LUXXFOLIO

LUXXFOLIO HOLDINGS INC.

Interim condensed consolidated Financial Statements
For the three and six months ended
February 28, 2021 and 2020
(Expressed in Canadian Dollars)
(unaudited)

Dated: April 28, 2021

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a) continuous disclosure requirement, if any auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim condensed consolidated financial statements.

LUXXFOLIO HOLDINGS INC.
Interim condensed consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited)

		February 28, 2021		August 31, 2020
Assets				
Current assets				
Cash	$	483,158	$	124,342
GST receivable		2,552		3,463
		485,710		127,805
Non-current assets				
Deposit on equipment (note 5)		1,124,811		-
Total assets		1,610,521		127,805
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and accrued liabilities (note 4)	$	14,833	$	28,836
Current portion of the long-term debt (note 5)		483,192		-
		498,025		28,836
Non-current liabilities				
Long-term debt (note 5)		266,682		-
		764,707		28,836
Shareholders' equity				
Common shares (note 6)	$	2,763,994	$	2,134,376
Shared to be issued (note 10)		239,400		-
Special warrants (note 6)		148,000		165,000
Contributed surplus (note 6)		20,236		-
Reserves (note 6)		15,263		67,680
Accumulated deficit		(2,341,079)		(2,268,087)
		845,814		98,969
Total liabilities and shareholders' equity	$	1,610,521	$	127,805

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

Approved on behalf of the Board:

"Kelly Klatik" _______________________________
Kelly Klatik, Director

"Anthony Wong" _________________________________
Anthony Wong, Director

LUXXFOLIO HOLDINGS INC.
Interim condensed consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian Dollars)
(unaudited)

	For the three months ended February 28, 2021	For the three months ended February 29, 2020	For the six months ended February 28, 2021	For the six months ended February 29, 2020
Expenses				
Research and development (note 4)	$ (39,601)	$ 4,579	$ (38,852)	$ 8,435
Consulting (note 4)	4,500	10,000	10,125	19,000
Investor and public relations	14,024	-	14,024	-
Management fees (note 4)	3,750	3,750	4,500	7,500
Professional fees	24,904	5,675	26,932	(2,177)
Share-based compensation (note 6)	20,236	-	20,236	-
Rent (note 4)	1,500	3,000	3,000	6,000
Interest expense (note 5)	19,996	-	19,996	-
Travel and conventions	-	1,076	-	3,183
General and administration	10,007	7,801	13,030	10,634
	59,316	35,881	72,991	52,575
Net loss and comprehensive loss	$ (59,316)	$ (35,881)	$ (72,991)	$ (52,575)
Basic and Diluted net loss per share	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)
Weighted average number of shares outstanding:				
Basic and Diluted	21,924,859	17,615,714	19,774,321	16,545,403

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

LUXXFOLIO HOLDINGS INC.
Interim condensed consolidated Statements of Changes in Shareholders' Equity
For the three and six months ended February 28, 2021 and 2020
(Expressed in Canadian Dollars)
(unaudited)

