

LOOKING GLASS LABS LTD.
(formerly Bluknight Aquafarms Inc.)

Unaudited Condensed Interim Consolidated Financial Statements
Three and six months ended January 31, 2022 and 2021
Expressed in Canadian Dollars

Looking Glass Labs Ltd.
(formerly Bluknight Aquafarms Inc.)
Unaudited Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Note	January 31, 2022 \$	(Audited) July 31, 2021 \$
ASSETS			
CURRENT			
Cash and cash equivalents		5,855,704	2,442
Accounts receivable		76,853	-
Digital assets	4	266,255	-
Prepaid expenses		525,394	-
		6,724,206	2,442
Non-current assets			
Right-of-use asset	7	481,852	-
Equipment	5	53,040	-
Intangible assets	6	720,267	-
Goodwill	3	6,682,068	-
Total Assets		14,661,433	2,442
LIABILITIES			
Accounts payable and accrued liabilities	8,11	286,941	44,755
Income taxes payable		15,785	-
Loans payable	9	40,000	105,000
Lease liabilities – current portion	7	157,303	-
Accrued acquisition costs	3	2,000,000	-
Contingent liability	3	1,871,628	-
		4,371,657	149,755
Non-current liabilities			
Lease liabilities	3	328,188	-
Total Liabilities		4,699,845	149,755
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital	10	8,122,734	456,899
Reserves	10	162,989	-
Warrant reserves	10	9,762	-
Retained earnings (deficit)	10	1,666,103	(604,212)
Total shareholders' equity		9,961,588	(147,313)
Total liabilities and shareholders' equity (deficit)		14,661,433	2,442

Nature and continuance of operations (Note 1)

Subsequent Events (Note 17)

Approved by the board of directors and authorized for issue on March 17, 2022:

“Carl Chow”
Carl Chow, Director

“Patrick O’Flaherty”
Patrick O’Flaherty, Director

Looking Glass Labs Ltd.

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Unaudited Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

		Three months ended		Six months ended	
		January 31, 2022	January 31, 2021	January 31, 2022	January 31, 2021
Revenues					
NFT sales	15	\$ -	\$ -	\$ 6,245,675	\$ -
Royalty income	15	117,492	-	361,282	-
Consulting income	15	194,333	-	201,731	-
Total revenues		311,825	-	6,808,688	-
Cost of revenues		(24,701)	-	(345,774)	-
Gross profit		287,124	-	6,462,914	-
Expenses					
Amortization	5,6,7	57,015	-	57,396	-
Consulting fees	11	405,666	5,513	453,387	11,130
Corporate development fees	11	291,968	-	352,513	-
Development costs		634,701	-	876,597	-
Interest expense		7,551	-	7,551	-
Marketing		599,286	-	676,423	-
Office expenses		161,981	32	184,385	50
Professional fees	11	213,150	9,487	249,530	16,249
Stock-based compensation		137,569	-	162,989	-
Transfer agent and filing fees		116,421	473	159,671	495
Wages and salaries		184,744	-	213,996	-
Operating expenses		\$ (2,810,052)	\$ (15,505)	\$ (3,394,438)	\$ (27,924)
Other items					
Acquisition costs	3	-	-	(225,000)	-
Change in fair value of contingent liability		(835,766)	-	(835,766)	-
Change in revaluation of digital assets	4	(119,001)	-	(122,136)	-
Gain on use of digital assets	4	1,047	-	403,478	-
Gain on settlement of debt	9	-	-	5,000	-
Unrealized loss on investments		(23,737)	-	(23,737)	-
Total comprehensive income (loss) for the period		\$ (3,500,385)	\$ (15,505)	\$ 2,270,315	\$ (27,924)
Net income (loss) per share:					
Basic		\$ (0.03)	\$ (0.00)	\$ 0.03	\$ (0.00)
Diluted		\$ (0.03)	\$ (0.00)	\$ 0.02	\$ (0.00)
Weighted average number of common shares outstanding:					
Basic		107,682,209	35,459,079	83,261,459	36,912,340
Diluted		107,682,209	35,459,079	93,826,676	36,912,340

Looking Glass Labs Ltd.

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Unaudited Condensed Interim Consolidated Statement of Shareholders' Equity (Deficit)

For the three and six months ended January 31, 2022 and 2021

(Expressed in Canadian Dollars)

