**LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)**

Interim Condensed Consolidated Financial Statements
For the three months ended
November 30, 2019 and 2018
(Expressed in Canadian Dollars)
(unaudited)

Dated: January 29, 2020

**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)

| | | November 30, 2019 | | August 31, 2019 |
|---|---|---|---|---|
| **Assets (note 5)** | | | | |
| **Current** | | | | |
| Cash | $ | 51,921 | $ | 109,623 |
| GST receivable | | 10,372 | | 13,270 |
| Prepaid expenses | | 32,253 | | 32,253 |
| | $ | 94,546 | $ | 155,146 |
| **Liabilities** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities (note 4) | $ | 89,733 | $ | 223,947 |
| | $ | 89,733 | $ | 223,947 |
| **Shareholders' Equity (Deficit)** | | | | |
| **Common Shares** (note 5) | $ | 2,086,296 | $ | 1,995,988 |
| **Reserves** (note 5) | | 73,422 | | 73,422 |
| **Deficit** | | (2,154,905) | | (2,138,211) |
| | $ | 4,813 | $ | (68,801) |
| **Total Liabilities and Shareholders' Equity** | $ | 94,546 | $ | 155,146 |

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

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)

| | | For the three months ended November 30, 2019 | | For the three months ended November 30, 2018 |
|---|---|---|---|---|
| **Expenses** | | | | |
| Research and development (note 4) | $ | 3,856 | $ | 138,395 |
| Consulting (note 4) | | 9,000 | | 38,500 |
| Advertising and marketing | | - | | 38,360 |
| Management fees (note 4) | | 3,750 | | 6,000 |
| Professional fees | | (7,852) | | - |
| Rent (note 4) | | 3,000 | | 6,000 |
| Travel and conventions | | 2,107 | | 2,413 |
| Office and administration | | 2,833 | | - |
| | | 16,694 | | 229,668 |
| **Net Loss and Comprehensive Loss for the Period** | $ | (16,694) | $ | (229,668) |
| **Basic and Diluted Loss per Share** | $ | (0.00) | $ | (0.02) |
| **Weighted Average Number of Common Shares Outstanding** | | 15,475,092 | | 9,940,055 |

**LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)**
Interim Condensed Consolidated Statements of Changes in Shareholders' Equity
For the three months ended November 30, 2019 and 2018
(Expressed in Canadian Dollars)
(unaudited)

| | Notes | Number of Common Shares | | Common Shares | | Special Warrants | | Reserves | | Deficit | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **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 | 5 | - | | - | | 81,000 | | - | | - | | 81,000 |
| Conversion of special warrants | 5 | 1,050,000 | | 210,000 | | (210,000) | | - | | - | | - |
| Net loss | | - | | - | | - | | - | | (229,668) | | (229,668) |
| **Balance, November 30, 2018** | | 10,370,001 | $ | 1,133,650 | $ | 1,782,905 | $ | 5,742 | $ | (1,329,930) | $ | 124,451 |
| | | | | | | | | | | | | |
| **Balance, August 31, 2019** | | 14,879,657 | $ | 1,995,988 | $ | - | $ | 73,422 | $ | (2,138,211) | $ | (68,801) |
| Issuance of common shares | 5 | 1,806,153 | | 90,308 | | - | | - | | - | | 90,308 |
| Net loss | | - | | - | | - | | - | | (16,694) | | (16,694) |
| **Balance, November 30, 2019** | | 16,685,810 | $ | 2,086,296 | $ | - | $ | 73,422 | $ | (2,154,905) | $ | 4,813 |

The Statements of Changes in Shareholders' Equity have 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)

| | For the three months ended November 30, 2019 | For the three months ended November 30, 2018 |
|---|---|---|
| **Operating Activities** | | |
| Net loss for the period | $ (16,694) | $ (229,668) |
| Changes in non-cash working capital | | |
| GST receivable | 2,898 | (9,863) |
| Prepaid expenses | - | 73,960 |
| Accounts payable and accrued liabilities | (134,214) | (39,919) |
| Cash (used in) operating activities | (148,010) | (205,490) |
| **Financing Activities** | | |
| Issuance of common shares | 90,308 | - |
| Warrants issued for cash, net of share issuance costs | - | (4,000) |
| Cash provided by (used in) financing activities | 90,308 | (4,000) |
| **Inflow (Outflow) of Cash** | (57,702) | (209,490) |
| Cash, Beginning of Period | $ 109,623 | $ 405,406 |
| Cash, End of Period | $ 51,921 | $ 195,916 |
| **Supplemental Cash Flow Information** | | |
| Subscriptions received for special warrants issued | $ - | $ 85,000 |

## 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 212 – 1080 Mainland Street, Vancouver, British Columbia. The principal business of the Company is the development of an application to verify, insure and protect luxury goods through a blockchain-enabled authentication platform. On March 26, 2019, the Company changed its name from AX1 Capital Corp. 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"). 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 a wholly-owned subsidiary of the Company. The Transaction is considered a RTO 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 interim condensed consolidated financial statements are a continuation of the financial statements of Luxxfolio.

