-
		\$ 2,412,463		\$ 1,724,502

(a) In February 2018, the Company made an investment in Arctic Blockchain Ltd. ("Arctic"), a privately held British Columbia corporation that operates a data centre business in Northern Sweden, offering enterprise co-location services as well as mining cryptocurrency for its own account and its customers. Under the terms of the investment, the Company purchased \$2.5 million of convertible non-interest bearing debentures (the "Debentures") of Arctic.

Effective June 13, 2018, upon the completion of a takeover transaction of Arctic by Hydro66 Holdings Corp. ("Hydro66") and after becoming a listed technology issuer on the CSE under the trading symbol "SIX", the Debentures owned by the Company were converted into 5 million shares and 5 million warrants of Hydro66. The warrants were not exercised and expired on June 8, 2020.

During the year ended September 30, 2020, the Company sold 758,000 shares (2019 - 400,000 shares) of Hydro66 and recognized a realized gain of \$171,311 (2019 - \$118,746).

(b) On July 9, 2018, the Company invested USD\$300,000 (CAD\$400,170) into a Simple Agreement for Future Equity ("SAFE") with Chia Network Inc. ("Chia"). The Company is entitled to participate, at a discount of 10%, in any future equity financing of Chia, subject to certain events.

In the event that Chia had an equity financing the Company will automatically be awarded shares of preferred stock equal to the invested amount divided by the discounted price. In the event that Chia has a liquidity event, the Company will be paid out at least the value of its investment or receive a number of shares of common stock equal to the invested amount divided by the liquidity price. Thereafter, this instrument will expire and terminate.

(c) On May 30, 2019, the Company invested in Katana Cryptographic Ltd. ("Katana"), a private company located in the United Kingdom, through the receipt of 1,429 tokens giving the Company 1.43% ownership interest of Katana by paying 11.44 Bitcoins equivalent to USD\$100,000 (CAD\$126,516). The tokens are shares in the capital of Katana represented by cryptographic security with the symbol "Samourai" using the counterparty protocol on the bitcoin blockchain. During fiscal 2020, the ownership interest structure of Katana has been re-assigned to Streetside Development, LLC ("Streetside"), a company incorporated in Wyoming, and Katana has since dissolved. As a result of the restructure, the Company maintains a 1.43% ownership interest in Streetside.

(d) In November 2019, the Company invested in zkSnacks Limited ("zkSnacks"), a private limited company located in Gibraltar, through the receipt of 4,500 shares giving the Company 4.5% ownership of zkSnacks by paying USD\$337,500 (CAD\$445,027). The products of zkSnacks include Wasabi Wallet which is an opensource, non-custodial, privacy-focused Bitcoin wallet for desktop use.

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

7. INVESTMENTS (Continued)

The continuity of the investments account for the years ended September 30, 2020 and 2019, is as follows:

Balance at October 1, 2018	\$	4,239,364
Purchases		126,516
Proceeds from sale		(232,746)
Realized gain on investments		118,746
Unrealized loss on investment		(2,536,318)
Foreign exchange		8,940
Balance at September 30, 2019		1,724,502
Purchases		445,027
Proceeds from sale		(292,491)
Realized gain on investments		171,311
Unrealized loss on investments		361,234
Foreign exchange		2,880
Balance at September 30, 2020	\$	2,412,463

8. OTHER ASSETS

The balances are comprised as follows:

	September 30, 2020	September 30, 2019
Restricted cash (a)	\$ -	\$ 52,687
Non-current prepaid insurance	12,825	20,925
	\$ 12,825	\$ 73,612

(a) Restricted cash consists of a guaranteed investment certificate ("GIC") pledged as security for a corporate credit card facility. The facility was cancelled and the GIC was sold for \$52,720 during fiscal 2020.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The balances are comprised as follows:

	September 30, 2020	September 30, 2019
Trade accounts payable	\$ 63,235	\$ 45,984
Accrued liabilities	120,396	65,000
Due to Laramide Resources Ltd. (Note 13)	2,276	2,729
Due to Treasury Metals Inc. (Note 13)	207	170
	\$ 186,114	\$ 113,883

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

10. CAPITAL STOCK

a) **AUTHORIZED**

Unlimited common shares

b) **ISSUED**

COMMON SHARES	Number of Shares	Stated Value
Balance at September 30, 2018 and 2019	90,166,482	\$ 8,187,214
Units issued for cash in private placement	10,100,000	505,000
Share issuance costs	-	(11,766)
Issuance of warrants	-	(132,664)
Balance at September 30, 2020	100,266,482	\$ 8,547,784

On August 27, 2020, the Company closed a private placement for aggregate gross proceeds of \$505,000 through the issuance of 10,100,000 units at a price of \$0.05 per unit. Each unit consisted of one common share and one half common share purchase warrant. Each full warrant entitles his holder to acquire one common share at an exercise price of \$0.10 for a period of 24 months from the date of issuance. The Company incurred in \$11,766 of issue costs in connection with the private placement. Using the relative fair value method, \$132,664 was attributed to the warrants (Note 12).