	Share capital			Warrant reserve	Retained earnings (deficit)	Total
	Number of shares	Amount	Reserve			
Balance at July 31, 2020	38,365,601	\$ 507,422	\$ -	\$ -	\$ (602,227)	\$ (94,805)
Return to treasury	(3,820,000)	(72,000)	-	-	72,000	-
Loss for the period	-	-	-	-	(27,924)	(27,924)
Balance at January 31, 2021	34,545,601	\$ 435,422	\$ -	\$ -	\$ (558,151)	(122,729)
Balance at July 31, 2021	34,545,601	\$ 456,899	-	-	\$ (604,212)	\$ (147,313)
Common shares issued for cash	26,100,000	4,010,000	-	-	-	4,010,000
Share issuance costs	145,950	(25,662)	-	9,762	-	(15,900)
Shares issued to acquire HOK (Note 3)	45,000,000	3,436,497	-	-	-	3,436,497
Shares issued for finder's fees (Note 3)	2,250,000	225,000	-	-	-	225,000
Shares issued to settle debt	200,000	20,000	-	-	-	20,000
Share-based compensation	-	-	162,989	-	-	162,989
Income for the period	-	-	-	-	2,270,315	2,270,315
Balance at January 31, 2022	108,241,551	\$ 8,122,734	\$162,989	\$ 9,762	\$ 1,666,103	\$ 9,961,588

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2022 and 2021

(Expressed in Canadian Dollars)

	Six months ended	
	January 31, 2022	January 31, 2021
Operating activities		
Income (loss) for the period	\$ 2,270,315	\$ (27,924)
Adjustments for non-cash items:		
Interest expense	7,551	-
Change in fair value of contingent liability	835,766	-
Digital assets converted to fiat currency	6,516,226	-
Digital assets received for sales	(5,989,299)	-
Digital assets received for which revenue was deferred upon acquisition of HOK	(603,209)	-
Digital assets paid for services	257,040	-
Depreciation	57,396	-
Gain on use of digital assets	(403,478)	-
Revaluation of digital assets	122,136	-
Shares issued for acquisition costs	225,000	-
Share-based compensation	162,989	-
Gain on forgiveness of debts	(5,000)	-
Changes in non-cash working capital items:		
Amounts receivable	(76,224)	-
Prepaid expenses	(525,394)	-
Accounts payable and accrued liabilities	106,922	15,742
Due to related parties	(117,295)	-
Net cash flows provided by (used in) operating activities	2,841,442	(12,182)
Investing activities		
Loans receivable	(100,539)	-
Repayment of contingent liability	(750,000)	-
Additions of internally developed software	(205,981)	-
Purchase of equipment	(54,062)	-
Cash acquired from acquisition of HOK	225,558	-
Net cash flows used in investing activities	(885,024)	-
Financing activities		
Loans repaid	(105,000)	-
Loans received	40,000	-
Lease payments	(32,256)	-
Proceeds from share issuances	3,994,100	-
Net cash flows provided by financing activities	3,896,844	-
Change in cash	5,853,262	(12,182)
Cash, beginning	2,442	14,660
Cash, ending	\$ 5,855,704	\$ 2,478

Other Supplementary Information

Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -

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1. Nature and continuance of operations

Looking Glass Labs Ltd. (formerly BluKnight Aquafarms Inc.) (the “Company”) was incorporated on June 19, 2015, under the laws of the province of British Columbia, Canada. On October 8, 2021, the Company changed its name from BluKnight Aquafarms Inc. to Looking Glass Labs Ltd. The Company changed its name to Bluknight Aquafarms Inc. on July 12, 2017. Looking Glass Labs is a digital platform specializing in non-fungible token (“NFT”) architecture, immersive extended reality (“XR”) metaverse design, and virtual asset royalty streams. Its leading brand, House of Kibaa (“HoK”), designs and curates a next-generation metaverse for 3D assets, which allows functional art and collectibles to exist simultaneously across different NFT blockchain environments. The HOK studio provides utilities and platform tools that enable users to showcase their individual style and NFT collections within a proprietary metaverse.

The head office, principal address, records office and registered address of the Company are located at 810 – 789 West Pender Street, Vancouver BC.

Currently, based on its planned expenditures and expected cash flows, the Company will need to secure new sources of working capital to continue operations beyond twelve-month period. Management’s plan is to actively secure sources of funds, including possible equity and debt financing options, while at the same time focus on exercising careful cost control to sustain operations. If necessary, the Company will curtail spending.

These financial statements have been prepared on a going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. During the six months ended January 31, 2022, the Company earned a net comprehensive income of \$2,270,315 (2020 net loss - \$27,924), and had retained earnings of \$1,666,103 (July 31, 2021 accumulated deficit - \$604,212) and working capital of \$2,352,549 as at January 31, 2021 (July 31, 2021 working capital deficit –\$147,313). Although the Company has earned income since inception, losses can occur in the future. The Company’s ability to continue as a going concern and meet its corporate objectives may require additional financing through debt or equity issuances or other available means. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be available on terms advantageous to the Company. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue its existence.

2. Statement of compliance and significant accounting policies

These unaudited condensed interim consolidated financial statements were authorized for issue on March 17, 2022 by the directors of the Company.

Statement of compliance

These unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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2. Statement of compliance and significant accounting policies (continued)

These unaudited interim consolidated financial statements do not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the audited financial statements of the Company for the year ended July 31, 2021.

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The significant accounting policies have been applied consistently to all periods presented.

