
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934**

For the month of November 2022

Commission File Number: 001-39127

Canaan Inc.

**Room 2101, 21st Floor, Building 1
Yard 1, No. 81 Beiqing Road
Haidian District, Beijing, 100094
People's Republic of China**
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F

Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

EXPLANATORY NOTE

We are submitting our latest interim financial statements as Exhibit 99.1 (the "Exhibit") to this current report on Form 6-K. If there is any discrepancy between the numbers disclosed in the Exhibit and the numbers disclosed in the exhibit of our prior 6-Ks, the number disclosed herein will supersede.

Exhibit Index

| Exhibit No. | Description |
|--------------------|--------------------|
|--------------------|--------------------|

| | |
|------------------------------|--|
| Exhibit 99.1 | Interim Financial Statements |
|------------------------------|--|

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Canaan Inc.

By: /s/ Nangeng Zhang

Name: Nangeng Zhang

Title: Chairman and Chief Executive Officer

Date: November 25, 2022

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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CANAAN INC.
UNAUDITED CONSOLIDATED BALANCE SHEETS
As of December 31, 2021 and September 30, 2022
(all amounts in thousands, except share and per share data, or as otherwise noted)

| | Note | As of December 31, 2021 RMB | As of September 30, 2022 | |
|---|------|--------------------------------------|-----------------------------|-----------------|
| | | | RMB | US\$(Note 2(b)) |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | 2(c) | 2,684,342 | 2,002,656 | 281,529 |
| Restricted cash | 2(d) | 47,362 | - | - |
| Accounts receivable, net | | 367 | - | - |
| Inventories | 4 | 812,363 | 1,328,875 | 186,810 |
| Prepayments and other current assets | 5 | 1,729,027 | 1,693,175 | 238,023 |
| Total current assets | | <u>5,273,461</u> | <u>5,024,706</u> | <u>706,362</u> |
| Non-current assets: | | | | |
| Cryptocurrency | 6 | 20,310 | 74,092 | 10,416 |
| Property, equipment and software | 7 | 185,566 | 320,117 | 45,001 |
| Right-of-use assets, net | | 30,920 | 35,259 | 4,957 |
| Deferred income tax assets | | 99,044 | 71,768 | 10,089 |
| Other non-current assets | 5 | 2,956 | 35,504 | 4,991 |
| Non-current financial investment | | 20,000 | 20,000 | 2,812 |
| Total non-current assets | | <u>358,796</u> | <u>556,740</u> | <u>78,266</u> |
| Total assets | | <u>5,632,257</u> | <u>5,581,446</u> | <u>784,628</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current liabilities : | | | | |
| Accounts payable | | 143,441 | 32,664 | 4,592 |
| Contract liabilities | 2(e) | 1,340,731 | 299,462 | 42,098 |
| Income tax payable | | 148,719 | 106,535 | 14,976 |
| Accrued liabilities and other current liabilities | 8 | 437,394 | 233,972 | 32,892 |
| Lease liabilities, current | | 14,819 | 18,666 | 2,624 |
| Total current liabilities | | <u>2,085,104</u> | <u>691,299</u> | <u>97,182</u> |
| Non-current liabilities: | | | | |
| Lease liabilities, non-current | | 16,292 | 13,928 | 1,958 |
| Warrant liability | 9 | 66,347 | - | - |
| Other non-current liabilities | | 5,824 | 4,809 | 676 |
| Total liabilities | | <u>2,173,567</u> | <u>710,036</u> | <u>99,816</u> |
| Contingencies (Note 15) | | | | |

CANAAN INC.
UNAUDITED CONSOLIDATED BALANCE SHEETS (CONTINUED)
As of December 31, 2021 and September 30, 2022
(all amounts in thousands, except share and per share data, or as otherwise noted)

| | <u>Note</u> | <u>As of December 31, 2021 RMB</u> | <u>As of September 30, 2022</u> | |
|---|-------------|--|-------------------------------------|------------------------|
| | | | <u>RMB</u> | <u>US\$(Note 2(b))</u> |
| Shareholders' equity: | | | | |
| Ordinary shares (US\$0.00000005 par value; 1,000,000,000,000 shares authorized; 2,804,138,492 shares issued, 2,577,386,552 and 2,545,521,047 shares outstanding as of December 31, 2021 and September 30, 2022, respectively) | 10 | 1 | 1 | - |
| Subscriptions receivable from shareholders | 10 | (1) | (1) | - |
| Treasury stocks (US\$0.00000005 par value; 226,751,940 and 258,617,445 shares as of December 31, 2021 and September 30, 2022, respectively) | | (231,281) | (305,752) | (42,982) |
| Additional paid-in capital | | 2,891,134 | 3,201,983 | 450,128 |
| Statutory reserves | | 97,420 | 97,420 | 13,695 |
| Accumulated other comprehensive (loss)/income | | (101,925) | 42,382 | 5,958 |
| Retained earnings | | 803,342 | 1,835,377 | 258,013 |
| Total shareholders' equity | | <u>3,458,690</u> | <u>4,871,410</u> | <u>684,812</u> |
| Total liabilities and shareholders' equity | | <u>5,632,257</u> | <u>5,581,446</u> | <u>784,628</u> |