	Notes	Number of common shares	Common shares	Shares to be issued	Special warrants	Contributed surplus	Reserves	Deficit	Total
Balance, August 31, 2019		14,879,657	$ 1,995,988	$ -	$ -	$ -	$ 73,422	$ (2,138,211)	$ (68,801)
Issuance of common shares for debt		2,767,758	138,388	-	-	-	-	-	138,388
Expired share purchase warrants		-	-	-	-	-	(3,145)	3,145	-
Net loss		-	-	-	-	-	-	(52,575)	(52,575)
Balance, February 29, 2020		17,647,415	$ 2,134,376	$ -	$ -	$ -	$ 70,277	$ (2,187,641)	$ 17,012
Issuance of special warrants		-	-	-	165,000	-	-	-	165,000
Expired share purchase warrants		-	-	-	-	-	(2,597)	2,597	-
Net loss		-	-	-	-	-	-	(83,043)	(83,043)
Balance, August 31, 2020		17,647,415	$ 2,134,376	$ -	$ 165,000	$ -	$ 67,680	$ (2,268,087)	$ 98,969
Issuance of common shares	6	5,200,000	390,000	-	-	-	-	-	390,000
Issuance of special warrants	6	-	-	-	85,000	-	-	-	85,000
Shared to be issued	10	-	-	239,400	-	-	-	-	239,400
Share-based compensation	6	-	-	-	-	20,236	-	-	20,236
Exercise of special warrants	6	2,040,000	102,000	-	(102,000)	-	-	-	-
Exercise of share purchase warrants	6	426,000	137,617	-	-	-	(52,417)	-	85,200
Net loss		-	-	-	-	-	-	(72,991)	(72,991)
Balance, February 28, 2021		25,313,415	$ 2,763,994	$ 239,400	$ 148,000	$ 20,236	$ 15,263	$ (2,341,079)	$ 845,814

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

LUXXFOLIO HOLDINGS INC.
Interim condensed consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
(unaudited)

		For the six months ended February 28, 2021		For the six months ended February 29, 2020
Operating Activities				
Net loss	$	(72,991)	$	(52,575)
Adjustments for:				
Share-based compensation		20,236		-
Changes in non-cash working capital items:				
GST receivable		911		10,090
Accounts payable and accrued liabilities		(14,003)		(170,662)
Cash provided by (used in) operating activities		(65,847)		(213,147)
Investing Activities				
Deposit on equipment		(1,124,811)		-
Cash provided by (used in) investing activities		(1,124,811)		-
Financing Activities				
Long-term debt proceeds		749,874		-
Issuance of common shares for private placement		390,000		138,388
Issuance of special warrants		85,000		-
Exercise of share purchase warrants		85,200		
Shares to be issued		239,400		-
Cash provided by (used in) financing activities		1,549,474		138,388
Inflow (Outflow) of Cash		358,816		(74,759)
Cash, Beginning of period	$	124,342	$	109,623
Cash, End of period	$	483,158	$	34,864

Supplemental Cash-Flow Information				
Non-cash transactions				
Shares issued on conversion of special warrants (note 5)	$	102,000	$	-
Shares issued for settlement of debt (Note 5)	$	-	$	90,308

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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 212 – 1080 Mainland Street, Vancouver, British Columbia. The Company's business is that of its wholly owned subsidiary, Luxxfolio Network Inc. ("Luxxfolio"). Luxxfolio is a development-stage financial technology company with a customized blockchain technology (the "Platform") that will provide a secure and reliable place to authenticate and track uniquely identifiable assets (the "UIA") and provide the ability to monetize or securitize these assets.

On February 9, 2021, the Company entered into a binding term sheet to acquire all of the issued and outstanding shares of privately held WestBlock Capital Inc. ("WestBlock"). The proposed acquisition of WestBlock will be satisfied through the issuance of 16 million common shares and 2.5 million share purchase warrants of the Company. The closing of the transaction is subject to the negotiation and execution of a definitive agreement, completion of due diligence, receipt of required consents and approvals, and the completion of certain conditions that are typical for transaction of this nature. WestBlock is a digital asset mining company that operates an industrial scale cryptocurrency mining facility and is a custodial host of miners in New Mexico. The acquisition of WestBlock will allow the Company to secure strategic infrastructures in low-cost power jurisdictions to support its growth in the monetizing of the UIA.

These interim condensed 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 six months ended February 28, 2021, the Company realized a net loss of $72,991 (2020 - $52,575) and as of February 28, 2021, has an accumulated deficit of $2,341,079 (August 31, 2020 - $2,268,087). 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, realize revenue sources and realize positive cash flows from 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 interim condensed 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.