Basis of presentation

These condensed interim consolidated financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable. The condensed interim consolidated financial statements are presented in Canadian dollars, unless otherwise noted, which is the Company's functional currency.

Basis of Consolidation

The condensed interim consolidated financial statements include the accounts of the Company and its controlled entities. Control occurs when the Company is exposed to, or has the right to, variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. Details of controlled entities are as follows:

Name	Jurisdiction of incorporation	Interest	Functional Currency
Genzeroes Productions Inc.	Canada	100%	Canadian Dollars
HOK Vietnam Company Limited	Vietnam	100%	Vietnamese Dong
HOK Technologies Inc.	Canada	100%	Canadian Dollars

All inter-company transactions and balances have been eliminated in the consolidated financial statement presentation.

Functional and Presentation Currency

These condensed interim consolidated financial statements are presented in Canadian dollars. Each entity determines its own functional currency, and items included in the condensed interim consolidated financial statements of each entity are measured using that functional currency.

Transactions and balances in foreign currencies

Foreign currency transactions are translated into the functional currency of the respective entity, using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at period-end exchange rates are recognized immediately in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction and are not retranslated. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

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2. Statement of compliance and significant accounting policies (continued)

Foreign Operations

On consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars from their functional currency at the exchange rate prevailing at the reporting date and their income statements are translated at the exchange rates approximating those in effect on the date transactions occurred. The exchange differences arising on the translation are recognized in other comprehensive income and accumulated in the foreign currency translation reserve in equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in earnings as part of the gain or loss on disposal.

Significant accounting judgments, estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments and estimates in applying the Company's condensed interim consolidated financial statements include:

Going concern

The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty involves significant judgement based on historical experience and other factors, including the expectation of future events that are believed to be reasonable under the circumstances.

Digital assets

Digital assets are considered to be an identifiable non-monetary asset without physical substance. Management has determined that the digital assets are accounted for as intangible assets in accordance with IAS 38 Intangible Assets.

Digital currency valuation

Digital assets consist of cryptocurrency denominated assets (Note 4). Digital assets are carried at their fair market value determined by the spot rate based on the hourly volume weighted average from www.coinbase.com. The digital currency market is still a new market and is highly volatile; historical prices are not necessarily indicative of future value; a significant change in the market prices for digital assets would have a significant impact on the Company's earnings and financial position. In addition, management estimates that selling costs will be nominal. Digital currency prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and the global political and economic conditions. A decline in the market prices for digital assets could negatively impact the Company's future operations. The Company has not hedged the conversion of any of its digital assets.

Stock-based compensation

The fair value of stock-based compensation requires estimates of assumptions that are used in the Black-Scholes option pricing model.

Leases

Determining whether lease contract contains an identified asset, whether the Company has the right to control the asset, and the lease term. The lease term is based on considering facts and circumstances, both qualitative and quantitative, that can create economic incentive to exercise renewal options.

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2. Statement of compliance and significant accounting policies (continued)

Business combinations

Judgement is required to determine if the Company's acquisition represented a business combination or an asset purchase. If estimates or judgments differed, this could result in a materially different allocation of net assets on the consolidated statement of financial position. In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. In certain circumstances where estimates have been made, the Company may obtain third-party valuations of certain assets, which could result in further refinement of the fair-value allocation of certain purchase prices and accounting adjustments.

Recoverability of long-lived assets

The Company assesses at each reporting date if the intangible asset has indicators of impairment. In determining whether the intangible asset is impaired, the Company assesses certain criteria including observable decreases in value, significant changes with adverse effect on the entity, a change in market interest rates, and evidence of technological obsolescence. The application of the Company's accounting policy for intangible asset expenditures requires judgment in determining whether it is likely that the future economic benefits will flow to the Company, which are based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized in excess over the recoverable value is written off to profit or loss in the period the new information becomes available.

Estimated useful life of long-lived assets

Judgment is used to estimate each component of a long-lived asset's useful life and is based on an analysis of all pertinent factors including, but not limited to, the expected use of the asset and in the case of an intangible asset, contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost, and renewal history. If the estimated useful lives were incorrect, it could result in an increase or decrease in the annual amortization expense, and future impairment charges or recoveries.

Revenue recognition

Management has exercised significant judgement in determining appropriate accounting treatment for the recognition of income, including whether contracts meet the definition of a contract within the scope of IFRS 15.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits that are redeemable or with original maturities of three months or less.

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2. Statement of compliance and significant accounting policies (continued)

Leases

The Company accounts for leases under IFRS 16 - Leases. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets.

Intangible Assets

The Company owns intangible assets consisting of an acquired platform and internally generated platform. Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets acquired in connection with a business combination are initially recorded at fair value. Following initial recognition, intangible assets are carried at initial carrying value less any accumulated amortization and any accumulated impairment losses.

