**LUXXFOLIO HOLDINGS INC.**

Consolidated Financial Statements
For the years ended August 31, 2024 and 2023
(Expressed in Canadian Dollars)

Dated: February 3, 2025

# Independent Auditors' Report

To: The Shareholders of **Luxxfolio Holdings Inc.**

Opinion

We have audited the consolidated financial statements of Luxxfolio Holdings Inc. (the "Company"), which comprise the consolidated statements of financial position as at August 31, 2024 and 2023 and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2024 and 2023, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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 Auditors' 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 is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the consolidated financial statements which indicates that at August 31, 2024 the Company had a deficit of $25,455,297 and a net and comprehensive loss of $124,656 for the year then ended. This condition, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period and not otherwise addressed in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the Material Uncertainty Related to Going Concern section of our report, we have determined that there are no key audit matters to be communicated in our auditors' report.

Information Other than the Consolidated Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the information included in 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 identified above 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 auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

<u>Responsibilities of Management and Those Charged With Governance for the Consolidated Financial Statements</u>

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

<u>Auditors' Responsibilities for the Audit of the Consolidated Financial Statements</u>

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 auditors' 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 judgement 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 auditors' 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 auditors' 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 Auditors' report is Roland A. Bishop, CPA, CA.

Kenway Mack Slusarchuk Stewart LLP

Chartered Professional Accountants

February 3, 2025
Calgary, Alberta

**LUXXFOLIO HOLDINGS INC.**
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

| As at | | **August 31, 2024** | | **August 31, 2023** |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash | $ | 15,592 | $ | 69,719 |
| Accounts and GST receivables | | 10,681 | | 9,493 |
| | | 26,273 | | 79,212 |
| **Total assets** | $ | 26,273 | $ | 79,212 |
| | | | | |
| **Liabilities and shareholders' deficiency** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and accrued liabilities | $ | 237,006 | $ | 215,124 |
| | | | | |
| **Shareholders' deficiency** | | | | |
| Common shares (note 9) | | 25,008,109 | | 25,008,109 |
| Contributed surplus (note 9) | | 236,455 | | 186,620 |
| Warrant reserves (note 9) | | - | | 336,704 |
| Accumulated deficit | | (25,455,297) | | (25,667,345) |
| | | (210,733) | | (135,912) |
| **Total liabilities and shareholders' deficiency** | $ | 26,273 | $ | 79,212 |

*Going Concern – Note 2.*

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

Approved on behalf of the Board:

*Signed: "Rodney Stevens"*
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Rodney Stevens, Director

*Signed: "Geoffrey McCord"*
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Geoffrey McCord, Director

**LUXXFOLIO HOLDINGS INC.**
Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian Dollars)

| | | For the year ended August 31, 2024 | | For the year ended August 31, 2023 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Cryptocurrency mining | $ | - | $ | 176,211 |
| Hosting revenue | | - | | 893,074 |
| Total revenue | | - | | 1,069,285 |
| **Operating expenses** | | | | |
| Advertising | | - | | 6,105 |
| Consulting (note 8) | | - | | 165,779 |
| Depreciation (note 7) | | - | | 349,869 |
| Electricity | | - | | 449,150 |
| General and administration | | 32,796 | | 113,638 |
| Interest (note 9) | | - | | 64,652 |
| Labour and payroll | | - | | 354,530 |
| Management fees (note 8) | | - | | 45,000 |
| Legal and professional fees | | 42,025 | | 77,725 |
| Repairs and maintenance | | - | | 12,834 |
| Supplies and materials | | - | | 17,314 |
| Total operating expenses | | 74,821 | | 1,656,596 |
| **Other expenses** | | | | |
| Loss on deconsolidation (note 3) | | - | | 2,877,530 |
| Share-based payments (note 10) | | 49,835 | | 440,366 |
| Realized loss on digital assets | | - | | 1,262,507 |
| Realized gain on sale of equipment | | - | | (10,453) |
| Unrealized gain on digital assets | | - | | (1,223,241) |
| Total other expenses | | 49,835 | | 3,346,709 |
| **Net loss** | **$** | **124,656** | **$** | **3,934,020** |
| Basic and Diluted net loss per share | $ | 0.00 | $ | 0.05 |
| Basic and diluted | | 86,717,944 | | 86,717,944 |