The outbreak of COVID-19 in 2020 has caused companies and various jurisdictions, including Canada and the United States of America, to impose restrictions, such as quarantines, closures, cancellations, and travel restrictions. While these effects are expected to be temporary, the duration of the business disruptions domestically and internationally and related financial impact, including the impact of access to capital on the public markets, cannot be reasonably estimated at this time.

At this point, the extent to which COVID-19 may impact our results and business is uncertain; however, it is possible that our interim condensed consolidated results in 2021 may be negatively impacted by this event. The impacts of the outbreak are unknown and rapidly evolving. The extent of any impact, will depend on future developments, including actions taken to contain COVID-19.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These interim condensed consolidated financial statements, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and International Accounting Standard 34, *Interim Financial Reporting*.

(b) Basis of presentation and principles of consolidation

These interim condensed consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments classified as financial instruments at fair value through profit or loss, which are stated at fair value. In addition, these interim condensed consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. These condensed interim financial statements do not include all the disclosures required in annual financial statements and should therefore be reviewed in conjunction with the Company's annual financial statements for the year ended August 31, 2020.

Assets, liabilities, income and expenses of the subsidiary are included in the interim condensed consolidated financial statements from the date that the Company gains control until the date that the Company ceases to control the subsidiary. The Company controls an investee if the Company has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

These interim condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Luxxfolio Network Inc. ("Luxxfolio"), and are presented in Canadian dollars, which is the Company and Luxxfolio's functional currency. All intercompany balances, transactions, unrealized gains and losses resulting from intercompany transactions have been eliminated on consolidation.

(c) Approval of the interim condensed consolidated financial statements

These interim condensed consolidated financial statements were authorized for issue by the Audit Committee and Board of Directors on April 28, 2021.

(d) Use of estimates and judgements

The preparation of these interim condensed consolidated financial statements in accordance with IFRS requires management to make judgements, 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 interim condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

2. BASIS OF PRESENTATION (continued)

(d) Use of estimates and judgements (continued)

Critical accounting estimates:

Critical 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) 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 involves 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.

(ii) Promissory notes

The promissory notes were separated into their liability and equity components on the interim condensed consolidated statements of financial position. The liability component is initially recognized at fair value, calculated at the present value of the liability-based notes issued by comparable issuers and accounted for at amortized cost using the effective interest rate method. The effective interest rate used is the estimated rate for notes with similar terms at the time of issue.

Critical judgements:

(i) 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.

The Company is aware that material uncertainties related to events or condition may cast significant doubt upon the Company’s ability to continue as a going concern.

(ii) Recoverability of deferred tax assets

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 interim condensed consolidated financial statements.

2. BASIS OF PRESENTATION (continued)

(d) Use of estimates and judgements (continued)

(iii) 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 February 28, 2021.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Company include the following:

(a) Foreign currency transactions

Transactions denominated in foreign currencies are translated to the respective functional currencies of the Company and its subsidiary 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 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 at 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

(ii) Classification of financial assets (continued)

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.

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 interests 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 interim condensed consolidated statement of operations and comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

(iii) Derecognition of financial assets (continued)

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.

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

A 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 interim condensed consolidated statement of operations and comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

(iii) Derecognition of financial liabilities (continued)

Financial assets and liabilities are offset and the net amount is presented in the interim condensed 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.

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

	Classification
Financial assets	
Cash	FVTPL
Financial liabilities	
Accounts payable and accrued liabilities	Amortized Cost
Long-term debt	Amortized Cost

(c) Income taxes

Income tax expense, consisting of current and deferred tax expense, is recognized in the interim condensed 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) 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.

(e) 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 of the cash-generating unit to which the asset belongs.

(f) Common shares

Proceeds from the exercise of stock options, warrants, and special warrants are recorded as share capital in the amount for which the option, warrant, or special warrant enabled the holder to purchase, or receive, a share in the Company. Share capital and special warrants issued for consideration other than cash are valued at the fair value of assets received or services rendered. If the fair value of assets received or services rendered cannot be reliably measured, shares issued for consideration will be valued at the quoted market price at the date of issuance.

