



LUXFOLIO HOLDINGS INC.

Consolidated Financial Statements
For the years ended August 31, 2022 and 2021
(Expressed in US Dollars)

Dated: February 28, 2023

Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of Luxxfolio Holdings Inc. and its subsidiaries (collectively, the "Company"), which comprise the consolidated statements of financial position as at August 31, 2022 and 2021 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the consolidated financial statements which indicates that at August 31, 2022 the Company had a deficit of \$20,161,430. This condition, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Emphasis of Matter

We draw attention to Note 17 to the consolidated financial statements for subsequent events of the Company which indicates a suspension of operations and debt settlements.

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

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged With Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Report (continued)

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

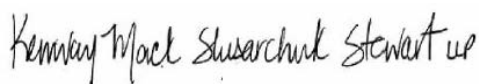
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this Independent Auditors' report is Roland Bishop, CPA, CA.



Chartered Professional Accountants

February 28, 2023
Calgary, Alberta

LUXXFOLIO HOLDINGS INC.

Consolidated Statements of Financial Position
(Expressed in US Dollars)

As at	August 31, 2022 ⁽¹⁾	August 31, 2021
Assets		
Current assets		
Cash	\$ 331,894	\$ 313,604
Accounts receivable	136,272	64,508
Prepaid expenses	2,515	248,288
Intangible – Digital Currency (note 5)	1,103,483	1,281,962
	1,574,164	1,908,362
Non-current assets		
Investment in private company	-	10,000
Deposit on equipment (note 6)	1,509,905	8,758,725
Plant and equipment – net (note 7)	3,360,140	3,229,102
Goodwill (note 8)	-	4,622,303
	4,870,045	16,620,130
Total assets	\$ 6,444,209	\$ 18,528,492
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	\$ 1,486,781	\$ 541,919
Deferred income	310,000	-
Current portion of the long-term debt (note 10)	938,759	4,215,043
	2,735,540	4,756,962
Non-current liabilities		
Long-term debt (note 10)	1,147,657	4,742,497
	3,883,197	9,499,459
Shareholders' equity		
Common shares (note 11)	20,453,519	8,763,996
Special warrants (note 11)	-	2,187,866
Contributed surplus (note 11)	1,182,463	214,805
Warrant reserves (note 11)	1,086,460	1,477,963
Accumulated deficit	(20,161,430)	(3,626,177)
Accumulated other comprehensive income	-	10,580
	2,561,012	9,029,033
Total liabilities and shareholders' equity	\$ 6,444,209	\$ 18,528,492

(1) Going Concern – Note 2.

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

Approved on behalf of the Board:

Signed: "Ken MacLean"

Ken MacLean, Director

Signed: "Geoffrey McCord"

Geoffrey McCord, Director

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

	For the year ended August 31, 2022	For the year ended August 31, 2021
Revenue		
Cryptocurrency mining	\$ 8,224,083	\$ 607,330
Hosting revenue	2,287,289	-
Total revenue	10,511,372	607,330
Operating expenses		
Advertising	27,329	17,506
Consulting (note 9)	752,824	214,995
Depreciation (note 7)	5,514,321	143,574
Electricity	2,126,220	182,765
General and administration	1,791,180	211,029
Interest (note 10)	1,599,348	318,915
Labour	355,290	45,248
Management fees (note 9)	163,759	102,041
Professional fees	353,785	191,770
Rent (note 9)	60,219	15,759
Repairs and maintenance	67,713	40,170
Supplies and materials	243,877	20,985
Total operating expenses	13,055,865	1,504,757
Other expenses		
Share-based payments (note 11)	1,259,451	899,079
Amortization of financing fees	247,587	31,576
Realized loss on digital assets	927,303	-
Realized loss on sale of equipment	6,282,875	-
Unrealized loss on digital assets	1,145,393	-
Impairment of Goodwill (note 8)	4,282,085	-
State sales tax	162,329	-
Total other expenses	14,307,023	930,655
Net loss	\$ 16,851,516	\$ 1,828,082
Other comprehensive income		
Currency translation adjustment	(130,382)	(178,623)
Revaluation of cryptocurrencies	-	188,510
Total other comprehensive income	-	9,887
Comprehensive loss	\$ 16,981,898	\$ 1,818,195
Basic and Diluted net loss per share	\$ 0.23	\$ 0.06
Weighted average number of shares outstanding:		
Basic and diluted	72,048,976	30,345,126

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

LUXXFOLIO HOLDINGS INC.

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in US Dollars)

	Notes	Number of common shares	Common shares	Special warrants	Contributed surplus	Warrant reserves	Deficit	Accumulated OCI	Total
Balance, August 31, 2020		17,647,415	\$ 1,636,540	\$ 122,626	\$ -	\$ 51,894	\$ (1,735,868)	\$ 693	\$ 75,885
Issuance of common shares		9,772,060	1,577,411	-	-	-	-	-	1,577,411
Issuance of special warrants		-	-	2,255,235	-	64,349	-	-	2,319,584
Issuance of units		470,000	126,655	-	-	3,725	-	-	130,380
Issuance of share purchase warrants		-	-	-	-	724,633	-	-	724,633
Finder's fees		-	(40,787)	-	-	-	-	-	(40,787)
Acquisition of WestBlock		16,000,000	5,073,299	-	-	685,258	-	-	5,758,557
Share-based compensation		-	-	-	214,805	-	-	-	214,805
Exercise of special warrants		5,000,000	189,995	(189,995)	-	-	-	-	-
Exercise of share purchase warrants		526,000	134,675	-	-	(51,296)	-	-	83,379
Expired share purchase warrants		-	-	-	-	(2,345)	2,345	-	-
Currency translation adjustment		-	66,208	-	-	1,745	(64,572)	(178,623)	(175,242)
Revaluation of cryptocurrencies		-	-	-	-	-	-	188,510	188,510
Net loss		-	-	-	-	-	(1,828,082)	-	(1,828,082)
Balance, August 31, 2021		49,415,475	\$ 8,763,996	\$ 2,187,866	\$ 214,805	\$ 1,477,963	\$ (3,626,177)	\$ 10,580	\$ 9,029,033
Issuance of units	11	26,100,000	8,540,377	-	-	256,662	-	-	8,797,039
Issuance of compensation options	11	-	-	-	215,581	95,678	-	-	311,259
Finder's fees	11	-	(497,427)	-	-	-	-	-	(497,427)
Conversion of special warrants	11	8,118,912	2,187,866	(2,187,866)	-	-	-	-	-
Exercise of share purchase warrants	11	2,583,554	1,412,553	-	-	(603,529)	-	-	809,024
Expired share purchase warrants	11	-	-	-	-	(108,545)	108,545	-	-
Asset purchase of Blackcloud	11	500,003	327,366	-	-	-	-	-	327,366
Share-based compensation	11	-	-	-	788,208	-	(21,592)	-	766,616
Currency translation adjustment		-	(281,212)	-	(36,131)	(31,769)	229,310	(10,580)	(130,382)
Net income (loss)		-	-	-	-	-	(16,851,516)	-	(16,851,516)
Balance, August 31, 2022		86,717,944	\$ 20,453,519	\$ -	\$ 1,182,463	\$ 1,086,460	\$ (20,161,430)	\$ -	\$ 2,561,012

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

LUXXFOLIO HOLDINGS INC.