These 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, 2019, the Company realized a net loss of $16,694 (2018 - $229,668) and as at November 30, 2019, has an accumulated deficit of $2,154,905 (August 31, 2019 - $2,138,211). 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 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.

## 2. BASIS OF PRESENTATION

(a) Statement of compliance

These 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").

Effective September 1, 2018, the Company adopted IFRS 9 *Financial Instruments* ("IFRS 9"). IFRS 9 was adopted retrospectively with no restatement of comparative periods, as permitted by the transition provisions of the standard.

As a result of the application of IFRS 9, the Company changed its accounting policy for financial assets as described in note 3.

(b) Basis of presentation and principles of consolidation

These 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 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 interim condensed consolidated financial statements 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 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 and Luxxfolio's functional currency. All intercompany balances, transactions, unrealized gains and losses resulting from intercompany transactions have been eliminated on consolidation.

(c) Approval of the interim condensed consolidated financial statements

These interim condensed consolidated financial statements were authorized for issue by the Audit Committee and Board of Directors on January 29, 2020.

## 2. BASIS OF PRESENTATION (continued)

(d) Use of estimates and judgements

The preparation of these 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 interim condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

*Critical accounting estimates:*

Critical accounting estimates and assumptions made by management that may result in a material adjustment to the carrying amounts of assets and liabilities include, but are not limited to the following:

(i) Fair value of options and warrants

The fair value of equity instruments is subject to the limitations of the Black-Scholes option pricing model, as well as other pricing models that incorporate market data and involves uncertainty in estimates used by management in the assumptions. Because option pricing models require inputs of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

(ii) Fair value of consideration

The fair value of consideration to acquire the Company in a RTO 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.

(iii) Promissory notes

The promissory notes were separated into their liability and equity components on the 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.

## 2. BASIS OF PRESENTATION (continued)

(d) Use of estimates and judgements (continued)

*Critical judgements*:

(i) Going concern assumption

The assessment of whether the going concern assumption is appropriate requires management to take into account 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 is aware that material uncertainties related to events or condition may cast significant doubt upon the Company's ability to continue as a going concern.

(ii) Recoverability of deferred tax assets

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

(iii) Research and development expenditures

The costs to develop the Company's platform are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 *Intangible Assets* are met. Those criteria require that the platform is technically and economically feasible, which management assesses based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions. Management considers those factors in aggregate and applies significant judgement to determine whether the platform is feasible. The Company has not capitalized any research and development costs as at November 30, 2019.

(iv) Transaction to acquire Luxxfolio

The determination of the acquirer in the Transaction is subject to judgement and requires the Company to determine which party obtains control of the combining entities. Management applies judgement 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 judgement, Luxxfolio was deemed to be the acquirer in the Transaction.

## 2. BASIS OF PRESENTATION (continued)

(d) Use of estimates and judgements (continued)

(iv) Transaction to acquire Luxxfolio (continued)

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 asset acquisition and the difference between the fair value of net assets acquired and the consideration paid was recorded as a listing expense (Note 6).

(v) Notes receivable

Recoverability of the carrying value of the note receivable requires management judgement to determine whether repayment is likely. If there is a change in management's assumptions or economic conditions, the recoverability of the note receivable may change materially.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Company include the following:

(a) Foreign currency transactions

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

(b) 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 year ended August 31, 2019 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

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 |

Financial assets

(i) Recognition and measurement of financial assets

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

(ii) Classification of financial assets

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

*Financial assets measured at amortized cost*

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(b) Financial instruments (continued)

(ii) Classification of financial assets (continued)

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

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

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income. Accumulated gains or losses recognized through other comprehensive income and remain in accumulated other comprehensive income when the financial instrument is derecognized.

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

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

(iii) Derecognition of financial assets

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in the consolidated statement of operations and comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive loss.

*Impairment of financial assets*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

(iii) Derecognition of financial assets (continued)

*Recognition and measurement of financial liabilities*

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

*Classification of financial liabilities*

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

*Financial liabilities measured at amortized cost*

A financial liability at amortized cost is initially measured at fair value less transaction costs directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method.