11. STOCK-BASED COMPENSATION

The Company has a stock option plan (the "Plan") in place under which it is authorized to grant options to acquire shares of the Company to directors, officers, consultants and other key employees of the Company. The number of common shares subject to options granted under the Plan is limited to the greater of 5 million or 10% in the aggregate, of the number of issued and outstanding common shares of the Company at the date of the grant of the option. The exercise price of any option granted under the Plan may not be less than the fair market value of the common shares at the time the option is granted, less any permitted discount. Options issued under the Plan may be exercised during a period determined by the board of directors which cannot exceed five years. The plan does not require any vesting period and the board of directors may specify a vesting period on a grant by grant basis.

On August 28, 2020, the Company issued 3,750,000 options to directors, officers, and consultants to buy common shares at an exercise price of \$0.10 per common share and expiring on August 28, 2025. The stock options vest at issue date. The fair value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: share price \$0.10, dividend yield 0%, expected volatility based on historical volatility of 201.05%, a risk free interest rate of 0.41%, and an expected life of 5 years. The fair value of the options was estimated at \$365,887 and was recognized in the statement of comprehensive income (loss) for the year ended September 30, 2020.

On February 13, 2019, the Company issued to a consultant 900,000 stock options to buy common shares at an exercise price of \$0.07 each and expiring on June 1, 2023. The stock options vest at issue date. The fair value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: share price \$0.06, dividend yield 0%, expected volatility based on average volatility of entities with similar activities 159.1%, a risk free interest rate of 1.85%, and an expected life of 4.3 years. The fair value of the options was estimated at \$48,447 and was recognized in the statement of comprehensive income (loss) for the year ended September 30, 2019.

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

11. STOCK-BASED COMPENSATION (Continued)

The continuity of outstanding and exercisable stock options for the years ended September 30, 2020 and 2019 is as follows:

	September 30, 2020	Weighted average exercise price	September 30, 2019	Weighted average exercise price
Beginning Balance	5,900,000	\$0.10	5,000,000	\$0.10
Issued	-	-	900,000	\$0.07
Issued	3,750,000	\$0.10	-	\$0.10
Cancelled	(1,800,000)	\$0.10	-	\$0.10
Ending Balance	7,850,000	\$0.10	5,900,000	\$0.10

The detail of outstanding and exercisable options at September 30, 2020 and 2019 is as follows:

Expiry Date	September 30, 2020	Exercise price	September 30, 2019	Exercise Price
June 1, 2023	3,200,000	\$0.10	5,000,000	\$0.10
June 1, 2023	900,000	\$0.07	900,000	\$0.07
August 28, 2025	3,750,000	\$0.10	-	\$0.10
	7,850,000		5,900,000	

12. WARRANTS

In connection with the private placement completed on August 27, 2020 (Note 10), the Company issued 5,050,000 warrants exercisable within 24 months at a price of \$0.10 per share. The warrants were assigned a fair value of \$132,664 using the Black-Scholes option pricing model with the following assumptions: share price \$0.09, dividend yield 0%, expected volatility, based on historical volatility 162.2%, a risk free interest rate of 0.29% and an expected life of 2 years.

The detail of outstanding warrants at September 30, 2020 (2018 and 2019 - Nil) is as follows:

Expiry Date	Warrants	Exercise Price
August 27, 2022	5,050,000	\$0.10

13. RELATED PARTY DISCLOSURES

The Company's related parties include its subsidiary, key management personnel and any entity related to key management personnel that has transactions with the Company. Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly.

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

13. RELATED PARTY DISCLOSURES (Continued)

During the year ended September 30, 2020, Laramide Resources Ltd. ("Laramide"), a company having a director and officer in common with the Company, charged \$45,900 (2019 - \$90,000) for financial and administrative services, rent and other shared expenditures. In addition, Laramide paid \$24,964 (2019 - \$40,301) of certain expenses on behalf of the Company which were subsequently reimbursed to Laramide. At September 30, 2020, there is \$2,276 (2019 - \$2,729) of accounts payable to Laramide (Note 9).