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

**LUXXFOLIO HOLDINGS INC.**
Consolidated Statements of Changes in Shareholders' Deficiency
(Expressed in Canadian Dollars)

| | Notes | Number of common shares | Common shares | Contributed surplus | Warrant reserves | Deficit | Total |
|---|---|---|---|---|---|---|---|
| **Balance, August 31, 2022** | | **86,717,944** | **$ 25,008,109** | **$ 1,550,327** | **$ 1,424,458** | **$ (24,625,152)** | **$ 3,357,742** |
| Expired stock options | | - | - | (1,529,876) | - | 1,529,876 | - |
| Expired compensation options | | - | - | (274,197) | - | 274,197 | - |
| Expired share purchase warrants | | - | - | - | (1,087,754) | 1,087,754 | - |
| Share-based compensation | | - | - | 440,366 | - | - | 440,366 |
| Net income (loss) | | - | - | - | - | (3,934,020) | (3,934,020) |
| **Balance, August 31, 2023** | | **86,717,944** | **$ 25,008,109** | **$ 186,620** | **$ 336,704** | **$ (25,667,345)** | **$ (135,912)** |
| Expired share purchase warrants | 10 | - | - | - | (336,704) | 336,704 | - |
| Share-based compensation | 10 | - | - | 49,835 | - | - | 49,835 |
| Net income (loss) | | - | - | - | - | (124,656) | (124,656) |
| **Balance, August 31, 2024** | | **86,717,944** | **$ 25,008,109** | **$ 236,455** | **$ -** | **$ (25,455,297)** | **$ (210,733)** |

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

**LUXXFOLIO HOLDINGS INC.**
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

| | For the year ended August 31, 2024 | For the year ended August 31, 2023 |
|---|---|---|
| **Operating Activities** | | |
| Net loss | $ (124,656) | $ (3,934,020) |
| Non-cash items: | | |
| Depreciation | - | 349,869 |
| Share-based payments | 49,835 | 440,366 |
| Cryptocurrency mining and hosting revenue | - | (176,211) |
| Loss on deconsolidation | - | 2,877,530 |
| Realized (gain) loss on Digital Assets | - | 39,266 |
| Realized loss on sale of equipment | - | (10,453) |
| Changes in non-cash working capital: | | |
| Cryptocurrency – sold | - | 1,594,976 |
| Accounts receivable | (1,188) | 169,173 |
| Prepaid expenses | - | 3,297 |
| Accounts payable and accrued liabilities | 21,882 | (78,522) |
| Deferred income | - | (406,440) |
| Cash provided by (used in) operating activities | (54,127) | 868,831 |
| **Investing Activities** | | |
| Cash provided by (used in) investing activities | - | - |
| **Financing Activities** | | |
| Repayment of long-term debt | - | (1,234,258) |
| Cash provided by (used in) financing activities | - | (1,234,258) |
| **Inflow (outflow) of Cash** | (54,127) | (365,427) |
| Cash, Beginning of year | 69,719 | 435,146 |
| Cash, End of year | $ 15,592 | $ 69,719 |

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

## 1. NATURE OF OPERATIONS

Luxxfolio Holdings Inc. (the "Company") was incorporated under the *Business Corporations Act* (British Columbia) on October 10, 2017. On March 21, 2019, the Company's shares began trading on the Canadian Securities Exchange ("CSE"), under the symbol LUXX. The head office of the Company is located at 417 – 1080 Mainland Street, Vancouver, British Columbia.

