LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Interim Condensed Consolidated Financial Statements
For the three and nine months ended
May 31, 2020 and 2019
(Expressed in Canadian Dollars)
(unaudited)

Dated: July 30, 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)

		May 31, 2020		August 31, 2019
Assets				
Current				
Cash	$	11,422	$	109,623
GST receivable		3,180		13,270
Prepaid expenses		32,253		32,253
	$	46,855	$	155,146
Liabilities				
Current				
Accounts payable and accrued liabilities (note 4)	$	55,189	$	223,947
	$	55,189	$	223,947
Shareholders' Equity (Deficit)				
Common Shares (note 6)	$	2,134,376	$	1,995,988
Reserves (note 6)		69,537		73,422
Deficit		(2,212,246)		(2,138,211)
	$	(8,333)	$	(68,801)
Total Liabilities and Shareholders' Equity	$	46,855	$	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 May 31, 2020	For the three months ended May 31, 2019	For the nine months ended May 31, 2020	For the nine months ended May 31, 2019
Expenses				
Research and development (note 4)	$ 1,213	$ 13,868	$ 9,648	$ 161,231
Consulting (note 4)	4,500	31,594	23,500	126,694
Advertising and marketing	-	(18,000)	-	31,910
Management fees (note 4)	750	8,000	8,250	26,000
Professional fees	13,841	5,947	11,665	4,023
Rent (note 4)	3,000	4,000	9,000	16,000
Travel and conventions	-	4,779	3,183	11,287
Interest and accretion	-	13,809	-	13,809
Office and administration	2,041	3,248	12,674	7,298
Listing fees (note 7)	-	363,758	-	391,418
	25,345	431,003	77,920	789,670
Net Loss and Comprehensive Loss for the Period	$ (25,345)	$ (431,003)	$ (77,920)	$ (789,670)
Basic and Diluted Loss per Share	$ (0.00)	$ (0.03)	$ (0.00)	$ (0.06)
Weighted Average Number of Common Shares Outstanding	17,647,415	14,674,931	16,915,422	13,224,528

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)
Interim Condensed Consolidated Statements of Changes in Shareholders' Equity
For the three and nine months ended May 31, 2020 and 2019
(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	6	-	-	178,041	2,959	-	181,000
Conversion of special warrants	6	3,678,655	696,138	(622,030)	-	-	74,108
Equity component of unit offering	5	-	-	-	64,721	-	64,721
Reverse takeover of Luxxfolio Network Inc.	7	1,881,001	376,200	-	-	-	376,200
Net loss		-	-	-	-	(789,670)	(789,670)
Balance, May 31, 2019		14,879,657	$ 1,995,988	$ -	$ 73,422	$ (1,889,932)	$ 179,478
Balance, August 31, 2019		14,879,657	$ 1,995,988	$ -	$ 73,422	$ (2,138,211)	$ (68,801)
Issuance of common shares	6	2,767,758	138,388	-	-	-	138,388
Expired warrants	6	-	-	-	(3,886)	3,886	-
Net loss		-	-	-	-	(77,920)	(77,920)
Balance, May 31, 2020		17,647,415	$ 2,134,376	$ -	$ 69,536	$ (2,212,245)	$ (8,333)

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 nine months ended May 31, 2020	For the nine months ended May 31, 2019
Operating Activities		
Net loss for the period	$ (77,920)	$ (789,670)
Non-cash items		
Interest and accretion	-	4,836
Listing fees	-	347,903
Changes in non-cash working capital		
GST receivable	10,089	(17,210)
Prepaid expenses	-	86,160
Accounts payable and accrued liabilities	(168,758)	(74,036)
Cash (used in) operating activities	(236,589)	(442,017)
Financing Activities		
Issuance of common shares	138,388	-
Proceeds from notes offering	-	526,000
Release of funds held in trust	-	74,108
Issuance of non-escrowed special warrants	-	96,000
Cash provided by (used in) financing activities	138,388	696,108
Investing Activities		
Cash acquired from reverse takeover transaction	-	47,349
Cash provided by (used in) investing activities	-	47,349
Inflow (Outflow) of Cash	(98,201)	301,440
Cash, Beginning of Period	$ 109,623	$ 405,406
Cash, End of Period	$ 11,422	$ 706,846

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. On March 26, 2019, the Company changed its name from AX1 Capital Corp. to Luxxfolio Holdings Inc. The principal business of the Company is the development of a permissioned based distributed ledger platform (the "Platform") that will provide a secure and reliable place to authenticate and track uniquely identifiable assets and provide the ability to monetize or securitize these assets.

