**LUXXFOLIO HOLDINGS INC.**

Interim condensed consolidated Financial Statements
For the three and nine months ended
May 31, 2021 and 2020
(Expressed in Canadian Dollars)
(unaudited)

Dated: July 30, 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)

| | | May 31, 2021 | | August 31, 2020 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash | $ | 514,843 | $ | 124,342 |
| GST receivable | | 18,332 | | 3,463 |
| | | 533,175 | | 127,805 |
| **Non-current assets** | | | | |
| Deposit on equipment (note 5) | | 8,742,989 | | - |
| **Total assets** | | 9,276,164 | | 127,805 |
| | | | | |
| **Liabilities and shareholders' equity** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and accrued liabilities (note 4) | $ | 70,164 | $ | 28,836 |
| Current portion of the long-term debt (note 5) | | 5,707,400 | | - |
| | | 5,777,564 | | 28,836 |
| **Non-current liabilities** | | | | |
| Long-term debt (note 5) | | 1,673,063 | | - |
| | | 7,450,627 | | 28,836 |
| **Shareholders' equity** | | | | |
| Common shares (note 6) | $ | 4,544,538 | $ | 2,134,376 |
| Special warrants (note 6) | | - | | 165,000 |
| Contributed surplus (note 6) | | 134,563 | | - |
| Reserves (note 6) | | 71,901 | | 67,680 |
| Accumulated deficit | | (2,925,465) | | (2,268,087) |
| | | 1,825,537 | | 98,969 |
| **Total liabilities and shareholders' equity** | $ | 9,276,164 | $ | 127,805 |

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

Approved on behalf of the Board:

*Signed: "Kelly Klatik"*
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Kelly Klatik, Director

*Signed: "Anthony Wong"*
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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 May 31, 2021 | For the three months ended May 31, 2020 | For the nine months ended May 31, 2021 | For the nine months ended May 31, 2020 |
|---|---|---|---|---|
| **Expenses** | | | | |
| Research and development (note 4) | $ - | $ 1,213 | $ (38,852) | $ 9,648 |
| Consulting (note 4) | 141,171 | 4,500 | 151,295 | 23,500 |
| Investor and public relations (note 4) | 138,971 | - | 152,995 | - |
| Management fees (note 4) | 60,000 | 750 | 64,500 | 8,250 |
| Professional fees | 1,009 | 13,841 | 5,445 | 11,665 |
| Share-based compensation (note 6) | 186,228 | - | 206,464 | - |
| Rent (note 4) | 8,000 | 3,000 | 11,000 | 9,000 |
| Financing fees | 3,375 | - | 6,749 | - |
| Interest expense (note 5) | 34,816 | - | 54,812 | - |
| Travel and conventions | - | - | - | 3,183 |
| General and administration | 13,776 | 2,041 | 45,929 | 12,674 |
| | 587,346 | 25,345 | 660,337 | 77,920 |
| **Net loss and comprehensive loss** | $ (587,346) | $ (25,345) | $ (660,337) | $ (77,920) |
| Basic and Diluted net loss per share | $ (0.02) | $ (0.00) | $ (0.03) | $ (0.00) |
| Weighted average number of shares outstanding: | | | | |
| Basic and Diluted | 32,696,471 | 17,647,415 | 24,453,690 | 16,915,422 |

*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 nine months ended May 31, 2021 and 2020
(Expressed in Canadian Dollars)
(unaudited)

| | Notes | Number of common shares | Common shares | 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 | | - | - | - | - | (3,886) | 3,886 | - |
| Net loss | | - | - | - | - | - | (77,920) | (77,920) |
| **Balance, May 31, 2020** | | 17,647,415 | $ 2,134,376 | $ - | $ - | $ 69,536 | $ (2,212,245) | $ (8,333) |
| Issuance of special warrants | | - | - | 165,000 | - | - | - | 165,000 |
| Expired share purchase warrants | | - | - | - | - | (1,856) | 1,856 | - |
| Net loss | | - | - | - | - | - | (57,698) | (57,698) |
| **Balance, August 31, 2020** | | 17,647,415 | $ 2,134,376 | $ 165,000 | $ - | $ 67,680 | $ (2,268,087) | $ 98,969 |
| Issuance of common shares | 6 | 9,772,060 | 1,990,241 | - | - | - | - | 1,990,241 |
| Issuance of special warrants | 6 | - | - | 85,000 | - | - | - | 85,000 |
| Issuance of share purchase warrants | 6 | - | - | - | - | 71,901 | - | 71,901 |
| Share-based compensation | 6 | - | - | - | 134,563 | - | - | 134,563 |
| Exercise of special warrants | 6 | 5,000,000 | 250,000 | (250,000) | - | - | - | - |
| Exercise of share purchase warrants | 6 | 526,000 | 169,921 | - | - | (64,721) | - | 105,200 |
| Expired share purchase warrants | 6 | - | - | - | - | (2,959) | 2,959 | - |
| Net loss | | - | - | - | - | - | (660,337) | (660,337) |
| **Balance, May 31, 2021** | | 32,945,475 | $ 4,544,538 | $ - | $ 134,563 | $ 71,901 | $ (2,925,465) | $ 1,825,537 |