Consolidated Statements of Cash Flows

(Expressed in US Dollars)

	For the year ended August 31, 2022	For the year ended August 31, 2021
Operating Activities		
Net loss	\$ (16,851,516)	\$ (1,828,082)
Changes in non-cash operating items:		
Depreciation	5,514,321	143,573
Share-based payments	1,259,451	899,079
Cryptocurrency mining and hosting revenue	(10,280,364)	(607,330)
Amortization of financing fees	247,587	31,576
Realized (gain) loss on Digital Assets	927,303	-
Unrealized (gain) loss on Digital Asset	1,145,393	-
Changes in non-cash working capital:		
Cryptocurrency – sold	8,206,067	293,259
Accounts receivable	(71,764)	13,709
Prepaid expenses	245,773	(244,005)
Accounts payable and accrued liabilities	944,862	91,120
Deferred income	310,000	-
Realized loss on sale of equipment	6,282,875	-
Impairment of Goodwill	4,282,085	-
Cash provided by (used in) operating activities	2,162,073	(1,207,101)
Investing Activities		
Cash on acquisition of WestBlock	-	139,475
Purchase of mining equipment	(12,070,478)	(2,046,761)
Deposit on mining equipment	(1,509,905)	(8,758,725)
Proceeds from sale of mining equipment	3,670,239	-
Cash provided by (used in) investing activities	(9,910,144)	(10,666,011)
Financing Activities		
Proceeds from short-term debt	463,950	-
Proceeds from long-term debt	7,943,661	8,717,543
Repayment of short-term debt	(518,992)	-
Repayment of long-term debt	(8,878,892)	(387,847)
Financing fees	-	(240,212)
Issuance of common shares	-	1,577,411
Issuance of special warrants	-	2,255,235
Issuance of units	8,445,037	126,655
Finders' fees	(497,427)	(40,787)
Exercise of share purchase warrants	809,024	83,379
Cash provided by (used in) financing activities	7,766,361	12,091,377
Inflow of Cash	18,290	218,265
Cash, Beginning of year	313,604	95,339
Cash, End of year	\$ 331,894	\$ 313,604

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

LUXXFOLIO HOLDINGS INC.

Notes to the Consolidated Financial Statements
For the years ended August 31, 2022 and 2021
(Expressed in US Dollars)

1. NATURE OF OPERATIONS

Luxxfolio Holdings Inc. (the “Company”) was incorporated under the *Business Corporations Act* (British Columbia) on October 10, 2017. On March 21, 2019, the Company’s shares began trading on the Canadian Securities Exchange (“CSE”), under the symbol LUXX. The head office of the Company is located at 417 – 1080 Mainland Street, Vancouver, British Columbia. The Company’s business is that of its wholly owned subsidiaries, Luxxfolio Network Inc. (“Luxxfolio”) and WestBlock Capital Inc. (“WestBlock”).

The Company completed the amalgamation of WestBlock on June 14, 2021. WestBlock operates an industrial scale digital asset mining and hosting platform through its wholly owned subsidiary WestBlock Hosting Arizona Inc. located in New Mexico. The mining platform, owned 100% by the Company, was originally developed in partnership with the Navajo Tribal Utility Authority (“NTUA”) and resides on Navajo Tribal lands.

2. GOING CONCERN

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

For the year ended August 31, 2022, the Company realized a net loss of \$16,851,516 (2021 - \$1,828,082) and as of August 31, 2022, has a working capital deficiency of \$1,161,376 (2021 - \$2,848,600) and an accumulated deficit of \$20,161,430 (2021 - \$3,626,177). 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 and positive cash flows from its Bitcoin mining operations. Failure to do so would have an adverse effect on the financial position of the Company and its ability to continue as a going concern. These consolidated financial statements do not include any adjustments that would be necessary, should the Company be unable to continue as a going concern. Such adjustments could be material.

LUXXFOLIO HOLDINGS INC.

Notes to the Consolidated Financial Statements
For the years ended August 31, 2022 and 2021
(Expressed in US Dollars)

3. BASIS OF PRESENTATION

(a) Statement of compliance

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

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

(b) Basis of presentation

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

(c) Principals of consolidation

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

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Luxxfolio Network Inc., WestBlock Capital Inc., WestBlock Hosting Inc.; WestBlock Hosting Arizona Inc., and WestBlock, LLC. All intercompany balances, transactions, unrealized gains, and losses resulting from intercompany transactions have been eliminated on consolidation.

(d) Approval of the consolidated financial statements

These consolidated financial statements were authorized for issue by the Board of Directors on February 28, 2023.

(e) Functional and presentation currency

Transactions and balances in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates. These consolidated financial statements have been presented in USD. The functional currency of all entities is USD with the exception of Luxxfolio Holdings Inc. which is CAD.

LUXXFOLIO HOLDINGS INC.

Notes to the Consolidated Financial Statements
For the years ended August 31, 2022 and 2021
(Expressed in US Dollars)

3. BASIS OF PRESENTATION (continued)

(f) Use of estimates and judgements

The preparation of these 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. Accounting estimates and assumptions made by management that may result in a material adjustment to the carrying amounts of assets and liabilities include, but are not limited to the following:

(i) Valuation of digital assets

The Company derives the majority of its revenue from the mining of Bitcoin and holds Bitcoin at the reporting date. Bitcoin is considered to be an identifiable non-monetary asset without physical substance and are treated as intangible assets not subject to amortization under IAS 38 Intangible Assets.

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

(ii) Fair value of options and warrants

The fair value of equity instruments is subject to the limitations of the Black-Scholes option pricing model, as well as other pricing models that incorporate market data and 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.

(iii) Business combinations

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

(iv) Business acquisitions

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

LUXXFOLIO HOLDINGS INC.

Notes to the Consolidated Financial Statements
For the years ended August 31, 2022 and 2021
(Expressed in US Dollars)

3. BASIS OF PRESENTATION (continued)

(f) Use of estimates and judgements (continued)

(v) Going concern assumption

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

(vi) Depreciation of mining equipment

The measurement of the estimated useful economic life of the specific use computers (Miners) used in the mining of Bitcoin requires judgement in determining the impact of the future Miner generation's ability to achieve higher processing speeds while reducing power requirements. Previous generations of these Miners have been subject to considerable obsolescence in the past resulting in short duration economic life. The actual future technological advancements of the Miners may differ from previous experience, and accordingly impact the financial results of the Company.

(vii) Income taxes

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

(viii) Research and development expenditures

Costs to develop the Company's platform are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 *Intangible Assets* are met. Those criteria require that the platform is technically and economically feasible, which management assesses based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions. Management considers those factors in aggregate and applies significant judgement to determine whether the platform is feasible. The Company has not capitalized any research and development costs as at August 31, 2022.

(ix) Impairment of non-financial assets and goodwill

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

LUXXFOLIO HOLDINGS INC.