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 or special warrant 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 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 nine months ended May 31, 2020, the Company realized a net loss of $77,920 (2019 - $789,670) and as at May 31, 2020, has an accumulated deficit of $2,212,246 (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.

1. NATURE OF OPERATIONS AND GOING CONCERN (continued)

As at the date of this interim condensed consolidated financial statements, the Company continued to discuss with its team, industry contacts and developers, additional innovative applications and further improvements to the Platform. The Company announced on March 2, 2020 it had entered into a non-binding letter of intent (the "LOI") with Cypress Hills Partners Inc. ("CHP") and its intention to undertake a non-brokered private placement in connection with the LOI. Under the terms of the LOI, the parties agreed to work towards a definitive agreement whereby the Company would provide CHP with the services of its Platform to enable CHP to verify and to authenticate its digital assets. There can be no assurance that this process will result in the approval of any strategic alternative or transaction in the future.

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.

2. BASIS OF PRESENTATION (continued)

(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 July 30, 2020.

(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 consider 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 May 31, 2020.

(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 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 nine months ended May 31, 2020, the Company was charged management fees of $8,250 (2019 - $20,000), research costs of $8,250 (2019 - $18,000), rental fees of $9,000 (2019 - $16,000), and office and administration costs of $200 (2019 - $nil) by a company controlled by a director and an officer of the Company. In addition, the Company was charged consulting fees of $13,500 (2019 - $3,000) by an officer of the Company. As at May 31, 2020, $9,650 (2019 - $39,900) was included in accounts payable and accrued liabilities relating to these services.

During the nine months ended May 31, 2020, the Company issued 1,747,758 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. PROMISSORY NOTES

On March 15, 2019, the Company raised $526,000 through private placement of 526 Units (the "Units") at a price of $1,000 per Unit. Each unit consists of one promissory note (the "Notes") and 1,000 share purchase warrants. Each Note bears interest at the rate of 8% simple interest per annum and is repayable 24 months from the date of issue and is secured against the assets of the Company. The Company has the right to repay the Note at any time during their 24 months term without penalty. The Company bifurcated the notes into their components using a discounted cash flow model with an estimated fair value interest rate of 15% to estimate the fair value of liability component with the remaining balance representing the equity component. Interest and accretion interest totaling $13,809 (2020 - $nil) was accrued during the nine months period ended May 31, 2019. As at May 31, 2020, there were no Notes issued and outstanding.

6. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

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

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

6. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued)

- On November 30, 2018, the Company issued 125,000 shares at $0.20 per share as per automatic conversion of non-escrowed special warrants issued on July 31, 2018 for total proceeds of $25,000.

- On December 10, 2018, the Company issued 250,000 shares at $0.20 per share as per automatic conversion of non-escrowed special warrants issued on August 10, 2018 for total proceeds of $50,000.

- On December 13, 2018, the Company issued 261,250 shares at $0.20 per share as per automatic conversion of non-escrowed special warrants issued on August 13, 2018 for total proceeds of $52,250.

- On December 31, 2018, the Company issued 687,405 shares at $0.20 per share as per automatic conversion of non-escrowed special warrants issued on August 31, 2018 for total proceeds of $137,481.

- On March 3, 2019, the Company issued 425,000 shares at $0.20 per share as per automatic conversion of non-escrowed special warrants issued on October 31, 2018 for total proceeds of $85,000.

- On March 7, 2019, the Company issued 105,000 shares at $0.20 per share as per automatic conversion of non-escrowed special warrants issued on November 7, 2018 for total proceeds of $21,000.

- On March 21, 2019, the Company issued 500,000 shares at $0.20 per share as per automatic conversion of non-escrowed special warrants issued on January 18, 2019 for total proceeds of $100,000.

- On March 21, 2019, the Company issued 400,000 shares at $0.20 per share as per automatic conversion of escrowed special warrants (note 6(c)).

During the nine months ended May 31, 2020, the Company issued 2,767,758 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 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 of 1,747,758 out of the 2,767,758 common shares were issued to such related party creditors.

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

(c) Special warrants

Escrow Special Warrants

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

On January 31, 2019, two subscribers have opted for the return of their funds held in trust. In accordance with the terms of the escrowed special warrant agreement, 2,934,000 special warrants were cancelled. Subscription proceeds of $586,800, without interest, were returned to the subscribers from the funds held in trust. Finders' fees of $37,926 were returned to Luxxfolio. 189,630 finders' warrants were removed from the 217,630 total finders' warrants allocated and were not issued on the Conversion Date.

