

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

**Management's Discussion & Analysis
For the year ended August 31, 2019**

Dated: December 17, 2019

This Management Discussion and Analysis ("MD&A") of the financial condition and results of operation of Luxxfolio Holdings Inc.'s (the "Company"), formerly AX1 Capital Corp. ("AX1"), is for the year ended August 31, 2019. This MD&A should be read in conjunction with the cautionary note regarding forward-looking statements below and the Company's audited consolidated financial statements and the accompanying notes for the year ended August 31, 2019 and the 271-day period ended August 31, 2018. Together with the audited consolidated financial statements and the related notes, the MD&A has been prepared by the management of the Company in accordance with the requirements of National Instrument 51-102 and the International Financial Reporting Standards ("IFRS") as at the date of this MD&A. All dollar amounts are expressed in Canadian dollars ("CAD") unless otherwise stated.

Unless otherwise indicated, the Company's significant accounting policies and estimates, contractual obligations, commitments, contingencies, and business risks and uncertainties, as described in its audited consolidated financial statements for the year ended August 31, 2019, are substantially unchanged.

This MD&A is dated December 17, 2019.

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

- ability to obtain customer contracts and establish relationships;
- the impact of competition;
- the ability to obtain and maintain existing financing on acceptable terms;
- the ability to retain skilled management and staff;
- the ability to acquire a significant market position within a target market;
- currency, exchange and interest rates;
- the availability of financing opportunities;
- economic conditions;
- the retention of management, and avoidance of conflicts of interest; and
- the progress and success of product marketing.

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

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

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

DESCRIPTION OF BUSINESS

The Company, based in Vancouver, was incorporated under the Business Corporations Act (British Columbia) on October 10, 2017. The Company's business is that of its wholly owned subsidiary, Luxxfolio Network Inc. ("Luxxfolio"). Luxxfolio is a development-stage financial technology company preparing to offer a platform (the "Platform") that enables an organization or individual to authenticate, secure, and capitalize their luxury or collector goods ("Collectibles"). The Platform aims to solve two challenges that exist within the Collectibles market; the lack of secure and reliable places to authenticate and track the value of Collectibles, and the inability to easily capitalize one's Collectibles as assets.

The Platform will provide the following services:

Authenticate - in-person authentication of Collectibles;

Proof of authentication – Luxxfolio's custom tamper-proof Verification Tag;

Secure authentication – Luxxfolio's free iOS and Android mobile application (the "App") records and stores the proof of authentication to a blockchain. Once done, the Collectible is known to be secured by SmartLuxe. The App will also permit users to record their ownership of Collectibles that have not been secured by SmartLuxe. Non-SmartLuxe items within the App are known as Catalogued. A user's SmartLuxe and Catalogued Collectibles become the user's Personal Luxxfolio; and

Capitalize Personal Luxxfolio - within the App, a user will be able to share publicly or privately on social media channels any part of their Personal Luxxfolio and use it to apply for financial products such as insurance and credit. A user will be able to transfer ownership of any luxury item secured by SmartLuxe.

The Platform will have two types of registered users:

Manufacturers: businesses that make and distribute Collectibles; and

Consumers: persons who acquire Collectibles.

Each user will provide Luxxfolio with certain information upon registration, including proof of identity, to qualify to use the Platform. Users will pay a fee to have items secured by SmartLuxe. Providers of financial products to the Platform's users will also pay a fee to Luxxfolio.

Principal Markets

The Company's principal market for users of the Platform are manufacturers who wish to combat fraud and individual retail purchasers of Collectibles who wish to organize, share, and leverage their Collectibles as assets. The Company will initially focus on users located in Canada and the U.S.

Distribution Methods

User adoption will increase by digital and social media strategies, key influencer marketing, collaborations and promotions with key partners, manufacturers, and financial products agents. Key demographics the App and technology will appeal to, include Baby Boomers, Generations X, Generation Y (Millennials), and Z.

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended August 31, 2019

OVERALL PERFORMANCE

As at the date of this MD&A, the Company has (i) raised sufficient debt and equity to fund its initial work on the Platform and cover the costs of going public; (ii) engaged the necessary expertise, either in-house or through third party contracts, to develop the Platform; and (iii) completed a reverse takeover with Luxxfolio and began trading on the Canadian Securities Exchange ("CSE"), trading under the symbol LUXX.