*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 nine months ended May 31, 2021 | | For the nine months ended May 31, 2020 |
|---|---|---|---|---|
| **Operating Activities** | | | | |
| Net loss | $ | (660,337) | $ | (77,920) |
| Changes in non-cash working capital: | | | | |
| GST receivable | | (14,869) | | 10,089 |
| Accounts payable and accrued liabilities | | 41,328 | | (168,758) |
| Changes in non-cash operating items: | | | | |
| Financing fees | | (295,900) | | - |
| Share-based payments | | 206,464 | | - |
| Cash provided by (used in) operating activities | | (723,314) | | (236,589) |
| **Investing Activities** | | | | |
| Deposit on equipment | | (8,742,989) | | - |
| Cash provided by (used in) investing activities | | (8,742,989) | | - |
| **Financing Activities** | | | | |
| Proceeds from long-term debt | | 7,743,794 | | - |
| Repayment of long-term debt | | (67,431) | | - |
| Issuance of common shares for private placement | | 1,990,241 | | 138,388 |
| Issuance of special warrants | | 85,000 | | - |
| Exercise of share purchase warrants | | 105,200 | | - |
| Cash provided by (used in) financing activities | | 9,856,804 | | 138,388 |
| **Inflow (Outflow) of Cash** | | 390,501 | | (98,201) |
| Cash, Beginning of period | $ | 124,342 | $ | 109,623 |
| Cash, End of period | $ | 514,843 | $ | 11,422 |

**Supplemental Cash-Flow Information**

| | | | | |
|---|---|---|---|---|
| Non-cash transactions | | | | |
| Shares issued on conversion of special warrants (note 6) | $ | 250,000 | $ | - |
| Shares issued for settlement of debt (Note 6) | $ | - | $ | 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 subsidiaries, Luxxfolio Network Inc. ("Luxxfolio") and WestBlock Capital Inc. ("WestBlock"). The Company's goal is to become a vertically integrated Blockchain and cryptocurrency company that participates in the decentralized financial system. The Company's business is segmented into three main verticals: asset integrity, asset management, and data center and custodian operations.

The Company announced on June 15, 2021 it had closed the previously announced acquisition of WestBlock. WestBlock operates an industrial scale cryptocurrency mining and hosting platform through its wholly owned subsidiary WestBlock Hosting AZ Inc. located in New Mexico. The mining platform was developed in partnership with the Navajo Tribal Utility Authority and resides on Navajo Tribal lands. The facilities have a total capacity of 15MW and a current installed capacity of 8MW, of which approximately 4.5MW is currently utilized. Consideration paid to WestBlock shareholders consisted of 16 million common shares of the Company at a deemed price of $0.385 per share and 2.5 million share purchase warrants. On closing the Company issued 2.5 million performance warrants to the WestBlock management team and certain other persons who have assisted WestBlock with its business.

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 nine months ended May 31, 2021, the Company realized a net loss of $660,337 (2020 - $77,920) and as of May 31, 2021, has an accumulated deficit of $2,925,465 (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 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, and its new variants, are unknown and are continually 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 July 30, 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 May 31, 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 nine months ended May 31, 2021, the Company was charged management fees of $64,500 (2020 - $8,250), research costs of $4,500 (2020 - $8,250), and rental fees of $11,000 (2020 - $9,000) by a company controlled by a director and an officer of the Company. In addition, the Company was charged consulting fees of $35,056 (2020 - $13,500) by an officer of the Company. As at May 31, 2021, $57,950 (2020 - $9,650) was included in accounts payable and accrued liabilities relating to these services. Furthermore, a company controlled by a director of the Company paid $11,427 (2020 - $nil) in investor and public relations expenses on behalf of the Company. This amount was included in accounts payable and accrued liabilities as at May 31, 2021.