*Financial liabilities measured at fair value through profit or loss*

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

(iv) Derecognition of financial liabilities

The Company derecognizes a financial liability when the financial liability is discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of operations and comprehensive loss.

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(c) Income taxes

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

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

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

(d) Research and development

Research costs are expensed as incurred. Costs related to the development of the platform are expensed as incurred unless such costs meet the criteria for deferral and amortization under IFRS. The criteria include identifiable costs attributable to a clearly defined product, the establishment of technical feasibility, demonstration of the Company’s intention and ability to complete the platform and use or sell it, identification of a market for the platform, the Company’s intent to market the software, and the existence of adequate resources to complete the project.

(e) Impairment of non-financial assets

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(f) Common Shares

Proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company. Share capital issued for consideration other than cash are valued at the fair value of assets received or services rendered. If the fair value of assets received or services rendered cannot be reliably measured, shares issued for consideration will be valued at the quoted market price at the date of issuance.

The proceeds from the issuance of units are allocated between common shares and warrants based on the residual value method. Under this method, the proceeds are allocated first to share capital based on the fair value of the common shares at the time the units are priced, and any residual value is allocated to the warrants reserve. Consideration received for the exercise of warrants is recorded in share capital and the related residual value is transferred from warrant reserve to share capital. For unexercised warrants that expire, the recorded value is transferred to deficit.

(g) Share-based payments

The fair value of share-based payments for non-employees is recognized and measured at the date the goods or services are received based on the fair value of the goods or services received. If it is determined that the fair value of goods and services received cannot be reliably measured, the share-based payment is measured at the fair value of the equity instruments issued using the Black-Scholes option pricing model.

Consideration received on the exercise of stock warrants is recorded in share capital and the related share-based payment in reserves is transferred to share capital. For those warrants that expire, the recorded value is transferred to deficit.

(h) Basic and diluted loss per share

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Compound financial instruments

Compound financial instruments issued by the Company comprise a unit which includes debt and warrants convertible into common shares at the option of the holder. The liability component of compound financial instruments is initially recognized at fair value of a similar liability that does not have an attached warrant. The warrant is initially recognized at the difference between fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest rate method. Interest related to the financial liability is recognized in profit or loss.

(j) Future accounting pronouncements

At the date of authorization of these interim condensed consolidated financial statements, certain new standards, amendments and interpretation to existing standards have been published, but are not yet effective, and have not been early-adopted by the Company.

IFRS 16 *Leases*

This new standard set out the principles for the recognition, measurement, presentation and disclosure of leases for both lessee and the lessor. The new standard intrudes a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for considerations.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payment. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is initially measured at the present value of the unpaid lease payments
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

Applicable to the Company’s annual period beginning September 1, 2019.

The Company has assessed that there will be no significant impact to the interim condensed consolidated financial statements as a result of the adoption of this standard.

## 4. RELATED PARTY TRANSACTIONS

During the three months ended November 30, 2019, the Company was charged management fees of $3,750 (2018 - $6,000), research costs of $3,750 (2018 - $6,000), and rental fees of $3,000 (2018 - $6,000), by a company controlled by a director and an officer of the Company. In addition, the Company was charged consulting fees of $4,500 (2018 - $nil) by an officer of the Company. As at November 30, 2019, $48,080 (2018 - $13,133) was included in accounts payable and accrued liabilities relating to these services.

During the three months ended November 30, 2019, the Company issued 786,153 common shares at a deemed price of $0.05 per share in settlement of certain debts owed to a company controlled by a director and an officer of the Company (see "SHARE CAPITAL").

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.

## 5. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

During the three months ended November 30, 2018, the Company issued 1,050,000 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.

- 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.

During the three months ended November 30, 2019, the Company issued 1,806,153 common 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 1,806,153 common shares at a deemed price of $0.05 per share in full settlement of the indebtedness totaled $90,308. A total of 786,153 out of the 1,806,153 common shares were issued to such related party creditors.

(Expressed in Canadian Dollars)

## 5. SHARE CAPITAL (continued)

(c) Special warrants

During the three months ended November 30, 2018, 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. Escrowed special warrants transactions and the number of escrowed special warrants outstanding are summarized as follows:

| | Number of Escrowed Special Warrants | Weighted Average Exercise Price |
|---|---|---|
| Outstanding, December 4, 2017 (incorporation) | - | $ 0.20 |
| Issued | 3,209,000 | $ 0.20 |
| Outstanding, August 31, 2018 | 3,209,000 | $ 0.20 |
| Issued | 125,000 | $ 0.20 |
| Outstanding, November 30, 2018 | 3,334,000 | $ 0.20 |

During the three months ended November 30, 2019, the Company did not issue any escrowed special warrants. As at November 30, 2019, there were no escrowed special warrants issued and outstanding.