On August 24, 2018, the Company entered into a Security Exchange Agreement, as amended, (the "Agreement") with Luxxfolio, a private company incorporated under the Business Corporations Act (British Columbia), with respect to a proposed acquisition (the "Transaction"). The Transaction was structured as a reverse takeover ("RTO") whereby the Company issued securities from its capital to the Luxxfolio security holders in exchange for their securities of Luxxfolio. In consideration for all of 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 to qualify the distribution of 12,998,656 common shares of the Company issuable upon the acquisition of the outstanding common shares of Luxxfolio.

Acquisition of Luxxfolio

On April 11, 2019, the Company completed the Transaction under the Agreement with Luxxfolio and Luxxfolio became the wholly owned subsidiary of the Company. The Transaction is considered an RTO by the Company since the legal acquiree is the accounting acquirer, as the former shareholders of Luxxfolio obtained a controlling interest of the resulting entity after the completion of the Transaction.

The following summarizes the RTO 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> |

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At the time of the Transaction, AX1's assets consisted primarily of cash, accounts payable and accrued liabilities, and it did not have any processes capable of generating outputs; therefore, the Company 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 Transaction was not considered a business combination, the excess value of consideration paid over the net assets acquired of AX1, 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 | \$ 391,418 |

On May 6, 2019, the Company's shares began trading on the CSE under the symbol LUXX.

Recent Developments of the Platform

Luxxfolio's Platform is presently not in the commercial production stage and no revenue has been generated.

Luxxfolio has contracted third parties to develop and provide services for its Platform. In October 2018, Luxxfolio began beta testing its App and initiated its first use cases of the SmartLuxx technology. The beta testing was completed in December 2018. It released the first iteration of the Platform on December 17, 2018. The App is available for download by the public on the Apple App Store and the Google Play Store.

Going Concern

During the year ended August 31, 2019, the Company incurred a net loss of \$1,037,949 and, as of that date, had an accumulated deficit of \$2,138,211. The Company has not generated cash inflows from operations. These factors raise significant doubt about the Company's ability to continue as a going concern.

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended August 31, 2019

Analysis of Financial Results

| | For the year ended August 31, 2019 | For the initial 271-day period ended August 31, 2018 |
|---|---|--|
| Expenses | | |
| Research and development | \$ 218,571 | \$ 178,019 |
| Consulting | 181,694 | 80,797 |
| Advertising and marketing | 31,910 | 213,356 |
| Management fees | 30,000 | 48,500 |
| Professional fees | 64,580 | 41,505 |
| Rent | 21,050 | 6,000 |
| Travel and conventions | 13,204 | 62,070 |
| Interest and accretion | 74,040 | - |
| Office and administration | 11,633 | 3,210 |
| Loss Before Other Items | (646,682) | (633,457) |
| Expenses | | |
| Listing fees | (391,418) | - |
| Write-down of note | - | (466,805) |
| Interest income | 151 | - |
| Net Loss and Comprehensive Loss for the Period | \$ (1,037,949) | \$ (1,100,262) |

For the year ended August 31, 2019 vs. For the initial 271-day period ended August 31, 2018

The Company had a net loss of \$1,037,949 for the year ended August 31, 2019 compared to a net loss of \$1,100,262 for the initial 271-day period ended August 31, 2018. The net loss in the year is primarily composed of listing fees of \$391,418 (2018 – \$nil) being the excess value of consideration paid over the net assets acquired of AX1, fees paid to the auditors and lawyers for filing of the prospectus, and CSE listing fees (see “OVERALL PERFORMANCE”), research and development expenses of \$218,571 (2018 - \$178,019), and consulting expenses of \$181,694 (2018 - \$80,797).

For the year ended August 31, 2019, interest and accretion expenses of \$74,040 (2018 - \$nil), including \$9,319 (2018 - \$nil) in actual interests paid, were accrued relating to the private placement of 526 Units of the company (see “ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE”).