During the nine months ended May 31, 2021, the Company issued 400,000 common shares at a price of $0.075 per share, 114,200 common shares at a price of $0.35 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. In addition, the Company issued 350,000 common shares to the same above-mentioned company as per automatic conversion, without additional consideration, of 350,000 special warrants (see Note 6).

On December 24, 2020, the Company placed an order for 590 Avalon 1246 Pro Bitcoin miners (the "Avalon Miners") 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"). 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 (see Note 5).

On May 27, 2021, the Company placed an order for 2,400 Bitmain S19j Pro Bitcoin miners (the "Bitmain Miners") at a total purchase price of $17,023,800 USD. The purchase price will be satisfied through a combination of cash and asset backed lending structures (the "ABL Two" and "ABL Three") provided by Arctos. Subsequent to the structuring of the ABL Two and ABL Three transactions, a related company, CHP Agent Services Inc., entered into a participation agreement to acquire a 100% participation interest in the

## 4. RELATED PARTY TRANSACTIONS (continued)

ABL Three (see Note 5).

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 INSTRUMENTS

On December 24, 2020, the Company placed an order for 590 Avalon Miners at a total purchase price of $1,174,100 USD. The purchase price was satisfied through a combination of cash and the ABL provided by Arctos. The 25% down payment of $293,525 USD plus financing 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 of $293,525 USD was financed by the ABL and paid on April 30, 2021. As at May 31, 2021, the total deposit paid for the Avalon Miners was $1,174,100 USD ($1,486,522). The ABL financing carries an interest rate of 16% and a term of 19 months with interest only payments for the initial four months. As at May 31, 2021, the principal payments required for the ABL is $882,843 within the next twelve months and $161,270 thereafter. Interest expenses relating to the ABL amounted to $54,812 (2020 - $nil) for the nine months ended May 31, 2021. Security for the ABL consists of a first priority charge on the Avalon Miners and any Bitcoin and related assets generated from the use of the Avalon Miners.

On May 27, 2021, the Company placed an order for 2,400 Bitmain S19j Pro Bitcoin miners (the "Bitmain Miners") at a total purchase price of $17,023,800 USD. The purchase price will be satisfied through a combination of cash and asset backed lending structures provided by Arctos as follows:

(1) Total advance available: $11,065,470 USD ("ABL Two")
Amounts drawn as at May 31, 2021: $4,255,950 USD
Interest rate: 15%
Payment period: Monthly
Duration: 30 months
Interest only payments for the initial eight months.

(2) Total advance available: $1,243,425 USD ("ABL Three")
Amounts drawn as at May 31, 2021: $1,243,425 USD
Interest rate: 16%
Payment period: Monthly
Duration: 30 months
Interest only payments for the initial two months.

The initial down payment of $515,745 USD plus financing fees of $221,309 USD were paid by the Company on May 25, 2021. As at May 31, 2021, the total deposit paid for the Bitmain Miners was $7,256,467 and the combined amount financed by the ABL Two and the ABL Three is $6,632,209. ABL Three is a refinancing of the original Avalon Miner purchase.

## 5. DEBT INSTRUMENTS (continued)

Security for the ABL Two consists of a first priority charge on the Bitmain Miners and any Bitcoin and related assets generated from the use of the Bitmain Miners. Security for the ABL Three consists of a first priority charge on the Avalon Miners and any Bitcoin and related assets generated from the use of the Avalon Miners

As at May 31, 2021, the combined principal payment required for ABL Two and ABL Three is $4,824,557 within the next twelve months and $1,511,793 thereafter. No interest payments were made or due on the ABL Two and the ABL Three during the nine months ended May 31, 2021 (2020 - $nil).

## 6. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

During the nine months ended May 31, 2021, the Company issued 15,298,060 common shares as follows:

- On December 30, 2020, the Company issued 5,200,000 common shares at $0.075 per share 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.

- On January 4, 2021, the Company issued 426,000 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 $85,200.

- 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.