## 2. GOING CONCERN

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

For the year ended August 31, 2024, the Company realized a net loss of $124,656 (2023 - $3,934,020) and has a working capital deficiency of $210,733 (2023 - $135,912) and an accumulated deficit of $25,455,297 (2023 - $25,667,345). In assessing whether the going concern assumption is appropriate, management considers all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

The Company's continued existence is dependent upon its ability to raise additional capital, obtain financing and realize revenue and positive cash flows from future operations. Failure to do so would have an adverse effect on the financial position of the Company and its ability to continue as a going concern. These consolidated financial statements do not include any adjustments that would be necessary, should the Company be unable to continue as a going concern. Such adjustments could be material. These material uncertainties cast substantial doubt regarding the Company's ability to continue as a going concern.

## 3. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Standards Interpretation Committee ("IFRIC").

The Company was in the business of mining for digital assets, specifically Bitcoin, until the closing of the Company's mining facility in November 2022. There are many aspects of its business that are not specifically addressed by current IFRS guidance. The Company is required to make judgements as to the application of IFRS and the selection of appropriate accounting policies. The Company has disclosed its presentation, recognition and derecognition, and measurement of digital assets and the related recognition of revenues, significant assumptions, and judgements. If, however, specific guidance is issued by the IASB in the future, the impact on the Company's financial position and results of operations may be material.

## 3. BASIS OF PRESENTATION (continued)

(b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments and digital currencies that have been measured at fair value, on the reporting date. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The Company lost control of WestBlock Capital Inc. and its subsidiaries ("WestBlock") as well as WestBlock's mining facility assets on November 30, 2022 due to access restrictions imposed by the Navajo Tribal Utility Authority ("NTUA") for non-payment of the unsecured note due May 2024 and the accumulated power supply charges under WestBlock, operator of the facility. Accordingly, the Company has written down its investment in the WestBlock operating subsidiaries and derecognised these in the consolidated financial statements for the year ended August 31, 2023. Any value realized on the disposition of the remaining assets will be recognised at the time of disposition. The Company recognized a loss of derecognition of WestBlock resulted in a loss of $2,877,530 on the loss of control and deconsolidation.

(c) Principles of consolidation

Assets, liabilities, income, and expenses of the subsidiaries are included in the consolidated financial statements from the date that the Company gains control until the date that the Company ceases to control the subsidiary.

As at August 31, 2024, the consolidated statement of financial position include only accounts of the Company and its wholly owned subsidiary Luxxfolio Networks Inc. All other former operating subsidiaries have been excluded as the Company ceased to control these entities effective November 30, 2022.

(d) Approval of the consolidated financial statements

These consolidated financial statements were authorized for issue by the Board of Directors on February 3, 2025.

(e) Functional and presentation currency

Transactions and balances in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates. These consolidated financial statements have been presented in Canadian dollars ("CAD"). The functional currency of all entities is CAD at August 31, 2024. The functional currency of the US entities was the USD prior to the loss of control.

**3. BASIS OF PRESENTATION (continued)**

(f) Use of estimates and judgments

The preparation of these consolidated financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. Accounting estimates and assumptions made by management that may result in a material adjustment to the carrying amounts of assets and liabilities include, but are not limited to the following:

(i) Valuation of digital assets

Prior to the loss of control, the Company derived the majority of its revenue from the mining of Bitcoin and held Bitcoin at prior period reporting dates. Bitcoin is considered an identifiable non-monetary asset without physical substance and is treated as intangible assets not subject to amortization under IAS 38 Intangible Assets.

Bitcoin is measured at fair value using the quoted prices provided by Yahoo Finance and are valued at the closing price on the last trading day of the reporting period.

(ii) Fair value of options and warrants

The fair value of equity instruments is subject to the limitations of the Black-Scholes option pricing model, as well as other pricing models that incorporate market data and involve uncertainty in estimates used by management in the assumptions. Because option pricing models require inputs of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

(iii) Business combinations

In business combinations transacted by the Company, identifiable assets acquired, and liabilities assumed are recorded at their fair values. In determining the allocation of the purchase price in a business combination requires management to make certain judgements and estimates about future events, including but not limited to future revenues, future digital asset prices and future operating costs.

