

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Interim Condensed Consolidated Financial Statements
For the three and nine months ended
May 31, 2019 and 2018
(Expressed in Canadian Dollars)
(unaudited)

Dated: July 30, 2019

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. (formerly AX1 CAPITAL CORP.)
Interim Condensed Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited)

	May 31, 2019	August 31, 2018
Assets (note 5)		
Current		
Cash	\$ 706,846	\$ 405,406
Funds held in trust	-	623,257
GST receivable	44,791	27,581
Prepaid expenses	32,250	118,410
	\$ 783,887	\$ 1,174,654
Liabilities		
Current		
Accounts payable and accrued liabilities (note 4)	\$ 129,321	\$ 193,278
Subscriptions received (note 6)	-	708,257
Non-current		
Promissory notes (note 5)	\$ 475,088	-
	\$ 604,409	\$ 901,535
Shareholders' Equity		
Common Shares (note 6)	\$ 1,995,988	\$ 923,650
Equity Component (note 5)	64,721	-
Warrants (note 6)	-	443,989
Reserves (note 6)	8,701	5,742
Deficit	(1,889,932)	(1,100,262)
	\$ 179,478	\$ 273,119
Total Liabilities and Shareholders' Equity	\$ 783,887	\$ 1,174,654

Approved on behalf of the Board:

"Kelly Klatik"

Kelly Klatik, Director

"Anthony Wong"

Anthony Wong, Director

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Interim Condensed Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars)

(unaudited)

	Three months ended May 31 2019	Three months ended May 31 2018	Nine months ended May 31 2019	179-day period ended May 31 2018
Expenses				
Research and development (note 4)	\$ 13,868	\$ 19,265	\$ 161,231	\$ 55,015
Consulting (note 4)	31,594	35,297	126,694	45,297
Advertising and marketing	(18,000)	-	31,910	-
Management fees (note 4)	8,000	15,000	26,000	45,000
Professional fees (note 4)	5,947	2,575	4,023	2,575
Rent (note 4)	4,000	-	16,000	-
Travel and conventions	4,779	33,838	11,287	50,738
Interest and accretion expense	13,809	-	13,809	-
Office and administration	3,248	4,624	7,298	5,211
Listing fees (note 7)	363,758	-	391,418	-
	431,003	110,599	789,670	203,836
Net Loss and Comprehensive Loss for the Period	\$ (431,003)	\$ (110,599)	\$ (789,670)	\$ (203,836)
Basic and Diluted Loss per Share	\$ (0.03)	\$ (0.05)	\$ (0.06)	\$ (0.20)
Weighted Average Number of Common Shares Outstanding	14,674,931	2,021,292	13,224,528	1,033,358

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity
For the nine months ended May 31, 2019 and 179-day period ended May 31, 2018
(Expressed in Canadian Dollars)
(unaudited)

	Notes	Number of Common Shares	Common Shares	Special Warrants	Reserves	Equity Component	Deficit	Total
Shares issued on incorporation, December 4, 2017		1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1
Issuance of warrants, net of issuance costs		-	-	1,070,741	3,890	-	-	1,074,631
Conversion of special warrants		6,742,500	419,000	(419,000)	-	-	-	-
Net loss		-	-	-	-	-	(203,836)	(203,836)
Balance, May 31, 2018		6,742,501	\$ 419,000	\$ 651,741	\$ 3,890	\$ -	\$ (203,836)	\$ 870,796
Balance, August 31, 2018		9,320,001	\$ 923,650	\$ 443,989	\$ 5,742	\$ -	\$ (1,100,262)	\$ 273,119
Issuance of warrants, net of issuance costs	6	-	-	178,041	2,959	-	-	181,000
Conversion of special warrants	6	3,678,655	696,138	(622,030)	-	-	-	74,108
Equity component of unit offering	5	-	-	-	-	64,721	-	64,721
Reverse takeover of Luxxfolio Network Inc.	7	1,881,001	376,200	-	-	-	-	376,200
Net loss		-	-	-	-	-	(789,670)	(789,670)
Balance, May 31, 2019		14,879,657	\$ 1,995,988	\$ -	\$ 8,701	\$ 64,721	\$ (1,889,932)	\$ 179,478

The Statement of Changes in Shareholders' Equity has been retrospectively adjusted to reflect share exchange in connection with the Security Exchange Agreement (Note 1).