Certain costs incurred in connection with the development of an internally generated digital platform are capitalized to intangible assets as development costs. Intangible assets are recorded at cost, which consists of directly attributable costs necessary to create such intangible assets, less accumulated amortization and accumulated impairment losses, if any. The costs mainly include the compensation paid to the software developers.

These costs are recognized as development costs assets when the following criteria are met:

- it is technically feasible to complete the product so that it will be available for use;
- management intends to complete the product;
- it can be demonstrated how the product will generate future economic benefits;
- adequate technical, financial, and other resources to complete the development and to use or sell the products are available; and
- the expenditure attributable to the product during its development can be reliably measured.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in operations as incurred. Intangible assets with finite lives are amortized over the lower of contractual period or useful economic life and assessed for impairment at each reporting date or whenever there is an indication that the intangible asset may be impaired.

The amortization method and amortization period of an intangible asset with a finite life is reviewed at least quarterly. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

Intangible assets with finite useful lives are amortized over their estimated useful lives of 3-7 years.

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2. Statement of compliance and significant accounting policies (continued)**Goodwill**

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the cash generating unit (“CGU”) or group of CGUs which are expected to benefit from the synergies of the combination. Goodwill is not subject to amortization.

The goodwill balance is assessed for impairment annually or when facts and circumstances indicate that it is impaired. Goodwill is tested for impairment at a CGU level by comparing the carrying value to the recoverable amount, which is determined as the greater of fair value less costs of disposal and value in use. Any excess of the carrying amount over the recoverable amount is the impaired amount. The recoverable amount estimates are categorized as Level 3 according to the fair value hierarchy. Impairment charges are recognized in the statement of comprehensive loss. Goodwill is reported at cost less any accumulated impairment. Goodwill impairments are not reversed.

Impairment of Non-Financial Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purpose of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit, or “CGU”). An impairment loss is recognized for the amount, if any, by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset’s fair value less cost to sell and the value in use (being the present value of expected future cash flows of the asset or CGU). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized, with the exception of goodwill and indefinite lived intangible assets.

Business combination

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the fair value equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date when the Company obtains control of the acquiree. The identifiable assets acquired, and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Goodwill represents the difference between total consideration paid and the fair value of the net-identifiable assets acquired. Acquisition costs incurred are expensed in the statement of comprehensive loss.

Based on the facts and circumstances that existed at the acquisition date, management will perform a valuation analysis to allocate the purchase price based on the fair values of the identifiable assets acquired and liabilities assumed on the acquisition date. Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the finalized fair value analysis and related purchase price allocation. Until such time, these values are provisionally reported and are subject to change. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

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2. Statement of compliance and significant accounting policies (continued)

In determining the fair value of all identifiable assets acquired and liabilities assumed, the most significant estimates generally relate to contingent consideration and intangible assets. Identified intangible assets are fair valued using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows of the acquiree. Valuations are highly dependent on the inputs used and assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

New standards adopted

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

3. Business Combination

On September 29, 2021, the Company entered into a definitive share exchange agreement (the "Definitive Agreement") (the "Agreement") to acquire all of the issued and outstanding securities of HOK Technologies Inc. ("HOK") in consideration for 45,000,000 common shares of the Company (each a "Consideration Share") payable to the existing shareholders of HOK (the "Vendors").

The Vendors are eligible to earn additional Consideration Shares (the "Earn-Out Shares") upon realization of certain revenue-related milestones achieved by HOK for the calendar years ending December 31, 2021 and December 31, 2022. At January 31, 2022, HOK had achieved all revenue related milestones for the calendar year ended December 31, 2021, and the Company paid the Vendors \$750,000 and is obligated to issue the \$2,000,000 of Earn-Out Shares. At January 31, 2022, the Company has recorded the \$2,000,000 earned as accrued acquisition costs as this contingency has been resolved. Subsequent to the period end, the Company satisfied the share issuance obligation and issued 2,592,205 shares as described in Note 17(e).

The revenue-related milestones for the period commencing on January 1, 2022 and ending December 31, 2022 are either:

- \$1,500,000 of Earn-Out Shares and \$500,000 if, by no later than December 31, 2022, \$5,000,000 of revenue is achieved by HOK; or
- \$2,500,000 of Earn-Out Shares and \$500,000 if, by no later than December 31, 2022, \$10,000,000 of revenue is achieved by HOK.

The Company has recorded the fair value of the additional consideration for revenue milestones for the year ended December 31, 2022 as a contingent liability. The number of Earn-Out Shares issuable upon the achievement of revenue-related milestones will be determined in accordance with the market value of the Company's common shares at such time, and will be subject to the statutory four month and one day hold period.

In connection with the acquisition of HOK, the Company agreed to issue an aggregate of 200,000 common shares of the Company to extinguish certain of HOK's outstanding accounts payable. The Company paid a finder's fee of 2,250,000 common shares of the Company with a fair value of \$225,000 to certain qualified third parties in connection with the closing of the Acquisition.