(iv) Business acquisitions

Management determines whether assets acquired, and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs to create outputs of measurable value. The Company completed the acquisition of WestBlock Capital Inc. in June 2021 which was determined to be a business combination and was accounted for under IFRS 3 (*Business Combinations*).

**3. BASIS OF PRESENTATION (continued)**

(f) Use of estimates and judgements (continued)

(v) Going concern assumption

The assessment of whether the going concern assumption is appropriate requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

(vi) Income taxes

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgements in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant tax authorities, which occurs subsequent to the issuance of the consolidated financial statements.

(vii) Research and development expenditures

Costs to develop the Company's platform are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 *Intangible Assets* are met. Those criteria require that the platform is technically and economically feasible, which management assesses based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions. Management considers those factors in aggregate and applies significant judgement to determine whether the platform is feasible. The Company has not capitalized any research and development costs as at August 31, 2024.

(viii) Impairment of non-financial assets and goodwill

Impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. These calculations are based on available data, other observable inputs, and projections of cash flows, all of which are subject to estimates and assumptions. Recoverable amounts are also sensitive to assumptions about the future usefulness of in-process development and contractual rights to use inputs for these assets.

## 4. MATERIAL ACCOUNTING POLICIES

The material accounting policies of the Company include the following:

(a) Foreign currency translation

Transactions denominated in foreign currencies are translated to the respective functional currencies of the Company and its subsidiaries at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the reporting date. Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date. Revenues and expenses are translated at exchange rates prevailing on the date of transactions. All exchange gains and losses are included in the determination of earnings.

(b) Financial instruments

The following is the Company's accounting policy for financial instruments under IFRS 9 Financial Instruments ("IFRS 9"):

Financial assets

(i) Recognition and measurement of financial assets

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

(ii) Classification of financial assets

The Company classifies financial assets upon initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss. The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

*Financial assets measured at amortized cost*

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for such financial assets, is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

**4. MATERIAL ACCOUNTING POLICIES**

(b) Financial instruments (continued)

(ii) Classification of financial assets (continued)

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

*Financial assets measured at fair value through other comprehensive income ("FVTOCI")*

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income.

*Financial assets measured at fair value through profit or loss ("FVTPL")*

A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. After initial recognition, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

(iii) Derecognition of financial assets

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interest in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in the consolidated statement of operations and comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

(iv) Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

**4. MATERIAL ACCOUNTING POLICIES (continued)**

(b) Financial instruments (continued)

Financial liabilities

(i) Recognition and measurement of financial liabilities

The Company recognizes financial liabilities when it becomes a party to the contractual provisions of the instruments.

(ii) Classification of financial liabilities

The Company classifies financial liabilities at initial recognition as financial liabilities: measured at amortized cost or measured at fair value through profit or loss.

*Financial liabilities measured at amortized cost*

Financial liability at amortized cost is initially measured at fair value less transaction costs directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method.

*Financial liabilities measured at fair value through profit or loss*

A financial liability measured at fair value through profit or loss is initially measured at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial liability is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

(iii) Derecognition of financial liabilities

The Company derecognizes a financial liability when the financial liability is discharged, cancelled, or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of operations and comprehensive loss.

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

## 4. MATERIAL ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

The following table shows the classification of the Company's financial instruments under IFRS 9:

| | Classification |
|---|---|
| **Financial assets** | |
| Cash | FVTPL |
| Accounts Receivable | Amortized Cost |
| | |
| **Financial liabilities** | |
| Accounts payable and accrued liabilities | Amortized Cost |

(c) Revenue recognition

Prior to ceasing operations on November 30, 2022, the Company derived revenue from the provision of transaction verification services within the digital currency networks, more commonly known as crypto currency mining. In recognition of the provision of these mining services, the Company earns Bitcoin from the mining cryptocurrency pool in which it participates. Only when Bitcoin rewards are validated and earned are they recognized as revenue for accounting purposes.