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended August 31, 2019

Analysis of Cash Flows

| | For the year ended August 31, 2019 | For the initial 271-day period ended August 31, 2018 |
|---|--|--|
| Operating Activities | | |
| Net loss for the period | \$ (1,037,949) | \$ (1,100,262) |
| Non-cash items | 412,624 | 466,805 |
| Changes in non-cash working capital | 112,085 | 47,287 |
| Cash (used in) operating activities | (513,240) | (586,170) |
| Financing Activities | | |
| Issuance of non-escrowed special warrants | 96,000 | 1,373,381 |
| Issuance of escrowed special warrants | 74,108 | - |
| Subscriptions received | - | 708,257 |
| Funds held in trust | - | (623,257) |
| Proceeds from notes offering | 526,000 | - |
| Payment of notes offering | (526,000) | - |
| Cash provided by financing activities | 170,108 | 1,458,381 |
| Investing Activities | | |
| Cash acquired from reverse takeover transaction | 47,349 | - |
| Loan advance | - | (466,805) |
| Cash provided by investing activities | 47,349 | (466,805) |
| Inflow of Cash | (295,783) | 405,406 |
| Cash, Beginning of Period | 405,406 | - |
| Cash, End of Period | \$ 109,623 | \$ 405,406 |

Operating Activities

The total cash used in operating activities for the year ended August 31, 2019 amounted to \$513,240 (2018 - \$586,170) attributed primarily to business research and development, consulting fees, management fees and professional fees.

Financing Activities

During the year ended August 31, 2019, Luxxfolio issued 1,030,000 (2018 – 11,568,655) non-escrowed special warrants for net proceeds of \$181,000 (2018 - \$1,373,381), net of legal issuance costs of \$25,000. \$85,000 of the net proceeds were received and held in trust on August 31, 2018.

During the year ended August 31, 2019, Luxxfolio raised \$526,000 (2018 - \$nil) through the private placement of 526 Units (the "Units") at a price of \$1,000 per Unit. Each Unit consisted of one promissory

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For the year ended August 31, 2019

note (the "Notes") and 1,000 share purchase warrants (the "LNI Warrants"). Each Note accrued interest at the rate of 8% simple interest per annum, was repayable 24 months from the date of issue, and secured against the assets of Luxxfolio. On June 3, 2019, the Company repaid all the Notes outstanding for aggregate principal of \$526,000 and accrued interest of \$9,319.

The Company also received during the year cash amounting to \$74,108 (2018 – \$nil) through the release of funds held in trust upon the completion of the Agreement with Luxxfolio.

Investing Activities

As a result of the RTO with Luxxfolio, the Company acquired cash of \$47,349 (2018 - \$nil). Other than the RTO, the Company has not made any acquisitions or dispositions since the date of its incorporation.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table summarizes selected financial data from the Company's audited financial statements for the year ended August 31, 2019 and the initial 271-day period ended August 31, 2018 and should be read in conjunction with the corresponding audited financial statements.

| Item | For the year ended August 31, 2019 | For the initial 271-day period ended August 31, 2018 |
|--|---|---|
| Revenues | \$nil | \$nil |
| Expenses | (\$646,682) | (\$633,457) |
| Listing fees | (\$391,418) | \$nil |
| Other income | \$151 | \$nil |
| Write-down of Loan | \$nil | (\$466,805) |
| Net Loss | (\$1,037,949) | (\$1,100,262) |
| Total Assets | \$155,146 | \$1,174,654 ¹ |
| Non-current Liabilities | \$nil | \$nil |
| Working Capital (Deficiency) | (\$68,801) | \$273,119 |
| Shareholders' Equity (Deficit) | (\$68,801) | \$273,119 |
| Dividend | \$nil | \$nil |
| Weighted Average Number of Common Shares Outstanding | 12,502,185 | 3,537,915 |
| Basic and Diluted Loss per Common Share | (\$0.08) | (\$0.31) |

1. Includes \$623,257 of funds held in trust pending completion of the Security Exchange Agreement.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The Company has had no revenue from operations since incorporation. The following is a breakdown of the material costs incurred for the year ended August 31, 2019 and the initial 271-day period ended August 31, 2018:

