



**LUXFOLIO HOLDINGS INC.**

Management's Discussion & Analysis  
For the year ended August 31, 2021

**Dated: December 29, 2021**

## LUXXFOLIO HOLDINGS INC.

Management's Discussion & Analysis

For the year ended August 31, 2021

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*This Management's Discussion & Analysis ("MD&A") of the financial condition and results of operation of Luxxfolio Holdings Inc. (the "Company") is for the year ended August 31, 2021. This MD&A is dated December 29, 2021 and should be read in conjunction with the Company's audited consolidated financial statements and the accompanying notes for the year ended August 31, 2021 and 2020, which are available on SEDAR at [www.sedar.com](http://www.sedar.com). Together with the audited consolidated financial statements and the related notes, this MD&A has been prepared by the management of the Company in accordance with the requirements of National Instrument 51-102 and the International Financial Reporting Standards ("IFRS") as at the date of this MD&A. All dollar amounts are expressed in US dollars ("USD") unless otherwise stated.*

*Unless otherwise indicated, the Company's significant accounting policies and estimates, contractual obligations, commitments, contingencies, and business risks and uncertainties, as described in its audited consolidated financial statements for the year ended August 31, 2021, remain unchanged. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The results presented in the MD&A are not necessarily indicative of the results that may be expected for any future period.*

### FORWARD-LOOKING STATEMENTS

This MD&A contains certain "forward-looking statements" and "forward looking information" (collectively, "forward looking information") within the meaning of Canadian securities laws. This forward-looking information relates to future events or future performance and reflect management's expectations regarding Company's growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. In some cases, forward-looking information can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue", "target" or the negative of these terms or other comparable terminology.

Forward-looking information in this MD&A includes, but is not limited to:

- Raising capital, and the use of funds
- Business opportunities for the Company
- Future sales and cash flows of the Company

The risk factors described in this MD&A are not necessarily all the important factors that could cause actual results to differ materially from those expressed in the Company's forward-looking information.

In addition, any forward-looking information represents the Company's estimates only as of the date of this MD&A and should not be relied upon as representing the Company's estimates as of any subsequent date. The material factors and assumptions that were applied in making the forward-looking information in this MD&A include: (a) execution of the Company's existing business plans and growth strategy which may change due to changes in the market place, the views of management, or if new information arises which makes it prudent to change such business plans and growth strategy; and (b) the accuracy of current research results and the interpretation thereof, since new information or new interpretation of existing information may result in changes in the Company's expectations. Forward looking information is based on several assumptions that may prove to be incorrect including but not limited to assumptions about:

- ability to obtain customer contracts and establish relationships;
- the impact of competition;
- the ability to obtain and maintain existing financing on acceptable terms;
- the ability to retain skilled management and staff;
- the ability to acquire a significant market position within a target market;
- currency, exchange, and interest rates;

- pricing and volatility risks of Cryptocurrency;
- the availability of financing opportunities;
- economic conditions;
- the retention of management, and avoidance of conflicts of interest; and
- the progress and success of product marketing.

The preceding list is not exhaustive of all possible factors. All factors should be considered carefully when making decisions with respect to the Company.

Readers should not place undue reliance on the Company's forward-looking information, as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking information if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Therefore, the Company cannot provide any assurance that such forward-looking information will materialize. The Company does not undertake to update any forward-looking information, except as, and to the extent required by, applicable securities laws. For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking information in this MD&A, see "Bitcoin and Cybersecurity Risks" and "Other Risks and Uncertainties".

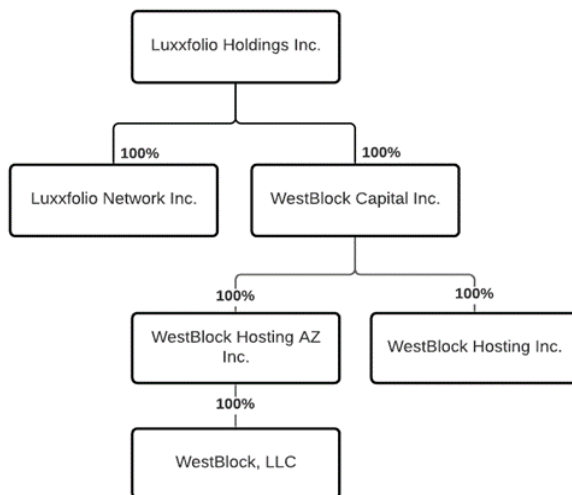
While the Company considers these assumptions may be reasonable based on information currently available to it, these assumptions may prove to be incorrect. Actual results may vary from such forward-looking information for a variety of reasons, including but not limited to risks and uncertainties disclosed in sections titled "Bitcoin and Cybersecurity Risks" and "Other Risks and Uncertainties".

## DESCRIPTION OF BUSINESS

The Company, based in Vancouver, was incorporated under the Business Corporations Act (British Columbia) on October 10, 2017. The Company's head and registered office is located at 212 - 1080 Mainland Street, Vancouver, BC, Canada, V6B 2T4. The Company's corporate website address is [www.luxxfolio.com](http://www.luxxfolio.com).

The Company listed on the CSE under the trading symbol "LUXX" as well as on the OTCQB under "LUXFF", the Frankfurt Stock Exchange under the symbol "LUH", and on the Börse Belin under the symbol LUH.

The Company's business is that of its wholly owned subsidiaries, Luxxfolio Network Inc. ("LNI") and WestBlock Capital Inc. ("WestBlock"), both of which share the same head and registered office as the Company. The intercorporate relationships are shown in the organizational chart below.



LNI is a development-stage financial technology company with a customized blockchain technology (the "Platform") that it owns and has available for licensing. WestBlock owns and manages a cryptocurrency mining facility in New Mexico, USA that hosts third-party owned Bitcoin miners, most of which belong to LNI.

LNI's focus regarding the development of the Platform is to enable third parties to authenticate, secure, and track via a highly secure verifiable ledger their digital based assets, contracts and documents or physical based assets ("Uniquely Identified Assets"). The Platform aims to provide a secure and reliable place to track Uniquely Identified Assets and to monetize or securitize these assets.

- Registering the asset provenance of a unique piece of equipment onto the Platform, and having the asset stored by an approved and professionally managed custodian such as a data center, thereby allowing LNI to run a proof of work algorithm to create fungible tokens such as Bitcoin; and
- Authenticating physical collectibles such as memorabilia, vintage cars, or artwork and registering them on the Platform, as well as having the asset stored by an approved and professionally managed custodian, thereby allowing LNI to produce a non-fungible token that can be traded on a marketplace.