The proceeds from the issuance of units are allocated between common shares and warrants based on the residual value method. Under this method, the proceeds are allocated first to share capital based on the fair value of the common shares at the time the units are priced, and any residual value is allocated to the warrants reserve. Consideration received for the exercise of warrants is recorded in share capital and the related residual value is transferred from warrant reserve to share capital. For unexercised warrants that expire, the recorded value is transferred to deficit.

(g) Share-based compensation

The fair value of share-based compensation for non-employees is recognized and measured at the date the goods or services are received based on the fair value of the goods or services received. If it is determined that the fair value of goods and services received cannot be reliably measured, the share-based compensation is measured at the fair value of the equity instruments issued using the Black-Scholes option pricing model.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Share-based compensation (continued)

Consideration received on the exercise of stock warrants is recorded in share capital and the related share-based compensation in reserves is transferred to share capital. For those warrants that expire, the recorded value is transferred to deficit.

(h) 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 exercise of options and warrants that would be anti-dilutive.

4. RELATED PARTY TRANSACTIONS

During the six months ended February 28, 2021, the Company was charged management fees of $4,500 (2020 - $7,500), research costs of $4,500 (2020 - $7,500), and rental fees of $3,000 (2020 - $6,000) by a company controlled by a director and an officer of the Company. In addition, the Company was charged consulting fees of $10,125 (2020 - $9,000) by an officer of the Company. As at February 28, 2021, $8,400 (2020 - $8,075) was included in accounts payable and accrued liabilities relating to these services.

During the six months ended February 28, 2021, the Company issued 400,000 common shares at a price of $0.075 per share and 50,000 special warrants at a price of $0.05 per special warrant through non-brokered private placements to a company controlled by a director and an officer of the Company (see Note 6).

Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers and are included in the amounts described above. All related party transactions are in the normal course of operations and have been recorded at the fair values on the date they occur.

5. DEBT INSTRUMENT

On December 24, 2020, the Company placed an order for 590 Bitcoin miners (the "Assets") at a total purchase price of $1,174,100 USD. The purchase price was satisfied through a combination of cash and an asset backed lending structure (the "ABL") provided by Arctos Credit, LLC. ("Arctos"). The 25% down payment of $293,525 USD plus closing fees of $17,612 USD were paid by the Company on December 30, 2020. The next 50% of the purchase amount totaling $587,050 USD was financed by the ABL and paid by Arctos on December 30, 2020. The final 25% of the purchase amount, or $293,525 USD, is due on the delivery of the Assets. As at February 28, 2021, the total deposit paid for the Assets was $880,575 USD ($1,124,811 CAD). The ABL financing carries an interest rate of 16% and a term of 19 months with interest only payments of $7,827 USD for the initial four months, and principal and interest amounting to $65,160 USD for the remaining 15 months of the term.

5. DEBT INSTRUMENT (continued)

Subsequent to the structuring of the ABL transaction, a related company, CHP Agent Services Inc., entered into a participation agreement to acquire a 100% participation interest in the ABL. Security for the ABL consists of a first priority charge on the Assets and any Bitcoin and related assets generated from the use of the Assets. As at February 28, 2021, the principal payments required for the ABL is $483,192 within the next twelve months and $266,682 thereafter. Interest expense for the six months ended February 28, 2021 amounted to $19,996.

6. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

During the six months ended February 28, 2021, the Company issued 5,200,000 common shares at $0.075 per share on December 30, 2020 for gross proceeds of $390,000 through a non-brokered private placement. A total of 400,000 of the 5,200,000 common shares were issued to a related party. The common shares issued are subject to a four-month and one day hold period under securities laws.