The Company also earned revenue from hosting third party miners in the form of fixed monthly charges as well as variable charges based on power consumed. In addition, where such hosting involves the use of immersion equipment, additional Bitcoin revenue may be earned from over-clocking of machines in immersion.

There is currently no specific guidance in IFRS or alternative accounting frameworks for the accounting of the production of Bitcoin and management has exercised significant judgement in determining the appropriate accounting treatment for the recognition of Bitcoin revenue. In the event that more authoritative guidance is enacted by IASB, the Company may be required to change its policies which could result in a change in the Company's financial position and earnings.

Digital assets, which previously consisted of Bitcoin, met the definition of intangible assets under IAS 38. Bitcoin was initially recorded at the value attributed to the Bitcoin at point of mining authentication and the revaluation method is used to measure subsequent changes in value. Accordingly, increases in fair value were recorded in Other Comprehensive Income, while decreases were recorded in Profit and Loss. The Company revalues its digital assets on a monthly basis. There is no recycling of gains from Other Comprehensive Income to Profit and Loss. However, to the extent that an increase in fair value reverses a previous decrease in fair value that has been recorded in Profit and Loss, that increase is recorded in Profit and Loss. Decreases in fair value that reverse gains previously recorded in Other Comprehensive Income are recorded in Other Comprehensive Income.

## 4. MATERIAL ACCOUNTING POLICIES (continued)

(d) Income taxes

Income tax expense, consisting of current and deferred tax expense, is recognized in the consolidated statement of operations and comprehensive loss. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized, or the liability is settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(e) Share-based compensation

The Company has share-based compensation which is described in note 10(e). Share-based compensation granted is accounted for using the fair value method. The fair value of the common share purchase option for employees is calculated at the date of grant and is expensed over the vesting period of those options. The fair value of the common share purchase option for non-employees is calculated at the date of performance completion. The fair value for awards with graded vesting is recognized over the vesting period of the tranche. The fair value of the common share purchase option is measured at the fair value of the goods or services received unless that fair value cannot be estimated reliably. In such case, the Company uses the Black-Scholes model to calculate the fair value of stock options issued, which requires certain assumptions be made at the time the options are awarded, including the expected life of the option, the expected number of granted options that will vest, forfeitures and the expected future volatility of the stock. Any consideration received upon exercise of stock options is credited to share capital along with the amount previously recognized in share-based payment reserve.

**4. MATERIAL ACCOUNTING POLICIES (continued)**

(f) Research and development

Research costs are expensed as incurred. Costs related to the development of the platform are expensed as incurred unless such costs meet the criteria for deferral and amortization under IFRS. The criteria include identifiable costs attributable to a clearly defined product, the establishment of technical feasibility, demonstration of the Company's intention and ability to complete the platform and use or sell it, identification of a market for the platform, the Company's intent to market the software, and the existence of adequate resources to complete the project.

(g) Impairment of non-financial assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and the value in use. In assessing value in use, estimated future cash flows are adjusted for the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined by the cash-generating unit to which the asset belongs.

(i) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing net loss attributable to common shares of the Company by the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted earnings (loss) per share. Under this method, the dilutive effect on earnings per share is calculated on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and the exercise of options and warrants that would be anti-dilutive.

(j) New IFRS issued but not yet effective

Management has reviewed new IFRS which are not yet effective and determined there is no impact on the Company.

(Expressed in Canadian Dollars)

## 5. RELATED PARTY TRANSACTIONS

During the year ended August 31, 2024, the Company did not incur any related party transactions.

During the year ended August 31, 2023, the Company incurred management fees of $45,000 from a company controlled by a director of the Company and a director of the Company's subsidiaries. During the same period, the Company incurred consulting fees of $164,679 by certain officers and directors of the Company relating to monthly consulting fees and compensation for key management functions.