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

	Number of Escrowed Special Warrants	Weighted Average Exercise Price
Outstanding, December 4, 2017 (incorporation)	-	-
Issued	3,209,000	$ 0.20
Outstanding, August 31, 2018	3,209,000	$ 0.20
Issued	125,000	$ 0.20
Cancelled	(2,934,000)	$ 0.20
Converted to Luxxfolio common shares	(400,000)	$ 0.20
Outstanding, May 31, 2019	-	-

During the nine months ended May 31, 2020, the Company did not issue any escrowed special warrants. As at May 31, 2020, there were no escrowed special warrants issued and outstanding.

Non-Escrow Special Warrants

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

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

(c) Special warrants (continued)

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

	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	1,030,000	$ 0.20
Converted to common shares	(3,278,655)	$ 0.20
Outstanding, May 31, 2019	-	-

During the nine months ended May 31, 2020, the Company did not issue any non-escrowed special warrants. As at May 31, 2020, there were no non-escrowed special warrants issued and outstanding.

(d) Share purchase warrants

During the nine months ended May 31, 2020 and 2019, 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

During the nine months ended May 31, 2020, there were 36,750 (2019 – nil) Warrants expired at a fair value of $3,886 (2019 - $nil). The following Warrants were outstanding as at May 31, 2020:

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

(d) Share purchase warrants (continued)

Issue Date	Expiry Date	Exercise Price	Number of Warrants
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	571,500

The weighted average contractual life of Warrants outstanding as at May 31, 2020 is 0.77 (2019 – 1.71) years.

7. ACQUISTION 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.

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

7. ACQUISTION OF LUXXFOLIO NETWORK INC. (continued)

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 an 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

8. FINANCIAL INSTRUMENTS

(a) Fair value

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

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

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

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

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

(b) Credit risk

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

8. FINANCIAL INSTRUMENTS (continued)

(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.

9. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. As at May 31, 2020, 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. No amounts have been drawn down on the LOC as at May 31, 2020.

At this stage of the Company's development, to maximize ongoing operational development efforts, the Company does not pay dividends. There were no changes to the Company's capital management approach for the three and nine months ended May 31, 2020.

10. SEGMENT INFORMATION

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

11. SUBSEQUENT EVENTS

(a) Non-brokered private placement

On June 2, 2020, the Company announced its intention to revise the terms of its intended non-brokered private placement announced on March 2, 2020. Under the revised terms, the Company will issue a maximum of four million common shares at a price of $0.05 per share.

On July 3, 2020, the Company announced that the previously intended issuance of four million common shares had been changed to the issuance of four million Class "A" convertible preferred shares (the "Preferred Shares") at a price of $0.05 per share (the "Offering"). The Company also completed the first tranche of the Offering, consisting of 2,000,000 Preferred Shares, subject to shareholder approval, for aggregate gross proceeds of $100,000. Under the terms of the subscription agreement, the Preferred Shares will:

- carry ordinary voting rights to vote with the holders of common shares of the Company (the "Common Shareholders") and have the same number of votes that they would have if converted to common shares;
- carry no provision for dividend preference or any accruing dividend but will participate on a pro-rata basis with the Common Shareholders in any dividends declared and paid on the common shares on an as converted basis;
- participate on a pro-rata basis with the Common Shareholders in the event of the liquidation of the Company, on an as converted basis; and
- carry anti-dilutive provisions that provide for share adjustments if the Company completes the sale of equity securities (the "Financings") at less than $0.055 per share within the first 18 months from the date of issuance and at less than $0.0575 per share, adjusted for stock splits, dividends, recapitalizations, and similar actions, after the initial 18 months such that each holder of Preferred Shares will receive additional shares so that the subscription price equals 90% and 85% respectively, in the first and second 18-month periods the Preferred Shares are outstanding.

All Preferred Shares outstanding will automatically convert to common shares of the Company on a one for one basis on the day that the Company has cumulatively raised $500,000 via Financings or at the end of the three-year term.

(b) Letter of intent

On July 16, 2020, the Company announced an extension to the Letter of Intent dated March 2, 2020 between CHP and the Company. The termination date was extended to December 31, 2020 from its previous expiry date of July 5, 2020.