While the development of the base Platform is complete, LNI's business pertaining to the use of the Platform has not attained significant levels of activity and remains subject to change. LNI continues to negotiate with various third parties for expanding its business, but there is no assurance any such negotiations will lead to new business opportunities. In particular, the Company's proposed expanded use of its Platform with respect to non-fungible tokens remains in the early stage of development.

WestBlock manages an industrial scale cryptocurrency mining operation in Shiprock, New Mexico, USA (the "New Mexico Facility") at which WestBlock manages and operates both LNI's cryptocurrency miners as well as third party cryptocurrency servers. At present, the vast majority of the miners managed by WestBlock are owned by LNI.



**Entrance to LUXX Mining Operation in Shiprock, New Mexico.**

The Company strategy is to become a vertically integrated digital asset blockchain company that manages, operates, and develops end to end digital solutions to monetize Uniquely Identified Assets and the blockchain ecosystem. As part of this strategic growth, the Company has undertaken the expansions discussed below under Discussion of Operations.



**Interior view of LUXX container and Bitcoin miners.**



**Exterior View of LUXX Mining Containers.**



**Power transformer.**

**OVERALL PERFORMANCE**

This fiscal year has been an eventful one for the blockchain and cryptocurrency industry as well as for the Company's expansion into this ever-changing environment. The increasing cryptocurrency price levels and heightened interests reflect the growth in investors' adoption of cryptocurrency as an asset class and the attention of the regulators across the globe.

As the date of this MD&A, the Company has:

- adopted a strategic direction of entering the Bitcoin mining business with the initial purchase of 590 Avalon 1246 Pro Bitcoin miners;
- ordered an additional 2900 Bitmain S19j Pro Bitcoin miners;
- ordered an additional 100 Antminer S19j Pro Bitcoin miners;
- completed acquisition of WestBlock Capital Inc. enabling it exercise control over its future growth and development;
- successfully raised funding through equity issuance and debt financing for planned capex and general working capital;
- commenced Bitcoin mining operations in July 2021 at the WestBlock, New Mexico facility with the installed bitcoin miners;
- Established strategic relationships with Anchorage Digital Bank NA for the custody of all mined Bitcoin;
- invested in the Company's infrastructure, including mining machines and immersion cooling systems scheduled for delivery in 2022;
- received DTC eligibility for the Company's shares in the United States;
- diversified into Ethereum mining through the asset purchase with Blackcloud Crypto Investments;
- Closed a bought-deal financing for net proceeds of \$8.674 million CAD; and
- increased the Company's common shares trading volume and visibility with additional listing on OTCQB, the Frankfurt Stock Exchange, the Börse Berlin, and the TradeGate Exchange.

The Company began active Bitcoin mining operations on July 19, 2021. The Company is currently using Slush Pool, a Bitcoin mining pool that combines the computational resources of participating Bitcoin miners to optimize returns. Slush Pool uses a unique hash rate proofing that allows their customers to verify the accuracy of their rewards. The mining site was operating at approximately 50 Petahashes (PH) per second as at August 31, 2021. During the fiscal year ended August 31, 2021, the Company had earned total rewards of 13.83 BTC, representing total revenue of \$607,000.

**Monthly Performance**

Month	Operating Level	Reward		Reserve at month end	
	PH/s at month end	BTC	Revenue	BTC (approx.)	ETH (approx.)
Jul & Aug 2021	50	13.83	\$607,000	27	-
Sep 2021	95	13.90	\$634,000	34	-
Oct 2021	123	22.50	\$1,320,000	42	-
Nov 2021	131	23.50	\$1,423,000	50	52

### ***Bitcoin Miners***

At the date of this MD&A, the Company has 1,465 Bitcoin miners at the New Mexico Facility and 2,190 scheduled for fiscal quarterly delivery as follows:

- Q4 2021: 190 Miners
- Q1 2022: 600 Miners
- Q2 2022: 1100 Miners
- Q3 2022: 300 Miners

### ***Security of Bitcoin***

Security of Bitcoin is critical to the protection of Company assets. To this end, the Company engaged Anchorage Digital Bank NA as custodian to hold in multiple vaults the various Bitcoin and Ethereum pools of the Company. Anchorage is a US federally regulated digital asset bank with SOC I compliance registration.

### ***Acquisition of Ethereum Mining Assets***

The Company entered into an asset purchase agreement ("Purchase Agreement") with Blackcloud Crypto Investments to acquire 88 Ethereum miners located in Alberta, Canada, 52 Ethereum coins and portable hosting containers in exchange for 500,003 common shares of the Company for a total aggregate consideration of \$190,001 CAD. The acquisition closed on November 25, 2021.

### ***Immersion Cooling System***

One of the challenging factors of Bitcoin mining in New Mexico is the extreme heat during the summer months. To optimize its miner efficiency, the Company has ordered immersion cooling technology to address these heat spikes. Scheduled for delivery in early 2022, the system will reduce sub-optimal performance and provide more normalized processing hashrates.

### ***Bought Deal Financing***

On December 7, 2021, the Company closed a bought-deal financing for gross proceeds of \$9.534 million CAD, and net proceeds of \$8.674 million CAD, which are designated for working capital purposes as well as for the development, sustaining capital and maintenance of the Company's Bitcoin mining operation and may include capital to support Bitcoin and digital asset reserve management.

The Company's objectives over the next 12 months include (i) expanding its cryptocurrency mining operations at the New Mexico Facility, (ii) developing additional uses for its Platform, in conjunction with new business partners, and (iii) developing non-fungible tokens and related business opportunities with new business partners.

Certain milestones to be achieved in order to meet the Company's business objectives include expansion of the New Mexico Facility from its installed capacity of 8 megawatts ("MW") to 15 MW of installed capacity. At the date of this MD&A the expansion program is ongoing with completion expected in early 2022.

## **DISCUSSION OF OPERATIONS**

### ***Acquisition of WestBlock Capital Inc.***

On June 14, 2021, the Company completed the acquisition of WestBlock, whereby WestBlock became a wholly owned subsidiary of the Company. WestBlock was an important milestone for the Company as it has provided the infrastructure and secure power supply that can be expanded to meet the growth needs of the Company.

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WestBlock was acquired for aggregate consideration of 16,000,000 common shares at a deemed price of \$0.385 CAD per share and 2,500,000 share purchase warrants to the former shareholders as well as 2,500,000 performance warrants (the "Performance Warrants") to the former management team and key persons.

The share purchase warrants and the Performance Warrants both have a term of 24 months and are exercisable at \$0.40 CAD per share for the first 12 months from the closing date, and \$0.50 CAD 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 CAD 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 after 12 months from the date of issuance, the Performance Warrants will expire.