***Non-Escrow Special Warrants***

During the three months ended November 30, 2018, the Company issued 530,000 non-escrowed special warrants pursuant to a subscription agreement for proceeds of $81,000, net of legal issuance costs of $25,000. 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 three months ended November 30, 2018, 1,050,000 non-escrowed special warrants automatically converted into common shares.

Non-escrowed special warrants transactions and the number of non-escrowed special warrants outstanding are summarized as follows:

(Expressed in Canadian Dollars)

## 5. SHARE CAPITAL (continued)

(c) Special warrants (continued)

| | Number of Non-escrowed Special Warrants | Weighted Average Exercise Price |
|---|---|---|
| Outstanding, December 4, 2017 (incorporation) | - | - |
| Issued | 11,568,655 | $ 0.20 |
| Converted to common shares | (9,320,000) | $ 0.20 |
| Outstanding, August 31, 2018 | 2,248,655 | $ 0.20 |
| Issued | 530,000 | $ 0.20 |
| Converted to common shares | (1,050,000) | $ 0.20 |
| Outstanding, November 30, 2018 | 1,728,655 | $ 0.20 |

During the three months ended November 30, 2019, the Company did not issue any non-escrowed special warrants. As at November 30, 2019, there were no non-escrowed special warrants issued and outstanding.

(d) Share purchase warrants

During the three months ended November 30, 2019 and 2018, the Company did not issue any share purchase warrants (the "Warrants"). 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. The fair value of the Warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

| | **2019** | **2018** |
|---|---|---|
| Risk-free interest rate | 1.65% | 1.82% |
| Expected dividend yield | 0.00% | 0.00% |
| Expected stock price volatility | 100.00% | 100.00% |
| Expected life in years | 2.00 | 2.00 |

(Expressed in Canadian Dollars)

## 5. SHARE CAPITAL (continued)

(d) Share purchase warrants (continued)

The following Warrants were outstanding at November 30, 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 |

The weighted average contractual life for warrants outstanding as at November 30, 2019 is 1.21 (2018 – 1.40) years.

## 6. ACQUISITION OF LUXXFOLIO NETWORK INC.

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

As a result of the Transaction, the shareholders of Luxxfolio obtained control of the voting 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 the Company, 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. The Company's results of operations have been included since April 11, 2019.

(Expressed in Canadian Dollars)

## 6. ACQUISTION OF LUXXFOLIO NETWORK INC. (continued)

The following summarizes the RTO of the Company 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 issued at $0.20 per share | $ | 376,200 |
| | | 376,200 |
| Transaction costs incurred: | | |
| Legal fees | | 43,515 |
| Net assets (estimated fair value) assumed: | | |
| Cash | | 47,349 |
| Accounts payable and accrued liabilities | | (19,052) |
| | $ | 28,297 |

At the time of the Transaction, the Company'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 the Company 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 the Company by Luxxfolio and has been accounted for as a RTO 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 the Company's shareholders, and additional transaction costs are expensed as a listing expense, as follows.

| | |
|---|---|
| Consideration paid | $ 376,200 |
| Net assets assumed | (28,297) |
| Transaction costs incurred | 43,515 |
| Listing fees | $ 391,418 |

## 7. 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

## 7. FINANCIAL INSTRUMENTS (continued)

(a) Fair value (continued)

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.

## 8. 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, 2019, the Company considers capital to consist of all components of shareholders' equity (deficit). 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.

On July 29, 2019, the Company entered into a Letter of Credit and Security Agreement (the "LOC Agreement") with CHP Capital Inc. ("CHI"), a related company controlled by a director of the Company. Under the terms of the LOC Agreement, CHI will provide the Company with a 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 LOC Agreement is 24 months and the LOC bears interest at 9% per annum. Under the terms of the LOC Agreement, the Company is restricted to using the LOC for research and development expenses or for other purposes approved by CHI. The Company has provided CHI with a General Security Agreement covering all assets of the Company as security for the LOC. 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. As at November 30, 2019 no amounts have been drawn down on the LOC.

## 8. CAPITAL MANAGEMENT (continued)

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 for the three months ended November 30, 2019.

## 9. SEGMENT INFORMATION

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

## 10. SUBSEQUENT EVENTS

(a) Debt settlements

Following the three months ended November 30, 2019, the Company issued shares in settlement of certain debts owed by the Company. The creditors of such debts were considered related parties. The Company issued a total of 961,605 common shares at a deemed price of $0.05 per share in full settlement of the indebtedness totaled $48,080.

(b) Review of strategic alternatives

As at the date of this interim condensed consolidated financial statements, 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.