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3. Business Combination (continued)

The acquisition of HOK constituted a business combination as HOK met the definition of a business under IFRS 3 - Business Combinations.

Purchase price:	\$
45,000,000 common shares	3,436,497
Contingent consideration	3,785,862
Total consideration paid	7,222,359
Cash	225,558
Accounts receivable	629
Digital assets	768,880
Equipment	2,316
Accounts payable and accrued liabilities	(87,559)
Income taxes payable	(15,785)
Deferred Revenue	(603,209)
Due to related parties	(190,000)
Advances payable	(100,539)
Net assets assumed	291
Platform (Note 6)	540,000
Goodwill	6,682,068
Total	7,222,359

The Company determined that HOK's technology and business objectives were synergistic with the Company's business plans and objectives. Goodwill consists of an assembled workforce, cost synergies and future economic potential of HOK.

Advances payable include \$100,539 that relates to working capital advanced to HOK by the Company.

During the period from October 1, 2021 to January 31, 2022, the Company recorded a net income of \$4,938,932 in the Consolidated Statement of Income (Loss) and Comprehensive Income (Loss) in connection with HOK.

Net income for the Company would have been lower by approximately \$132,676, for the period ended January 31, 2022, if the acquisition had taken place on August 1, 2021. In connection with this transaction, the Company also issued 2,250,000 common shares with a fair value of \$0.10 per share as finders' fees. Finders' fees are considered acquisition costs under IFRS and are expensed through profit and loss. As a result, the \$225,000 fair value of the finders' fee shares have been recorded as acquisition costs.

The accounting for this acquisition has been provisionally determined at January 31, 2022. The fair value of total consideration has been determined provisionally and subject to adjustment. Upon completion of a comprehensive valuation and finalization of the purchase price allocation, the amounts above may be adjusted retrospectively to the acquisition date in future reporting periods.

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4. Digital Assets

Digital assets are recorded at their fair value on the acquisition date or when they are received as revenues and are revalued to their current market value at each reporting date. The fair value is determined using the spot rate based on the weighted average from www.coinbase.com on the date the tokens are received or recorded as a receivable.

Digital assets consist solely of Ethereum. Ethereum earned and transacted during the period was as follows:

	\$	Ethereum
Balance, on acquisition at September 30, 2021	768,880	201.936
Digital assets received for revenues	5,989,299	1,422.033
Digital assets traded for cash	(6,516,226)	(1,486.250)
Digital assets paid for expenses	(257,040)	(59.886)
Gain on sale of digital assets	403,478	-
Revaluation of digital assets	(122,136)	-
Balance, January 31, 2022	266,255	77.831

- i) During the three months ended January 31, 2022, the Company exchanged its Ethereum for cash, and other services totaling \$6,773,265 with a cost of \$6,369,788, which resulted in a realized gain on sale of \$403,478.
- ii) Digital assets held are revalued each reporting period based on the fair market value of the price of Ethereum on the reporting date. As at January 31, 2022, the price of Ethereum was \$3,421 resulting in a revaluation loss of \$122,136.

5. Property and Equipment

	Computer Equipment \$
Cost	
Balance, July 31, 2021 and 2020	-
Additions	56,378
Balance, January 31, 2022	56,378
Accumulated amortization	
Balance, July 31, 2021 and 2020	-
Amortization	(3,338)
Balance, January 31, 2022	(3,338)
Net book values	
July 31, 2021	-
Balance, January 31, 2022	53,040

6. Intangible Assets

As part of the acquisition of HOK as described in Note 3, the Company acquired a platform. HOK is creating a blockchain-based virtual world and metaverse to be utilized across environments as well as virtual reality social and gaming activities (the "Platform").

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6. Intangible Assets (continued)

	Acquired Platform	Internally Generated Platform	Total
July 31, 2021	\$ -	\$ -	\$ -
Additions	540,000	205,981	745,981
Amortization	(25,714)	-	(25,714)
Balance at January 31, 2022	\$ 514,286	\$ 205,981	\$ 720,267

7. Right-of-use assets and lease liabilities

The Company's primary leases consist of a research and development facility and an office space. The Company used an incremental borrowing rate of 9.5%.

The following is a continuity schedule of right-of-use assets for the period ended January 31, 2022:

	Office Lease \$
Right-of-use assets	
Balance, July 31, 2021	-
Additions	510,196
Amortization	(28,344)
Balance, January 31, 2022	481,852

The following is a continuity schedule of lease liabilities for the period ended January 31, 2022:

	Office Lease \$
Lease liabilities	
Balance, July 31, 2021	-
Additions	510,196
Interest	7,551
Payments	(32,256)
Balance, January 31, 2022	485,491
Less: current portion	157,303
Non-current portion	328,188

The undiscounted lease liabilities are as follows:

Year ended July 31,	\$
2022	96,767
2023	193,534
2024	193,534
2025	64,511
Total lease payments	548,346

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8. Accounts Payable and Accrued Liabilities

	January 31, 2022 \$	July 31, 2021 \$
Accounts payable	172,571	38,755
Accrued liabilities	114,370	6,000
	286,941	44,755

9. Loans Payable

At July 31, 2021 and 2020, \$105,000 in loans payable remained outstanding. During the six months ended January 31, 2022, the Company paid \$100,000 and the remaining balance of \$5,000 loan was forgiven and recorded as a gain on settlement of debt.