- (a) Research and Development Costs - \$218,571 (2018 - \$178,019), being costs associated with development of the Platform;
- (b) Consulting Fees - \$181,694 (2018 - \$80,797), being costs associated with corporate affairs, business planning and product innovation;
- (c) Advertising and Marketing Expenses – \$31,910 (2018 - \$213,356), being costs associated with branding and marketing;
- (d) Management Fees - \$30,000 (2018 - \$48,500), being fees paid to Cypress Hills Partners Inc., a related party, for accounting and administrative functions;
- (e) Professional Fees - \$64,580 (2018 - \$41,505), being costs associated with bookkeeping and legal expenses;
- (f) Rent Expenses - \$21,050 (2018 - \$6,000), being costs associated with office space lease;
- (g) Travel and Conventions - \$13,204 (2018 - \$62,070), being costs associated with investor marketing and conferences;
- (h) Interest and accretion expense - \$74,040 (2018 - \$nil), being actual interests paid on the promissory notes (see "DISCUSSION OF OPERATIONS) and the balance representing the equity component of the promissory notes;
- (i) Office and administration expenses - \$11,633 (2018 - \$3,210), being costs associated with office equipment and supplies;
- (j) Listing costs - \$391,418 (2018 - \$nil), being the excess value of consideration paid over the net assets acquired of AX1, fees paid to the auditors and lawyers for filing of the prospectus, and CSE listing fees; and
- (k) Write-down of note receivable - \$nil (2018 - \$466,805), full or partial recovery of this asset was determined to be doubtful, necessitating that the value of this note be written down.

FOURTH QUARTER

During quarter ended August 31, 2019, the Company had no operating revenues. The Company incurred a net loss of \$248,273, due primarily to research and development expenses of \$57,341, consulting fees of \$55,000, interest and accretion expense of \$60,231, and professional fees of \$58,557.

Research and development costs of \$57,341 were related to the costs developing the Platform. Consulting fees of \$55,000 were costs associated with corporate affairs, business planning and product innovation. Professional fees of \$58,557 were legal expenses. Interest and accretion expense of \$549

were interest accrued on the Notes and the balance of \$59,682 were recognized on the early repayment of the Notes on June 3, 2019 (see "DISCUSSION OF OPERATIONS").

On July 29, 2019, Luxxfolio entered into the LOC Agreement with CHI (see "DISCUSSION OF OPERATIONS").

DISCUSSION OF OPERATIONS

The Company has not commenced commercial operations and has had no operating revenues to date.

The recovery of the Company's investment in the Platform will be dependent upon Luxxfolio's ability to finalize the development and commercialization of its technology, generate revenues from operations, and the Company's ability to raise sufficient debt and equity to finance these operations until profitable. The ultimate outcome of these operations cannot presently be determined because they are contingent on future matters. The principal business objectives over the next 12-month period include:

- Establish partnerships with financial product suppliers and integrate providers onto the Platform;
- Increase user adoption for App; and
- Develop data analytics package for manufacturers and retailers.

On March 15, 2019, Luxxfolio raised \$526,000 through the private placement of 526 Units at a price of \$1,000 per Unit. Each Unit consisted of one Note and 1,000 LNI Warrants. Each Note accrued interest at the rate of 8% simple interest per annum, was repayable 24 months from the date of issue, and secured against the assets of Luxxfolio. At August 31, 2019, there were 608,250 warrants issued and outstanding that were initially issued from the capital of Luxxfolio and subsequently exchanged on a one for one basis for share purchase warrants, with the same terms, issued from the capital of the Company (see "OUTSTANDING SHARE DATA").

On May 31, 2019, Luxxfolio entered into a letter of intent (the "LOI") with CHP Capital Inc. ("CHI"), a related company. Under the LOI, CHI agreed to grant Luxxfolio a revolving line of credit up to a maximum of \$526,000 and the amount permitted by applicable policies regarding related party transactions. Luxxfolio agreed to grant CHI a general security interest over LNI's assets as security for the line of credit. The LOI was superseded on July 29, 2019 by the Line of Credit and Security Agreement with CHI that provides for a revolving line of credit to a maximum of \$500,000, bearing interest at 9% per annum for a term of 24 months (the "LOC").