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

CANAAN INC.
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Nine Months Ended September 30, 2021 and 2022
(all amounts in thousands, except share and per share data, or as otherwise noted)

| | Note | For the nine months ended September 30, | | |
|--|------|---|------------------|------------------|
| | | 2021 | 2022 | |
| | | RMB | RMB | US\$(Note 2(b)) |
| Revenues | | | | |
| Products revenue | | 2,787,982 | 3,840,005 | 539,819 |
| Mining revenue | | 6,279 | 146,489 | 20,593 |
| Leases revenue | | 7,556 | - | - |
| Service revenue | | 224 | - | - |
| Other revenues | | 110 | 487 | 68 |
| Total Revenues | | 2,802,151 | 3,986,981 | 560,480 |
| Cost of revenues | | (1,438,355) | (2,008,129) | (282,298) |
| Gross profit | | 1,363,796 | 1,978,852 | 278,182 |
| Operating expenses: | | | | |
| Research and development expenses | | (220,829) | (323,164) | (45,430) |
| Sales and marketing expenses | | (69,755) | (55,337) | (7,779) |
| General and administrative expenses | | (458,113) | (418,148) | (58,782) |
| Total operating expenses | | (748,697) | (796,649) | (111,991) |
| Income from operations | | 615,099 | 1,182,203 | 166,191 |
| Interest income | | 5,324 | 8,268 | 1,162 |
| Change in fair value of warrant liability | 9 | 168,030 | 24,598 | 3,458 |
| Impairment on cryptocurrency | 6 | - | (41,683) | (5,860) |
| Foreign exchange gains, net | | 13,701 | 216,374 | 30,417 |
| Other income, net | | 1,949 | 8,119 | 1,141 |
| Income before income tax expense | | 804,103 | 1,397,879 | 196,509 |
| Income tax expense | 13 | (348) | (301,304) | (42,357) |
| Net income | | 803,755 | 1,096,575 | 154,152 |
| Foreign currency translation adjustment, net of nil tax | | (2,215) | 144,307 | 20,286 |
| Total comprehensive income | | 801,540 | 1,240,882 | 174,438 |
| Weighted average number of shares used in per Class A and Class B ordinary share calculation: | | | | |
| — Basic | 14 | 2,494,548,234 | 2,575,201,787 | 2,575,201,787 |
| — Diluted | | 2,536,414,034 | 2,579,673,296 | 2,579,673,296 |
| Net earnings per Class A and Class B ordinary share (cent per share) | | | | |
| — Basic | 14 | 32.22 | 42.58 | 5.99 |
| — Diluted | | 31.69 | 42.51 | 5.98 |
| Share-based compensation expenses were included in: | | | | |
| Cost of revenues | | 269 | 585 | 82 |
| Research and development expenses | | 79,559 | 51,927 | 7,300 |
| Sales and marketing expenses | | 6,117 | 11,880 | 1,670 |
| General and administrative expenses | | 329,151 | 246,457 | 34,646 |

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

CANAAN INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2021 and 2022
(all amounts in thousands, except share and per share data, or as otherwise noted)