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Interim Condensed Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

(unaudited)

	Nine months ended May 31 2019		179-day period ended May 31 2018	
Operating Activities				
Net loss for the period	\$	(789,670)	\$	(203,836)
Non-cash items				
Interest and accretion		4,836		-
Listing fees		347,903		-
Changes in non-cash working capital				
Accounts receivable		-		(461,556)
GST receivable		(17,210)		(10,420)
Prepaid expenses		86,160		(43,000)
Accounts payable and accrued liabilities		(74,036)		5,725
Cash (used in) operating activities		(442,017)		(713,086)
Financing Activities				
Issuance of special warrants		96,000		1,074,631
Issuance of promissory notes		526,000		-
Release of funds held in trust		74,108		-
Cash provided by financing activities		696,108		1,074,631
Investing Activities				
Cash acquired from reverse takeover transaction		47,349		-
Cash provided by investing activities		47,349		-
Inflow of Cash				
Cash, Beginning of Period	\$	405,406	\$	-
Cash, End of Period	\$	706,846	\$	361,545
Supplemental Cash Flow Information				
Subscriptions received for special warrants issued	\$	-	\$	85,000
Refund of funds held in trust related to special warrants	\$	623,257	\$	-

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Notes to the Interim Condensed Consolidated Financial Statements

For the nine months ended May 31, 2019 and 179-day period ended May 31, 2018

(Expressed in Canadian Dollars)

(unaudited)

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 May 6, 2019, The Company’s shares began trading on the Canadian Securities Exchange (“CSE”), under the symbol LUXX. The head office of the Company is located at 212 – 1080 Mainland Street, Vancouver, British Columbia. The principal business of the Company is to verify, insure and protect luxury goods through a blockchain-enabled authentication platform. On March 26, 2019, the Company changed the name of the Company from AX1 Capital Corp. (“AX1”) to Luxxfolio Holdings Inc.

On August 24, 2018, the Company entered into a Security Exchange Agreement (the “Agreement”) with Luxxfolio Network Inc. (“Luxxfolio”), a private company incorporated under the *Business Corporations Act* (British Columbia), with respect to a proposed acquisition. The transaction was structured by way of a reverse takeover (“RTO”) whereby the Company issued shares to the Luxxfolio security holders in exchange for securities of Luxxfolio. In consideration for all the issued and outstanding securities of Luxxfolio, the Company issued to Luxxfolio security holders one common share of the Company for each common share of Luxxfolio held by them and one share purchase warrant of the Company for each share purchase warrant of Luxxfolio held by them. Such share purchase warrants of the Company were issued with the same terms as the Luxxfolio share purchase warrants except that they are exchangeable for shares in the capital of the Company.

On March 20, 2019, the Company filed a long form prospectus with the securities regulatory authorities in the Provinces of British Columbia, Alberta, Nova Scotia and Ontario and with the CSE, qualifying the distribution of 12,998,656 common shares of the Company issuable upon the acquisition of the outstanding common shares of Luxxfolio or upon conversion of the special warrants and the share purchase warrants of Luxxfolio. On April 11, 2019, the Company completed the Agreement with Luxxfolio and Luxxfolio became the wholly owned subsidiary of the Company. The Transaction is considered a reverse takeover by Luxxfolio since the legal acquiree is the accounting acquirer, as the former shareholders of Luxxfolio obtain a controlling interest of the resulting entity after the completion of the transaction. These condensed consolidated financial statements are a continuation of the financial statements of Luxxfolio.

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 nine months ended May 31, 2019, the Company realized a net loss of \$789,670 (2018 - \$203,836) and as at May 31, 2019 has an accumulated deficit of \$1,889,932 (Aug 31, 2018 - \$1,100,262). In assessing whether the going concern assumption is appropriate, management considers all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

The Company's continued existence is dependent upon its ability to raise additional capital, obtain financing, realize revenue sources and realize positive cash flows from operations. Failure to do so would have an adverse effect on the financial position of the Company and its ability to continue as a going concern. These factors raise significant doubt about the Company's ability to continue as a going concern. These unaudited interim condensed consolidated financial statements do not include any adjustments that would be necessary, should the Company be unable to continue as a going concern. Such adjustments could be material.