WestBlock operates a cryptocurrency mining operation at its New Mexico Facility, at which WestBlock can manage and operate both its own cryptocurrency miners as well as third party cryptocurrency servers. Presently, virtually all of the miners managed by WestBlock are owned by LNI. The Company intends to continue to acquire mining hardware, subject to cost and profitability constraints, to ensure that its mining fleet includes efficient hardware and to avoid the need to replace the entire fleet simultaneously in the future.

WestBlock was able to secure access to land and power at costs in the bottom decile of global power costs for their mining operations through its exclusive partnership with the Navajo Nation. The Company's vision for WestBlock is to scale its low-cost mining operation and develop other cryptocurrency related revenue streams by leveraging supplier relationships, growing its inventory of crypto assets, and by taking advantage of the Company's unique access to structured financial products.

The New Mexico Facility was developed jointly by WestBlock and the Navaho Tribal Utility Authority (NTUA) through a partnership with interests of 49% and 51% respectively. Prior to the closing of the WestBlock acquisition, the 51% NTUA interest was acquired by WestBlock, giving it a 100% ownership interest in the facility. In connection with this partnership buyout, WestBlock entered into a financing facility with CHP Agent Services Inc., a related company controlled by Kelly Klatik, a director of the Company, and Dean Linden, an officer of the Company to borrow \$ 434,500 representing 50% of the purchase price. The other 50% of the purchase price was provided through a loan from NTUA. As a result of the acquisition, the Company assumed these debt facilities amounting to \$869,000.

### ***Expansion Plan for the New Mexico Facility***

In August 2021, the Company announced expansion plans for the New Mexico Facility. Currently, the mining facility has installed capacity of 8 MW and the expansion. will see the available power capacity increase to the full 15MW limit of the substation. The construction will include additional transformers, buildings, and associated cabling. The capital expenditure for the New Mexico expansion is estimated to be \$1,500,000.

### ***Purchase of Bitcoin Miners***

#### The Avalon Miners

In July of 2021, the Company took delivery of 590 Avalon Miner 1246 Pro 90TH/S Bitcoin miners that it had previously ordered (the "Avalon Miners") in December 2020. By the end of August 2021, substantially all the Avalon Miners were installed and in operation at the New Mexico Facility which is operated and managed by WestBlock.

The total purchase price was \$1,174,100, which was satisfied through a combination of cash and an asset backed lending structure provided by Arctos Credit, LLC. ("Arctos"). Subsequent to the structuring of this financing arrangement, Arctos entered into a participation agreement with CHP Agent Services Inc., a related company, where CHP assumed 100% participation in this financing vehicle.



The Bitmain Miners

On May 25, 2021, the Company entered into a financing agreement with Arctos to purchase 2,400 Bitmain S19J Pro Bitcoin miners (the "Bitmain Miners"). The total purchase price for the Bitmain Miners was \$17.02 million, which will be satisfied through a combination of cash and asset backed lending structures provided by Arctos.

The Company was granted price protection in the event of any material spot price declines on the Bitmain Miners. On July 28, 2021, the Company received confirmation of a price reduction on the near dated portion of the Q4 2021 deliveries related to these miners. This price reduction totaled \$705,000. and any future price reductions will be determined closer to forthcoming delivery dates.

On July 31, 2021, the Company ordered 100 additional Antminer S19j Pro Bitcoin miners (the "Antminer Miners") for total purchase price of \$755,000. The Antminer Miners were received and installed in August 2021. The Antminer Miners are fully operational as of September 1, 2021. CHP Agent Services inc., a related party, financed 50% of the cost of the Antminer Miners.

On October 31, 2021, the Company ordered an additional 500 new Bitmain S19J Bitcoin miners at a cost of \$3.02 million which will be financed through a combination of working capital and an asset backed lending structure provided by NYDIG.

**Equity Raises**

<b>Date of issuance</b>	<b>Type of securities</b>	<b>Number of securities</b>	<b>Issuance price per security (CAD)</b>	<b>Gross Proceeds (CAD)</b>
02/12/2020	Special Warrants	1,700,000	\$0.050	\$85,000
12/30/2020	Common Shares	5,200,000	\$0.075	\$390,000
03/22/2021	Common Shares	4,572,060	\$0.350	\$1,600,221
06/30/2021	Special Warrants	8,118,912	\$0.350	\$2,841,619
06/30/2021	Units	470,000	\$0.350	\$164,500
12/07/2021	Units	13,600,000	\$0.700	\$9,534,000

December 2020 - Special Warrant Offering

On December 2, 2020, the Company completed the final closing of its non-brokered private placement of 5,000,000 special warrants, 3,300,000 of which were issued in fiscal year 2020. Each special warrant was non-transferrable and entitles the holder to automatically receive, without payment of additional consideration, one common share in the capital under certain conditions. The securities were subject to a four-month and one day hold period from the date of issuance under securities laws. All of these specific special warrants have been converted into common shares of the Company as at the date of this MD&A.

December 2020 – Common Share Offering

On December 30, 2020, the Company completed a non-brokered private placement of 5,200,000 common shares of the Company including approved over-allotment. The securities were subject to a four-month and one day hold period from the date of issuance under securities laws.

March 2021 - Common Share Offering

On March 22, 2021, the Company completed a non-brokered private placement of 4,572,060 common shares of the Company. The securities are subject to a four-month and one day hold period from the date of issuance under securities laws.

June 2021 - Unit Offering

On June 30, 2021, the Company closed a non-brokered private placement of special warrants (the "Special Warrants") and units of the Company (the "Units") for total gross proceeds of \$3,006,119 CAD. Each of the Special Warrant issued automatically converts into one Unit on the day that is four months and a day after the issuance of the Special Warrant. Each Unit was comprised of one common share and one non-transferable share purchase warrant of the Company ("Warrant"). Each Warrant is exercisable for a period of 24 months from the date of issue to acquire one Common Share an exercise price of \$0.45 per share (the "Exercise Price"). If over a period of 20 consecutive trading days, occurring at any time after the date that is 12 months after the issuance of the Units, the volume weighted average at market closing price for the Company's common shares on the CSE (or such other Canadian exchange as applicable at the time) is above the Exercise Price then the expiry date of the Warrant may be accelerated by the Company (the "Acceleration Event"). In addition, 117,032 share purchase warrants were issued as broker warrants relating to the June 2021 offering. Each of these share purchase warrants have the same terms and conditions as the Warrants described above.

The Company's intended use of the proceeds include payments towards acquiring additional Bitcoin miners and general working capital of the Company.

December 2021 – Bought Deal Public Issue

On December 7, 2021, the Company closed its announced and oversubscribed public offering of 13.6 million units of the Company at \$0.70 CAD per unit and an additional 350,000 common share purchase warrants for gross proceeds of \$9.534 million CAD. Each unit consisted of one common share and one-half warrant. Each whole warrant is exercisable to acquire one common share at an exercise price of \$1.00 CAD until December 7, 2023.

