



LUXFOLIO HOLDINGS INC.

Interim Condensed Consolidated Financial Statements
For the three months ended November 30, 2022 and 2021
(Expressed in US Dollars)
(Unaudited)

Dated: March 6, 2023

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

LUXXFOLIO HOLDINGS INC.Interim Condensed Consolidated Statements of Financial Position (unaudited)
(Expressed in US Dollars)

As at	November 30, 2022 ⁽¹⁾	August 31, 2022
Assets		
Current assets		
Cash	\$ 606,866	\$ 331,894
Accounts receivable	-	136,272
Prepaid expenses	13,619	2,515
Intangible – Digital Assets (note 4)	11,144	1,103,483
	631,629	1,574,164
Non-current assets		
Deposit on equipment (note 5)	1,509,905	1,509,905
Plant and equipment – net (note 6)	3,100,747	3,360,140
	4,610,652	4,870,045
Total assets	\$ 5,242,281	\$ 6,444,209
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	\$ 1,419,249	\$ 1,486,781
Deferred income	367,297	310,000
Current portion of the long-term debt	154,348	938,759
	1,940,894	2,735,540
Non-current liabilities		
Long-term debt (note 9)	1,079,509	1,147,657
	3,020,403	3,883,197
Shareholders' equity		
Common shares (note 10)	19,938,673	20,453,519
Contributed surplus (note 10)	1,267,016	1,182,463
Warrant reserves (note 10)	1,054,529	1,086,460
Accumulated deficit	(20,234,110)	(20,161,430)
Accumulated other comprehensive income	195,770	-
	2,221,878	2,561,012
Total liabilities and shareholders' equity	\$ 5,242,281	\$ 6,444,209

(1) *Going Concern – Note 1.*

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

Approved on behalf of the Board:

Signed: "Ken MacLean"

Ken MacLean, Director

Signed: "Geoffrey McCord"

Geoffrey McCord, Director

LUXXFOLIO HOLDINGS INC.

Interim Condensed Consolidated Statements of Operations and Comprehensive Loss (unaudited)
(Expressed in US Dollars)

	For the three months ended November 30, 2022	For the three months ended November 30, 2021
Revenue		
Bitcoin mining	\$ 130,841	\$ 3,377,884
Hosting revenue	662,167	147,059
Total revenues	793,008	3,524,943
Operating expenses		
Advertising	4,527	10,931
Consulting (note 8)	42,822	169,092
Depreciation (note 7)	259,393	843,417
Electricity	432,999	238,041
General and administration	180,415	307,917
Interest (note 9)	50,101	363,976
Compensation and labour	119,822	120,765
Management fees (note 8)	16,684	59,722
Professional fees	5,954	78,217
Rent (note 8)	6,625	7,167
Repairs and maintenance	9,515	59,181
Total expenses	1,128,857	2,258,426
Other expenses		
Share-based payments (note 10)	119,499	288,077
Realized loss on digital assets	13,442	-
Amortization of financing fees	-	26,823
	132,941	314,900
Net income (loss)	\$ (468,790)	\$ 951,617
Other comprehensive income		
Currency translation adjustment	195,770	512,805
Revaluation of cryptocurrencies	-	295,537
Total other comprehensive income	195,770	808,342
Comprehensive income (loss)	\$ (273,020)	\$ 1,759,958
Basic net income (loss) per share	\$ (0.00)	\$ 0.03
Diluted net income (loss) per share	n/a	\$ 0.02
Weighted average number of shares outstanding:		
Basic	86,717,944	55,164,172
Diluted	n/a	74,859,896

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

LUXXFOLIO HOLDINGS INC.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (unaudited)

For the three months ended November 30, 2022 and 2021

(Expressed in US Dollars)