During the six months ended February 29, 2020, the Company issued 2,767,758 common shares in settlement of certain debts owed by the Company. Certain creditors of such debts were considered related party. The Company issued a total of 2,767,758 common shares at a deemed price of $0.05 per share in full settlement of the indebtedness totaled $138,388. A total of 1,747,758 of the 2,767,758 common shares were issued to such related party creditors.

(c) Special warrants

During the six months ended February 28, 2021, the Company issued 1,700,000 (2020 – nil) special warrants for total proceeds of $85,000 (2020 - $nil). Each special warrant entitled subscribers thereof to automatically receive, without payment of additional consideration and without further action on the part of the subscriber, and subject to adjustment, one common share in the capital of the Company upon the earlier of (i) five business days after the subscriber elects to convert all of their special warrants pursuant to the terms of the special warrant certificate; or (ii) the day that the Company has cumulatively raised $500,000 through equity financings after closing the sale of

the special warrants; and (iii) the day that is three years after the date of the special warrants offering close. During the six months ended February 28, 2021, 2,040,000 (2020 – nil) special warrants were converted into common shares.

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

(c) Special warrants (continued)

As at February 28, 2021, there were 2,960,000 (2020 – nil) special warrants issued and outstanding. Special warrants transactions and the number of special warrants outstanding are summarized as follows:

	Number of Special Warrants	Weighted Average Exercise Price
Outstanding, August 31, 2019	-	-
Outstanding, February 29, 2020	-	-
Issued	3,300,000	$ 0.05
Outstanding, August 31, 2020	3,300,000	$ 0.05
Issued	1,700,000	$ 0.05
Converted	(2,040,000)	$ 0.05
Outstanding, February 28, 2021	2,960,000	$ 0.05

(d) Share purchase warrants

During the six months ended February 28, 2021 and 2020, the Company did not issue any share purchase warrants (the "Warrants"). During the six months ended February 28, 2021, a total of 426,000 (2020 – nil) Warrants were exercised into 426,000 common shares of the Company at an exercise price of $0.20 per share for total proceeds of $85,200 (2020 - $nil). As at February 28, 2021, 128,000 (2020 – 578,500) Warrants were issued and outstanding. Each Warrant may be exercised into one common share of the Company at a price of $0.20 per share expiring two years following the date of issuance.

Warrant transactions and the number of Warrants outstanding are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, August 31, 2019	608,250	$ 0.20
Expired	(29,750)	$ 0.20
Outstanding, February 29, 2020	578,500	$ 0.20
Expired	(24,500)	$ 0.20
Outstanding, August 31, 2020	554,000	$ 0.20
Exercised	(426,000)	$ 0.20
Outstanding, February 28, 2021	128,000	$ 0.20

The weighted average contractual life of Warrants outstanding as at February 28, 2021 is 0.04 (2020 – 1.01) years.

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

(e) Share-based compensation

During the six months ended February 28, 2021, the Company granted 1,300,000 (2020 – nil) of stock options to certain directors, officers, and consultants of the Company. The options have a five-year term and vest over a two-year period at a rate of 25% every six months. The exercise price of the share options granted were based on the closing price of the common shares on the day prior to the grant date. 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:

Risk-free interest rate	0.17%
Expected life of options	5 years
Annualized volatility	210%
Dividend rate	0%
Weighted average fair value per option	$0.074

The annualized volatility was based on historical data of the Company. The fair value of the stock options is amortized over the vesting period, taking into account expected forfeitures. Share-based compensation for the six months ended February 28, 2021 amounted to $20,236 (2020 - $nil).

The following table summarizes information on the movement of the stock options:

	Number of Stock Options	Weighted Average Exercise Price
Outstanding, August 31, 2020	-	-
Granted	1,300,000	$ 0.075
Outstanding, February 28, 2021	1,300,000	$ 0.075
Options exercisable, February 28, 2021	-	-

7. FINANCIAL INSTRUMENTS

(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).