During the six months ended January 31, 2022, the Company received loans of \$40,000 from a private company. The loans were unsecured, non-interest bearing and due on demand.

10. Share capital***Authorized share capital***

Unlimited number of common shares without par value.

Issued share capital

At January 31, 2022, there were 108,241,551 (July 31, 2021 – 34,545,601) issued and fully paid common shares outstanding.

Share issuances

On September 15, 2021, the Company closed a non-brokered private placement of 7,500,000 units of the Company issued at a price of \$0.02 per unit for gross proceeds of \$150,000. Each unit is comprised of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one warrant share for a period of 5 years at an exercise price of \$0.10 per share.

On September 29, 2021, the Company issued 11,600,000 common shares of the Company issued at a price of \$0.10 per common share in connection with a private placement.

On September 30, 2021, the Company issued 45,000,000 common shares of the Company with a fair value of \$3,436,497 in consideration for the acquisition of HOK as described in Note 3.

On September 30, 2021, the Company issued 2,250,000 common shares of the Company with a fair value of \$225,000 as finders fees for the acquisition of HOK as described in Note 3.

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10. Share capital (continued)

On September 30, 2021, the Company issued 200,000 common shares with a fair value of \$20,000 to settle \$20,000 of accounts payable.

On October 7, 2021, the Company issued 2,000,000 common shares of the Company at a price of \$0.10 per common share for proceeds of \$20,000 in connection with a private placement.

On November 10, 2021, the Company completed a non-brokered private placement of 5,000,000 units of the Company issued at a price of \$0.50 per unit for gross proceeds of \$2,500,000. Each unit is comprised of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional share for a period of 60 months at an exercise price of \$1.25 per share. The Company paid finder's fees of \$15,900 in cash, issued 145,950 common shares and 31,800 in broker warrants with the same terms as the financing warrants. The grant date fair value of the finder warrants was measured at \$9,762. The warrants were measured using the Black-Scholes Option Pricing Model with the following assumptions: stock price - \$0.50; exercise price - \$1.25; expected life - 5 years; volatility - 100%; dividend yield - Nil; and risk-free rate - 1.47 %.

During the period ending January 31, 2021, the Company did not issue any shares.

On November 22, 2020, shareholders returned 3,820,000 common shares with fair value of \$72,000 to treasury. A fair value adjustment of \$72,000 was made to retained earnings.

Warrants

The following table summarizes the continuity of the Company's share purchase warrants:

	Number of Warrants Issued #	Weighted Average Exercise Price \$
Balance, July 31, 2020 and July 31, 2021	-	-
Granted	12,531,800	0.56
Balance, January 31, 2022	12,531,800	0.56

Details of warrants outstanding as at January 31, 2021 are as follows:

Exercise price	Number of Warrants outstanding	Expiry date
\$0.10	7,500,000	September 15, 2026
\$1.25	5,031,800	November 10, 2026
	12,531,800	

Stock options

The Company has an incentive stock option plan in place under which it is authorized to grant options to directors, officers, employees and consultants to acquire up to 20% of the Company's issued and outstanding common shares. Under the plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less the applicable discount. The options can be granted for a maximum term of 5 years prior to listing on an exchange, and 10 years after being listed on an exchange. Vesting periods are determined by the Board of Directors.

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10. Share capital (continued)

On October 14, 2021, the Company granted incentive stock options officers and consultants to purchase an aggregate of 6,000,000 common shares at an exercise price of \$0.10 per common share for up to five years. The options vest 1/3 every six months following the grant date. The grant date fair value of the options was measured at \$446,482. The options were measured using the Black-Scholes Option Pricing Model with the following assumptions: Stock price - \$0.10; exercise price - \$0.10; expected life – 5 years; volatility – 100%; dividend yield – \$0; and risk-free rate – 1.18%.

The following is a summary of the Company's option activity for the six-month period ended January 31, 2022. The Company did not have any stock options outstanding at July 31, 2022.

	Number of Options
Balance, July 31, 2020 and July 31, 2021	-
Issued	6,000,000
Outstanding, January 31, 2022	6,000,000

Details of options outstanding as at January 31, 2022 are as follows:

Exercise price	Number of Options outstanding	Expiry date
\$0.10	6,000,000	October 14, 2026
Total	6,000,000	

Restricted Stock Units

The Company has adopted a Restricted Stock Unit ("RSU") plan ("RSU Plan"). The purpose of the RSU Plan is to secure for the Company and its shareholders the benefits of incentive inherent in share ownership by certain directors, officers, other key employees and consultants of the Company ("Participants") who, in the judgment of the Board, will be responsible for its future growth and success. RSUs granted pursuant to this RSU Plan will be used to compensate Eligible Persons who have forgone salary to assist the Company in cash management in exchange for the grant of RSUs and incentive stock options under the Company's stock option plan.