	Notes	Number of common shares	Common shares	Special warrants	Contributed surplus	Warrant reserves	Deficit	Accumulated OCI	Total
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
Conversion of special warrants		8,118,912	2,187,866	(2,187,866)	-	-	-	-	-
Exercise of share purchase warrants		2,573,554	1,408,172	-	-	(603,405)	-	-	804,767
Expired share purchase warrants		-	-	-	-	(89,676)	89,676	-	-
Asset purchase of Blackcloud		500,003	327,366	-	-	-	-	-	327,366
Share-based compensation		-	-	-	144,957	-	-	-	144,957
Currency translation adjustment		-	(296,327)	-	-	(10,842)	(132,374)	512,805	73,262
Revaluation of cryptocurrencies		-	-	-	-	-	-	295,537	295,537
Net income (loss)		-	-	-	-	-	951,617	-	951,617
Balance, November 30, 2021		60,607,944	\$ 12,391,073	\$ -	\$ 359,762	\$ 774,040	\$ (2,717,258)	\$ 818,922	\$ 11,626,539
Issuance of units		26,100,000	8,540,377	-	-	256,662	-	-	8,797,039
Issuance of compensation options		-	-	-	215,581	95,678	-	-	311,259
Finder's fees		-	(497,427)	-	-	-	-	-	(497,427)
Exercise of share purchase warrants		10,000	4,381	-	-	(124)	-	-	4,257
Expired share purchase warrants		-	-	-	-	(18,869)	18,869	-	-
Share-based compensation		-	-	-	643,251	-	(21,592)	-	621,659
Currency translation adjustment		-	15,115	-	(36,131)	(20,927)	361,684	(818,922)	(499,181)
Net income (loss)		-	-	-	-	-	(17,803,133)	-	(17,803,133)
Balance, August 31, 2022		86,717,944	\$ 20,453,519	\$ -	\$ 1,182,463	\$ 1,086,460	\$ (20,161,430)	\$ -	\$ 2,561,012
Share-based compensation	10	-	-	-	119,499	-	-	-	119,499
Currency translation adjustment		-	(514,846)	-	(34,946)	(31,931)	396,110	195,770	10,157
Net income (loss)		-	-	-	-	-	(468,790)	-	(468,790)
Balance, November 30, 2022		86,717,944	19,938,673	\$ -	\$ 1,267,016	\$ 1,054,529	\$ (20,234,110)	\$ 195,770	\$ 2,221,878

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

LUXXFOLIO HOLDINGS INC.Interim Condensed Consolidated Statements of Cash Flows (unaudited)
(Expressed in US Dollars)

	For the three months ended November 30, 2022	For the three months ended November 30, 2021
Operating Activities		
Net income (loss)	\$ (468,790)	\$ 951,617
Changes in non-cash operating items:		
Depreciation	259,393	843,417
Share-based payments	119,499	288,077
Bitcoin mining revenue	(130,841)	(3,377,884)
Realized loss on digital assets	13,442	-
Hosting revenue	-	(147,059)
Amortization of financing fees	-	26,823
Changes in non-cash working capital:		
Cryptocurrency - sold	1,184,183	1,924,186
Accounts receivable	136,272	(127,381)
Prepaid expenses	(11,104)	243,830
Accounts payable and accrued liabilities	(67,532)	(158,604)
Deferred income	57,297	-
Cash provided by (used in) operating activities	1,091,819	467,022
Investing Activities		
Purchase of plant and equipment	-	(152,948)
Deposit on plant and equipment	-	(4,346,895)
Proceeds from sale of mining equipment	9,500	-
Cash provided by (used in) investing activities	9,500	(4,499,843)
Financing Activities		
Proceeds from short-term debt	-	47,434
Proceeds from long-term debt	-	3,474,014
Repayment of long-term debt	(826,347)	(470,439)
Exercise of share purchase warrants	-	804,767
Cash provided by (used in) financing activities	(826,347)	3,855,776
Inflow (Outflow) of Cash	274,972	(177,045)
Cash, Beginning of the quarter	331,894	313,604
Cash, End of the quarter	\$ 606,866	\$ 136,559

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

LUXXFOLIO HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three months ended November 30, 2022 and 2021

(Expressed in US Dollars)