On June 3, 2019, Luxxfolio repaid all the outstanding Notes it issued on March 15, 2019. Luxxfolio had the right to repay the Notes at any time during their 24 months term without penalty. Upon repayment, the general security interest over Luxxfolio's assets that was granted to the holders of the Notes was removed.

SUMMARY OF QUARTERLY RESULTS

The Company recorded no operating revenues for the fiscal year ended August 31, 2019.

Quarterly Results:

| | Three months ended Nov 30, 2018 | Three months ended Feb 28, 2019 | Three months ended May 31, 2019 | Three months ended August 31, 2019 |
|----------------------------------|--|--|--|---|
| Total revenue | \$nil | \$nil | \$nil | \$nil |
| Loss for the period | (\$229,668) | (\$129,005) | (\$431,003) | (\$248,273) |
| Basic and Diluted loss per share | (\$0.02) | (\$0.01) | (\$0.03) | (\$0.05) |

Fourth Quarter – August 31, 2019

Over the current quarter, the Company had a loss of \$248,273. The loss was primarily composed of research and development, consulting, professional fees as well as interest and accretion expense (see “Fourth Quarter”).

Third Quarter – May 31, 2019

For the quarter ended May 31, 2019, the Company had a loss of \$431,003. The increase from the previous quarter ended February 28, 2019 is primarily due to higher legal and audit expenses related to the filing of the prospectus as well as the listing fees associated with the RTO.

Second Quarter – February 28, 2019

For the quarter ended February 28, 2019, the Company had a loss of \$129,005. The loss was primarily composed of \$56,600 in consulting fees and \$24,229 in professional fees related to the review of the long-form prospectus and the interim financial statements.

First Quarter – November 30, 2018

For the quarter ended November 30, 2018, the Company had a loss of \$229,668. The loss was primarily composed of \$138,395 in research and development related to the development and the launch of the first iteration of the App, \$38,500 in consulting fees related to the review of the preliminary prospectus, and \$38,360 in advertising and marketing expenses related to the branding of the Company.

LIQUIDITY AND CAPITAL RESOURCES

The Company manages its capital to maintain its ability to continue as a going concern, with a long-term view of providing returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and cash equivalents, debt comprised of promissory notes and equity comprised of issued share capital and deficit. The Company manages its capital structure and adjusts it considering economic conditions and financial needs. The Company, upon approval from its Board, will

balance its overall capital structure through issuance of securities or by undertaking other activities as deemed appropriate under the specific circumstances.

During the year ended August 31, 2019, the Company incurred a net loss of \$1,037,949, due primarily to research and development expenses of \$218,571, consulting fees of \$181,694, interest and accretion expense of \$74,040, professional fees of \$64,580 and listing fees of \$391,418.

Working Capital

At August 31, 2019, the Company had a working capital deficit of \$68,801 compared to a working capital surplus of \$273,119 at August 31, 2018. The decrease can be attributed to the general overhead expenditures incurred.

On July 29, 2019, Luxxfolio entered into the LOC Agreement with CHI, for a revolving line of credit to a maximum of \$500,000, and subject to a maximum draw of \$50,000 per month. The term of the LOC Agreement is 24 months and the LOC bears interest at 9% per annum. Under the terms of the Agreement, Luxxfolio is restricted to using the LOC for research and development expenses or for other purposes approved by CHI. Luxxfolio has provided CHI with a General Security Agreement covering all of Luxxfolio's assets 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 Luxxfolio's equity or the composition of the Board of Directors.

Requirement of Additional Debt and Equity Financing

The Company and Luxxfolio have relied on debt and equity financings for all funds raised to date for their operations. The Company will need more funds to cover its working capital deficit and to expand its business in the future. Until the Company starts generating cash inflows from its operations, it is expected to continue to rely upon the issuance of securities to finance its operations. There is no certainty that debt or equity financings will be available at the times and in the amounts require to fund the Company's activities. The consolidated financial statements do not include any adjustments that might result from these uncertainties. The Company's access to financing is always uncertain.