Notes to the Consolidated Financial Statements
For the years ended August 31, 2022 and 2021
(Expressed in US Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Company include the following:

(a) Foreign currency translation

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

For the purpose of presenting consolidated financial statements, the results of entities denominated in currencies other than US dollars are translated at the average rate of exchange for the period and their assets and liabilities at the rates in effect at the statement of financial position date. Foreign exchange differences are recognized in other comprehensive income and accumulated in the cumulative translation account.

(b) Financial instruments

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

Financial assets

(i) Recognition and measurement of financial assets

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

(ii) Classification of financial assets

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

Financial assets measured at amortized cost

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

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

LUXXFOLIO HOLDINGS INC.

Notes to the Consolidated Financial Statements
For the years ended August 31, 2022 and 2021
(Expressed in US Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES

(b) Financial instruments (continued)

(ii) Classification of financial assets (continued)

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

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

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

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

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

(iii) Derecognition of financial assets

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any 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 consolidated statement of operations and comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

(iv) Impairment of financial assets

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

LUXXFOLIO HOLDINGS INC.

Notes to the Consolidated Financial Statements
For the years ended August 31, 2022 and 2021
(Expressed in US Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

Financial liabilities

(i) Recognition and measurement of financial liabilities

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

(ii) Classification of financial liabilities

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

Financial liabilities measured at amortized cost

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 consolidated statement of operations and comprehensive loss.

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

LUXXFOLIO HOLDINGS INC.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)**(b) Financial instruments (continued)**

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

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

(c) 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.

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

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

Digital assets, which 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 a monthly basis. There is no recycling of gains from Other Comprehensive Income to Profit and Loss. However, to the extent that an increase in fair value reverses a previous decrease in fair value that has been recorded in Profit and Loss, that increase is recorded in Profit and Loss. Decreases in fair value that reverse gains previously recorded in Other Comprehensive Income are recorded in Other Comprehensive Income.

LUXXFOLIO HOLDINGS INC.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Income taxes

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

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

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

(e) Share-based compensation

The Company has share-based compensation which is described in note 11 (e). Share-based compensation granted is accounted for using the fair value method. The fair value of the common share purchase option for employees is calculated at the date of grant and is expensed over the vesting period of those options. The fair value of the common share purchase option for non-employees is calculated at the date of performance completion. The fair value for awards with graded vesting is recognized over the vesting period of the tranche. The fair value of the common share purchase option is measured at the fair value of the goods or services received unless that fair value cannot be estimated reliably. In such case, the Company uses the Black-Scholes model to calculate the fair value of stock options issued, which requires certain assumptions be made at the time the options are awarded, including the expected life of the option, the expected number of granted options that will vest, forfeitures and the expected future volatility of the stock. Any consideration received upon exercise of stock options is credited to share capital along with the amount previously recognized in share-based payment reserve.

(f) Useful life of plant and 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

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Useful life of plant and equipment (continued)

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.

(g) 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.

(h) Impairment of non-financial assets

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

(i) Earnings (loss) per share

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

(j) New IFRS issued but not yet effective

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

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5. DIGITAL ASSETS – HELD IN CUSTODY

As at August 31, 2022, the Company held Bitcoin, Ethereum, and Filecoin as its digital assets in segregated custody vaults with Anchorage Digital Bank NA, a US federally chartered digital bank and registered custodian. The digital assets are recorded at their fair value on the date they are received as revenues and are revalued at their current market value at each reporting date. Fair value is determined by taking the closing price listed on Yahoo Finance at the reporting date.

The continuity of digital currencies is as follows:

<i>(At fair value)</i>	Bitcoin		Ethereum		Filecoin	
	Units	\$	Units	\$	Units	\$
Opening balance, Aug 31, 2020	-	-	-	-	-	-
Acquired	20.81	819,122	-	-	-	-
Digital assets mined	13.73	607,330	-	-	-	-
Digital assets sold	(7.22)	(293,259)	-	-	-	-
Revaluation	-	148,769	-	-	-	-
Ending balance, Aug 31, 2021	27.32	1,281,962	-	-	-	-
Acquired	-	-	51.99	220,433	1,294	22,367
Digital assets mined	230.54	9,653,274	50.36	138,585	-	-
Digital assets sold	(203.87)	(8,858,233)	(93.64)	(307,132)	-	-
Revaluation	-	(994,486)	-	(38,357)	-	(14,930)
Ending balance at, Aug 31, 2022	53.99	1,082,517	8.71	13,529	1,294	7,437
Collateralized, Aug 31, 2022	52.49	1,052,465	-	-	-	-
Uncollateralized, Aug 31, 2022	1.50	30,051	8.71	13,529	1,294	7,437

6. DEPOSITS ON EQUIPMENT

	August 31, 2022	August 31, 2021
Deposit on transformers	\$nil	\$86,202
Deposit on mining equipment	-	8,672,523
Deposit on immersion equipment	1,509,905	-
Total	\$1,509,905	\$8,758,725

During the year ended August 31, 2022, the Company had a total deposit of \$1,509,905 (2021 - \$nil) towards the purchase of an immersion-cooling system (see “Related Party Transactions” and “Subsequent Events”).

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7. PLANT AND EQUIPMENT

	Mining servers	Equipment	Infrastructure	Total
Cost				
As at August 31, 2020	-	-	-	\$nil
Acquired through acquisition	-	19,534	1,306,381	1,325,915
Additions	2,039,341	7,420	-	2,046,761
As at August 31, 2021	2,039,341	26,954	1,306,381	3,372,676
Reclassification	-	128,506	(409,590)	(281,084)
Acquired through asset purchase	106,933	-	-	106,933
Acquired through hosting arrangement	461,045	-	-	461,045
Additions	13,614,017	8,625	1,581,381	15,204,023
Dispositions	(14,448,355)	-	-	(14,448,355)
As at August 31, 2022	\$1,772,981	\$164,085	\$2,478,172	\$4,415,238
Accumulated depreciation				
As at August 31, 2020	-	-	-	\$nil
Depreciation	71,217	-	72,357	143,574
As at August 31, 2021	71,217	-	72,357	143,574
Depreciation	5,130,885	12,466	370,970	5,514,321
Dispositions	(4,602,797)	-	-	(4,602,797)
As at August 31, 2022	\$599,305	\$12,466	\$443,327	\$1,055,098
Net Book Value, August 31, 2021	\$1,968,124	\$26,954	\$1,234,024	\$3,229,102
Net Book Value, August 31, 2022	\$1,173,676	\$151,619	\$2,034,845	\$3,360,140

Sale of Miners

On July 15, 2022, the Company closed a transaction for the sale of 970 Bitcoin miners valued at \$3,500,000. Under the terms of the agreement, the Company and the Purchaser have entered into a 24-month immersion hosting agreement to manage the miner operation in return for a monthly fee plus bitcoin earned from overclocking using the immersion technology.

On June 24, 2022, the Company sold all of its Filecoin mining equipment for total proceeds of \$69,589.

During the year ended August 31, 2022, the Company sold 21 Bitcoin miners to a third party for total proceeds of \$100,650.

LUXXFOLIO HOLDINGS INC.