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Notes to the Interim Condensed Consolidated Financial Statements

For the nine months ended May 31, 2019 and 179-day period ended May 31, 2018

(Expressed in Canadian Dollars)

(unaudited)

2. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited interim condensed consolidated financial statements were prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). These unaudited interim condensed consolidated financial statements do not include all the information required for the full annual financial statements and should be read in conjunction with the financial statements for the initial 271-day period ended August 31, 2018.

In preparing these unaudited interim condensed consolidated financial statements, the significant accounting policies and the significant judgments made by management in applying the Company’s significant accounting policies and key sources of estimation uncertainty were the same as those that applied to the Company’s audited financial statements for the initial 271-day period ended August 31, 2018.

(b) Basis of presentation and principles of consolidation

These unaudited interim condensed consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments classified as financial instruments at fair value through profit or loss, which are stated at fair value. In addition, these unaudited interim condensed consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Assets, liabilities, income and expenses of the subsidiary are included in the unaudited interim condensed consolidated balance sheet, statement of operations and comprehensive income (loss) from the date that the Company gains control until the date that the Company ceases to control the subsidiary. The Company controls an investee if the Company has:

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

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

(c) Approval of the unaudited interim condensed consolidated financial statements

These unaudited interim condensed consolidated financial statements were authorized for issue by the Audit Committee and Board of Directors on July 29, 2019.

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Notes to the Interim Condensed Consolidated Financial Statements

For the nine months ended May 31, 2019 and 179-day period ended May 31, 2018

(Expressed in Canadian Dollars)

(unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

(a) 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.

Significant areas requiring the use of management's judgments include:

- (i) The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax loss carry-forwards or other tax assets. Changes in these assumptions could materially affect the recorded amounts and therefore do not necessarily provide certainty as to their recorded values.
- (ii) The assessment of the Company's ability to continue as a going concern involves judgement regarding future funding available for its research and development and working capital requirements.
- (iii) The application of the Company's accounting policy for intangible asset capitalization requires judgment in determining whether it is likely that the future economic benefits will flow to the Company, which are based on assumptions about future events or circumstances. Assumptions may change if new information becomes available.
- (iv) Determination of control in the Transaction and RTO

The determination of the acquirer in the Transaction is subject to judgment and requires the Company to determine which party obtains control of the combining entities. Management applies judgment in determining control by assessing the following three factors: whether the Company has power over Luxxfolio; whether the Company has exposure or rights to variable returns from its involvement with Luxxfolio; and whether the Company has the ability to use its powers over Luxxfolio to affect the amount of its returns. In exercising this judgment, Luxxfolio was deemed to be the acquirer in the Transaction.

Management has had to apply judgment relating to acquisitions with respect to whether the acquisition was a business combination or an asset acquisition. Management applied a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of the acquisition in order to reach a conclusion. The Transaction was accounted for as a reverse acquisition and the difference between the fair value of net assets acquired and the consideration paid was recorded as a listing expense (Note 7).

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Notes to the Interim Condensed Consolidated Financial Statements

For the nine months ended May 31, 2019 and 179-day period ended May 31, 2018

(Expressed in Canadian Dollars)

(unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Use of estimates and judgements (continued)

(v) Fair value of consideration

The fair value of consideration to acquire the Company in a reverse take-over transaction comprised common shares. Common shares were valued on the date of issuance. The Company applied IFRS 2 *Share-based Payments* in accounting for the Transaction.

(vi) Promissory notes

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

(b) Significant accounting policies

The following accounting pronouncement became effective on September 1, 2018 and was adopted by the Company from that date on a retrospective basis. The adoption of this pronouncement had no effect on the Company's reported results.

IFRS 9 Financial Instruments

IFRS 9 replaced IAS 39 Financial Instruments: Recognition and Measurement and IFRIC 9 Reassessment of Embedded Derivatives. This new standard supersedes the requirements of earlier versions of IFRS 9.