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

As at the date of this MD&A, the Company has commenced a review of strategic alternatives available to enhance shareholder value. The strategic alternatives being considered include, but are not limited to, changes to the capital structure, sale or merger of the company, disposition of the business or assets or further development and expansion of the Company's technology to broaden market opportunities. There can be no assurance that this process will result in the approval of any strategic alternative or transaction in the future.

OUTSTANDING SHARE DATA

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

As at August 31, 2019, there were 14,879,657 common shares and 608,250 share purchase warrants issued and outstanding.

Following August 31, 2019, fiscal year-end, the Company issued a total of 2,767,758 common at a deemed price of \$0.05 per share pursuant to the share for debt settlements (see "SUBSEQUENT EVENTS"). As of the date of this MD&A, there were 17,647,415 common shares and 608,250 share purchase warrants issued and outstanding.

Each share purchase warrant may be exercised into one common share of the Company at an exercise price of \$0.20 per warrant for a period of 24 months from the date of issuance.

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

During the year ended August 31, 2019, the Company entered into the following transactions with related parties:

- a) paid management fees of \$24,000 (2018 - \$48,500) to a company controlled by Kelly Klatik, a director of the Company, and Dean Linden, an officer of the Company for accounting and administrative functions. As at August 31, 2019, the amount outstanding to the company controlled by Kelly Klatik and Dean Linden was \$19,800;
- b) paid research costs of \$24,000 (2018 - \$48,500) to a company controlled by Kelly Klatik, a director of the Company, and Dean Linden, an officer of the Company for research and development of the Platform. As at August 31, 2019, the amount owed to the company controlled by Kelly Klatik and Dean Linden was \$19,800;
- c) paid rental fees of \$21,050 (2018 - \$6,000) to a company controlled by Kelly Klatik, a director of the Company, and Dean Linden, an officer of the Company for leasing the space used as the Company's office;
- d) paid management fees of \$6,000 (2018 - \$nil) and consulting fees of \$7,500 (2018 - \$nil) to Geoffrey McCord, an officer of the Company for his engagement on the strategic planning and operation of the Company;
- e) paid consulting fees of \$24,000 (2018 - \$25,600) to Anthony Wong, a director of the Company for his monthly engagement on the strategic planning and operation of the Company; and

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that

key management personnel consist of members of the Company's Board of Directors and corporate officers and are included in the amounts described above.

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

PROPOSED TRANSACTIONS

There are no material proposed transactions being pursued or negotiated by the Company as at the date of this MD&A.

SUBSEQUENT EVENTS

Following August 31, 2019, the fiscal year-end, the Company issued shares in settlement of certain debts owed by the Company. Certain creditors of such debts were considered related parties. The Company issued a total of 2,767,758 common shares at a deemed price of \$0.05 per share in full settlement of the indebtedness totaled \$138,388. A total 1,747,758 out of the 2,767,758 common shares were issued to such related party creditors.

CONTROLS AND PROCEDURES

In connection with National Instrument 52-109 Certificate of Disclosure in Issuers' Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the annual financial statements and the accompanying MD&A for the year ended August 31, 2019 and the initial 271-day period ended August 31, 2018.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION AND FINANCIAL INSTRUMENTS

The Company adopted the new accounting standard IFRS 9 *Financial Instruments* effective September 1, 2018 using the modified retrospective approach. The Company has not restated comparative information for prior periods with respect to the classification and measurement requirements of IFRS 9 and accordingly, the comparative information for the initial 271-day period ended August 31, 2018 is presented under IAS 39 *Financial Instruments: recognition and measurement* ("IAS 39"). There were no changes to the carrying value of any of the Company's financial assets or liabilities as a result of this new accounting standard.

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended August 31, 2019

The Company did a detailed assessment of its financial assets and liabilities as at September 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

| | September 1, 2018 | |
|--|--|----------------|
| | IAS 39 | IFRS 9 |
| Financial Assets | | |
| Cash | Fair value through profit and loss ("FVTPL") | FVTPL |
| Funds held in trust | FVTPL | FVTPL |
| Financial Liabilities | | |
| Accounts payable and accrued liabilities | Amortized Cost | Amortized Cost |
| Subscriptions received | Amortized Cost | Amortized Cost |

RISK FACTORS**Credit risk**

Credit risk refers to the potential that a counterparty to a financial instrument will fail to discharge its contractual obligations. The Company manages credit risk by placing its cash balances at a major Canadian financial institution.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk on an ongoing basis in accordance with policies and procedures in place. Cash flow projections are completed and reviewed on a regular basis to ensure the Company has sufficient cash flows to meet its financial obligations. The Company is exposed to liquidity risk in respect of its accounts payable and accrued liabilities.