**ANALYSIS OF FINANCIAL PERFORMANCE**

	For the year ended August 31, 2021	For the year ended August 31, 2020
<b>Revenue</b>		
Bitcoin mining	\$ 607,330	\$ -
<b>Total revenue</b>	<b>607,330</b>	<b>-</b>
<b>Expenses</b>		
Operating expenses	\$ 778,368	\$ -
Advertising and promotion	144,392	-
Depreciation expense	143,574	-
Interest	318,915	-
Share-based payments	899,079	-
General and administrative	151,084	100,790
<b>Total expenses</b>	<b>2,435,412</b>	<b>100,790</b>
<b>Net loss</b>	<b>\$ 1,828,082</b>	<b>\$ 100,790</b>

**For the year ended August 31, 2021 vs. August 31, 2020**

The Company had a net loss of \$1,828,082 for the year ended August 31, 2021 compared to a net loss of \$100,790 for the year ended August 31, 2020. The company did not start generating revenue from mining operations until July 2021. While the Company generated revenue of \$607,330 during the fourth quarter, the increase in net loss can be attributed to operating costs associated with the bitcoin mining operations, depreciation and financing

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expenses, advertising and marketing expenses, consulting, and professional fees, as well as share-based payments for services rendered and stock options granted.

The net loss for the year ended August 31, 2021 is primarily composed of share-based payments of \$899,079 (2020 – nil), interest expenses of \$318,915 (2020 – \$nil), consulting expenses of \$214,995 (2020 - \$21,552), professional fees of \$191,770 (2020 - \$16,948), electricity expenses of \$182,765 (2020 – \$nil), depreciation expenses of \$143,574 (2020 – \$nil), investor and public relations expenses of \$126,886 (2020 – \$nil), and management fees of \$102,041 (2020 - \$6,689).

**ANALYSIS OF CASH FLOWS**

	For the year ended August 31, 2021	For the year ended August 31, 2020
<b>Operating Activities</b>		
Net loss	\$ (1,828,082)	\$ (100,790)
Changes in non-cash operating items:		
Depreciation	143,573	-
Share-based payments	899,079	-
Bitcoin mining revenue	(607,330)	-
Amortization of financing fees	31,576	-
Changes in non-cash working capital:		
Cryptocurrency – Bitcoin sold	293,259	-
GST receivable	13,709	7,288
Prepaid expenses	(244,005)	23,970
Accounts payable and accrued liabilities	91,120	(42,209)
Cash provided by (used in) operating activities	(1,207,101)	(109,741)
<b>Investing Activities</b>		
Cash on acquisition of WestBlock	139,475	-
Purchase of mining equipment	(2,046,761)	-
Deposit on mining equipment	(8,758,725)	-
Cash provided by (used in) investing activities	(10,666,011)	-
<b>Financing Activities</b>		
Proceeds from long-term debt	8,717,543	-
Repayment of long-term debt	(387,847)	-
Financing fees	(240,212)	-
Issuance of common shares	1,577,411	-
Issuance of special warrants	2,255,235	122,626
Issuance of units	126,655	-
Finders' fees	(40,787)	-
Exercise of share purchase warrants	83,379	-
Cash provided by (used in) financing activities	12,091,377	122,626

**Operating Activities**

The total cash used in operating activities for the year ended August 31, 2021 amounted to \$1,207,101 (2020 - \$109,741) attributed primarily to interest of \$318,915 (2020 - \$nil), financing fees of \$208,636 (2020 - \$nil), consulting expenses of \$214,995 (2020 - \$21,552), professional fees of \$191,770 (2020 - \$16,948), electricity expenses of \$182,765 (2020 - \$nil), investor and public relations of \$126,886 (2020 - nil), and management fees of \$102,041 (2020 - \$6,689).

**Investing Activities**

The total cash used in investing activities for the year ended August 31, 2021 amounted to \$10,666,011 (2020 - \$nil) attributed to the purchase of Avalon Miners and Bitmain Miners, deposits made on the order for additional Bitmain Miners (see "Discussion of Operations"). The Company received cash of \$139,475 (2020 - \$nil) from the acquisition of WestBlock.

**Financing Activities**

The total cash provided by financing activities for the year ended August 31, 2021 amounted to \$12,091,377 (2020 - \$122,626). Proceeds from long-term debt of \$8,717,543 (2020 - \$nil) is comprised of loan facilities from the asset backed facilities provided by Arctos and the loan facility provided by CHP Agent Services Inc., a related party. The proceeds were used for the purchase of the Avalon Miners and Bitmain miners as well as the acquisition by WestBlock of the 51% partnership interest in the hosting operation owned by the Navajo Tribal Utility Authority ("NTUA") (see "Discussion of Operations").

During the year ended August 31, 2021, the Company issued the following securities for financing:

Type of Securities	Number of Securities Issued	Notes
Common Shares	31,768,060 (2020 - 2,767,758)	<ul style="list-style-type: none"> <li>Issued through non-brokered private placements (see "Discussion of Operations"), acquisition of WestBlock, exercise of share purchase warrants and conversion of previously issued units and special warrants.</li> </ul>
Special Warrants	9,818,912 (2020 - 3,300,000)	<ul style="list-style-type: none"> <li>Issued through December 2020 and June 2021 offerings (see "Discussion of Operations").</li> <li>5,000,000 of special warrants were converted into common shares.</li> <li>As at August 31, 2021, 8,118,912 (2020 - 3,300,000) special warrants were issued and outstanding at a weighted average exercise price of \$0.35 CAD.</li> </ul>
Share Purchase Warrants	6,137,032 (2020 - nil)	<ul style="list-style-type: none"> <li>Issued for services rendered, partial consideration paid for WestBlock acquisition and conversion of previously issued units.</li> <li>526,000 warrants (2020 - nil) were exercised into 526,000 common shares; 28,000 warrants were expired.</li> <li>As at August 31, 2021, 6,137,032 warrants were issued and outstanding with a weighted average exercise price of 0.393 CAD.</li> </ul>
Units	470,000 (2020 - nil)	<ul style="list-style-type: none"> <li>Issued through June 2021 offering (see "Discussion of Operations").</li> </ul>

## SEGMENT ANALYSIS

The Company currently has a single operating line of business, Bitcoin mining, which is conducted at its mining facilities in New Mexico, USA. Company management, administration and development functions are carried out in British Columbia and Alberta, Canada. The following table segments the relevant financial results by geographic territory:

	Canada	US	Consolidated
Revenue	\$nil	\$607,330	\$607,330
Expenses	1,574,237	861,175	2,435,412
<b>Profit (loss)</b>	<b>(\$1,574,237)</b>	<b>(\$253,845)</b>	<b>(\$1,828,082)</b>
Current assets	\$316,570	\$1,591,792	\$1,908,362
Non-current assets	4,603,304	12,016,826	16,620,130
<b>Total assets</b>	<b>\$4,919,874</b>	<b>\$13,608,618</b>	<b>\$ 18,528,492</b>
Current liabilities	\$152,292	\$4,604,670	\$4,756,962
Non-current liabilities	-	4,742,497	4,742,497
<b>Total liabilities</b>	<b>\$152,292</b>	<b>\$9,347,167</b>	<b>\$9,499,459</b>

## SELECTED ANNUAL FINANCIAL INFORMATION

The following table summarizes selected financial data from the Company's audited financial statements for the year ended August 31, 2021 and 2020. It should be read in conjunction with the corresponding audited financial statements.