During the year ended September 30, 2020, Treasury Metals Inc. ("Treasury Metals"), a company having a director and officer in common with the Company, paid \$2,256 (2019 - \$2,180) of certain expenses on behalf of the Company. At September 30, 2020, there is \$207 (2019 - \$170) of accounts payable to Treasury Metals (Note 9).

During the year ended September 30, 2020, the Company paid \$72,000 (2019 - \$72,000) for consulting services provided by an officer and director of the Company. At September 30, 2020 there is \$20,340 (2019 - \$Nil) of accounts payable to this related party.

During the year ended September 30, 2020, the Company paid \$66,000 (2019 - \$72,000) for consulting services provided by a former officer and director of the Company. At September 30, 2020 and 2019, there is \$Nil of accounts payable to this related party.

During the year ended September 30, 2020, the Company paid \$24,500 (2019 - \$Nil) for consulting services provided by an officer of the Company. At September 30, 2020 there is \$3,500 (2019 - \$Nil) of accounts payable to this related party.

During the year ended September 30, 2020, the Company paid \$42,081 (2019 - \$Nil) for consulting services provided by a director and officer of the Company. At September 30, 2020 there is \$6,000 (2019 - \$Nil) of accounts payable to this related party.

During the year ended September 30, 2020, the Company paid \$42,541 (2019 - \$29,646) for legal services by a firm of which an officer of the Company is a partner. At September 30, 2020 there is \$4,358 of accounts payable to this related party (2019 - \$Nil).

During the year ended September 30, 2020, the Company paid \$3,800 (2019 - \$4,300) for consulting services provided by a firm of which a former director and former interim officer of the Company is a tax partner. At September 30, 2020 and 2019 there is \$Nil of accounts payable to this related party.

Key Management Compensation

Key management includes the Chief Executive Officer, Chief Financial Officer, Chief Investment Officer and directors of the Company.

The compensation payable to key management is shown below:

Year ended September 30	2020	2019
Consulting fees	\$ 204,581	\$ 144,000
Director fees	39,313	51,717
Stock-based compensation	341,495	-
	\$ 585,389	\$ 195,717

At September 30, 2020, included in accounts payable and accrued liabilities is \$7,500 (2019 - \$Nil) owed relating to director fees.

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

14. INCOME TAX

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

	2020	2019
Net income (loss) before income taxes	\$ 379,022	\$ (2,913,631)
Expected income tax expense (recovery)	102,000	(787,000)
Permanent differences	52,000	329,520
Share issue costs	(3,000)	-
Adjustment to prio years provision versus statutory tax returns	(58,000)	(95,000)
Change in unrecognized deductible temporary differences	(93,000)	552,480
Income tax recovery	\$ -	\$ -

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

Deferred tax assets (liabilities)	2020	2019
Investments	\$ 193,000	\$ 389,000
Share issue costs	3,000	-
Cryptocurrencies	(201,000)	-
Allowable capital losses	229,000	99,000
Non-capital losses available for future periods	644,000	473,000
	\$ 868,000	\$ 961,000
Unrecognized deferred tax assets	(868,000)	(961,000)
Net deferred tax assets	\$ -	\$ -

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

Temporary differences	2020	Expiry date range	2019	Expiry date range
Investments	\$ 1,433,000	No expiry date	\$ 2,879,000	No expiry date
Share issue costs	\$ 9,000	2041 to 2044	\$ -	No expiry date
Allowable capital losses	\$ 848,000	No expiry date	\$ 367,000	No expiry date
Non-capital losses available for future periods				
Canada	\$ 1,487,000	2037 to 2040	\$ 1,633,000	2037 to 2039
Netherlands	\$ 167,000	2020 to 2029	\$ 126,000	2020 to 2028