7. FINANCIAL INSTRUMENTS (continued)

(a) Fair value (continued)

The Company's cash, funds held in trust, accounts payable and accrued liabilities, and subscriptions received are short term in nature, and therefore the carrying values approximate fair values.

(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 major Canadian financial institution and in a major law firm's trust account.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk on an ongoing basis in accordance with policies and procedures in place. Cash flow projections are completed and reviewed on a regular basis to ensure the Company has enough cash flows to meet its financial obligations. The Company is exposed to liquidity risk in respect of its accounts payable and accrued liabilities. As at February 28, 2021, the Company has $483,158 of cash available to settle accounts payable and accrued liabilities which are due within 90 days.

8. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. As at February 28, 2021, the Company considers capital to consist of all components of shareholders' equity (deficit). 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, or dispose of assets or adjust the amount of cash on hand.

On July 29, 2019, the Company entered into a Letter of Credit and Security Agreement (the "LOC Agreement") with CHP Capital Inc. ("CHI"), a related company controlled by a director of the Company. Under the terms of the LOC Agreement, CHI will provide the Company with a revolving line of credit facility ("LOC") to a maximum of $500,000 and be subject to a maximum draw of $50,000 per month. The term of the LOC Agreement is 24 months and the LOC bears interest at 9% per annum.

Under the terms of the LOC Agreement, the Company is restricted to using the LOC for research and development expenses or for other purposes approved by CHI. The Company has provided CHI with a General Security Agreement covering all assets of the Company as security for the LOC, except for the Bitcoin miners and related assets as described in note 5. The terms and conditions of LOC are consistent with those that may be available from a third-party lender. Further, the LOC becomes immediately due and payable should a change of control occur in the ownership of the Company's equity or the composition of the Board of Directors. No amounts have been drawn down on the LOC as at February 28, 2021.

8. CAPITAL MANAGEMENT (continued)

At this stage of the Company's development, to maximize ongoing operational development efforts, the Company does not pay dividends. There were no changes to the Company's capital management approach for the six months ended February 28, 2021.

9. SEGMENT INFORMATION

The Company operates within one business segment in British Columbia, Canada, being the development of a blockchain-enabled authentication platform.

10. SUBSEQUENT EVENTS

(a) Acquisition of WestBlock

On April 7, 2021, the Company entered into a definitive agreement to acquire all of the issued and outstanding shares of privately held WestBlock Capital Inc. ("WestBlock"), to be effected by way of a three-corned amalgamation between the Company, WestBlock and a wholly-owned subsidiary of the Company (the "Transaction"). The consideration payable to the shareholders of WestBlock in the Transaction consists of 16 million common shares and 2.5 million share purchase warrants of the Company.

(b) Non-brokered private placement

On March 19, 2021, the Company completed its previously announced non-brokered private placement of 4,572,060 common shares in the capital of the Company at a price of $0.35 per common share for gross proceeds of $1,600,221. A total of $239,400 of the $1,600,221 gross proceeds were received as at February 28, 2021. A total of 114,200 of the 4,572,060 common shares were issued to a related party. The securities are subject to a four-month and one day hold period under securities laws.

(c) Stock options

On March 11, 2021, the Company granted 875,000 of stock options to certain directors, officers, and consultants of the Company. The expiry date of the stock options is March 10, 2026. The stock options vest over a 24-month period, at a rate of 25% after each 6 months, and have an exercise price of $0.45 per share. A total of 400,000 of the 875,000 stock options were granted to related parties.

(d) Exercise of share purchase warrants

On March 10, 2021, the Company issued 100,000 common shares at an exercise price of $0.20 per common share following the exercise of share purchase warrants issued on March 15, 2019 for total proceeds of $20,000.

10. SUBSEQUENT EVENTS (continued)

(e) Conversion of special warrants

On March 5, 2021, a total of 2,560,000 special warrants were automatically converted into 2,560,000 common shares of the Company upon the Company cumulatively raising $500,000 through equity financings after closing the sale of such special warrants.