Item	For the year ended August 31, 2021	For the year ended August 31, 2020
Revenues	\$607,330	\$nil
Expenses	(\$2,403,836)	(\$76,820)
Other income	\$nil	\$nil
Other expenses	(\$31,576)	(\$23,970)
Net Loss	(\$1,828,082)	(\$100,790)
Current assets	\$1,908,362	\$97,995
Non-current assets	\$16,620,130	\$nil
Current liabilities	\$4,756,962	\$22,110
Non-current liabilities	\$4,742,497	\$nil
Working capital (deficiency)	(\$2,848,600)	\$75,885
Shareholders' equity	\$9,029,033	\$75,885
Dividend	\$nil	\$nil
Weighted average number of common shares outstanding	30,345,126	17,099,420
Basic and diluted loss per common share	\$0.06	\$0.01

#### **ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

The Company began generating revenue from operations in July 2021. The following is a breakdown of the material costs incurred for the year ended August 31, 2021 and 2020:

- (a) Research and Development Costs – (\$30,197) (2020 - \$nil), being costs associated with development of the Company and the Platform. The Company recovered \$43,352 in research expense through the Scientific Research and Experimental Development (SR&ED) program. This research expense was related to the development of the Platform throughout 2018 and 2019;
- (b) General and administration expenses \$85,146 (2020 - \$11,902) - being costs associated with regulatory filing, office supplies, and administration of the Company;
- (c) Consulting fees - \$214,995 (2020 - \$21,552), being fees incurred for the OTCQB listing, social media growth and client outreach campaign with North Equities, and strategic planning and monthly engagement fees paid to Magnus Research and Consulting Ltd. and Geoffrey McCord, related parties;
- (d) Depreciation expenses - \$143,574 (2020 - \$nil), being the straight-line amortization of the 590 Avalon Miners;
- (e) Electricity expenses - \$182,765 (2020 - \$nil), being the monthly electricity charges paid to the Navajo Tribal Utility Authority incurred in the production of Bitcoin;
- (f) Interest expenses - \$318,915 (2020 – (\$1)), being the monthly interest charges on the asset backed lending facilities (ABL) provided by Arctos and the loan facility provided by CHP Agent Services Inc., a related party;
- (g) Investor and public relations - \$126,886 (2020 – \$nil) - relating to non-brokered private placements, marketing campaign with Stockhouse Publishing Ltd. to produce marketing contents, and to disseminate news releases;
- (h) Management fees - \$102,041 (2020 - \$6,689), being fees paid to Cypress Hills Partners Inc., a related party, for accounting and administrative functions;
- (i) Professional fees - \$191,770 (2020 - \$16,948), being costs associated with compliance and legal expenses incurred relating to the acquisition of WestBlock; and
- (j) Share-based payments - \$899,079 (2020 - \$nil), being expenses relating to the grant of stock options recognized over a graded vesting schedule and the grant of share purchase warrants as compensation for services performed relating to investor outreach and company promotions.

#### **FOURTH QUARTER**

The Company began active mining operations on July 19, 2021. As at August 31, 2021, the mining site was operating at approximately 50 PH/s. During the quarter ended on August 31, 2021, the Company earned a total reward of 13.83 BTC which represented revenue of \$607,330 and incurred a net loss of \$1,284,234, primarily due to expenses associated with the mining operation, share-based payments, and interest payments on the financing of the Bitcoin miners.

#### ***WestBlock Acquisition & Expansion***

On June 14, 2021, the Company completed the acquisition of WestBlock Capital Inc., which operates a cryptocurrency mining facility in New Mexico. In August, the Company announced expansion plans for the New Mexico mining facility to increase the power usage to its full 15MW potential (see "Discussion of Operations").

**Bitcoin Miners**

In July 2021, the Company took delivery of 590 Avalon Bitcoin miners ordered in December 2020. In addition, the placed a new order for 100 Antminer Miners which were received and installed in August 2021. The Antminers Miners were fully operational as at September 1, 2021. The Company received confirmation of a price reduction on the Bitmain Miners of \$705,000 on the near dated portion of the Q4 2021 deliveries (see "Discussion of Operations").

**Financing**

On June 30, 2021, the Company closed a non-brokered private placement of Special Warrants and Units for total gross proceeds of \$3,006,119 CAD. The proceeds were used towards Bitcoin miner purchases, loan payments, and general working capital (see "Discussion of Operations").

In July 2021, the Company received debt financing from CHP Agent Services Inc., a related party, for the purchase of the Antminer Miners.

**SUMMARY OF QUARTERLY RESULTS**

**Quarterly Results:**

	Quarter ended Nov 30, 2020	Quarter ended Feb 28, 2021	Quarter ended May 31, 2021	Quarter ended August 31, 2021
Total revenue	\$nil	\$nil	\$nil	\$607,330
Net loss for the period	(\$10,548)	(\$46,761)	(\$486,536)	(\$1,284,234)
Basic and diluted loss per share	(\$0.00)	(\$0.00)	(\$0.01)	(\$0.03)

	Quarter ended Nov 30, 2019	Quarter ended Feb 29, 2020	Quarter ended May 31, 2020	Quarter ended August 31, 2020
Total revenue	\$nil	\$nil	\$nil	\$nil
Net loss for the period	(\$12,562)	(\$26,719)	(\$18,383)	(\$44,240)
Basic and diluted loss per share	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)

**FY2021 Fourth Quarter – August 31, 2021**

During the quarter ended August 31, 2021, the Company generated \$607,330 in revenue. The Company incurred a net loss of \$1,284,234. The net loss was primarily composed of share-based payments, interest expenses, consulting fees, professional fees, electricity, and depreciating expense (see "Fourth Quarter").