On December 1, 2021, the Company, through its then wholly owned subsidiary, entered into a senior debt facility (the "Senior Debt Facility) with CHP Agent Services Inc., a then related party. Total interest paid to the Senior Debt Facility amounted to $64,652 during the year ended August 31, 2023. On November 2, 2022, CHP Agent Services Inc. ("CHP") ceased to be a related party following the resignation of Kelly Klatik, a director of CHP, from the Board of Directors.

## 6. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value and an unlimited number of preferred shares without par value.

(b) Issued and outstanding

During the year ended August 31, 2024 and 2023, the Company did not issue any common shares or preferred shares.

(c) Share purchase warrants

During the year ended August 31, 2024, the Company did not issue any share purchase warrants. A total of 19,650,000 share purchase warrants expired during the same period. There are no share purchase warrants outstanding as at August 31, 2024.

During the year ended August 31, 2023, the Company did not issue any share purchase warrants. A total of 11,543,255 share purchase warrants expired during the same period.

Share purchase warrant transactions and the number of share purchase warrants outstanding are summarized as follows:

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| Outstanding, August 31, 2022 | 31,193,255 | $0.48 |
| Expired | (11,543,255) | $0.45 |
| Outstanding, August 31, 2023 | 19,650,000 | $0.50 |
| Expired | (19,650,000) | $0.50 |
| Outstanding, August 31, 2024 | - | - |

(Expressed in Canadian Dollars)

**6. SHARE CAPITAL (continued)**

(c) Share purchase warrants (continued)

The weighted average contractual life of share purchase warrants outstanding as at August 31, 2024 is nil (2023 – 0.59) years.

(d) Compensation Options

The Company did not issue any Compensation Options during the year ended August 31, 2024 and 2023.

The following table summarizes information on the movement of the Compensation Options:

| | Number of Compensation Options | Weighted Average Exercise Price |
|---|---|---|
| Outstanding, August 31, 2022 | 796,050 | $0.70 |
| Expired | (796,050) | $0.70 |
| Outstanding, August 31, 2023 | - | - |
| Outstanding, August 31, 2024 | - | - |

The weighted average contractual life of Compensation Options outstanding as of August 31, 2024 is nil (2023 – nil) years.

(Expressed in Canadian Dollars)

## 6. SHARE CAPITAL (continued)

### (e) Stock Options

During the year ended August 31, 2024, the Company did not grant any stock options.

During the year ended August 31, 2023, the Company granted 8,230,000 stock options to certain employees, consultants, officers, and directors of the Company. 50% of the options vested on the date the options were granted (the "Grant Date") and the next 25% will vest six months from the Grant Date and the last 25% will vest twelve months from the Grant Date. The stock options are exercisable for a period of five years from the date of the Grant at an exercise price of $0.015 per common share. The stock options were granted in accordance with the terms of the Company's stock option plan and the policies of the CSE. The share options granted were accounted for at their fair value determined by the Black-Scholes option pricing model with the following weighted average assumptions:

| | | |
|---|---|---|
| Number of stock options issued | 2,100,000 | 6,130,000 |
| Exercise price per share | $0.015 | $0.015 |
| Risk-free interest rate | 4.59% | 5.02% |
| Expected life of options | 5 years | 5 years |
| Annualized volatility | 199.10% | 197.96% |
| Dividend rate | 0% | 0% |
| Weighted average fair value per option | $0.0147 | $0.0146 |

The annualized volatility was based on historical weekly data of the Company. The fair value of the stock options is amortized over the vesting period. Share-based compensation for the year ended August 31, 2023, relating to the Stock Options, amounted to $440,366.