1. NATURE OF OPERATIONS and GOING CONCERN

Luxxfolio Holdings Inc. (the “Company”) was incorporated under the *Business Corporations Act* (British Columbia) on October 10, 2017. On March 21, 2019, the Company’s shares began trading on the Canadian Securities Exchange (“CSE”), under the symbol LUXX. The head office of the Company is located at 119-6th Ave. SW Calgary, Alberta. The Company’s business is that of its wholly owned subsidiaries, Luxxfolio Network Inc. (“Luxxfolio”) and WestBlock Capital Inc. (“WestBlock”). The Company’s goal is to become a vertically integrated Blockchain and digital asset company that participates in the decentralized financial system.

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 (“New Mexico Facility”). The mining platform was developed in partnership with the Navajo Tribal Utility Authority and resides on Navajo Tribal lands.

The Company suspended its operations at the New Mexico Facility on November 21, 2022. The facilities power supply contract, which expired on December 31, 2022, was not renewed as detailed in Note 6. Accordingly, the Company has no plans to reopen this facility.

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

For the three months ended November 30, 2022, the Company realized a net loss of \$468,790 (2021 – net income of \$951,617) and as of November 30, 2022, has a working capital deficiency of \$1,309,265 (August 31, 2021 – \$1,161,376) and an accumulated deficit of \$20,234,110 (August 31, 2021 - \$20,161,430). 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, restructure its business operations and/or seek viable business opportunities. Failure to do so will 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 Interim Condensed Consolidated Financial Statements (unaudited)

For the three months ended November 30, 2022 and 2021

(Expressed in US Dollars)

2. BASIS OF PRESENTATION

(a) Statement of compliance

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

These unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on March 6, 2023.

(b) Basis of presentation and Principals of consolidation

These unaudited interim condensed 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.

These unaudited interim condensed 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.

(c) Functional and presentation currency

Transactions and balances in the unaudited interim condensed consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates. These unaudited interim condensed consolidated financial statements have been presented in United States dollars (“USD”). The functional currency of all entities is USD with the exception of Luxxfolio Network Inc. which is Canadian dollars (“CAD”).

LUXXFOLIO HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three months ended November 30, 2022 and 2021

(Expressed in US Dollars)

2. BASIS OF PRESENTATION (continued)

(d) Use of estimates and judgements

The preparation of these unaudited interim condensed consolidated financial statements in accordance with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited interim condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Company remain unchanged and are consistent with those described in the audited consolidated financial statements for the years ended August 31, 2022 and 2021.

4. INTANGIBLE – DIGITAL ASSETS

As at November 30, 2022, the Company held Bitcoin as digital assets. 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 assets is as follows:

<i>(At fair value)</i>	Bitcoin		Ethereum		Filecoin	
	Units	\$	Units	\$	Units	\$
Ending balance, Aug 31, 2021	27.32	1,281,962	-	-	-	-
Acquired through asset purchase	-	-	51.99	220,433	-	-
Digital currency mined	60.08	3,377,884	-	-	-	-
Digital currency sold	(36.27)	(1,924,186)	-	-	-	-
Revaluation	-	128,282	-	-	-	-
Ending balance, Nov 30, 2021	51.13	2,863,942	51.99	220,433	-	-
Acquired	-	-	-	-	1,294	22,367
Digital assets mined	170.46	6,275,390	50.36	138,585	-	-
Digital assets sold	(167.60)	(6,934,047)	(93.64)	(307,132)	-	-
Revaluation	-	(1,122,769)	-	(38,357)	-	(14,930)
Ending balance at, Aug 31, 2022	53.99	1,082,516	8.71	13,529	1,294	7,437
Digital assets mined	6.54	130,615	0.15	226	-	-
Digital assets sold	(60.07)	(1,167,869)	(8.86)	(10,568)	(1,294)	(5,746)
Revaluation	-	(34,118)	-	(3,187)	-	(1,691)
Ending balance at, Nov 30, 2022	0.46	11,144	-	-	-	-

LUXXFOLIO HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three months ended November 30, 2022 and 2021

(Expressed in US Dollars)

5. DEPOSITS ON EQUIPMENT

	November 30, 2022	November 30, 2021
Deposits on immersion equipment	\$1,509,905	\$1,234,905
Deposits on transformers	-	86,202
Deposits on mining equipment	-	6,685,336
	\$1,509,905	\$8,006,443

During the three months ended November 30, 2022, the Company had a total deposit of \$1,509,905 (2021 - \$1,234,905) towards the purchase of an immersion-cooling system (See “Related Party Transactions” and “Subsequent Events”).