Volatility of Enterprise Value and Market Conditions

The Company's enterprise value may be subject to wide fluctuations in response to factors such as actual or anticipated variations in its results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may adversely affect the market price of the common shares, even if the Company is successful in maintaining revenues, cash flows or earnings. The purchase of debt and equity involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Securities of the Company should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in the Company should not constitute a major portion of an investor's portfolio.

Limited Operating History

The Company was recently formed and has no operating history. The Company and its business prospects must be viewed against the background of the risks, expenses and problems frequently

encountered by companies in the early stages of their development, particularly companies in new and rapidly evolving markets such as the product authentication, financial technology, and blockchain markets. There is no certainty that the Company will attain its business objectives or operate profitably.

No Profits to Date

The Company has not made any profits since its incorporation. It is expected that it will not be profitable for the next foreseeable future. The Company's future profitability depends upon Luxxfolio's success in developing and managing the Platform and to the extent to which the Platform is able to generate significant revenues. Because of the limited operating history, the changes in the business, and the uncertainties regarding the development of product authentication, finance, and blockchain technologies, management does not believe that the operating results to date should be regarded as indicators for the Company's future performance.

Additional Requirements for Capital

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

Negative Operating Cash Flow

The Company is not generating operating revenue and has negative cash flow from operating activities. It is anticipated that the Company will continue to have negative cash flow in the foreseeable future. Continued losses may have the following consequences:

- increasing the Company's vulnerability to general adverse economic and industry conditions;
- limiting the Company's ability to obtain additional financing to fund future working capital, capital expenditures, operating costs and other general corporate requirements; and
- limiting the Company's flexibility in planning for, or reacting to, changes in its business and industry.

Line of Credit

The LOC is secured against all of the assets of Luxxfolio. If Luxxfolio defaults on its payment obligations under the LOC Agreement, then it could lose all its intellectual property and other assets that underly its business such as the Platform. If this occurs, then the business of Luxxfolio and the Company would be severely damaged or even cease to exist.

Expenses May Not Align with Revenues

Unexpected events may materially harm the Company's ability to align incurred expenses with recognized revenues. The Company incurs operating expenses based upon anticipated revenue trends. Since a high percentage of these expenses may be relatively fixed, a delay in recognizing revenues from transactions related to these expenses (such a delay may be due to the factors described elsewhere in this risk factor section or it may be due to other factors) could cause significant variations in operating results from quarter to quarter, and such a delay could materially reduce operating income. If these expenses are not subsequently matched by revenues, the Company's business, financial condition, or results of operations could be materially and adversely affected.

Market Acceptance

If the Platform does not gain market acceptance, its operating results will be negatively affected. If the markets for the Platform and services fail to develop, develop more slowly than expected or become subject to increased competition, the Company's business may suffer. As a result, the Company may be unable to: (i) successfully market the Platform; (ii) continue to develop and improve the Platform; or (ii) complete software products and services currently under development. If the Platform is not accepted by its customers or by other businesses in the marketplace, the Company's business, operating results and financial condition will be materially affected.

Global Financial Developments

Stress in the global financial system may adversely affect the Company's finances and operations in ways that may be hard to predict or to defend against. Financial developments seemingly unrelated to the Company or to its industry may adversely affect the Company over the course of time. For example, material increases in any applicable interest rate benchmarks may increase the debt payment costs for the Company's credit facilities. Credit contraction in financial markets may hurt its ability to access credit in the event that the Company identifies an acquisition opportunity or require significant access to credit for other reasons. A reduction in credit, combined with reduced economic activity, may adversely affect business. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on the Company's business, operating results, and financial condition.