During the year ended August 31, 2023, a total of 4,823,000 options were canceled in accordance with the terms of the Company's stock option plan. The following table summarizes information on the movement of the stock options:

| | Number of Stock Options | Weighted Average Exercise Price (CAD) |
|---|---|---|
| Outstanding, August 31, 2022 | 5,263,000 | $0.352 |
| Granted | 8,230,000 | $0.015 |
| Canceled | (4,823,000) | $0.358 |
| Outstanding, August 31, 2023 | 8,670,000 | $0.028 |
| Outstanding, August 31, 2024 | 8,670,000 | $0.028 |
| Options exercisable, August 31, 2024 | 8,670,000 | $0.028 |

The weighted average contractual life of stock options outstanding as at August 31, 2024 is 3.77 (2023 – 4.77) years.

## 7. FINANCIAL INSTRUMENTS AND DIGITAL ASSETS

(a) Fair value

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company determined that the carrying value of cash and accounts receivable approximate fair value due to relatively short period to maturity.

Digital assets are revalued using quoted prices provided by Yahoo Finance and are valued at the closing price on the last trading day of the reporting period. The Company considers this to be Level 2 fair value.

(b) Credit risk

Credit risk refers to the potential that a counterparty to a financial instrument will fail to discharge its contractual obligations. The Company manages credit risk, in respect of its cash and funds held in trust by placing its cash balances at a recognized major Canadian and US financial institutions. Digital assets are held only in the custody vaults of Anchorage Digital Bank NA, a US federally chartered digital asset bank and registered custodian. The Company does not self-custody its Digital Assets.

(c) Liquidity risk and Working Capital deficiency

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The working capital deficiency on August 31, 2024 and 2023 is a measure of the liquidity risk that exists. The Company manages its liquidity risk on an ongoing basis in accordance with policies and procedures in place. Budgeting and Cash flow projections are completed and reviewed on a regular basis to ensure the Company has sufficient cash resources available to meet its financial obligations. The Company is exposed to liquidity risk in respect of its accounts payable and accrued liabilities., and long-term debt. As at August 31, 2024, the Company has the following contractual maturities:

## 7. FINANCIAL INSTRUMENTS AND DIGITAL ASSETS (continued)

(c) Liquidity risk (continued)

| | Carrying amount | Contractual cash flows | FY2025 | FY2026 | FY2027 |
|---|---|---|---|---|---|
| Accounts Payable and accrued Liabilities | $237,006 | $237,006 | $237,006 | $nil | $nil |
| | $237,006 | $237,006 | $237,006 | $nil | $nil |

(d) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in the market interest rates. The Company's exposure to interest rate risk is limited and relates only to its ability to earn interest income on cash balances held from time to time at variable rates. Changes in short term rates will not have a significant effect on the fair value of the Company's cash positions.

(e) Foreign currency risk

Currency risk relates to the risk that the fair values and future cash flows of the Company's financial instruments will fluctuate as a result of changes in foreign exchange rates. Exchange rate fluctuations will affect those parts of the Company's operations managed in USD dollars and consequently may impact the Company's financial results, and assets and liabilities denominated in USD.

## 8. INCOME TAXES

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

| | | 2024 | | 2023 |
|---|---|---|---|---|
| Net loss | $ | (124,656) | | (3,934,017) |
| Income tax at statutory rate | | 27% | | 27% |
| Expected income tax recovery | $ | (33,657) | | (1,062,185) |
| Items not deductible for tax purposes | | 13,455 | | 118,905 |
| Unrealized gain on digital assets | | - | | (330,275) |
| Effect of deconsolidation | | - | | 776,933 |
| Unrecognized assets | | 20,202 | | 515,526 |
| Other | | - | | (18,904) |
| Income tax recovery | $ | - | $ | - |

The measurement of deferred income tax assets and liabilities requires management to make judgements in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant tax authorities, which occurs subsequent to the issuance of the consolidated financial statements.