6. PLANT AND EQUIPMENT

	Mining servers	Equipment	Infrastructure	Total
Cost				
As at August 31, 2021	2,039,341	26,954	1,306,381	3,372,676
Acquired through asset purchase	106,933	-	-	106,933
Additions	5,872,477	10,969	-	5,883,446
As at November 30, 2021	8,018,751	37,923	1,306,381	9,363,055
Reclassification	-	128,506	(409,590)	(281,084)
Additions	8,202,585	-	1,581,381	9,783,966
Dispositions	(14,448,355)	(2,344)	-	(14,450,699)
As at August 31, 2022	1,772,981	164,085	2,478,172	4,415,238
As at November 30, 2022	\$1,772,981	\$164,085	\$2,478,172	\$4,415,238
Accumulated Depreciation				
As at August 31, 2021	71,217	-	72,357	143,574
Depreciation	766,080	10,921	64,093	841,094
As at November 30, 2021	837,297	10,921	136,450	984,668
Depreciation	4,364,805	1,545	306,877	4,673,227
Dispositions	(4,602,797)	-	-	(4,602,797)
As at August 31, 2022	599,305	12,466	443,327	1,055,098
Depreciation	167,721	2,006	89,666	259,393
As at November 30, 2022	\$767,026	\$14,472	\$532,993	\$1,314,491
Net Book Value Nov 30, 2021	\$7,181,454	\$27,002	\$1,169,931	\$8,378,387
Net Book Value Nov 30, 2022	\$1,005,955	\$149,613	\$1,945,179	\$3,100,747

LUXXFOLIO HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three months ended November 30, 2022 and 2021

(Expressed in US Dollars)

6. PLANT AND EQUIPMENT (continued)

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 (see note 9).

On July 20, 2022, the Company entered into a transaction for the sale of 590 Avalon miners for \$450,000 and 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 November 30, 2022. This deposit is recorded under deferred income pending final payment of \$140,000.

The Company suspended operations indefinitely at the New Mexico Facility on November 21, 2022 due to the negative economics of Bitcoin mining and the quoted power supply contract renewal rates for 2023. This suspension included termination of the third-party immersion hosting contract.

7. 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 during the fiscal year ended August 31, 2022.

8. RELATED PARTY TRANSACTIONS

During the three months ended November 30, 2022, the Company incurred management fees of \$16,684 (2021 - \$59,722) and rental fees of \$625 (2021 - \$7,167) 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 \$42,822 (2021 - \$14,333) by an officer of the Company for monthly consulting fees and compensation for key management functions.

On December 1, 2021, the Company, through its wholly owned subsidiary WestBlock, entered into a senior debt facility (the "Senior Debt Facility") to refinance its loan facilities with CHP Agent Services Inc., a related party (see Note 9). Total interest paid to the Senior Debt Facility amounted to \$48,618 (2021 - \$nil) during the three months ended November 30, 2022. On October 28, 2022, the Company repaid to its principal lender, CHP Agent Services Inc., a related party, an amount of \$1.1 million CAD (see "Subsequent Events").

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.