**FY2021 Third Quarter – May 31, 2021**

During the quarter ended May 31, 2021, the Company had no operating revenues. The Company had a net loss of \$486,536. The net loss was primarily composed of share-based compensation expense relating to grant of share purchase warrants and stock options, consulting fees of relating to OTCQB listing and social media growth and client outreach campaign with North Equities, and investor and public relations expenses relating to non-brokered private placements, initial launch of the marketing campaign with Stockhouse Publishing Ltd. to produce marketing contents and to disseminate news releases.

*FY2021 Second Quarter – February 28, 2021*

During the quarter ended February 28, 2021, the Company had no operating revenues. The Company had a net loss of \$46,761. The net loss in the current period is primarily composed of professional fees relating to the year-end audit and the annual general meeting of the Company, shared-based compensation expense relating to the grant of stock options and interest expense relating to the interest payments on the ABL I financing.

The Company recovered \$43,352 CAD in research expense through the Scientific Research and Experimental Development (SR&ED) program. This research expense was related to the development of the Platform throughout 2018 and 2019.

*FY2021 First Quarter – November 30, 2020*

During the quarter ended November 30, 2020, the Company had no operating revenues. The Company had a net loss of \$10,548. The net loss was primarily composed of consulting fees relating to corporate affairs and business planning, and general and administration expenses relating to regulatory filing and securities exchange maintenance fees.

*FY2020 Fourth Quarter – August 31, 2020*

During quarter ended August 31, 2020, the Company had no operating revenues. The Company incurred a net loss of \$44,240 due primarily to professional fees of \$8,542 and loss on prepaid expenses of \$24,730.

Professional fees of \$8,542 were accrued expenses relating to the 2020 audit. The Company determined that it is unlikely the Company will utilize the prepaid expenses of \$24,730 relating to technology conventions that it paid during the 2018 fiscal year in the foreseeable future. The Company has chosen to write down the carrying value of the prepaid expenses as the amounts are non-refundable.

*FY2020 Third Quarter – May 31, 2020*

During the quarter ended May 31, 2020, the Company had no operating revenues. The Company had a net loss of \$18,383. The net loss was primarily due to the professional fees relating to the audit, tax return and accounting related functions of the Company.

*FY2020 Second Quarter – February 29, 2020*

During the quarter ended February 29, 2020, the Company had no operating revenues. The Company had a net loss of \$26,719. The increase in net loss from the previous quarter was primarily due to consulting fees relating to strategic planning and operation of the Company, and office and administration expenses relating to the annual general meeting.

*FY2020 First Quarter – November 30, 2019*

During the quarter ended November 30, 2019, the Company had no operating revenues. The Company had a net loss of \$12,562. The loss was primarily due consulting fees relating to corporate affairs.

## **SIGNIFICANT CONTRACTS**

The Company has a power supply agreement (the "PSA") with the Navajo Tribal Utility Authority ("NTUA"). The PSA has an 18-month term remaining on the initial contract with a renewal option under terms to be negotiated by the parties. The PSA is an "as consumed" contract, not a "Take or Pay" contract typical of power purchase agreements. Accordingly, the Company only pays for the power it consumes, not all power provided for its use. This significantly reduces the risk and the overall cost of mining production. The total available power for the Company to consume at the site is 15 MW which can be achieved with the addition of transformers, containers, and related connectivity.



## **LIQUIDITY AND CAPITAL RESOURCES**

The Company manages its capital to maintain its ability to continue as a going concern, with a long-term view of providing returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and cash equivalents, long-term debts, and equity comprised of issued common shares, special warrants, share purchase warrant reserves and deficit. The Company manages its capital structure and adjusts it considering economic conditions and financial needs. Upon approval from its Board, the Company will balance its overall capital structure through issuance of securities or by undertaking other activities as deemed appropriate under the specific circumstances.

### ***Working Capital***

On August 31, 2021, the Company had working capital deficiency of \$2,848,600 compared to working capital of \$75,885 as at August 31, 2020. The working capital deficiency was eliminated on December 7, 2021 with the closing of the bought-deal financing for 13.6 million units (each unit consisting of one common share and one-half share purchase warrant) at a price of \$0.70 CAD per unit. The gross proceeds of \$9.534 million CAD will be generally designated for working capital and future capital expenditures relating to expansion of the business.

On July 29, 2019, the Company entered into a Line of Credit and Security Agreement (the "LOC Agreement") with CHP Capital Inc. ("CHI"), a related company controlled by a Kelly Klatik, 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 CAD. The term of the LOC Agreement is 24 months and the LOC bears interest at 9% per annum. On July 25, 2021, the LOC Agreement has been extended for another 24 months, expiring July 25, 2023. No amounts have been drawn down on the LOC as at August 31, 2021. As at the date of this MD&A, the maximum amount of \$500,000 CAD has been drawn from the LOC.

### ***Asset backed lending structures***

The Company has committed to purchase 2,400 Bitmain Miners at a total purchase price of \$17,023,800 (see "Discussion of Operations"). As at August 31, 2021, the total deposit paid for the Bitmain Miners amounted to \$8,672,523. The amount financed by an asset backed lending facility's (ABL II & ABL III). ABL II is \$6,266,430 and the ABL III is \$1,022,475 as at August 31, 2021. The ABL II will provide the Company up to \$11,065,470 in total to finance the purchase of these Bitmain Miners. The balance of the purchase price will be satisfied by the Company's own cash from, but not limited to, equity financings and cash inflows from operations.

### ***Senior Debt Facility***

On December 1, 2021, the Company, through its wholly owned subsidiary WestBlock, entered into a Senior Debt facility with CHP Agent Services Inc., a related party controlled by Kelly Klatik, a director of the Company and Dean Linden, an officer of the Company. The facility was primarily established to finance the cash portion of the Immersion Cooling System equipment purchase announced on November 25, 2021 and may also be used to acquire Bitcoin mining servers and equipment. The pre-existing debt connected to the purchase of the WestBlock hosting operations of \$434,500 is also covered by this facility.

The facility carries the following terms:

- Available loan proceeds established at \$3 million CAD, but may be expanded to \$5 million CAD if agreed by both parties;
- The facility term is 24 months following the closing date;
- Security provided by WestBlock and its subsidiaries consisted of a general security agreement on all WestBlock operations and a first charge on cryptocurrency mining equipment and cryptocurrency units; and
- A variable interest rate between 16% and 13% that decreases as the total collateral coverage increases in relation to the total debt outstanding; and

### ***Requirement of Additional Debt and Equity Financing***

The Company has relied on debt and equity financings for all funds raised to date for their operations. The Company will need more funds in the future to expand its business and to meet its monthly debt payments. Until the Company starts generating significant and stable cash inflows from its operations, it is expected to continue to rely upon the issuance of securities to finance its operations. There is no certainty that debt or equity financings will be available at the times and in the amounts required to fund the Company's activities. The audited financial statements do not include any adjustments that might result from these uncertainties.