Regulatory Risks

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

Dependence on Internet Infrastructure

The success of the Company as a developer of blockchain platforms will depend by and large upon the continued development of a stable public infrastructure, with the necessary speed, data capacity and security, and the timely development of complementary products to provide reliable access to the internet and the Company's business services. There is no assurance that such access will always be available or grow to meet increased demand.

Risk of Security Weaknesses in the Company's Platform Software

Luxxfolio's network software consists of open source software that is itself based on open source software. There is a risk that the developers of the Platform, or other third parties may intentionally or unintentionally introduce weaknesses or bugs into the core infrastructural elements of the Company's Platform interfering with the use of or causing the loss of data.

Risk of False Authentication

Luxxfolio's authentication service is dependent on third parties to carry out the actual authentication of individual items. Although Luxxfolio may have processes in place to identify false authentications, there is no guarantee that a false authentication will not be detected before it is recorded to the Platform as a valid authentication. If this happens, it could result in a loss of customer and market trust in the Platform

and thus a decline in user adoption of the Platform that could materially affect the Company's ability to attain its business objectives.

Risks Associated with IBM Hyperledger blockchain

The secured recording and storage of Smartluxxed luxury items in the Platform is based upon IBM's Hyperledger blockchain. As such, any malfunction, unintended function or unexpected functioning of the IBM's Hyperledger may cause the Platform to malfunction or function in an unexpected or unintended manner.

Risk of Theft and Hacking

Hackers or other groups or organizations may attempt to interfere with the Platform or the availability of it in any number of ways, including without limitation denial of service attacks, Sybil attacks, spoofing, smurfing, malware attacks, or consensus-based attacks.

Intellectual Property Rights

Although the Company is not aware of violating commercial and other proprietary rights of third parties, there can be no assurance that its products do not violate proprietary rights of third parties or that third parties will not assert or claim that such violation has occurred. Although no issues in this respect have arisen to date, any such claims and disputes arising may result in liability for substantial damages which in turn could harm the Company's business, results of operations and financial condition.

Competition

The Company is still an early stage company. The market for blockchain technology for authenticating and recording the provenance of goods and providing financial products may become highly competitive before the Company can attain enough market share. There is no assurance that the Company will successfully differentiate its products from that of its competitors, or that the marketplace will consider the Platform superior to competing products.

Dependence on Third Party Relationships

The Company is highly dependent on a number of third-party relationships to conduct its business and implement expansion plans, it cannot be assured that all of these partnerships will turn out to be as advantageous as currently anticipated or that other partnerships would not have proven to be more advantageous. In addition, it is impossible to assure that all associated partners will perform their obligations as agreed or that any strategic agreement will be specifically enforceable by the Company.

Key Personnel

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

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

- hire and train development, sales and marketing staff to create an expanding presence in the evolving marketplace for the Company's products;
- attract and retain qualified technical personnel in order to administer technical support required for customers located in Canada and elsewhere;
- develop customer support capacity as sales increase, so that customer support can be provided without diverting resources from product sales efforts; and
- expand internal management and financial controls significantly, so that control can be maintained over operations as the number of personnel and size of the Company increases.

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

Management of Growth

The Company may be subject to growth-related risks including pressure on its internal systems and controls. The Company's ability to manage its growth effectively will require it to continue to implement and improve its operational and financial systems. The inability of the Company to deal with this growth could have a material adverse impact on its business, operations and prospects. While management believes that it will have made the necessary investments in infrastructure to process anticipated volume increases in the short term, the Company may experience growth in the number of its employees and the scope of its operating and financial systems, resulting in increased responsibilities for the Company's personnel, the hiring of additional personnel and, in general, higher levels of operating expenses. In order to manage its current operations and any future growth effectively, the Company will also need to continue to implement and improve its operational, financial and management information systems and to hire, train, motivate and manage its employees. There can be no assurance that the Company will be able to manage such growth effectively, that its management, personnel or systems will be adequate to support the Company's operations or that the Company will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth.

Litigation

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

Conflicts of interest

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

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

Currency risk

To the extent that the Company expands its business into foreign jurisdictions, it will be exposed to foreign currency fluctuation risks. Such currency fluctuations may adversely affect the financial position and operations of the Company.

Other Information

Additional information regarding the Company is available on SEDAR at www.sedar.com.