LUXXFOLIO HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three months ended November 30, 2022 and 2021

(Expressed in US Dollars)

9. LONG-TERM DEBT

	November 30, 2022	November 30, 2021
Senior Debt Facility	\$996,595	\$nil
CAS – Facility I	-	434,500
CAS – Facility II	-	308,433
CAS – Facility III	-	1,234,905
CHP Capital Inc. – line of credit	-	390,869
NTUA note	237,262	368,292
ABL I	-	491,764
ABL II	-	8,114,670
ABL III	-	757,251
Less: Financing fees	-	(181,813)
Less: Current portion	(154,348)	(4,279,267)
Total long-term debt	\$1,079,509	\$7,639,604

Scheduled principal repayments are as follows:

FY2023	154,348
FY2024	1,079,509
	<u>\$1,233,857</u>

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 loan facilities also provided by CHP Agent Services Inc., a related party. During the three months ended November 30, 2022, the company paid a total of \$48,618 (2021 -\$nil) in interest expenses relating to the Senior Debt Facility.

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%

Asset Backed Lending Structures

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).

LUXXFOLIO HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three months ended November 30, 2022 and 2021

(Expressed in US Dollars)

9. LONG-TERM DEBT (continued)

On May 27, 2021, the Company committed to purchase 2,400 S19J Pro Bitcoin miners at a total purchase price of \$17.02 million. The purchase was satisfied through a combination of cash and asset backed lending structures (“ABL II” and “ABL III”) provided by NYDIG. On December 16, 2021, the Company committed to purchase 500 S19J Pro Bitcoin miners at a cost of \$3.02 million to be satisfied by a combination of working capital and an asset backed facility (“ABL IV”) provided by NYDIG.

The terms and outstanding amounts of the asset backed lending facilities provided by NYDIG as at November 30, 2022 are as follows:

	ABL I	ABL II	ABL III	ABL IV
Total debt facility	\$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

The asset backed lending structures provided by NYDIG (ABL I, II, III, & IV) were settled during the year ended August 31, 2022, as follows:

- ABL I & III - On June 30, 2022, the Company repaid, in advance, the remaining debts related to the Canaan Avalon miner purchase amounting to \$415,000 CAD;
- ABL II & IV – On July 15, the Company sold Bitcoin miners for total proceeds of \$3.5 million of which \$3.2 million was used to reduce outstanding debts;
- ABL II & IV – On August 10, 2022, a debt settlement arrangement between the Company and NYDIG was agreed in which the Company transferred 1930 Bitmain miners to NYDIG in exchange for full and final settlement of all outstanding debts.

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.

LUXXFOLIO HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three months ended November 30, 2022 and 2021

(Expressed in US Dollars)

9. LONG-TERM DEBT (continued)***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.

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 will be paid in cash and \$410,040 will be paid by the issuance of 612,000 common shares of the Company at a deemed price of \$0.83 CAD per share. The cash portion will be satisfied through an asset backed loan facility provided by CHP Agent Services Inc., a related party.

NTUA Debt Facility

The debt facility provided by NTUA carries an interest rate of 7% and has a term of 36 months. Interest expenses relating to the NTUA debt facility amounted to \$4,333 (2021 - \$7,949) for the three months ended November 30, 2022.

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

Unlimited number of common shares without par value.

(b) Issued and outstanding

During the three months ended November 30, 2022, the Company did not issue any common shares.

During the three months ended November 30, 2021, the Company issued 11,192,469 common shares (2020 - nil) 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.

LUXXFOLIO HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three months ended November 30, 2022 and 2021

(Expressed in US Dollars)

10. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued)

- During the three months ended November 30, 2021, the Company issued a total of 400,714 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 \$160,321 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 \$0.38 CAD per share, for a total aggregate consideration of \$190,001 CAD.

(c) Special warrants

During the three months ended November 30, 2022, the Company did not issue any special warrants.

During the three months ended November 30, 2021, 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.

	Number of Special Warrants	Weighted Average Exercise Price (CAD)
Outstanding, August 31, 2021	8,118,912	\$ 0.350
Converted	(8,118,912)	\$ 0.350
Outstanding, November 30, 2021	-	-
Outstanding, August 31, 2022	-	-
Outstanding, November 30, 2022	-	-

(d) Share purchase warrants

During the three months ended November 30, 2022, the Company did not issue any share purchase warrants.

During the three months ended November 30, 2021, the Company issued 8,118,912 share purchase 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. 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.