(Expressed in Canadian Dollars)

## 8. INCOME TAXES (continued)

Deferred income tax assets are only recognized to the extent that the realization of tax benefits is determined to be probable. As of August 31, 2024 and 2023, the Company has unrecognized deferred tax benefits for the following deductible temporary differences:

| | 2024 | 2023 |
|---|---|---|
| Long-term debt and financing fees | $ 13,781 | $ 32,686 |
| Non-capital losses | 3,964,152 | 3,925,045 |
| Capital losses on deconsolidation | 556,802 | 556,802 |
| | 4,534,735 | 4,514,533 |
| Total unrecognized deferred tax asset | (4,534,735) | (4,514,533) |
| | $ - | $ - |

As of August 31, 2024, the Company had capital losses of $2,877,531 (2023 - $2,877,531) and non-capital losses of approximately $14,682,045 (2023 - $14,537,204) available for carry-forward to reduce future years' Canadian taxable income. These non-capital losses expire as follows:

| | **Amount** |
|---|---|
| 2037 | 1,279,519 |
| 2038 | 375,764 |
| 2039 | 330,620 |
| 2040 | 278,532 |
| 2041 | 739,497 |
| 2042 | 11,340,720 |
| 2043 | 192,552 |
| 2044 | 144,841 |
| | 14,682,045 |

## 9. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. As at August 31, 2024, the Company considers capital to consist of short-term debt and all components of shareholders' equity. The Company manages its capital structure and adjusts it considering changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue common shares, promissory notes, dispose of assets or adjust the amount of cash on hand.

At this stage of the Company's development, and to maximize available capital, ongoing operational development efforts, the Company does not pay dividends. There were no changes to the Company's capital management approach for the year ended August 31, 2024.

## 10. CONTINGENT LIABILITIES

On February 26, 2024, the Company's subsidiary, Luxxfolio Network Inc., received a letter from the Internal Revenue Service (IRS) that a penalty had been assessed amounting to $25,000 USD plus interest for failing to file an information return for non-resident corporations operating in the United States. The Company believes it filed this return prior to the due date and is attempting to resolve the matter with the IRS.

## 11. SUBSEQUENT EVENTS

(a) Non-brokered private placement

On November 28, 2024, the Company announced a cryptocurrency proof-of-stake ("POS") strategy to offer shareholders a diversified pure-play, rolling portfolio of top proof-of-stake cryptocurrencies by market capitalization. It is intended that staking revenue will be enhanced through participation in yield generating decentralized financial ("DiFi") opportunities. To facilitate the execution of this strategy, the Company announced on December 4, 2024, details of the accompanying financing. The non-brokered private placement comprises up to 43,333,333 units at $0.03 per unit for maximum gross proceeds of $1.3 million. Each unit will consist of one common share of the Company and one common share purchase warrant, exercisable at $0.07 per common share of the Company for a period of eighteen months.

(b) Bridge loan facility

On January 13, 2025, Luxxfolio entered into a bridge loan facility with Cypress Hills Partners Inc. ("Cypress Hills") in the amount of $30,000, bearing an annual interest rate of 14% for a term of 90 days. The proceeds of the loan shall be used for expenses related to the completion and filing of the Company's audited Annual Consolidated Financial Statements and the accompanying Management Discussion and Analysis in the amount of $25,000, as well as other administrative expenses of $5,000, subject to the approval of Cypress Hills.

The loan is secured by a general security agreement on all present and after-acquired property of the Company. Repayment shall be due on the earliest of the following: 90 days from the date of the loan facility agreement, the date on which the Company completes a private placement with proceeds of at least $75,000, or the date on which Cypress Hills demands repayment following the occurrence of an event of default. Cypress Hills retains the sole discretion to extend the maturity date.

(c) Exercise of stock options

On December 12, 2024, 600,000 stock options were exercised at a price of $0.015 per common share of the Company for total proceeds of $9,000. The total common shares issued and outstanding increased to 87,317,944 and the total stock options outstanding decreased to 8,070,000.

## 12. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified, where applicable, to conform with the current year's presentation. The changes do not affect prior year earnings.