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7. PLANT AND EQUIPMENT (continued)

On July 20, 2022, the Company entered into a transaction for the sale of 590 Avalon miners for \$450,000 and have received a \$310,000 deposit as of August 31, 2022. The transfer of the miners to the purchaser is conditional upon receiving full payment of the balance of the sale price, which remains outstanding on August 31, 2022. This deposit is recorded as deferred income pending final payment of \$140,000.

Miners acquired through Hosting Arrangements

During the year ended August 31, 2022, the Company received 65 S19j Pros Bitcoin miners as prepayment and compensation for 12 months of hosting service with a third party. These 65 miners were deemed to have a value of \$7,093 per miner, based on the average market price of S19j Pros Bitcoin miners during September 2021 for total consideration of \$461,045. This was a non-monetary transaction.

8. GOODWILL IMPAIRMENT

The value of Goodwill, which arose on the acquisition of WestBlock, was written-off on August 31, 2022 due to the continuing uneconomic Bitcoin mining conditions and the outlook for power consumption rates quoted for a renewal of the NTUA power consumption contract. Accordingly, \$4,282,085 was charged against income for the year.

9. RELATED PARTY TRANSACTIONS

During the year ended August 31, 2022, the Company incurred management fees of \$153,259 (2021 - \$101,979) and rental fees of \$24,219 (2021 - \$15,750) from a company controlled by a director of the Company and a director of the Company's subsidiaries.

During the same period, the Company incurred compensation and consulting fees of \$557,655 (2021 - \$58,461) by certain officers and directors of the Company and its subsidiaries, representing monthly consulting fees and compensation for key management functions. At August 31, 2022, a total of \$129,662 is included in accounts payable and accrued liabilities

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. The purchase price was satisfied through a combination of cash and an asset backed lending structure (the "ABL I") provided by NYDIG ABL LLC ("NYDIG"; formerly Arctos ABL LLC). 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 ABL I (see Note 10) amounting to \$880,575. CHP Agent Services Inc. is controlled by a director of the Company and a director of the Company's subsidiaries. During the year ended August 31, 2022, the company paid \$53,092 (2021 - \$74,369) in interest expenses to CHP Agent Services Inc. relating to ABL I (See Note 10).

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. The purchase price was arranged through a combination of cash and asset backed lending structures ("ABL II" and "ABL III") provided by NYDIG. Subsequent to the structuring of asset backed lending transactions, a related party, CHP Agent Services Inc., entered into a participation agreement to acquire a 100% participation interest in ABL III (see Note 10). During the year ended August 31, 2022, the company paid \$81,827 (2021 - \$49,114) in interest expenses relating to ABL III (See Note 10).

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9. RELATED PARTY TRANSACTIONS (continued)

On June 14, 2021, the Company assumed debt amounting to \$869,000 as a result of the acquisition of WestBlock. 50% of the \$869,000 loan (“CAS - Facility I”) was provided by CHP Agent Services Inc., a related party (see Note 10). 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 was satisfied through a combination of cash and an asset backed loan facility of \$377,500 (“CAS - Facility II”) provided by CHP Agent Services Inc., a related party (see Note 10). On November 25, 2021, the Company finalized the order with CES Corporation (“CES”) on the Immersion-Cooling System for a total purchase price of \$2,353,240 (the “Purchase Price”). The Purchase Price was satisfied through a combination of cash and an asset backed loan facility (“CAS - Facility III”) provided by CHP Agent Services Inc., a related party (see Note 10).

On December 1, 2021, the Company, through its wholly owned subsidiary WestBlock, entered into a senior debt facility (the “Senior Debt Facility”) to refinance the CAS facilities with CHP Agent Services Inc., a related party (see Note 10). Total interest paid to the Senior Debt Facility amounted to \$285,071 (2021 - \$nil) during the year ended August 31, 2022.

During the year ended August 31, 2022, the Company had utilized a line of credit facility provided by CHP Capital Inc., a related party controlled by a director of the Company. The Company paid interest amounting to \$13,104 (2021 - \$nil) and repaid in full all amounts owed under the line of credit (see Note 10). During the year ended August 31, 2022, the Company financed its property insurance of \$59,546 through InHand Financial Inc., a related party, controlled by a director of the Company and a director of the Company’s subsidiaries. During the year ended August 31, 2022, the Company paid interest amounting to \$3,099 (2021 - \$nil) to InHand Financial Inc.

Key management personnel include those people who have 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 fair values on the date they occur.

10. LONG-TERM DEBT

	August 31, 2022	August 31, 2021
Senior Debt Facility	\$1,825,887	\$812,000
NTUA note	260,529	401,665
ABL I	-	663,606
ABL II	-	6,266,430
ABL III	-	1,022,475
Less: Financing fees	-	(208,636)
Less: Current portion	(938,759)	(4,215,043)
Total long-term debt	\$1,147,657	\$4,742,497

Scheduled principal repayments are as follows (see note 17):

FY2023	\$938,759
FY2024	\$1,147,656
	<u>\$2,086,416</u>

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10. LONG-TERM DEBT (continued)

Asset Backed Lending Facilities:

<i>As at August 31, 2022</i>	ABL I	ABL II	ABL III	ABL IV
Total debt	\$880,575	\$11,065,470	\$1,243,425	\$1,750,000
Amounts outstanding	\$nil	\$nil	\$nil	\$nil
Interest rate	16%	15%	16%	15%
Duration	19 months	30 months	14 months	26 months
Payment frequency	Monthly	Monthly	Monthly	Monthly
FY2023 principal reduction	\$nil	\$nil	\$nil	\$nil

On December 24, 2020, the Company placed an order for 590 Avalon Miners at a total purchase price of \$1,174,100. The purchase price was satisfied through a combination of cash and an asset backed lending facility ("ABL I") provided by NYDIG. Interest expenses relating to the ABL I amounted to \$53,092 (2021 - \$74,369) for the year ended August 31, 2022. Security for the ABL I consisted of a first priority charge on the Avalon Miners and any Bitcoin and related assets generated and held by the Company 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. The purchase price was satisfied through a combination of cash and asset backed lending structures ("ABL II" and "ABL III") provided by NYDIG as summarized above. ABL II was interest only for the initial eight months. ABL III as interest only for the first month. ABL III was a refinancing of the original Avalon Miner purchase. Interest expenses relating to the ABL II and III amounted to \$976,031 (2021 - \$nil) and \$81,827 (2021 - \$49,114) respectively for the year ended August 31, 2022. Security for ABL II and III consisted of a first priority charge on the related Bitmain Miners and any Bitcoin and related assets generated from the use of the Bitmain Miners.

On December 16, 2021, the Company placed an order for 500 S19J Pro Bitcoin miners at a cost of \$3,020,000. The purchase price was satisfied by a combination of the Company's working capital and ABL IV provided by NYDIG. ABL IV was interest only for the initial four months. Interest expense relating to the ABL IV amounted to \$139,083 (2021 - \$nil) during the year ended August 31, 2022. Security for the ABL IV consists of a first priority charge on the related Bitcoin Miners and any Bitcoin and related assets generated from the use of the Bitcoin Miners.