LUXXFOLIO HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three months ended November 30, 2022 and 2021

(Expressed in US Dollars)

10. SHARE CAPITAL (continued)

(d) Share purchase warrants (continued)

On October 1, 2021, a total 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 October 1, 2021.

During the three months ended November 30, 2021, a total 300,714 share purchase warrants were exercised at an exercise price of \$0.45 CAD per warrant into 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 shares of the Company on a one-for-one basis.

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

	Number of Warrants	Weighted Average Exercise Price (CAD)
Outstanding, August 31, 2021	6,137,032	\$0.393
Exercised	(2,573,554)	\$0.400
Expired	(327,160)	\$0.400
Issued	8,118,912	\$0.450
Outstanding, November 30, 2021	11,355,230	\$0.432
Exercised	(10,000)	\$0.450
Expired	(200,000)	\$0.300
Issued	20,048,025	\$0.507
Outstanding, August 31, 2022	31,193,255	\$0.481
Outstanding, November 30, 2022	31,193,255	\$0.481

The weighted average contractual life of Warrants outstanding as at November 30, 2022 is 1.05 (2021 – 1.53) years.

(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”). 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:

LUXXFOLIO HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three months ended November 30, 2022 and 2021

(Expressed in US Dollars)

10. SHARE CAPITAL (continued)

(e) Compensation Options (continued)

	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.

The Company did not issue any Compensation Options during the three months ended November 30, 2022.

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

	Number of Compensation Options	Weighted Average Exercise Price (CAD)
Outstanding, August 31, 2021	-	-
Outstanding, November 30, 2021	-	-
Granted	796,050	\$0.70
Outstanding, August 31, 2022	796,050	\$0.70
Outstanding, November 30, 2022	796,050	\$0.70
Options exercisable, November 30, 2022	796,050	\$0.70

The weighted average contractual life of Compensation Options outstanding as at November 30, 2022 is 0.52 (2021 – nil) years.

(f) Share-based compensation

During the three months ended November 30, 2022, the Company did not grant any stock options.

During the three months ended November 30, 2021, the Company granted 125,000 stock options to an employee of the Company. The options have a five-year term and vest over a two-year period at a rate of 25% every six months. The exercise price of the share options granted were based on the closing price of the common shares on the day prior to the grant date. The share options granted were accounted for at their fair value determined by the Black-Scholes option pricing model with the following weighted average assumptions:

LUXXFOLIO HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
For the three months ended November 30, 2022 and 2021
(Expressed in US Dollars)

10. SHARE CAPITAL (continued)

(f) Share-based compensation (continued)

Exercise price per share	\$0.55 CAD
Risk-free interest rate	0.16%
Expected life of options	5 years
Annualized volatility	198.28%
Dividend rate	0%
Weighted average fair value per option	\$0.535 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 three months ended November 30, 2022 amounted to \$119,499 (2021 - \$288,077).

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

	Number of Stock Options	Weighted Average Exercise Price (CAD)
Outstanding, August 31, 2021	3,185,000	\$0.287
Granted	125,000	\$0.550
Outstanding, November 30, 2021	3,310,000	\$0.297
Granted	2,078,000	\$0.450
Canceled	(125,000)	\$0.550
Outstanding, August 31, 2022	5,263,000	\$0.352
Outstanding, November 30, 2022	5,263,000	\$0.352
Options exercisable, November 30, 2022	2,655,750	\$0.307

The weighted average contractual life of stock options outstanding as at November 30, 2022 is 3.64 years (2021 – 4.34).

LUXXFOLIO HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three months ended November 30, 2022 and 2021

(Expressed in US Dollars)

11. 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 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"). On December 7, 2021, in connection with the closing of the public equity issue, the Financing Condition governing the exercise of the Performance Warrants was met. 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.

LUXXFOLIO HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three months ended November 30, 2022 and 2021

(Expressed in US Dollars)

12. 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, accounts receivable, and prepaid expense 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 CoinDesk 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 Bitcoin assets.