| | For the nine months ended September 30, | | |
|---|--|------------------|------------------------|
| | 2021 | 2022 | |
| | RMB | RMB | US\$(Note 2(b)) |
| Cash flows from operating activities | | | |
| Net cash provided by (used in) operating activities | 336,863 | (582,156) | (81,839) |
| Cash flows from investing activities: | | | |
| Proceeds from disposal of short-term investments | 62,663 | - | - |
| Proceeds from disposal of cryptocurrency | - | 25,671 | 3,609 |
| Purchase of property, equipment and software | (23,607) | (65,933) | (9,269) |
| Payment for non-current financial investments | (20,000) | - | - |
| Net cash provided by (used in) investing activities | 19,056 | (40,262) | (5,660) |
| Cash flows from financing activities: | | | |
| Payment for repurchase of ordinary shares | (41,560) | (178,293) | (25,064) |
| Payment for repurchase of warrants | - | (44,282) | (6,225) |
| Prepayment under share repurchase agreement | (5,073) | (6,096) | (857) |
| Payment for cost of issuance of ordinary shares and warrants | (5,705) | - | - |
| Repayment of borrowings | (35,000) | - | - |
| Proceeds from resale of treasury stock | - | 69,222 | 9,731 |
| Repurchase for tax withholdings on vesting of restricted share units | - | (156,138) | (21,950) |
| Proceeds from issuance of ordinary shares and warrants | 1,029,455 | - | - |
| Net cash provided by (used in) financing activities | 942,117 | (315,587) | (44,365) |
| Net increase (decrease) in cash and cash equivalents, and restricted cash | 1,298,036 | (938,005) | (131,864) |
| Effect of exchange rate changes on cash and cash equivalents, and restricted cash | 4,750 | 208,957 | 29,375 |
| Cash and cash equivalents, and restricted cash at the beginning of period | 395,804 | 2,731,704 | 384,017 |
| Cash and cash equivalents, and restricted cash at the end of period | <u>1,698,590</u> | <u>2,002,656</u> | <u>281,528</u> |

CANAAN INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2021 and 2022
(all amounts in thousands, except share and per share data, or as otherwise noted)

| | For the nine months ended September 30, | | |
|--|--|-------------|------------------------|
| | 2021 | 2022 | |
| | RMB | RMB | US\$(Note 2(b)) |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for interest | 246 | - | - |
| Cash paid for income tax | 348 | 316,338 | 44,470 |
| Supplemental disclosure of non-cash investing and financing activities: | | | |
| Transfer from inventory to operating lease assets | 15,169 | - | - |
| Transfer from operating lease assets to inventory | 12,051 | - | - |
| Transfer from inventory to property, equipment and software | 3,648 | 170,486 | 23,967 |
| Accrued tax withholdings on vesting of restricted share units | - | (29,940) | (4,209) |
| Revenue recognized on acceptance of cryptocurrency | 6,279 | 147,165 | 20,688 |
| Cost of revenues recognized on payment of cryptocurrency | - | 33,790 | 4,750 |

Cryptocurrencies are mainly collected from mining pools and paid to mining farms by the Company for the Company's mining activities, which are reported as non-cash transactions in the Company's consolidated statements of cash flows.

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

CANAAN INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all amounts in thousands, except share and per share data, or as otherwise noted)

1. Organization and principal activities

Canaan Inc., an exempted company with limited liability incorporated in the Cayman Islands, through wholly-owned subsidiaries (collectively referred to as the “Company”), is principally engaged in integrated circuit (the “IC”) design and sale and lease of final mining equipment by integrating its IC products for Bitcoin mining and related components to worldwide customers.

2. Summary of significant accounting policies

(a) Basis of presentation

The accompanying unaudited condensed consolidated financial statements of Canaan Inc. and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted as permitted by rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). The consolidated balance sheet as of December 31, 2021 was derived from the audited consolidated financial statements of the Company. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company as of and for the year ended December 31, 2021.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the financial position as of September 30, 2022, the results of operations and cash flows for the nine months ended September 30, 2021 and 2022, have been made.

The preparation of the unaudited condensed consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent assets and liabilities at the balance sheet dates, and the reported revenues and expenses during the reported periods.

The Company believes that accounting estimation of variable consideration for warrant liability, valuation of deferred tax assets, write-down for inventories and prepayments, valuation and recognition of share-based compensation reflect significant judgments and estimates used in the preparation of its consolidated financial statements.

Management bases the estimates on historical experience and on various other assumptions as discussed elsewhere to the consolidated financial statements that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could materially differ from these estimates.

(b) Convenience translation

The United States dollar (“US\$”) amounts disclosed in the accompanying financial statements are presented solely for the convenience of the readers. Translations of amounts from RMB into US\$ for the convenience of the reader were calculated at the rate of US\$1.00=RMB7.1135 on September 30, 2022, representing the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate on September 30, 2022, or at any other rate.