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

15. CONTINGENT LIABILITIES

a) Netherlands Preliminary Tax Assessment - On February 15, 2017 the Company received an income tax reassessment from the Netherlands tax authority reassessing the Company's subsidiary KRBV for an amount payable of 3.3 million euros (CAD\$5 million). This reassessment was pursuant to management challenging an earlier preliminary assessment for an amount payable by KRBV of 11.4 million euros. The preliminary tax assessment and the reassessment were both issued before KRBV had filed its 2016 tax return and as such are based on incomplete information. The 2016 tax return has since been filed. It is management's opinion that the assessed amount payable of 3.3 million euros (CAD\$5 million) continues to be an over assessment. The Netherlands Tax Authority has again issued a preliminary assessment and the Company has filed a notice of objection to this assessment. Management believes that this issue will be resolved when the Netherlands tax authority has completed a review of all the facts. As a result, no provision has been made for this reassessment in these consolidated financial statements.

b) Former Officer Claim - In October 2017, the former Chief Executive Officer filed a \$775,000 claim for severance and damages against the Company. The Company believes the severance is not appropriate and the amount claimed is not probable to be paid. No provision has been made for the claim in these consolidated financial statements. During the year ended September 30, 2019 the Company paid \$25,000 as an interim settlement ordered by the Court of Ontario.

16. FINANCIAL RISK FACTORS

Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the investment in cryptocurrencies and blockchain companies. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company considers capital to be its capital stock, warrant, and stock option components of shareholders' equity.

To effectively manage the Company's capital requirements, the management has in place a planning, budgeting and forecasting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company ensures that there are sufficient working capital and planned future capital raises to meet its short-term business requirements, taking into account its anticipated cash flow from operations and its holding of cash and cash equivalents and short-term investments.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended September 30, 2020.

Risk Disclosures

Exposure to credit, interest rate, cryptocurrency and currency risks arises in the normal course of the Company's business.

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

16. FINANCIAL RISK FACTORS (Continued)

Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into, causing the other party to incur a financial loss. The Company limits its credit risk by placing its cash with high credit quality financial institutions and with cryptocurrency exchanges on which the Company has performed internal due diligence procedures. The Company deems these procedures necessary as some exchanges are unregulated and not subject to regulatory oversight. Furthermore, crypto-exchanges engage in the practice of commingling their clients' assets in exchange wallets. When cryptoassets are commingled, transactions are not recorded on the applicable blockchain ledger but are only recorded by the exchange. Therefore, there is risk around the occurrence of transactions or the existence of period end balances represented by exchanges.

As at September 30, 2020, the Company holds \$485,379 in cash and cash equivalents at high credit quality financial institutions and \$3,926,801 in cryptocurrencies at a custodian regulated by the New York Department of Financial Services. The Company's due diligence procedures around exchanges and custodians utilized throughout the year include, but are not limited to, internal control procedures around on-boarding new exchanges or custodians which includes review of the exchanges or custodians anti-money laundering ("AML") and know-your-client ("KYC") policies by the Company's chief investment officer, constant review of market information specifically regarding the exchanges or custodians security and solvency risk, setting balance limits for each exchange account based on risk exposure thresholds and preparing weekly asset management reports to ensure limits are being followed and having a fail-over plan to move cash and cryptocurrencies held on an exchange or with a custodian in instances where risk exposure significantly changes.

There is no significant credit risk with respect of receivables.

Interest Rate Risk

The Company has no exposure to interest rate risk since there are no outstanding debts or other payables subject to interest charges at the end of the reported years.

Cryptocurrencies Risk

Cryptocurrencies are measured at fair value less cost to sell. Cryptocurrency prices are affected by various forces including global supply and demand, interest rates, exchanges rates, inflation or deflation and political and economic conditions. Further, cryptocurrencies have no underlying backing or contracts to enforce recovery of invested amounts. The profitability of the Company is related to the current and future market price of cryptocurrencies; in addition, the Company may not be able to liquidate its inventory of cryptocurrencies at its desired price if necessary. Investing in cryptocurrencies is speculative, prices are volatile, and market movements are difficult to predict. Supply and demand for such currencies change rapidly and are affected by a variety of factors, including regulation and general economic trends.

Cryptocurrencies have a limited history, their fair values have historically been volatile and the value of cryptocurrencies held by the Company could decline rapidly. A decline in the market prices of cryptocurrencies could negatively impact the Company's future operations. Historical performance of cryptocurrencies is not indicative of their future performance.

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

16. FINANCIAL RISK FACTORS (Continued)

Many cryptocurrency networks are online end-user-to-end-user networks that host a public transaction ledger (blockchain) and the source code that comprises the basis for the cryptographic and algorithmic protocols governing such networks. In many cryptocurrency transactions, the recipient or the buyer must provide its public key, which serves as an address for a digital wallet, to the seller. In the data packets distributed from cryptocurrency software programs to confirm transaction activity, each party to the transaction user must sign transactions with a data code derived from entering the private key into a hashing algorithm, which signature serves as validation that the transaction has been authorized by the owner of the cryptocurrency. This process is vulnerable to hacking and malware, and could lead to theft of the Company's digital wallets and the loss of the Company's cryptocurrency.