(c) Liquidity and Solvency 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. The Company is actively seeking to restructure and refinance its business. The inability to achieve these objectives on a timely basis may result in the Company becoming insolvent. The Company is exposed to liquidity risk in respect of its accounts payable and accrued liabilities, short-term debt, and long-term debt. As at November 30, 2022, the Company has the following contractual maturities:

LUXXFOLIO HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three months ended November 30, 2022 and 2021

(Expressed in US Dollars)

12. FINANCIAL INSTRUMENTS AND DIGITAL ASSETS (continued)

(c) Liquidity risk (continued)

	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years
Accounts Payable and accrued Liabilities	\$1,319,249	\$1,319,249	\$1,319,249	\$nil	\$nil
Long-term debt	1,233,857	1,233,857	154,348	1,079,509	-
	\$2,553,106	\$2,553,106	\$1,473,597	\$1,079,509	-

(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 November 30, 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 \$1,114.

LUXXFOLIO HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three months ended November 30, 2022 and 2021

(Expressed in US Dollars)

13. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. As at November 30, 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, or 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 three months ended November 30, 2022.

14. 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:

<i>For the three months ended Nov 30, 2022</i>	Canada	USA	Consolidated
Total revenue	\$305,698	\$487,309	\$793,008
Expenses			
Operational expenses	196,322	623,040	819,362
Depreciation	-	259,393	259,393
Interest expenses	(2,849)	52,951	50,102
Share-based payments	119,499	-	119,499
Realized loss on digital assets	-	13,442	13,442
Total expense	312,972	948,826	1,261,798
Total net loss	\$7,274	\$461,517	\$468,790
<i>As at Nov 30, 2022</i>			
Current assets	\$602,386	\$29,243	\$631,629
Non-current assets	-	4,610,652	4,610,652
Total assets	\$602,386	\$4,639,895	\$5,242,281
Current liabilities	\$274,758	\$1,666,136	\$1,940,894
Non-current liabilities	-	1,079,509	1,079,509
Total liabilities	\$274,758	\$2,745,645	\$3,020,403

LUXXFOLIO HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three months ended November 30, 2022 and 2021

(Expressed in US Dollars)

14. SEGMENT INFORMATION (continued)

<i>For the three months ended Nov 30, 2021</i>	Canada	USA	Consolidated
Total revenue	\$nil	\$3,524,943	\$3,524,943
Expenses			
Advertising	9,431	1,500	10,931
Consulting	163,116	5,976	169,092
Electricity	-	238,041	238,041
General and administration	107,753	200,164	307,917
Interest	-	363,976	363,976
Compensation and Labour	27,265	93,500	120,765
Management fees	59,722	-	59,722
Professional fees	30,380	47,837	78,217
Rent	7,167	-	7,167
Repairs and maintenance	-	59,181	59,181
Total expenses	404,834	1,010,175	1,415,010
Other expenses ⁽¹⁾	288,077	870,240	1,158,317
Total net income (loss)	(\$692,911)	\$1,644,528	\$951,617
<i>As at Nov 30, 2021</i>			
Current assets	166,303	3,250,979	3,417,282
Non-current assets	4,603,304	16,413,830	21,017,134
Total assets	\$4,769,607	\$19,664,809	\$24,434,416
Current liabilities	231,993	4,936,280	5,168,273
Non-current liabilities	-	7,639,604	7,639,604
Total liabilities	\$231,993	\$12,575,884	\$12,807,877

(1) Other expenses include share-based payments, depreciation, and financing fee

15. SUBSEQUENT EVENTS**(a) 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.

LUXXFOLIO HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three months ended November 30, 2022 and 2021

(Expressed in US Dollars)

15. SUBSEQUENT EVENTS (continued)

(b) Debt Settlement

On January 17, 2023, the Company announced it had reached a debt settlement agreement with its lender CHP Agent Services Inc. On January 16, 2023, the debt outstanding principal interest and fees amounted to \$1,155,000 CAD.

Under the terms of the Agreement, the Company paid 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 certain 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.