CANAAN INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all amounts in thousands, except share and per share data, or as otherwise noted)

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits placed with banks or other financial institutions, which are unrestricted as to withdrawal or use.

| | As of December 31, 2021 | As of September 30, 2022 |
|---|------------------------------------|-------------------------------------|
| RMB denominated bank deposits with financial institutions in the People's Republic of China ("PRC") | 1,167,445 | 70,123 |
| US dollar denominated bank deposits with financial institutions in the PRC | 1,447,336 | 1,792,202 |
| Others denominated bank deposits with financial institutions in the PRC | 39,746 | 38,487 |
| US dollar denominated bank deposits with overseas financial institutions | 29,498 | 97,642 |
| Others denominated bank deposits with overseas financial institutions | 317 | 4,202 |
| Total | 2,684,342 | 2,002,656 |

The bank deposits, including term deposits and restricted cash, with financial institutions in the mainland of the PRC, Hong Kong, United States, Singapore and Kazakhstan are insured by the government authorities up to RMB500, HKD500, USD250, SGD75 and KZT15,000 per bank, respectively. The bank deposits including term deposits and restricted cash are insured by the government authorities with amounts up to RMB11,579 and RMB18,023 as of December 31, 2021 and September 30, 2022, respectively. The Company has not experienced any losses in uninsured bank deposits and does not believe that it is exposed to any significant risks on cash held in bank accounts. To limit exposure to credit risk, the Company primarily places bank deposits with large financial institutions in the PRC mainland, Hong Kong, United States, Singapore and Kazakhstan with acceptable credit rating.

(d) Restricted cash

In December 2021, cash balance of RMB47,362 was temporarily restricted by a bank from access to the bank account during the restriction period. The restriction was subsequently released in April 2022.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows.

| | As of December 31, 2021 | As of September 30, 2022 |
|---------------------------|------------------------------------|-------------------------------------|
| Cash and cash equivalents | 2,684,342 | 2,002,656 |
| Restricted cash | 47,362 | - |
| Total | 2,731,704 | 2,002,656 |

(e) Contract liabilities

The prepayments received from customers as of December 31, 2021 and September 30, 2022 was RMB1,340,731 and RMB299,462, respectively. The revenue recognized during the nine months ended September 30, 2021 and 2022 for the beginning balance of contract liability was RMB354,815 and RMB1,326,033, respectively.

CANAAN INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all amounts in thousands, except share and per share data, or as otherwise noted)

(f) Cryptocurrency

The Company accounts for the cryptocurrency received from mining as intangible assets with indefinite useful life in its consolidated balance sheets because, at the time of assessment, there is no foreseeable limit to the period over which such assets are expected to generate cash flows. The Company accounts for cryptocurrency return liability at fair value, whereas accounts for the corresponding cryptocurrency at cost subject to impairment because the Company is the accounting owner of those cryptocurrency.

3. Risks and concentration

(a) Concentration of credit risk

For the nine months ended September 30, 2021 and 2022, customers which contributed more than 10% of total revenue are as below:

| | For the nine months ended September 30, | |
|------------|--|-------------|
| | 2021 | 2022 |
| Customer A | * | 36% |
| Customer B | 15% | 35% |
| Customer C | * | 10% |

* Less than 10%

(b) Supplier concentration

For the nine months ended September 30, 2021 and 2022 the Company's purchases substantially all its integrated circuits from one supplier.

Although only a limited number of manufacturers for such integrated circuits are available, management believes that they could change their suppliers within these manufacturers which provided integrated circuits on comparable terms. A change in suppliers, however, could cause a delay in manufacturing and a possible loss of sales, which would affect operating results adversely.

CANAAN INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all amounts in thousands, except share and per share data, or as otherwise noted)

4. Inventories

Inventories consist of the following:

| | As of December 31, 2021 | As of September 30, 2022 |
|-----------------|------------------------------------|-------------------------------------|
| Raw materials | 429,208 | 623,113 |
| Finished goods | 304,801 | 503,160 |
| Work in process | 78,354 | 202,602 |
| Total | <u>812,363</u> | <u>1,328,875</u> |

During the nine months ended September 30, 2021 and 2022, the Company recorded write-down of RMB50,714 and RMB222,117 for the old-generation inventories in cost of revenues, respectively.