On June 30, 2022, the Company repaid, in advance, the remaining debts under ABL I and III related to the Canaan Avalon miners. These repayments amounted to \$415,000 CAD, and were paid to CHP Agent Services Inc., a related company. Debt repayments were also announced by the Company on July 15, 2022 in connection with the sale of miners and accompanying two year mining hosting agreement. The Company transferred 970 Bitmain miners for proceeds of \$3.5 million. \$3.2 million of the total proceeds were used to repay related debt obligations under ABL II and IV. On August 10, 2022, a debt settlement arrangement between the Company and its principal lender was announced that provided for the transfer of 1,930 Bitcoin miners to the lender in exchange for full and final settlement of associated debts under ABL II and IV.

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10. LONG-TERM DEBT (continued)

On December 1, 2021, the Company, through its wholly owned subsidiary WestBlock, entered into a senior debt facility (the “Senior Debt Facility”) with CHP Agent Services Inc., a related party. The Senior Debt Facility replaced the existing CAS - Facility I, CAS - Facility II, and CAS - Facility III. During the year ended August 31, 2022, the company paid a total of \$285,071 (2021 - \$nil) in interest expenses relating to the Senior Debt Facility. The facility may also be used to acquire additional Bitcoin mining servers and equipment (see note 17).

The Senior Debt 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 two of its subsidiaries (collectively the “WestBlock Group”) consisted of a general security agreement on WestBlock Group assets and a first charge on cryptocurrency mining equipment and cryptocurrency units;
- A variable interest rate between 16% and 13% that decreases as the total collateral coverage increases in relation to the total debt outstanding; and
- A facility fee amounting to 0.75%

CAS - Facility I

As a result of the acquisition of WestBlock, the Company assumed debt amounting to \$869,000 on June 14, 2021. This debt was incurred by WestBlock to facilitate the acquisition of the 51% partnership interest in the hosting facilities owned by the Navajo Tribal Utility Authority (“NTUA”), providing WestBlock with 100% ownership of this operation. CHP Agent Services Inc., a related party, provided the CAS – Facility I for 50% of the \$869,000 loan. CAS – Facility I carried an interest rate of 12% and a term of 19 months with interest only payments for the initial four months. Security of CAS – Facility I consisted of a general security agreement on WestBlock and its subsidiaries which includes the Bitcoin held by WestBlock. The other 50% of the \$869,000 loan was provided by the NTUA.

The debt facility provided by NTUA carried an interest rate of 7% and a term of 36 months. Interest expenses relating to the NTUA debt facility amounted to \$13,082 (2021 - \$nil) for the year ended August 31, 2022.

CAS - Facility II

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 was satisfied through a combination of cash and CAS – Facility II provided by CHP Agent Services Inc., a related party. The debt facility financed 50% of the purchase amount totaling \$377,500, carried an interest rate of 16% and a term of 16 months with an interest only payment for the initial month. Security for the debt consisted of a general security agreement on WestBlock and its subsidiaries.

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10. LONG-TERM DEBT (continued)***CAS - Facility III***

On November 25, 2021, WestBlock finalized the order with CES on the Immersion-Cooling System. The purchase price of the Immersion System is \$2,353,240 of which \$1,942,200 was to be paid in cash and \$410,040 was to be paid through the issuance of 612,000 common shares of the Company at a deemed price of \$0.83 CAD per share. The cash portion paid to date of \$1,509,905 was satisfied through an asset backed loan facility provided by CHP Agent Services Inc., a related party. As at August 31, 2022, the balance of the cash portion of the purchase price had not been paid and the common shares had not been issued.

Line of Credit

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 director of the Company. Under the terms of the LOC Agreement, CHI will provide the Company with a 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 was extended for another 24 months, expiring July 25, 2023. 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 Avalon Miners, Bitmain Miners, and their related assets. 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. During the year ended August 31, 2022, the Company paid \$13,104 (2021 - \$nil) in interest charges relating to the LOC. As at August 31, 2022, the LOC had been completely repaid and the security interest released.

11. SHARE CAPITAL**(a) Authorized**

Unlimited number of common shares without par value.

(b) Issued and outstanding

During the year ended August 31, 2022, the Company issued 37,302,469 common shares (2021 - 15,768,060) as follows:

- On October 1, 2021, the Company issued 2,172,840 shares through exercise of warrants at an exercise price of \$0.40 CAD per warrant on a one-for-one basis for gross proceeds of \$869,136 CAD. These warrants were granted to WestBlock shareholders as part of the Company's acquisition of WestBlock in June 2021.
- On November 1, 2021, the Company issued 8,118,912 shares through the automatic conversion of special warrants, previously issued through a non-brokered private placement, without payment of additional consideration.

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11. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued)

- During the year ended August 31, 2022, the Company issued a total of 410,714 shares through exercise of share purchase warrants at a weighted average exercise price of \$0.40 CAD per share purchase warrant previously issued for gross proceeds of \$164,286 CAD.
- The Company, through its subsidiary WestBlock, entered into an Asset Purchase Agreement dated September 1, 2021, which was amended November 24, 2021, with Blackcloud Crypto Investments. Under the terms, WestBlock acquired Ethereum mining equipment that included 88 installed and operating Ethereum miners located in Alberta, Canada, and 52 Ethereum coins (the "Assets"). In consideration for the Assets, the Company issued 500,003 shares at a deemed price of \$0.83 CAD per share, for a total aggregate consideration of \$415,002 CAD.
- On December 7, 2021, the Company closed its underwritten public offering of units of the Company. The underwriters exercised their option to purchase 600,000 units of the overallotment option, and as a result, the Company issued a total of 13.6 million units at a price of \$0.70 CAD per unit and 350,000 additional common share purchase warrants for gross proceeds of \$9.534 million CAD. Each unit consisted of one common share and one-half warrant. A total of 13,600,000 shares were issued at a deemed price of \$0.68 CAD per share. Each whole share purchase warrant is exercisable to acquire one common share at an exercise price of \$1.00 CAD until December 7, 2023. The Company issued a total of 7,150,000 share purchase warrants relating to this public offering of units of the Company.
- On June 9, 2022, the Company announced the closing of a \$2.0 million CAD private placement for 12,500,000 common shares and 12,500,000 warrants of the Company (the "Unit Offering") with a single strategic investor. The Unit Offering comprised one common share of the Company at \$0.16 CAD per share and one whole warrant exercisable into one common share of the Company at \$0.21 CAD for a period of twenty-four months. The warrants also provide for an accelerated exercise if the volume weighted average closing price is equal to or greater than \$0.50 CAD for twenty consecutive trading days (the "Acceleration Event"). In such event, the Company may accelerate the exercise date to a date not later than twenty days following the Acceleration Event.

During the year ended August 31, 2021, the Company issued 31,768,060 common shares as follows:

- On December 30, 2020, the Company issued 5,200,000 common shares at \$0.075 CAD per share for gross proceeds of \$390,000 CAD through a non-brokered private placement. A total of 400,000 of the 5,200,000 common shares were issued to a related party.