Under the terms of the plan, RSU's are granted to Participants and the RSUs expire the earlier of 5 years from the date of vesting of the RSU and 10 years from the grant date. Each RSU gives the Participant the right to receive one common share of the Company. The aggregate number of common shares that may be reserved for issuance, at any time, under this Plan and under any other share compensation arrangement adopted by the Company, including the Company's incentive stock option plan, shall not exceed up to a maximum of 20% of the issued and outstanding Shares at the time of grant pursuant to awards granted under all share compensation plans. As at January 31, 2022, no units were issued under the RSU plan.

Share-based payment reserve

The share-based payment reserve records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

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10. Share capital (continued)**Net income per share**

	Three months ended		Six months ended	
	January 31, 2022	January 31, 2021	January 31, 2022	January 31, 2021
	\$	\$	\$	\$
Net income (loss) attributable to common shareholders	3,500,385	(15,505)	2,270,315	(27,924)
Basic weighted average number of common shares outstanding	107,682,209	35,459,079	83,261,459	36,912,340
Effect of dilutive securities:				
Stock options	-	-	4,695,652	-
Warrants	-	-	5,869,565	-
Diluted weighted average number of common shares outstanding	107,682,209	35,459,079	93,826,676	36,912,340
Basic net income (loss) per common share	(0.03)	(0.00)	0.03	(0.00)
Diluted income (loss) per common share	(0.03)	(0.00)	0.02	(0.00)

11. Related parties***Related party balances***

Amounts due to related parties:

The following amounts due to related parties are included in trade payables and accrued liabilities:

	January 31, 2022	July 31, 2021
Amounts owed to directors of the Company	\$ 16,158	\$ -
Amounts owed to a shareholder of the Company	19,630	-
A private company controlled by a former director of the Company	-	36,876
	\$ 35,788	\$ 36,876

Related party transactions

During the six months ended January 31, 2022, the Company paid and/or accrued accounting, management, corporate development and consulting fees of \$167,417 (2021 - \$22,155) to the Company's key management. During the six months ended January 31, 2022, the Company also incurred stock-based compensation to key management personnel related to the grant of options of \$40,747.

All related party transactions are in the normal course of operations and have been measured at the agreed to amounts, which is the amount of consideration established and agreed to by the related parties.

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12. Financial risk and capital management

(a) Fair value measurements:

Financial hierarchy:

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The hierarchy is summarized as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly from observable market data; and

Level 3: Inputs that are not based on observable market data.

The following is an analysis of the Company's financial assets and liabilities measured at fair value as at January 31, 2022 and July 31, 2021:

	As at January 31, 2022		
	Level 1	Level 2	Level 3
Cash	\$ 5,885,704	\$ -	\$ -
Digital assets	\$ -	\$ 266,255	\$ -

	As at July 31, 2021		
	Level 1	Level 2	Level 3
Cash	\$ 2,442	\$ -	\$ -

Digital assets and risk management

Digital assets are measured using Level 2 fair values, determined by taking the rate from coinbase.com. Digital asset prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and the global political and economic conditions. A decline in the market prices for digital assets could negatively impact the Company's future operations. The Company has not hedged the conversion of any of its sales of digital assets.

Digital assets have a limited history and the fair value historically has been relatively volatile. Historical performance of digital assets is not indicative of their future price performance. The Company's digital assets currently solely consist of Ethereum. As January 31, 2022, had the market price of Ethereum increased or decreased by 10% with all other variables held constant, the corresponding digital assets value increase or decrease respectively would amount to \$26,625.

(b) Financial risk management:

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash. The Company limits its exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. The credit risk is considered low.

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12. Financial risk and capital management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. As at January 31, 2022, the Company has cash of \$5,855,704 (2020 - \$2,442) and digital assets of \$266,255 (July 31, 2021 - \$Nil) available to apply against short-term business requirements and current liabilities of \$4,371,657 (July 31, 2021 - \$149,755).

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk. The Company is exposed to market risk of its digital assets held. As at January 31, 2022, Management concludes the exposure to market risk is not material.

13. Segmented information

The Company operates in a single reportable operating segment – the design, development, and sale of exclusive Non-Fungible Tokens in Canada.

14. Capital Management

The Company's capital structure consists of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its business and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing and related party loans.

Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management since the year ended July 31, 2021. The Company is not subject to externally imposed capital requirements. The Company does not currently have adequate sources of capital for the development of its business and will need to raise additional capital by obtaining equity financing through private placements or debt financing. The Company may raise additional debt or equity financing in the near future to meet its current obligations.