5. Prepayments and other assets

The current and non-current portions of prepayments and other assets consist of the following:

| | As of December 31, 2021 | As of September 30, 2022 |
|--|------------------------------------|-------------------------------------|
| Prepayments and other current assets | | |
| Prepayments to vendors (Note a) | 1,427,820 | 1,312,247 |
| VAT recoverable | 260,571 | 329,939 |
| Prepayment for repurchase of ordinary shares (Note b) | 15,901 | 25,467 |
| VAT refund for export sales (Note c) | 14,041 | 2,462 |
| Others (Note d) | 10,694 | 23,060 |
| | <u>1,729,027</u> | <u>1,693,175</u> |
| Other non-current assets | | |
| Prepayment for purchase of leasehold improvements and software | - | 20,958 |
| Long-term rental and other deposits | 2,956 | 14,546 |
| | <u>2,956</u> | <u>35,504</u> |

Note a: Prepayments to vendors mainly represent prepayments made to third-party suppliers for foundry service. The Company also records a provision for the prepayment to third-party suppliers when the Company believes that the net realizable value (being the estimated selling price of final products, less the costs of completion and selling expenses) is less than carrying amount. As of December 31, 2021 and September 30, 2022, the Company's purchase obligation to third-party suppliers for foundry service was RMB917,346 and RMB224,460 respectively.

Note b: The Company engaged a broker to repurchase shares in the secondary market. As of September 30, 2022, a total of RMB25,467 of share repurchase prepayment amount remains unused.

Note c: Canaan Convey Co., Ltd. is entitled to VAT refund for its export sales.

Note d: As of December 31, 2021 and September 30, 2022, the Company recorded provision of allowance for other receivables of RMB5,517 and RMB5,517, respectively.

CANAAN INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all amounts in thousands, except share and per share data, or as otherwise noted)

6. Cryptocurrency

| | As of December 31, 2021 | As of September 30, 2022 |
|------------------------------------|------------------------------------|-------------------------------------|
| Gross carrying amount | 21,371 | 93,184 |
| Less: Impairment of cryptocurrency | (1,061) | (19,092) |
| Net | <u>20,310</u> | <u>74,092</u> |

The additional information about cryptocurrency consists of the following:

| | For the nine months ended September 30, | |
|--|--|---------------|
| | 2021 | 2022 |
| Beginning balance | - | 20,310 |
| Revenue recognized on acceptance of cryptocurrency | 6,279 | 147,165 |
| Cost of revenues recognized on payment of cryptocurrency | - | (33,790) |
| Proceeds from disposal of cryptocurrency (Note a) | - | (25,671) |
| Realized gain on disposal of cryptocurrency (Note a) | - | 2,590 |
| Impairment | (232) | (41,683) |
| Foreign currency translation adjustment | 15 | 5,171 |
| Ending balance | <u>6,062</u> | <u>74,092</u> |

Note a: The Company disposed cryptocurrency to pay the electricity costs of mining.

7. Property, equipment and software

Property, equipment and software consist of the following:

| | As of December 31, 2021 | As of September 30, 2022 |
|---|------------------------------------|-------------------------------------|
| Cost: | | |
| Mining equipment | 146,881 | 395,291 |
| Computers and electronic equipment | 27,492 | 55,144 |
| Leasehold improvements | 21,412 | 18,907 |
| Mechanical equipment | 7,694 | 855 |
| Software | 5,438 | 10,890 |
| Construction in progress | 665 | 665 |
| Motor vehicles | 470 | 541 |
| Total cost | <u>210,052</u> | <u>482,293</u> |
| Less: Accumulated depreciation and amortization | (24,486) | (162,176) |
| Property, equipment and software, net | <u>185,566</u> | <u>320,117</u> |

Depreciation expense during the nine months ended September 30, 2021 and 2022 was RMB6,676 and RMB145,029, respectively. The Company recognized no impairment during the nine months ended September 30, 2021 and 2022.

CANAAN INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all amounts in thousands, except share and per share data, or as otherwise noted)

8. Accrued liabilities and other current liabilities

| | As of December 31, 2021 | As of September 30, 2022 |
|---|------------------------------------|-------------------------------------|
| Accrued liabilities and other current liabilities | | |
| VAT payable | 128,939 | 31,277 |
| Withholding tax payables due to restricted share units (Note a) | 126,198 | - |
| Salary and welfare payable | 118,712 | 106,209 |
| Other tax payables | 19,128 | 52,380 |
| Warranty reserve (Note b) | 18,026 | 18,641 |
| Customer refund | 10,738 | - |
| VAT received from customers related to contract liabilities | 2,427 | 951 |
| Rental deposits | 2,120 | 2,076 |
| Refund from depository bank – current | 2,013 | 2,242 |
| Others (Note c) | 9,093 | 20,196 |
| Total | 437,394 | 233,972 |

Note a: Upon vesting of the restricted share units, the Company withholds the shares to cover the statutory withholding requirement.