No dividends have been paid by the Company to date. The Company anticipates that for the foreseeable future it will retain future earnings and other cash resources for the operation and development of its business. Payment of any future dividends will be at the discretion of the Board after considering many factors, including the Company's financial condition and current and anticipated cash needs. The Company is not subject to any externally imposed capital requirement as at the date of this MD&A.

### **OUTSTANDING SHARE DATA**

The Company's authorized share capital consists of an unlimited number of common shares without par value.

As at August 31, 2021, there were 49,415,475 common shares, 8,118,912 special warrants, 6,137,032 share purchase warrants, and 3,185,000 stock options issued and outstanding.

As at the date of this MD&A, there were 74,217,944 common shares, 18,495,230 share purchase warrants, and 3,310,000 stock options issued and outstanding.

Each stock option expires five years from the date of grant, vest over a 24-month period, at a rate of 25% after each six-month period and have an average exercise price of \$0.297 CAD per share as at the date of this MD&A. A total of 1,935,000 of the 2,175,000 stock options were granted to related parties.

### **OFF-BALANCE SHEET ARRANGEMENTS**

There are no material off-balance sheet arrangements being pursued or negotiated by the Company as at the date of this MD&A.

### **TRANSACTIONS WITH RELATED PARTY**

During the year ended August 31, 2021, the Company entered into the following transactions with related parties:

- a) paid management fees of \$101,979 (2020 - \$6,688) to a company controlled by Kelly Klatik, a director of the Company, and Dean Linden, an officer of the Company for accounting and administrative functions. As at August 31, 2021, the amount owed to the company controlled by Kelly Klatik and Dean Linden was \$84,813 (2020 - \$8,607);
- b) paid research costs of \$3,544 (2020 - \$6,688) to a company controlled by Kelly Klatik, a director of the Company, and Dean Linden, an officer of the Company for research and development of the Platform;
- c) paid rental fees of \$15,750 (2020 - \$8,918) to a company controlled by Kelly Klatik, a director of the Company, and Dean Linden, an officer of the Company for leasing the space used as the Company's office;
- d) paid consulting fees of \$37,056 (2020 - \$13,377) to Geoffrey McCord, an officer of the Company for his engagement on the strategic planning and management of the Company;
- e) paid consulting fees of \$24,609 (2020 - \$nil) to a company controlled by Ken MacLean, an officer of WestBlock for his engagement on the management of WestBlock and the Company's mining operation;

- f) CHP Agent Services Inc., a company controlled by Kelly Klatik, a director of the Company, and Dean Linden, an officer of the Company, entered into a participation agreement to acquire a 100% participation interest in ABL I and ABL III. Security for ABL I and ABL III consists of a first priority charge on the Avalon Miners and any Bitcoin and related assets generated from the use of the Avalon Miners (see "Discussion of Operations");
- g) On June 14, 2021, the Company has assumed debt amounting to \$869,000 as a result of the acquisition of WestBlock. 50% of the \$869,000 loan was provided by CHP Agent Services Inc., a company controlled by Kelly Klatik, a director of the Company and Dean Linden, an officer of the Company. During the year ended August 31, 2021, the company paid \$12,822 (2020 - \$nil) in interest expenses relating to this loan;
- h) On July 29, 2021, the Company placed an order for 100 S19j Pro Bitcoin miners at a total purchase price of \$755,000. The purchase price will be satisfied through a combination of cash and asset backed loan of \$377,500 provided by CHP Agent Services Inc., a company controlled by Kelly Klatik, a director of the Company, and Dean Linden, an officer of the Company. During the year ended August 31, 2021, the company paid \$4,975 (2020 - \$nil) in interest expenses relating to the asset backed loan on the miners; and
- i) On December 1, 2021, the Company, through its wholly owned subsidiary WestBlock, entered into a Senior Debt facility with CHP Agent Services Inc., a company controlled by Kelly Klatik, a director of the Company, and Dean Linden, an officer of the Company. The facility was primarily established to finance the cash portion of the Immersion Cooling System equipment purchase announced on November 25, 2021 and may also be used to acquire Bitcoin mining servers and equipment (see "Liquidity and Capital Resources").

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.

#### **PROPOSED TRANSACTIONS**

The company does not have any proposed transactions as at the date of this MD&A.

#### **CONTROLS AND PROCEDURES**

In connection with National Instrument 52-109 Certificate of Disclosure in Issuers' Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the annual financial statements and the accompanying MD&A for the year ended August 31, 2021 and 2020.

#### **CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION AND FINANCIAL INSTRUMENTS**

##### ***Change in Reporting Currency***

For the year ended August 31, 2021, Management determined that it was appropriate to change the Company's reporting currency from Canadian dollars to United States dollars. This change made practical sense as the majority of the Company's operations are in the United States and its revenue and expenses are largely transacted in US dollars. Further, the majority of the equipment purchased for use in the Company's Bitcoin mining operations are US dollar denominated. Management believes this currency reporting change more accurately reflects the transactions of the Company since the introduction of Bitcoin mining and for the foreseeable future.

### ***Useful Life of Mining Equipment***

Cryptocurrency mining equipment is depreciated on a straight-line basis based on the estimated useful life of the classes of equipment as follows:

Transformers, containers, and related equipment	5 years
Mining Servers and related equipment	2 years
Infrastructures	10 years

Mining equipment used in the production of Bitcoin, has historically been subject to rapid obsolescence as each succeeding generation of equipment has proven to have significant enhanced economic benefits through faster processing power and lower operating costs. Management believes this will continue and accordingly believe the straight-line method of depreciation best reflects the useful life of the economic benefits provided by the equipment.

### ***Revenue Recognition***

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

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

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

## **CRYPTOCURRENCY AND CYBERSECURITY RISKS**

### ***Digital Asset Pricing Risk***

Bitcoin pricing is affected by numerous factors including international supply and demand, interest rates, inflation or deflation, and global political and economic conditions. The profitability of the Company is directly related to the current and future pricing of Bitcoin. A decline in the market price of Bitcoin could have a negative impact on the Company's future operations and financial results. In addition, a lack of market liquidity could limit the Company's ability to sell Bitcoin on a timely basis and at acceptable pricing levels.

### ***Risk of Security Breaches***

Breaches in network security, computer malfeasance and hacking are continuing concerns in the Bitcoin Exchange markets. Typically, security breaches result in unauthorized access, from internal or external sources, to information, systems and control, to cause intentional damage and disruption of data transactions, hardware and related technologies which could result in unquantifiable loss to the Company's business operations and loss of assets.

***Technology Security***

Constantly changing technology used in the Bitcoin Network, Bitcoin mining and Blockchain Networks continually introduces opportunities for malicious actors to breach security protocols and potentially damage, steal or control Company assets.