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11. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued)

- On January 4, 2021, the Company issued 426,000 common shares for total proceeds of \$85,200 CAD as a result of the exercise of share purchase warrants issued on March 15, 2019 with an exercise price of \$0.20 CAD per common share.
- On March 10, 2021, the Company issued 100,000 common shares at an exercise price of \$0.20 CAD per common share following the exercise of share purchase warrants issued on March 15, 2019 for total proceeds of \$20,000 CAD.
- On March 19, 2021, the Company issued 4,572,060 common shares at \$0.35 CAD per share for gross proceeds of \$1,600,221 CAD 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.
- On April 2, 2021, the Company issued 5,000,000 common shares through the conversion of special warrants, previously issued through a non-brokered private placement, without payment of additional consideration.
- On June 14, 2021, the Company completed the acquisition of WestBlock Capital Inc. ("WestBlock"). Consideration paid to WestBlock shareholders consisted of 16 million common shares at a deemed price of \$0.385 CAD per share (see Note 12 "Acquisition of WestBlock").
- On June 30, 2021, the Company issued 470,000 common shares through the automatic conversion of Units, previously issued through a non-brokered private placement, without payment of additional consideration.

LUXXFOLIO HOLDINGS INC.

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11. SHARE CAPITAL (continued)

(c) Special warrants

During the year ended August 31, 2022, the Company did not issue any special warrants. On November 1, 2021, a total of 8,118,912 special warrants, previously issued through a non-brokered private placement, were automatically converted into Units of the Company, at no additional cost to the holder. Each Unit is comprised of one common share and one share purchase warrant.

During the year ended August 31, 2021, the Company issued a total of 9,818,912 special warrants as follows:

- On December 2, 2020, the Company issued 1,700,000 special warrants for gross proceeds of \$85,000 CAD through a non-brokered private placement. 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.
- On June 30, 2021, the Company issued 8,118,912 special warrants at \$0.35 CAD per special warrant for gross proceeds of \$2,841,619 CAD through a non-brokered private placement. Each of these special warrants automatically converts, at no additional cost to the holder, into one Unit of the Company. Each Unit will comprise one common share and one share purchase warrant of the Company. The special warrants will automatically convert on the earlier of four 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.

Special warrants transactions and the number of special warrants outstanding are summarized as follows:

	Number of Special Warrants	Weighted Average Exercise Price (CAD)
Outstanding, August 31, 2020	3,300,000	\$ 0.05
Issued	9,818,912	\$ 0.30
Converted	(5,000,000)	\$ 0.05
Outstanding, August 31, 2021	8,118,912	\$ 0.35
Converted	(8,118,912)	\$ 0.35
Outstanding, August 31, 2022	-	-

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11. SHARE CAPITAL (continued)

(d) Share purchase warrants

During the year ended August 31, 2022, the Company issued 28,166,937 share purchase warrants as follows:

- On November 1, 2021, a total of 8,118,912 special warrants, previously issued through a non-brokered private placement, were automatically converted into Units of the Company. Each of these special warrants convert, at no additional cost to the holder, into one Unit of the Company with each Unit comprised of one common share and one share purchase warrant.
- On December 7, 2021, the Company closed its underwritten public offering of units of the Company. The underwriters exercised their option to purchase 600,000 units of the overallotment option, and as a result, the Company issued a total of 13,600,000 units at a price of \$0.70 CAD per unit and 350,000 additional common share purchase warrants for gross proceeds of \$9,534,000 CAD. Each unit consisted of one common share and one-half share purchase warrant. Each whole share purchase warrant is exercisable to acquire one common share at an exercise price of \$1.00 CAD until December 7, 2023. The Company issued a total of 7,150,000 share purchase warrants relating to this public offering of units of the Company.
- On June 9, 2022, the Company closed a \$2.0 million CAD private placement for 12,500,000 common shares and 12,500,000 warrants of the Company (the "Unit Offering") with a single strategic investor. The Unit Offering comprised one common share of the Company at \$0.16 CAD per share and one whole warrant exercisable into one common share of the Company at \$0.21 CAD for a period of twenty-four months. The warrants also provide for an accelerated exercise if the volume weighted average closing price is equal to or greater than \$0.50 CAD for twenty consecutive trading days (the "Acceleration Event"). In such an event, the Company may accelerate the exercise date to a date not later than twenty days following the Acceleration Event.
- 398,025 share purchase warrants were granted as part of the compensation options issued on December 7, 2021.

On October 1, 2021, a total of 2,172,840 of the 2,500,000 share purchase warrants issued to WestBlock shareholders as part of the acquisition were exercised at a price of \$0.40 CAD per warrant into common shares of the Company. The remaining 327,160 unexercised warrants expired on that date.

During the year ended August 31, 2022, a total of 310,714 share purchase warrants were exercised at an exercise price of \$0.45 CAD per warrant into common shares of the Company. In addition, a total of 100,000 share purchase warrants were exercised at an exercise price of \$0.25 CAD per warrant into common shares of the Company on a one-for-one basis. During the year ended August 31, 2022, a total of 527,160 share purchase warrants expired.

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11. SHARE CAPITAL (continued)

(d) Share purchase warrants (continued)

During the year ended August 31, 2021, the Company issued 6,137,032 share purchase warrants as follows:

- On May 27, 2021, the Company issued 350,000 Warrants as compensation for services rendered. Each Warrant may be exercised into one common share of the Company at an exercise price of \$0.25 CAD per share. These Warrants expire one year from the date of issuance. The exercise price of the Warrants issued as compensation for services rendered were based on the closing price of the common shares on the day prior to the grant date.
- On June 14, 2021, the Company completed the acquisition of WestBlock (See Note 12). Consideration paid to WestBlock shareholders consisted of 16 million common shares at a deemed price of \$0.385 CAD per share and 2.5 million Warrants. The Company also issued 2.5 million performance warrants to the WestBlock management team and certain other persons who have assisted WestBlock with its business. The 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 (see "Acquisition of WestBlock").
- On June 30, 2021, the Company issued 470,000 Warrants through the automatic conversion of Units, previously issued through a non-brokered private placement, without payment of additional consideration. Each Warrant may be exercised into one common share of the Company at an exercise price of \$0.45 CAD per share. These Warrants expire two years from the date of issuance. The Company also issued 117,032 warrants as broker warrants relating to the same non-brokered private placement. Each broker warrant may be exercised into one common share of the Company at an exercise price of \$0.45 CAD per share. These broker warrants expire two years from the date of issuance.
- On July 12, 2021, the Company issued 200,000 Warrants as compensation for services rendered. Each Warrant may be exercised into one common share of the Company at an exercise price of \$0.30 CAD per share. These Warrants expire one year from the date of issuance. The exercise price of the Warrants issued as compensation for services rendered was based on the closing price of the common shares on the day prior to the grant date.