Note b: For mining equipment, the Company provides its customers for 360 days warranty, subject to certain conditions, such as normal use. The Company provides for the estimated costs of warranties at the time revenue is recognized. Factors that affect the Company's warranty obligation include product defect rates and costs of repair or replacement.

Movement of provision for warranty is as follows:

| | For the nine months ended September 30, | |
|------------------------|--|---------------|
| | 2021 | 2022 |
| Beginning balance | - | 18,026 |
| Accrual for warranties | 22,697 | 19,180 |
| Warranty claims paid | (4,523) | (6,265) |
| Warranty expired | - | (12,300) |
| Ending balance | 18,174 | 18,641 |

Note c: Others mainly represent professional fees payable.

CANAAN INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all amounts in thousands, except share and per share data, or as otherwise noted)

9. Warrants

In connection with the issuance of ordinary shares (Note 10) in May 2021, the Company also issued warrants to the investors, which entitle the investors to purchase up to an aggregate of 4,047,620 ADS (representing 60,714,300 Class A ordinary Shares) at \$16.38 per ADS (representing \$1.09 Class A ordinary share). Also, the Company issued warrants to two placement agents, which entitle them to purchase up to an aggregate of 674,603 ADSs (representing 10,119,045 Class A ordinary shares) at \$15.75 per ADS (representing \$1.05 Class A ordinary share).

The warrants are accounted for as a liability and remeasured to fair value at the end of each reporting period utilizing the binomial option pricing model, which involves significant assumptions including the risk-free interest rate, the expected volatility, expected dividend yield and expected term, the Company classifies the valuation techniques that use these inputs as Level 3.

| | For the nine month periods ended September 30, 2022 |
|-------------------------|--|
| Risk Free Rate | 2.32%-2.63% |
| Volatility | 126.66%- 140.39% |
| Expected dividend yield | 0% |
| Expected term | 1.9 years- 2.1 years |

On June 23, 2022, the Company entered into separate warrant repurchase agreements with all warrant holders. The Company paid US\$6.6 million (equivalent to RMB44.3 million, US\$1.4 per ADS) to repurchase the outstanding warrants of 4,722,223 ADSs (representing 70,833,345 Class A ordinary shares), upon which the warrant liability was extinguished.

The Company recognized the change in fair value of the warrant liability in RMB168,030 and RMB24,598 for the nine month periods ended September 30, 2021 and 2022, respectively. The change in fair value of warrant liability was recognized in the consolidated statements of comprehensive income in respective periods.

Movement of warrant liability is as follows:

| | For the nine months ended September 30, | |
|---|--|-------------|
| | 2021 | 2022 |
| Beginning balance | - | 66,347 |
| Issuance of warrant | 258,782 | - |
| Change in fair value of warrant liability | (168,030) | (24,598) |
| Repurchase of warrant liability | - | (44,282) |
| Foreign currency translation adjustment | (540) | 2,533 |
| Ending balance | 90,212 | - |

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10. Ordinary shares

On May 3, 2021, the Company issued 13,492,065 ADSs (202,380,975 Class A ordinary shares) to certain institutional investors for RMB1,029,455, net of issuance cost. The Company also issued to the investors warrants to purchase up to an aggregate of 4,047,620 ADSs (60,714,300 Class A ordinary shares). Also, the Company issued warrants to two placement agents, which entitles them to purchase up to an aggregate of 674,603 ADSs (10,119,045 Class A ordinary shares). The Company classified the warrants as warrant liability and the fair value of the warrant liability was RMB258,782 as of the issuance date, the residual proceeds of RMB770,673 was allocated to the Company's ordinary shares. On June 23, 2022, the Company repurchased the warrants and the warrant liability was extinguished (Note 9).

As of September 30, 2022, the authorized ordinary shares are 1,000,000,000, of which 2,804,138,492 shares were issued and 2,545,521,047 shares were outstanding. These outstanding shares consist of (1) 2,233,896,603 Class A ordinary shares and (2) 311,624,444 Class B ordinary shares, which were held by the Chairman and chief executive officer ("CEO") of the Company.

11. Treasury stocks

Amended 2018 Plan

In April 2021, the Board of Directors of the Company amended the 2018 Plan (the "Amended 2018 Plan"). In May and September 2021, the Company issued 94,927,065 Class A ordinary shares and 63,774,885 Class A ordinary shares, which were then reserved under the Amended 2018 Plan. As of September 30, 2022, 12,630,480 issued ordinary shares under Amended 2018 Plan are accounted as treasury stocks.