Cryptocurrencies are loosely regulated and there is no central marketplace for exchange. Supply is determined by a computer code, not a central bank. Additionally, exchanges may suffer from operational issues, such as delayed execution, that could have an adverse effect on the Company.

The cryptocurrency exchanges on which the Company may trade on are relatively new and, in many cases, largely unregulated, and therefore may be more exposed to fraud and failure than regulated exchanges for other assets. Any financial, security, or operational difficulties experienced by such exchanges may result in an inability of the Company to recover money or cryptocurrencies being held on the exchange. Further, the Company may be unable to recover cryptocurrencies awaiting transmission into or out of the exchange, all of which could adversely affect an investment of the Company. Additionally, to the extent that the digital asset exchanges representing a substantial portion of the volume in digital asset trading are involved in fraud or experience security failures or other operational issues, such digital asset exchanges' failures may result in loss or less favorable prices of cryptocurrencies, or may adversely affect the Company, its operations and its investments.

Furthermore, crypto-exchanges engage in commingling their client's assets in exchange wallets. When crypto-assets are commingled transactions are not recorded on the applicable blockchain ledger but are only recorded by the exchange. Therefore, there is a risk around the occurrence of transactions or existence of period end balances represented by exchanges.

Loss of access risk

The loss of access to the private keys associated with the Company's cryptocurrency holdings may be irreversible and could adversely affect an investment. Cryptocurrencies are controllable only by an individual that possesses both the unique public key and private key or keys relating to the "digital wallet" in which the cryptocurrency is held. To the extent a private key is lost, destroyed or otherwise compromised and no backup is accessible the Company may be unable to access the cryptocurrency.

Irrevocability of transactions

Cryptocurrency transactions are irrevocable and stolen or incorrectly transferred cryptocurrencies may be irretrievable. Once a transaction has been verified and recorded in a block that is added to the blockchain, an incorrect transfer or theft generally will not be reversible, and the Company may not be capable of seeking compensation.

Hard fork and air drop risks

Hard forks may occur for a variety of reasons including, but not limited to, disputes over proposed changes to the protocol, significant security breach, or an unanticipated software flaw in the multiple versions of otherwise compatible software. In the event of a hard fork in a cryptocurrency held by the Company, it is expected that the Company would hold an equivalent amount of the old and new cryptocurrency following the hard fork.

Air drops occur when the promoters of a new cryptocurrency send amounts of the new cryptocurrency to holders of another cryptocurrency that they will be able to claim a certain amount of the new cryptocurrency for free.

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

16. FINANCIAL RISK FACTORS (Continued)

The Company may not be able to realize the economic benefit of a hard fork or air drop, either immediately or ever, for various reasons. For instance, the Company may not have any systems in place to monitor or participate in hard forks or airdrops.

Market Risk

Market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All investments present a risk of loss of capital. The maximum risk resulting from financial instruments is equivalent to their fair value. The Company's investments are susceptible to other market risk arising from uncertainties about future prices of the instruments. The Company moderates this risk through the various investment strategies within the parameters of the Company's investment guidelines.

As of September 30, 2020, management's estimate of the effect on equity to a +/- 10% change in the market prices of the Company's investments, with all other variables held constant, is \$241,246.

Foreign Currency Risk

The Company is exposed to foreign currency risk on financial assets and liabilities that are denominated in a currency other than the Canadian dollar. The currencies giving rise to this risk are primarily the U.S. dollar and the Euro, the balance of net monetary assets in such currencies as of September 30, 2020 is \$4,725,471 (2019 - \$2,386,256). Sensitivity to a plus or minus 10% change in the foreign exchange rates would affect the net comprehensive loss by \$472,547.

Liquidity Risk

The Company is exposed to liquidity risk primarily as a result of its trade accounts payable as well as the risk of not being able to liquidate assets at reasonable prices. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2020, the Company had cash and cash equivalents balance of \$485,379 (2019 - \$1,742,674) to settle current liabilities of \$186,114 (2019 - \$113,883). All of the Company's trade accounts payable have contractual maturities of less than 30 days and are subject to normal trade terms.