- On March 19, 2021, the Company issued 4,572,060 common shares at $0.35 per share for gross proceeds of $1,600,221 through a non-brokered private placement. A total of 114,200 of the 4,572,060 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 nine months end May 31, 2021, the Company issued 5,000,000 common shares at $0.05 per share as per conversion of special warrants, previously issued through a non-brokered private placement, without payment of additional consideration.

During the nine months ended May 31, 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 parties. 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 out of the 2,767,758 common shares were issued to such related party creditors.

(Expressed in Canadian Dollars)

**6. SHARE CAPITAL (continued)**

(c) Special warrants

During the nine months ended May 31, 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 nine months ended May 31, 2021, 5,000,000 (2020 – nil) special warrants were converted into common shares.

As at May 31, 2021, there were no (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, May 31, 2020 | - | - |
| Issued | 3,300,000 | $ 0.05 |
| Outstanding, August 31, 2020 | 3,300,000 | $ 0.05 |
| Issued | 1,700,000 | $ 0.05 |
| Converted | (5,000,000) | $ 0.05 |
| Outstanding, May 31, 2021 | - | $ 0.05 |

(d) Share purchase warrants

During the nine months ended May 31, 2021, the Company issued 350,000 (2020 – nil) share purchase warrants (the "Warrants") as compensation for services rendered. Each Warrant may be exercise into one common share of the Company at an exercise price of $0.25 per share. These Warrants expire one year from the date of issuance. The exercise price of the share purchase warrants issued were based on the closing price of the common shares on the day prior to the grant date. The share purchase warrants issued were accounted for at their fair value determined by the Black-Scholes option pricing model with the following weighted average assumptions:

| | |
|---|---|
| # of Warrants | 350,000 |
| Risk-free interest rate | 0.13% |
| Expected life of options | 1 years |
| Annualized volatility | 166% |
| Dividend rate | 0% |
| Weighted average fair value per Warrant | $0.205 |

(Expressed in Canadian Dollars)

## 6. SHARE CAPITAL (continued)

(d) Share purchase warrants (continued)

The annualized volatility was based on historical monthly data of the Company. Share-based compensation expense of these Warrants amounted to $71,901 (2020 - $nil).

During the nine months ended May 31, 2021, a total of 526,000 (2020 – nil) Warrants were exercised into 526,000 common shares of the Company at an exercise price of $0.20 per share for total proceeds of $105,200 (2020 - $nil). A total of 28,000 (2020 – nil) Warrants expired. As at May 31, 2021, there were 350,000 (2020 – 571,500) Warrants issued and outstanding. 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 | (36,750) | $ 0.20 |
| Outstanding, May 31, 2020 | 571,500 | $ 0.20 |
| Expired | (17,500) | $ 0.20 |
| Outstanding, August 31, 2020 | 554,000 | $ 0.20 |
| Exercised | (526,000) | $ 0.20 |
| Expired | (28,000) | $ 0.20 |
| Issued | 350,000 | $ 0.25 |
| Outstanding, May 31, 2021 | 350,000 | $ 0.25 |

The weighted average contractual life of Warrants outstanding as at May 31, 2021 is 0.99 (2020 – 0.77) years.

(e) Share-based compensation

During the nine months ended May 31, 2021, the Company granted 2,175,000 (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:

| **Date of grant** | **Dec 16, 2020** | **Mar 11, 2021** |
|---|---|---|
| # of stock options | 1,300,000 | 875,000 |
| Exercise price per share | $0.075 | $0.450 |
| Risk-free interest rate | 0.17% | 0.15% |
| Expected life of options | 5 years | 5 years |
| Annualized volatility | 210% | 215% |
| Dividend rate | 0% | 0% |
| Weighted average fair value per option | $0.074 | $0.443 |

(Expressed in Canadian Dollars)

## 6. SHARE CAPITAL (continued)

(e) Share-based compensation (continued)

The annualized volatility was based on historical monthly 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 nine months ended May 31, 2021 amounted to $134,563 (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, 2019 | - | - |
| Outstanding, August 31, 2020 | - | - |
| Granted | 2,175,000 | $ 0.226 |
| Outstanding, May 31, 2021 | 2,175,000 | $ 0.226 |
| Options exercisable, May 31, 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).

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. The long-term debts are classified as Level 3 financial instruments.

(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.