Under the Amended 2018 Plan, the Company withholds the shares issued to the employees to meet the income tax withholding requirement upon the vesting of the Restricted share units. For the nine months ended September 30, 2022, the Company withheld 16,601,235 Class A ordinary shares for RMB29,940 and sold 36,812,835 Class A ordinary shares for RMB133,762. The Company did not retire any of the repurchased Class A ordinary shares. As of September 30, 2022, 12,630,480 issued ordinary shares are accounted as treasury stocks.

Share Repurchase Program

Effective March 15, 2022, the Board of Directors authorized a share repurchase program under which the Company may repurchase up to US\$100 million worth of its outstanding (i) ADSs, each representing 15 Class A ordinary shares, and or (ii) Class A ordinary shares over the next 24 months starting from March 16, 2022. During the nine months ended September 30, 2022, total of 6,822,150 outstanding ADSs (102,332,250 shares) were repurchased but have not been retired with a total consideration of RMB178,293, which is shown as treasury stock.

12. Share-based compensation

The following table summarizes restricted share units ("RSUs") activity during the nine month ended September 30, 2022:

| | Number of shares | Weighted average grant date fair value RMB |
|--------------------------------------|---------------------|--|
| Outstanding as of December 31, 2021 | 137,243,670 | 4.81 |
| Granted | 57,884,265 | 1.65 |
| Forfeited | (3,688,328) | 4.70 |
| Vested | (50,255,145) | 4.44 |
| Outstanding as of September 30, 2022 | 141,184,462 | 3.65 |

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13. Income Taxes

The Company recorded an income tax provision of RMB348 and RMB301,304 for nine months ended September 30, 2021 and 2022, representing effective tax rates of 0.1% and 21.6%, respectively.

The effective income tax rate of 21.6% in 2022 was lower than the statutory income tax rate of 25.0% which was primarily due to preferential tax rate of 15% applicable to Canaan Creative in 2022. The effective income tax rate of 0.1% in 2021 was lower than the statutory income tax rate of 25.0% primarily because of (i) utilization of deferred income tax assets of certain subsidiaries, which were at cumulative loss position and valuation allowances were recorded in prior years; (ii) the preferential tax rate of 15% applicable to Canaan Creative in 2021.

14. Basic and diluted earnings per share

Basic and diluted earnings per share have been calculated in accordance with ASC 260 on computation of earnings per share for the nine months ended September 30, 2021 and 2022, as follows:

| | For the nine months ended September 30, | |
|---|--|---------------|
| | 2021 | 2022 |
| Basic earnings per share calculation | | |
| Numerator: | | |
| Net income | 803,755 | 1,096,575 |
| Denominator: | | |
| Weighted-average ordinary shares outstanding | 2,494,548,234 | 2,575,201,787 |
| Basic earnings per Class A and Class B ordinary share (RMB cent per share) | 32.22 | 42.58 |
| | | |
| | For the Nine months ended September 30, | |
| | 2021 | 2022 |
| Diluted earnings per share calculation | | |
| Numerator: | | |
| Net income | 803,755 | 1,096,575 |
| Denominator: | | |
| Weighted-average ordinary shares outstanding | 2,494,548,234 | 2,575,201,787 |
| Add: weighted-average RSUs | 41,865,800 | 4,471,509 |
| Weighted-average number of shares used in calculating diluted earnings per Class A and Class B ordinary share | 2,536,414,034 | 2,579,673,296 |
| Diluted earnings per Class A and Class B ordinary share (RMB cent per share) | 31.69 | 42.51 |

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15. Contingencies

On April 15, 2021, a new putative class action was filed in the United States District Court for the Southern District of New York against the Company and certain officers of the Company. The complaint alleges that the Company's press release issued in February 2021 about increased visibility into revenue and the size and quality of orders the Company was receiving were materially false and misleading. Plaintiff claims that the truth about the Company's revenue was revealed in April 2021, when the Company announced its latest financial results. On December 14, 2021, the Court so-ordered this stipulation. On February 7, 2022, lead plaintiffs filed an amended complaint asserting the same claims under Sections 10(b) and 20(a) of the Exchange Act against the same set of defendants. The amended complaint alleges the Company's November 30, 2020 and February 10, 2021 press releases and the April 9, 2021 interview of the Company's chief executive officer in an article published by Decrypt contained false and misleading statements regarding the pre-sale orders the Company had received and the Company's ability to secure sufficient chip supply to meet the increasing demand for mining machines. On April 8, 2022, the Company filed a motion to dismiss the amended complaint. On June 7, 2022, lead plaintiffs filed their opposition to the Company's motion to dismiss. On July 7, 2022, the Company filed a reply brief.