Fair Value Hierarchy

The Company classifies its fair value measurements with a fair value hierarchy, which reflects the significance of the inputs used in making the measurements as defined in IFRS 13 – Financial Instruments; Fair Value Measurement (“IFRS 13”).

Level 1 – Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs which are supported by little or no market activity.

September 30, 2020:	Level One	Level Two	Level Three
Cash and cash equivalents	\$ 485,379	\$ -	\$ -
Cryptocurrencies	-	3,926,801	-
Investments	1,440,750	-	971,713
	\$ 1,926,129	\$ 3,926,801	\$ 971,713

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

16. FINANCIAL RISK FACTORS (Continued)

September 30, 2019:	Level One	Level Two	Level Three
Cash and cash equivalents	\$ 1,742,674	\$ -	\$ -
Investments	-	1,975,762	-
Restricted cash	-	52,687	-
Investments	1,196,000	4,696	523,806
	\$ 2,938,674	\$ 2,033,145	\$ 523,806

There have been no transfers between levels 1, 2 or 3 during the reported years except for the sale of a previously reported level 2 GIC during the current year (Note 8).

The Company's cryptocurrencies are classified as Level Two determined by taking the price from www.coinmarketcap.com as of 24:00 UTC.

The Company's investments are classified as Level One, Two or Three depending on the inputs utilized to determine the fair value at period or year end.

The investment classified as Level One is the 3,842,000 shares of Hydro66. The shares have a fair value of \$1,440,750 at September 30, 2020 (2019 - \$1,196,000). The fair value of the shares is determined using the stock price of Hydro66 which is listed under the trading symbol "SIX". On September 30, 2020, the share price was \$0.38 (2019 - \$0.26). The Company performed a sensitivity analysis on the fair value of the shares and noted that a 20% decrease in share price would result in a \$288,150 decrease in the fair value of the shares.

The investments classified as Level Two at September 30, 2019, are the 5,000,000 warrants of Hydro66. The warrants had a fair value of \$4,696 at that date and expired in fiscal 2020. The fair value of the warrants is determined using the Black-Scholes option pricing model and is updated at the end of each period.

Investments classified as Level Three consist of the USD\$300,000 (CAD\$400,170) invested for a SAFE with Chia, USD\$100,000 (CAD\$126,516) invested for an interest in Streetside Development, and USD\$337,500 (CAD\$445,027) invested for 4,500 shares of zkSnacks. The fair value of the SAFE was determined using the consideration paid for the SAFE in July 2018. The fair value of the interest in Streetside Development and zkSnacks was determined using the consideration paid for the investment in May and November 2019, respectively. The Company performed a sensitivity analysis on the considerations paid for the Level 3 investments and noted that a 20% decrease would result in a \$194,343 decrease in their fair value.

The fair value of Level 3 assets is inherently subjective. Because of the uncertainty of fair value of investments that do not have readily ascertainable market values, management's conclusion of fair value for an investment on a date may differ significantly from (1) the fair value conclusions of other knowledgeable market participants and/or (2) prior or subsequently observed transaction prices, including the price paid to acquire, or received to sell, the investment itself.

CYPHERPUNK HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
Years Ended September 30, 2020 and 2019

16. FINANCIAL RISK FACTORS (Continued)

The following is the activity of Level 3 assets for the years ended September 30, 2020 and 2019:

	Fair value October 1, 2019	Purchases	Foreign exchange Gain	Fair value September 30, 2020
Chia Network Inc. - SAFE	\$ 397,290	\$ -	\$ 2,880	\$ 400,170
Streetside Development, LLC (formerly Katana Cryptographic Ltd.) - Interest	126,516	-	-	126,516
zkSnacks Limited - Shares	-	445,027	-	445,027
	\$ 523,806	\$ 445,027	\$ 2,880	\$ 971,713

	Fair value October 1, 2018	Purchases	Foreign exchange Gain	Fair value September 30, 2019
Chia Network Inc. - SAFE	\$ 388,350	\$ -	\$ 8,940	\$ 397,290
Streetside Development, LLC (formerly Katana Cryptographic Ltd.) - Interest	-	126,516	-	126,516
	\$ 388,350	\$ 126,516	\$ 8,940	\$ 523,806

Accounts payable and accrued liabilities are measured at amortized cost which also approximates fair value.

17. SEGMENTED INFORMATION

The Company operates in one reportable operating segment being investment in cryptocurrencies and blockchain technology.