The 470,000 warrants issued through the automatic conversion of Units were accounted for at their fair value determined by the residual method. Each of these warrants were assessed to have a value of \$0.01 CAD per warrant. The rest of the warrants issued were accounted for at their fair value determined by the Black-Scholes option pricing model with the following weighted average assumptions:

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11. SHARE CAPITAL (continued)

(d) Share purchase warrants (continued)

Exercise price per share	\$0.393 CAD
Risk-free interest rate	0.16%
Expected life of warrants	1.70 years
Annualized volatility	204.56%
Dividend rate	0%
Weighted average fair value per Warrant	\$0.296 CAD

The annualized volatility was based on historical weekly data of the Company. Share-based compensation expense of these Warrants amounted to \$685,522.

During the year ended August 31, 2021, a total of 526,000 Warrants were exercised into 526,000 common shares of the Company at an exercise price of \$0.20 CAD per share for total proceeds of \$105,200 CAD. A total of 28,000 Warrants expired. As at August 31, 2021, there were 6,137,032 Warrants issued and outstanding. Share-based compensation for the year ended August 31, 2021 relating to the share purchase warrants amounted to \$685,522.

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

	Number of share purchase warrants	Weighted Average Exercise Price (CAD)
Outstanding, August 31, 2020	554,000	\$0.200
Exercised	(526,000)	\$0.200
Expired	(28,000)	\$0.200
Issued	6,137,032	\$0.393
Outstanding, August 31, 2021	6,137,032	\$0.393
Exercised	(2,583,554)	\$0.400
Expired	(527,160)	\$0.362
Issued	28,166,937	\$0.491
Outstanding, August 31, 2022	31,193,255	\$0.481

The weighted average contractual life of share purchase warrants outstanding as at August 31, 2022 is 1.30 (2021 – 1.70) years.

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11. SHARE CAPITAL (continued)

(e) Compensation Options

In connection with the underwritten public offering closed on December 7, 2021, the Company issued 796,050 (2021 – nil) compensation options to the Underwriters (“Compensation Option”). Each Compensation Option will entitle the holder to purchase one unit (a “Compensation Unit”) at an exercise price of \$0.70 CAD per Compensation Unit. Each Compensation Unit will comprise one common share and one-half of one share purchase warrant (each such whole warrant being a “Compensation Warrant”, totaling 398,025 Compensation Warrants). Each Compensation Warrant will entitle the holder to acquire one Common Share at an exercise price of \$1.00 CAD per share for a period of 18 months after the closing of the public offering of units. The Compensation Options granted were accounted for at their fair value determined by the Black-Scholes option pricing model with the following weighted average assumptions:

	Common share component	Compensation Warrant component
Exercise price per share/warrant	\$0.70 CAD	\$1.00 CAD
Risk-free interest rate	0.23%	0.23%
Expected life of share/warrant	1.5 years	1.5 years
Annualized volatility	149.86%	149.86%
Dividend rate	0%	0%
Weighted average fair value per share/warrant	\$0.344 CAD	\$0.306 CAD

The annualized volatility was based on historical weekly data of the Company. Share-based expenses for the year ended August 31, 2022 relating to the Compensation Options amounted to \$327,941 (2021 - \$nil). The Company did not issue any Compensation Options during the year ended August 31, 2021.

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

	Number of Compensation Options	Weighted Average Exercise Price (CAD)
Outstanding, August 31, 2020	-	-
Outstanding, August 31, 2021	-	-
Granted	796,050	\$0.70
Outstanding, August 31, 2022	796,050	\$0.70
Options exercisable, August 31, 2022	796,050	\$0.70

The weighted average contractual life of Compensation Option outstanding as at August 31, 2022 is 0.76 (2021 – nil) years.

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11. SHARE CAPITAL (continued)

(f) Stock Options

During the year ended August 31, 2022, the Company granted 2,203,000 (2021 – 3,185,000) stock options to certain employees, consultants, officers, and directors 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 was 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:

Exercise price per share	\$0.456 CAD
Risk-free interest rate	0.69%
Expected life of options	5 years
Annualized volatility	191.88%
Dividend rate	0%
Weighted average fair value per option	\$0.414 CAD

The annualized volatility was based on historical weekly data of the Company. The fair value of the stock options is amortized over the vesting period. Share-based compensation for the year ended August 31, 2022, relating to the Stock Options, amounted to \$931,510 (2021 - \$213,557).

During the year ended August 31, 2022, a total of 125,000 (2021 – nil) stock options were cancelled.

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

	Number of Stock Options	Weighted Average Exercise Price (CAD)
Outstanding, August 31, 2020	-	-
Granted	3,185,000	\$0.287
Outstanding, August 31, 2021	3,185,000	\$0.287
Granted	2,203,000	\$0.456
Canceled	(125,000)	\$0.550
Outstanding, August 31, 2022	5,263,000	\$0.352
Options exercisable, August 31, 2022	2,437,000	\$0.294

The weighted average contractual life of stock options outstanding as at August 31, 2022 is 3.89 (2021 – 4.57) years.

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12. ACQUISITION OF WESTBLOCK

On June 14, 2021, the Company completed the 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 digital assets 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 CAD per share, with a fair value of \$5,073,299 and 2.5 million share purchase warrants, with a fair value of \$685,258. The total deemed value of the purchase price paid for the acquisition of WestBlock is \$5,758,557. The share purchase warrants were accounted for at their fair value determined by the Black-Scholes option pricing model with the following assumptions:

Exercise price per share	\$0.40 CAD
Risk-free interest rate	0.16%
Expected life of warrants	2 years
Annualized volatility	212.36%
Dividend rate	0%
Weighted average fair value per warrant	\$0.333 CAD

The table below shows the assets and liabilities acquired and the amount allocated to Goodwill relating to the acquisition:

Description	Amount
Identifiable assets	\$ 2,356,392
Assumed liabilities	(1,201,138)
Goodwill	4,603,303
Total purchase price	\$ 5,758,557

On closing, the Company also issued 2.5 million performance warrants (the "Performance Warrants") to the WestBlock management team and certain other persons who have assisted WestBlock with its business. The Performance Warrants 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 by the date that is 12 months from the date of issue of the Performance Warrants, then the Performance Warrants will expire. The Performance Warrants were recognized under share-based payments for the year ended August 31, 2021 and are not a part of the WestBlock purchase price. On December 7, 2021, in connection with the closing of the public equity issue, the Financing Condition governing the exercise of the Performance Warrants has been met and these warrants can now be exercised by the holders.

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13. FINANCIAL INSTRUMENTS AND DIGITAL ASSETS

(a) Fair value

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

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

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

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

The Company determined that the carrying value of cash and accounts receivable approximate fair value due to relatively short period to maturity. The investment in the private company is tested for impairment annually and the carrying value reflects the net realizable value of the investment.

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

(b) Credit risk

Credit risk refers to the potential that a counterparty to a financial instrument will fail to discharge its contractual obligations. The Company manages credit risk, in respect of its cash and funds held in trust by placing its cash balances at a recognized major Canadian and US financial institutions.