The management of the Company believes that there are defenses to one or more of the claims asserted in the lawsuits. The management of the Company has engaged counsel with the intention to vigorously defend these lawsuits. At the date of issue of the unaudited condensed consolidated financial statements, the Company is unable to predict the outcome of these lawsuits, or reasonably estimate a range of possible losses, if any, given the early stage of these lawsuits. Therefore, no contingent liabilities have been recorded by the Company as of September 30, 2022 in respect of these lawsuits.

Also, the Company is and, from time to time, may in the future become, involved in other legal proceedings in the ordinary course of business. The Company currently believes that the outcome of any of these existing legal proceedings, either individually or in the aggregate, will not have a material impact on the operating results, financial condition or cash flows of the Company. With respect to existing legal proceedings, the Company has either determined that the existence of a material loss is not reasonably possible or that it is unable to estimate a reasonably possible loss or range of loss. The Company may incur substantial legal fees, which are expensed as incurred, in defending against these legal proceedings.

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16. Changes in shareholder's equity

| | Note | Ordinary shares | | Subscription receivables from shareholders | Treasury stocks | | Additional paid-in capital | Statutory reserves | Accumulated other comprehensive loss | Accumulated deficit | Total shareholders' equity |
|--|------|------------------|--------|--|------------------|-----------|----------------------------|--------------------|---|---------------------|----------------------------|
| | | Number of Shares | Amount | | Number of Shares | Amount | | | | | |
| Balance as of January 1, 2021 | | 2,328,326,132 | 1 | (1) | 43,896,090 | (23,915) | 1,634,619 | 97,307 | (79,780) | (1,195,673) | 432,558 |
| Share-based compensation expense | | - | - | - | - | - | 415,096 | - | - | - | 415,096 |
| Share Repurchase | | (13,138,020) | - | - | 13,138,020 | (41,560) | - | - | - | - | (41,560) |
| Vesting of restricted share units | | 94,736,310 | - | - | (94,736,310) | - | - | - | - | - | - |
| New issuance of ordinary shares and warrants | 10 | 202,380,975 | - | - | 70,833,345 | - | 764,968 | - | - | - | 764,968 |
| Issuance of ordinary shares as a reserve for share-based compensation awards | 10 | - | - | - | 94,927,065 | - | - | - | - | - | - |
| Foreign currency translation | | - | - | - | - | - | - | - | (2,215) | - | (2,215) |
| Net income | | - | - | - | - | - | - | - | - | 803,755 | 803,755 |
| Balance as of September 30, 2021 | | 2,612,305,397 | 1 | (1) | 128,058,210 | (65,475) | 2,814,683 | 97,307 | (81,995) | (391,918) | 2,372,602 |
| | Note | Ordinary shares | | Subscription receivables from shareholders | Treasury stocks | | Additional paid-in capital | Statutory reserves | Accumulated other comprehensive (loss)/income | Retained earnings | Total shareholders' equity |
| | | Number of Shares | Amount | | Number of Shares | Amount | | | | | |
| Balance as of January 1, 2022 | | 2,577,386,552 | 1 | (1) | 226,751,940 | (231,281) | 2,891,134 | 97,420 | (101,925) | 803,342 | 3,458,690 |
| Share-based compensation expense | | - | - | - | - | - | 310,849 | - | - | - | 310,849 |
| Share Repurchase | 11 | (102,332,250) | - | - | 102,332,250 | (178,293) | - | - | - | - | (178,293) |
| Repurchase of vested employee restricted share units for tax withholding | 11 | (16,601,235) | - | - | 16,601,235 | (29,940) | - | - | - | - | (29,940) |
| Resale of vested employee restricted share units for tax withholding | 11 | 36,812,835 | - | - | (36,812,835) | 133,762 | - | - | - | (64,540) | 69,222 |
| Vesting of restricted share units | | 50,255,145 | - | - | (50,255,145) | - | - | - | - | - | - |
| Foreign currency translation | | - | - | - | - | - | - | - | 144,307 | - | 144,307 |
| Net income | | - | - | - | - | - | - | - | - | 1,096,575 | 1,096,575 |
| Balance as of September 30, 2022 | | 2,545,521,047 | 1 | (1) | 258,617,445 | (305,752) | 3,201,983 | 97,420 | 42,382 | 1,835,377 | 4,871,410 |