4. RELATED PARTY TRANSACTIONS

During the nine months ended May 31, 2019, the Company was charged management fees of \$20,000 (2018 - \$45,000), research costs of \$18,000 (2018 - \$40,000), and rental fees of \$16,000 (2018 - \$nil), by a company controlled by a director and an officer of the Company. In addition, the Company was charged management fees of \$6,000 (2018 - \$nil) and consulting fees of \$27,000 (2018 - \$13,600) by a director and an officer of the Company. At May 31, 2019, \$40,053 (2018 - \$5,725) is included in accounts payable and accrued liabilities related to these services.

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers and are included in the amounts described above.

All related party transactions are in the normal course of operations and have been recorded at the fair values on the date they occur.

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

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(Expressed in Canadian Dollars)

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5. PROMISSORY NOTES

On March 15, 2019, the Company raised \$526,000 through private placement of 526 Units (the "Units") at a price of \$1,000 per Unit. Each unit consists of one promissory note (the "Notes") and 1,000 share purchase warrants. Each Note bears interest at the rate of 8% simple interest per annum and is repayable 24 months from the date of issue and is secured against the assets of the Company. The Company has the right to repay the Note at any time during their 24 months term without penalty. As at May 31, 2019, 526 Notes were issued and outstanding for aggregate principal of \$526,000. The Company bifurcated the notes into their components using a discounted cash flow model with an estimated fair value interest rate of 15% to estimate the fair value of liability component with the remaining balance representing the equity component. Interest and accretion interest totaling \$13,809 (2018 - \$NIL) was accrued during the nine months period ended May 31, 2019.

6. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

During the 179-day period ended May 31, 2018, the Company issued 6,742,501 common shares as follows:

- On December 4, 2017, the Company issued 1 common share at \$0.01.
- On May 2, 2018, the Company issued 5,350,000 shares at \$0.05 per share as per automatic conversion of non-escrowed special warrants issued on January 2, 2018 for total proceeds of \$267,500.
- On May 10, 2018, the Company issued 1,165,000 shares at \$0.10 per share as per automatic conversion of non-escrowed special warrants issued on January 10, 2018 for total proceeds of \$116,500.
- On May 12, 2018, the Company issued 227,500 shares at \$0.15385 per share as per automatic conversion of non-escrowed special warrants issued on January 12, 2018 for total proceeds of \$35,000.

During the nine months ended May 31, 2019, the Company issued 3,678,655 common shares as follows:

- On September 30, 2018, the Company issued 925,000 shares at \$0.20 per share as per automatic conversion of non-escrowed special warrants issued on May 31, 2018 for total proceeds of \$185,000.

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Notes to the Interim Condensed Consolidated Financial Statements

For the nine months ended May 31, 2019 and 179-day period ended May 31, 2018

(Expressed in Canadian Dollars)

(unaudited)

6. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued)

- On November 30, 2018, the Company issued 125,000 shares at \$0.20 per share as per automatic conversion of non-escrowed special warrants issued on July 31, 2018 for total proceeds of \$25,000.
- On December 10, 2018, the Company issued 250,000 shares at \$0.20 per share as per automatic conversion of non-escrowed special warrants issued on August 10, 2018 for total proceeds of \$50,000.
- On December 13, 2018, the Company issued 261,250 shares at \$0.20 per share as per automatic conversion of non-escrowed special warrants issued on August 13, 2018 for total proceeds of \$52,250.
- On December 31, 2018, the Company issued 687,405 shares at \$0.20 per share as per automatic conversion of non-escrowed special warrants issued on August 31, 2018 for total proceeds of \$137,481.
- On March 3, 2019, the Company issued 425,000 shares at \$0.20 per share as per automatic conversion of non-escrowed special warrants issued on October 31, 2018 for total proceeds of \$85,000.
- On March 7, 2019, the Company issued 105,000 shares at \$0.20 per share as per automatic conversion of non-escrowed special warrants issued on November 7, 2018 for total proceeds of \$21,000.
- On March 21, 2019, the Company issued 500,000 shares at \$0.20 per share as per automatic conversion of non-escrowed special warrants issued on January 18, 2019 for total proceeds of \$100,000.
- On March 21, 2019, the Company issued 400,000 shares at \$0.20 per share as per automatic conversion of escrowed special warrants (note 6(c)).