15. Revenues

The Company's main source of revenue is the sale of digital goods to customers. The following is a breakdown of revenues earned:

	Three months ended January 31,		Three months ended January 31,	
	2022	2020	2022	2020
	\$	\$	\$	\$
NFT Sales	\$ 6,245,675	-	-	-
Royalty income	361,282	-	117,492	-
Consulting income	201,731	-	194,333	-
	6,808,688	-	311,825	-

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16. Covid-19 Pandemic

In March 2020, the World Health Organization declared, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, a pandemic. This has resulted in governments worldwide enacting emergency measures to limit the spread of the virus, including closure of non-essential businesses. As of the date of this report, the majority of the Company’s operations are considered essential in all jurisdictions in which the Company operates. As such, to date the Company has been able to continue operating with no material impact to operations.

There have been no material revisions to the nature and number of estimates and judgments made in respect of the Company’s consolidated financial statements of prior periods. However, the effects of COVID-19 have required significant judgements and estimates to be made in the preparation of the Company’s consolidated financial statements.

Additionally, the effects of COVID-19 may require revisions to estimates of expected credit losses attributed to accounts receivable. To date no revisions to managements’ estimates and judgements used in the preparation of the Company’s consolidated financial statements have been necessary.

Due to rapid developments and uncertainty surrounding COVID-19 or the possible ending of COVID-19, it is not possible to predict the impact that COVID-19 will have on the Company’s operations or financial results in the future, its suppliers, and its customers. Additionally, it is possible the Company’s operations and consolidated financial results will change in the near term as a result of COVID-19 or the ending of COVID-19.

17. Subsequent events

- a) On February 7, 2022, the Company granted an aggregate of 5,000,000 incentive share purchase options to its directors, officers, employees and consultants. Each share purchase option is exercisable for a period of five years at an exercise price of \$0.65 per common share of the Company. The options vest over a period of 18 months, in one-third tranches of equal size, after the passing of each successive six-month period.
- b) On February 11, 2022, the Company issued 500,000 common shares upon the exercise of 500,000 warrants with an exercise price of \$0.10.
- c) On February 16, 2022, pursuant to its shareholder approved restricted share unit (“RSU”) plan (the “RSU Plan”), Company has granted an aggregate of 675,000 RSUs to directors and officers of the Company. The RSUs are subject to vesting, upon predetermined corporate milestones that need to be satisfied as a condition of vesting. The vested RSUs shall entitle the eligible parties the ability to acquire one common share in the capital of the Company underlying each such RSU upon such holder delivering a notice of acquisition to the Company in accordance with the RSU Plan for a period of five years from issuance (the “Term”) Any unvested RSUs after expiry of the Term will be deemed automatically cancelled without further act or notice by the Company. The RSUs were priced at \$0.85 per underlying common share, based on the closing price of the Company’s common shares on the trading day prior to grant.

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17. Subsequent events (continued)

- d) On February 11, 2022, the Company entered into a letter of intent (“LOI”) to acquire the Development Division of LACA Solutions Corporation (“LACA”). The Development Division contains certain proprietary technologies and intellectual property, as well as various. The consideration payable for LGL’s acquisition of LACA’s Development Division shall consist of up to \$500,000 and up to 1,000,000 in common shares in the capital of LGL, payable as follows:
- \$50,000 payable within 10 days from the date of acceptance of the LOI by LACA;
 - \$50,000 upon the execution of the formal and binding transaction agreement (“Definitive Agreement”);
 - \$100,000 upon the successful transfer of the employment of the specified employees within the Development Division to LGL or an affiliate of LGL;
 - \$100,000 within 90 days from the Development Division achieving certain milestones mutually agreed to between the parties, as further set out in the Definitive Agreement;
 - \$200,000 within 120 days from the Development Division achieving certain milestones mutually agreed to between the parties, as further set out in the Definitive Agreement;
 - \$500,000 of common shares in the capital of LGL upon the Development Division achieving certain milestones in connection with a launch of an HoK token; and
 - \$500,000 of common shares upon the Development Division achieving certain milestones in connection with the alpha launch of HoK’s metaverse and subsequent virtual land sales.
- e) On February 24, 2022, the Company engaged consultant to provide investor relations services for an initial period of six-months with the option to renew at the Company's election. The Company has agreed to pay the consultant \$9,500 per month and granted to the consultant 100,000 stock options exercisable to purchase 100,000 common shares of the Company at \$0.76 per common share for a period of two years. The options shall vest in one-third tranches over a period of 18 months.
- f) On February 25, 2022, the Company issued 2,592,205 common shares at a deemed price of approximately \$0.755 per share (each a “Milestone Share”) pursuant to the acquisition of HoK as described in Note 3. The Milestone Shares were earned by the vendors as a result of HoK achieving a pre-determined revenue related milestone for the calendar year ended December 31, 2021. The Milestone Shares are subject to an escrow agreement dated December 16, 2021 for a period of 18 months from the listing of the Company’s common shares on the NEO Exchange.