## 7. FINANCIAL INSTRUMENTS (continued)

(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 May 31, 2021, the Company has $514,843 of cash available to settle accounts payable and accrued liabilities which are due within 90 days. All of the Company's long-term debts have maturity dates between 14 and 29 months from May 31, 2021.

## 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 May 31, 2021, the Company considers capital to consist of long-term debt and 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. The LOC Agreement has been extended for another 12 months, expiring July 29, 2022.

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 May 31, 2021.

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 nine months ended May 31, 2021.

## 9. SEGMENT INFORMATION

The Company operates within one business segment, being the development of a blockchain-enabled authentication platform, operating in British Columbia, Canada. As outlined in the subsequent events, the acquisition WestBlock created a second segment, being Bitcoin mining, operating in Alberta, Canada and the state of New Mexico.

## 10. SUBSEQUENT EVENTS

(a) Acquisition of WestBlock

The Company announced on June 14, 2021 it had closed the previously announced acquisition of WestBlock, a private company incorporated in 2017 under the Alberta Business Corporations Act. WestBlock became a wholly owned subsidiary of the Company operating under the name of WestBlock Capital Inc.

WestBlock operates an industrial scale cryptocurrency mining and hosting platform through its wholly owned subsidiary, WestBlock Hosting AZ Inc., located in New Mexico, USA. Consideration paid to WestBlock shareholders consisted of 16 million common shares at a deemed price of $0.385 per share and 2.5 million share purchase warrants. On closing the Company will issue 2.5 million Performance Warrants to the WestBlock management team and certain other persons who have assisted WestBlock with its business. The share purchase warrants and the Performance Warrants both have a term of 24 months and are exercisable at $0.40 per share for the first 12 months from the closing date, and $0.50 per share if exercised in the second 12-month period. The Performance Warrants are subject to a financing condition such that they will not be exercisable unless an aggregate of $2 million is raised via an equity financing or series of equity financings undertaken by and for the Company (the “Financing Condition”). If the Financing Condition is not satisfied by the date that is 12 months from the date of issue of the Performance Warrants, then the Performance Warrants will expire.

The Warrants and the Performance Warrants will be subject to an acceleration provision such that if over a period of 20 consecutive trading days the volume weighted average market closing price for the Company’s common shares on the Canadian Securities Exchange is above the exercise price, then the expiry date of the Warrants may be accelerated by the Company. The acceleration provision will only apply to the Performance Warrants after the Financing Condition has been satisfied.

As a result of the acquisition and concurrent amalgamation, the Company has assumed a debt facility amounting to $572,072 at 12% interest for a term of 3 months, maturing on August 31, 2021, with payments of interest monthly and the principal amount paid at maturity. This debt was provided to WestBlock by CHP Agent Services Inc., a related company, to facilitate the acquisition by WestBlock of the 51% partnership interest in the hosting operation owned by the Navajo Tribal Utility Authority. At the acquisition closing, WestBlock owned 100% of the hosting operation. Security of the debt consists of a general security agreement on WestBlock and its subsidiaries.

(b) Equity Financing

On July 6, 2021, the Company announced the closing of a non-brokered private placement of 8,118,912 Special Warrants at $0.35 per warrant and 470,000 Units at $0.35 per unit. Each Special Warrant will automatically convert, at no additional cost to the holder, into one Unit of the Company. In addition, 117,032 finders’ warrants were issued on closing of the transaction. Each Unit will comprise one common share and one share purchase warrant (a ‘Warrant”) of the Company. The Special Warrants will automatically convert on the earlier of 4 months and one day from the date of issue or the date the Company receives a receipt for its final prospectus qualifying the distribution of the Units.

**10. SUBSEQUENT EVENTS (continued)**

(b) Equity Financing (continued)

Each Warrant will be exercisable for a 24-month period into one common share of the Company (the “Warrant Share”) at a price of $0.45 per Warrant Share. If over a period of 20 consecutive trading days, occurring at any time after the date that is 12 months from the Date the subscriber’s subscription closes, the volume weighted average market closing price for the Company’s shares on the Canadian Securities Exchange (or such other Canadian exchange as applicable at the time) is above the Exercise Price (the end of such 20 day period being the “Acceleration Event”), then the expiry date of the Warrants may be accelerated by the Company to a date not less than the 20th day that immediately follows the Acceleration Event.