(c) Special warrants

Escrow Special Warrants

During the nine months ended May 31, 2018, the Company did not issue any escrowed special warrants.

During the nine months ended May 31, 2019, the Company issued 125,000 escrowed special warrants pursuant to a subscription agreement for proceeds of \$25,000 received on July 24, 2018, funds held in trust that will be released upon conversion of these escrowed special warrants pursuant to the Agreement.

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Notes to the Interim Condensed Consolidated Financial Statements

For the nine months ended May 31, 2019 and 179-day period ended May 31, 2018

(Expressed in Canadian Dollars)

(unaudited)

6. SHARE CAPITAL (continued)

(c) Special warrants (continued)

During the nine months ended May 31, 2019, six subscribers opted for the return of their funds held in trust. In accordance with the terms of the escrowed special warrant agreement, 2,934,000 escrowed special warrants have been cancelled. Subscription proceeds of \$586,800, without interest, have been returned to the subscribers from the funds held in trust. Finders' fees of \$37,926 have been returned to the Company. Finders' warrants amount to 189,630 have been removed from the 217,630 total finders' warrants allocated.

During the nine months ended May 31, 2019, 400,000 escrowed special warrants automatically converted into common shares. Escrowed special warrants transactions and the number of escrowed special warrants outstanding are summarized as follows:

	For the nine months ended May 31, 2019	
	Number of Escrowed Special Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	3,209,000	\$ 0.20
Issued	125,000	\$ 0.20
Cancelled	(2,934,000)	\$ 0.20
Converted to Luxxfolio common shares	(400,000)	\$ 0.20
Outstanding, end of period	-	

Non-Escrow Special Warrants

During the nine months ended May 31, 2019, the Company issued 1,030,000 (2018 – 10,245,000) non-escrowed special warrants pursuant to a subscription agreement for proceeds of \$181,000 (2018 - \$1,074,631), net of legal issuance costs of \$25,000 (2018 - \$7,350). \$85,000 of the proceeds were received on August 31, 2018. Each non-escrowed special warrant entitled the holder thereof to automatically receive, without payment of additional consideration and without further action on the part of the holder one common share of the Company pursuant to the Agreement. During the nine months ended May 31, 2019, 3,278,655 (2018 - 6,742,500) non-escrowed special warrants automatically converted into common shares.

(d) Share purchase warrants

During the nine months ended May 31, 2019, the Company issued 554,000 share purchase warrants (the "Warrants") comprised of 526,000 share purchase warrants (2018 – nil) and 28,000 finders' warrants (2018 – 36,750). Each type of Warrant may be exercised into one common share of the Company at a price of \$0.20 per share expiring in two years following the date of issuance.

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

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For the nine months ended May 31, 2019 and 179-day period ended May 31, 2018

(Expressed in Canadian Dollars)

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6. SHARE CAPITAL (continued)

(d) Share purchase warrants (continued)

The Company received \$2,959 for 28,000 finders' warrants issued for the nine months period ended May 31, 2019. The fair value of was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2019
Risk-free interest rate	1.82%
Expected dividend yield	0.00%
Expected stock price volatility	100.00%
Expected life in years	2.00

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

	For the nine months ended May 31, 2019	
	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	54,250	\$ 0.20
Issued	554,000	\$ 0.20
Outstanding, end of period	608,250	\$ 0.20

The following Warrants were outstanding at May 31, 2019:

Issue Date	Expiry Date	Exercise Price	Number of Warrants
March 1, 2018	February 29, 2020	\$ 0.20	29,750
March 28, 2018	March 27, 2020	\$ 0.20	7,000
August 10, 2018	August 9, 2020	\$ 0.20	17,500
March 15, 2019	March 14, 2021	\$ 0.20	100,000
March 15, 2019	March 14, 2021	\$ 0.20	426,000
March 21, 2019	March 20, 2021	\$ 0.20	28,000
		\$ 0.20	608,250

7. ACQUISITION OF LUXXFOLIO NETWORK INC.

As described in Note 1, on April 11, 2019, the Company and Luxxfolio completed a Transaction which constituted a Reverse acquisition. The Company issued 12,998,656 shares to the shareholders of Luxxfolio on a one to one basis.