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

(c) Liquidity risk

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. Budgeting and Cash flow projections are completed and reviewed on a regular basis to ensure the Company has sufficient cash resources available to meet its financial obligations. The Company is exposed to liquidity risk in respect of its accounts payable and accrued liabilities, and long-term debt. As at August 31, 2022, the Company has the following contractual maturities:

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13. FINANCIAL INSTRUMENTS AND DIGITAL ASSETS (continued)

(c) Liquidity risk (continued)

	Carrying amount	Contractual cash flows	FY2023	FY2024	FY2025
Accounts Payable and accrued Liabilities	\$1,486,781	\$1,486,781	\$1,486,781	\$nil	\$nil
Long-term debt(i)	2,086,416	2,086,416	938,759	1,147,657	-
	<u>\$3,573,197</u>	<u>\$3,573,197</u>	<u>\$2,425,540</u>	<u>\$1,147,657</u>	<u>\$nil</u>

(d) Interest rate risk

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

(e) Foreign currency risk

Currency risk relates to the risk that the fair values and future cash flows of the Company's financial instruments will fluctuate as a result of changes in foreign exchange rates. The Bitcoin mined by the Company and most major expenditures and loans related to mining equipment, infrastructure and ongoing operating costs are denominated in USD, the functional currency of the Company's mining operations segment. Exchange rate fluctuations will affect those parts of the Company's operations managed in CDN dollars and consequently may impact the Company's financial results.

(f) Digital currency 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.

As at August 31, 2022, had the market price of Bitcoin increased or decreased by 10% with all other variables held constant, the corresponding digital asset value increase or decrease would amount to \$110,348.

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14. INCOME TAXES

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

	2022	2021
Net loss	\$ (16,851,516)	(1,817,502)
Income tax at statutory rate	27%	27%
Expected income tax recovery	\$ (4,549,909)	(490,726)
Items not deductible for tax purposes	342,357	242,751
Goodwill	1,156,163	-
Unrecognized assets	3,055,479	194,000
Other	(4,090)	53,975
Income tax recovery	\$ -	\$ -

Deferred income tax assets are only recognized to the extent that the realization of tax benefits is determined to be probable. As of August 31, 2022 and 2021, the Company has unrecognized deferred tax benefits for the following deductible temporary differences:

	2022	2021
Intangible – Digital Currency	\$ (34,247)	\$ (33,400)
Plant and equipment	(375,368)	(608,300)
Long-term debt and financing fees	39,487	36,000
Non-capital losses	4,412,473	1,561,300
Share issuance costs	119,652	5,600
	4,161,997	961,200
Total unrecognized deferred tax asset	(4,161,997)	(961,200)
	\$ -	\$ -

As of August 31, 2022, the Company had non-capital losses of approximately \$16,648,886 (2021 - \$3,205,890 CAD) available for carry-forward to reduce future years' Canadian taxable income. These non-capital losses expire as follows:

	<u>Amount (C\$)</u>
2037	1,279,519
2038	375,764
2039	330,620
2040	278,532
2041	941,455
2042	13,442,996
	<u>16,648,886</u>

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14. INCOME TAXES (continued)

As of August 31, 2022, the Company had non-capital losses of approximately \$16,675,646 (2021 - \$3,546,595 CAD) available for carry-forward to reduce future years' US taxable income. These non-capital losses can be carried forward indefinitely.

15. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. As at August 31, 2022, the Company considers capital to consist of short-term debt, long-term debt and all components of shareholders' equity. The Company manages its capital structure and adjusts it considering changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue common shares, promissory notes, dispose of assets or adjust the amount of cash on hand.

At this stage of the Company's development, 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 year ended August 31, 2022.

16. SEGMENT INFORMATION

The Company 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:

FY2022	Canada	USA	Consolidated
Total revenue	\$-	\$10,511,372	\$10,511,372
Operational expenses	2,182,044	3,922,481	6,104,525
Depreciation	-	5,514,321	5,514,321
Interest expenses	(356)	1,599,704	1,599,348
Share-based payments	1,259,451	-	1,259,451
Financing fees	-	247,587	247,587
Realized loss on Digital assets	-	927,303	927,303
Realized loss on sale of equipment	-	6,282,875	6,282,875
Impairment of Goodwill	4,282,085	-	4,282,085
Unrealized loss on Digital assets	(3,137)	1,148,530	1,145,393
Total net loss	\$7,720,087	\$9,131,429	\$16,851,516
Current assets	387,654	1,186,510	1,574,164
Non-current assets	-	4,870,045	4,870,045
Total assets	\$387,654	\$6,056,555	\$6,444,209
Current liabilities	322,374	2,413,165	2,735,540
Non-current liabilities	-	1,147,657	1,147,657
Total liabilities	\$322,374	\$3,560,822	\$3,883,197

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16. SEGMENT INFORMATION (continued)

FY2021	Canada	USA	Consolidated
Total revenue	\$nil	\$607,330	\$607,330
Operational expenses	532,820	396,632	929,452
Marketing expenses	142,338	2,054	144,392
Depreciation	-	143,574	143,574
Interest expenses	-	318,915	318,915
Share-based payments	899,079	-	899,079
Total expenses	1,574,237	861,175	2,435,412
Total net loss	\$1,574,237	\$253,845	\$1,828,082
Current assets	\$316,570	\$1,591,792	\$1,908,362
Non-current assets	4,603,304	12,016,826	16,620,130
Total assets	\$4,919,874	\$13,608,618	\$ 18,528,492
Current liabilities	\$152,292	\$4,604,670	\$4,756,962
Non-current liabilities	-	4,742,497	4,742,497
Total liabilities	\$152,292	\$9,347,167	\$9,499,459

17. SUBSEQUENT EVENTS**(a) Debt Reduction**

On October 28, 2022, the Company repaid to its principal lender, CHP Agent Services Inc., a related company, an amount of \$ 1.1 million CAD.

(b) Related party

On November 2, 2022, CHP Agent Services Inc. ceased to be a related party following the resignation of Kelly Klatik, a director of CHP Agent Services Inc., from the Board of Directors.

(c) Mining Facility Operations

It was announced on November 21, 2022, that the Company's mining facility, operated by its WestBlock, LLC subsidiary, had suspended operations indefinitely due to the negative economics of Bitcoin mining. This suspension included termination of the immersion hosting agreement.

(d) Default on Debt Obligations

Luxxfolio announced on December 8, 2022, that it had received a Notice of Default concerning its debt obligations with CHP Agent Services Inc. Under the terms of the Senior Secured Loan Facility due November 30, 2023, certain covenants, not including payment, had been breached. Full and immediate payment of the outstanding obligation of \$1,155,000 was demanded in the Notice of Default.

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17. SUBSEQUENT EVENTS (continued)

(e) Debt Settlement

On October 28, 2022, the Company announced that the conditions covering the transfer of miners in full and final settlement of all outstanding debt obligations with NYDIG had been met and the transaction was closed.

On January 17, 2023, the Company announced it had reached a debt settlement agreement with its lender CHP Agent Services Inc. for total debt outstanding amounting to \$1,155,000 CAD.

Under the terms of the Agreement, the Company will pay CHP Agent Services Inc, on behalf of WestBlock Capital Inc. and certain of its subsidiaries, \$99,546 as well as its rights, interests and title, as applicable in the immersion equipment, Bitcoin miners and related mining equipment. The cash payment and transfer of equipment were made in full and final settlement of all the debt and all related obligations, guarantees, and general security agreements.