***Bitcoin Halving Risk***

Bitcoin halving, which occurs every four years, is an event that triggers a 50% reduction in the Bitcoin revenue earned by the Bitcoin miners for every transaction verified by the miner. The reward, currently 6.25 Bitcoin per block, will halve again in 2024. Each halving event has historically resulted in a reduction in network difficulty rates that have corresponded to the reduction in the reward. This, however, cannot be assured or even forecast, and as such, represents a risk to the profitability of Bitcoin mining and the Company's ability to continue as a going concern.

***Bitcoin Pricing Volatility Risk***

The wide fluctuation of Bitcoin pricing creates a risk to the earnings capability and Bitcoin asset valuations that could be material to the results of operations and financial position of the Company.

***Bitcoin Market Adoption***

Currently, there is relatively small use of Bitcoin in the retail and commercial marketplace in comparison to the relatively larger use by speculators and investors. This uneven growth will contribute to volatility in pricing and could adversely affect an investment in the Company's shares. Further, if fees increase for recording transactions on the Bitcoin Blockchain, demand for Bitcoin may be reduced and contribute to slowing growth of the Bitcoin Network to retail and commercial enterprises resulting in market limitations and associated Bitcoin demand and valuation challenges.

***Continuity of Power Supply***

Bitcoin mining consumes large amounts of electrical power and as such, the Company is dependent on NTUA for the continual supply of power at rates that make Bitcoin mining operations efficient and profitable. Disruption in the power supply will have immediate financial consequences to the Company, and if prolonged, result in material losses in Bitcoin earnings, and additional expenses that may be incurred to replace or rectify the power supply.

***Bitcoin Miner Obsolescence and Replacement***

Technical advances in the efficiency of Bitcoin miners are being made on a continual basis and periodic introductions of new advanced miners can quickly obsolete the Company's existing miners in terms of efficiency and performance, relative to other industry Bitcoin miners. This could result in a reduction in Bitcoin rewards earned and ultimate profitability. Replacement of obsolete miners, or replacement of defective machines, cannot be assured due to competitive market conditions and uncertain pricing.

**OTHER RISKS AND UNCERTAINTIES**

***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 by placing its cash balances at a recognized Canadian and US financial institutions.

Digital assets are held in the custody of Anchorage Digital Bank NA, a US federal chartered digital asset bank and registered custodian. The Company does not self-custody any of its Bitcoin assets.

***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 sufficient cash flows to meet its financial obligations. The Company is exposed to liquidity risk in respect of its accounts payable, accrued liabilities and debt obligations.

***Limited Operating History***

The Company was recently commenced full operations at its Bitcoin mining facility and has no previous operating history. The Company and its business prospects must be viewed against the background of the risks, expenses and problems frequently encountered by companies in the early stages of their development, particularly companies in new and rapidly evolving markets such as Bitcoin mining and blockchain technology. There is no certainty that the Company will attain its business objectives or operate profitably.

***No Profits to Date***

The Company has not made any profits since its incorporation. The Company's future profitability depends upon its success in developing and managing its Bitcoin mining operations, and the extent to which these are able to generate significant revenues.

***Additional Requirements for Capital***

Substantial additional financing may be required if the Company is to successfully develop its business. No assurances can be given that the Company will be able to raise the additional capital that it may require for its anticipated future development. Any additional equity financing may be dilutive to investors and debt financing, if available, may involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Company, if at all. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

***Debt Facilities and Collateral***

In the expansion of the Company's Bitcoin mining business, it has incurred significant debts, including the asset backed lending facilities (ABL I, II and III), Senior Debt Facility and the Letter of Credit. Where the Company to default on its payment obligations under the terms of these facilities, the Company could lose possession of its Bitcoin miners and related infrastructure, rendering significant damage to the Company ability to carry on operations.

***Regulatory Risks***

Changes in or more aggressive enforcement of laws and regulations could adversely impact the Company's business. Failure or delays in obtaining necessary approvals could have a materially adverse effect on the Company's financial condition and results of operations. Furthermore, changes in government, regulations and policies and practices could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition. Regulatory agencies could shut down or restrict the use of Bitcoin and the mining of Bitcoin. This could lead to a loss of any investment made in the Company and may trigger regulatory action by the authorities.

***Key Personnel***

The future success of the Company will depend, in large part, upon its ability to retain its key management personnel and to attract and retain additional qualified marketing, sales and operational personnel to form part of its technical and customer services team. The Company may not be able to enlist, train, retain, motivate, and manage the required personnel. Competition for these types of personnel is intense. Failure to attract and retain personnel, particularly marketing, sales, and operational personnel as well as consultants, could make it difficult for the Company to manage its business and meet its objectives.

Failure to manage growth successfully may adversely impact the Company's operating results. The growth of the Company's operations places a strain on managerial, financial, and human resources. The Company's ability to manage future growth will depend in large part upon several factors, including the ability to rapidly:

- hire and train development, sales, and marketing staff to create an expanding presence in the evolving marketplace for the Company's products;
- attract and retain qualified technical personnel in order to administer technical support required for the Company's Bitcoin mining operations; and
- expand internal management and financial controls significantly, so that control can be maintained over operations as the number of personnel and size of the Company increases.

Inability to achieve any of these objectives could harm the business and operating results of the Company.

#### ***Litigation***

The Company may become involved in litigation that may materially adversely affect either company or both companies. From time to time in the ordinary course of the Company's business, it may become involved in various legal proceedings. Such matters can be time-consuming, divert management's attention and resources and cause the Company to incur significant expenses. Furthermore, because litigation is inherently unpredictable, the results of any such actions may have a material adverse effect on the Company's business, operating results, or financial condition.

#### ***Conflicts of interest***

The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interests, which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict will disclose his or her interest and abstain from voting on such matter. Conflicts, if any, will be subject to the procedures and remedies as provided under the BCBCA.

To the best of the Company's knowledge, and other than disclosed herein and in the Company's annual audited financial statements, there are no known existing or potential conflicts of interest between the Company and its directors and officers except that certain of the directors and officers may serve as directors and/or officers of other companies, and therefore it is possible that a conflict may arise between their duties to the Company and their duties as a director or officer of such other companies.

#### ***Currency risk***

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash and equivalents) that are denominated in a currency other than United States dollars, the functional currency of the Company. Management does not hedge its foreign currency risk exposures.

#### ***COVID-19***

The outbreak of COVID-19 has spread globally causing 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 future consolidated results may be negatively impacted by this event. The extent of any impact, will depend on future developments, including actions taken to contain COVID-19 and its variants.

#### ***Other Information***

Additional information regarding the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).