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

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For the nine months ended May 31, 2019 and 179-day period ended May 31, 2018

(Expressed in Canadian Dollars)

(unaudited)

7. ACQUISITION OF LUXXFOLIO NETWORK INC. (continued)

As a result of the Transaction, the shareholders of Luxxfolio obtained control of the combined entity by obtaining control of the voting power of the combined entity and the resulting power to govern the financial and operating policies of the combined entities.

For accounting purposes, Luxxfolio, the legal subsidiary, was treated as the accounting parent company and AX1, the legal parent, has been treated as the accounting subsidiary in these consolidated financial statements. As Luxxfolio was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these consolidated financial statements at their historical carrying value. AX1's results of operations have been included since April 11, 2019.

The following summarizes the reverse takeover of AX1 by Luxxfolio and the assets acquired, and liabilities assumed on April 11, 2019, the Transaction date:

	\$
Consideration paid:	
Fair value of 1,881,001 common shares deemed issued at \$0.20 per share	376,200
	<u>376,200</u>
Transaction costs incurred:	
Legal fees	43,515
Net assets (estimated fair value) assumed:	
Cash	47,349
Accounts payable and accrued liabilities	(19,052)
	<u>28,297</u>

At the time of the Transaction, AX1's assets consisted primarily of cash and accounts payable and accrued liabilities, and it did not have any processes capable of generating outputs; therefore, Luxxfolio did not meet the definition of a business. Accordingly, as AX1 did not qualify as a business in accordance with IFRS 3, *Business Combinations*, the Transaction did not constitute a business combination. The Transaction constituted a reverse acquisition of AX1 by Luxxfolio and has been accounted for as a reverse acquisition transaction in accordance with the guidance provided in IFRS 2, *Share-based payments* and IFRS 3, *Business combinations*.

As the acquisition was not considered a business combination, the excess value of consideration paid over the net assets assumed to AX1 shareholders, and additional transaction costs are expensed as a listing expense.

The fair value of the common shares amounted to \$376,200, based on the shares previously issued.

Consideration paid	\$ 376,200
Net assets assumed	(28,297)
Transaction costs incurred	43,515
Listing fees	<u>\$ 391,418</u>

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

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For the nine months ended May 31, 2019 and 179-day period ended May 31, 2018

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8. FINANCIAL INSTRUMENTS

(a) Fair value

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

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

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

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

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

(b) Credit risk

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

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due.

The Company manages its liquidity risk on an ongoing basis in accordance with policies and procedures in place. Cash flow projections are completed and reviewed on a regular basis to ensure the Company has enough cash flows to meet its financial obligations. The Company is exposed to liquidity risk in respect of its accounts payable and accrued liabilities and subscriptions received. Accounts payable and accrued liabilities are due within 90 days.

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Notes to the Interim Condensed Consolidated Financial Statements

For the nine months ended May 31, 2019 and 179-day period ended May 31, 2018

(Expressed in Canadian Dollars)

(unaudited)

9. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. As at May 31, 2019, the Company considers capital to consist of 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 attempt to issue common shares, or dispose of assets or adjust the amount of cash on hand.

At this stage of the Company's development, in order to maximize ongoing operational development efforts, the Company does not pay dividends. There were no changes to the Company's capital management approach during the nine months ended May 31, 2019.

10. SEGMENT INFORMATION

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

11. SUBSEQUENT EVENTS

(a) Revolving line of credit

On July 29, 2019, the Company entered into a Letter of Credit and Security Agreement (the "Agreement") with CHP Capital Inc. ("CHI"), a related company. Under the terms of the Agreement, CHI will provide the Company with a revolving line of credit facility ("LOC") to a maximum of \$500,000 and be subject to a maximum draw of \$50,000 per month. The term of the Agreement is 24 months and the LOC bears interest at 9% per annum. Under the terms of the Agreement, the Company is restricted to using the LOC for research and development expenses or for other purposes approved by CHI. The Company will provide CHI with a General Security Agreement covering all assets of the Company as security for the LOC.

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.

(b) Repayment of promissory notes

On June 3, 2019, the Company repaid in full the promissory notes issued on March 15, 2019 (note 5).