

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

**Interim MD&A – Quarterly Highlights
For the three and nine months ended May 31,
2020 and 2019**

Dated: July 30, 2020

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Interim MD&A – Quarterly Highlights

For the three and nine months ended May 31, 2020

This Interim MD&A – Quarterly Highlights (“Interim MD&A”) of the financial condition and results of operation of Luxxfolio Holdings Inc.’s (the “Company”), formerly AX1 Capital Corp. (“AX1”), is for the three and nine months ended May 31, 2020. This Interim MD&A should be read in conjunction with the cautionary note regarding forward-looking statements below and the Company’s interim condensed consolidated financial statements and the accompanying notes for the three and nine months ended May 31, 2020. Together with the interim condensed consolidated financial statements and the related notes, the Interim MD&A has been prepared by the management of the Company in accordance with the requirements of National Instrument 51-102 and the International Financial Reporting Standards (“IFRS”) as at the date of this Interim MD&A. All dollar amounts are expressed in Canadian dollars (“CAD”) unless otherwise stated.

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

This Interim MD&A is dated July 30, 2020.

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

- ability to obtain customer contracts and establish relationships;
- the impact of competition;
- the ability to obtain and maintain existing financing on acceptable terms;
- the ability to retain skilled management and staff;

- the ability to acquire a significant market position within a target market;
- currency, exchange, and interest rates;
- the availability of financing opportunities;
- economic conditions;
- the retention of management, and avoidance of conflicts of interest; and
- the progress and success of product marketing.

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

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

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

DESCRIPTION OF BUSINESS AND DISCUSSION OF OPERATIONS

The Company, based in Vancouver, was incorporated under the Business Corporations Act (British Columbia) on October 10, 2017. The Company's business is that of its wholly owned subsidiary, Luxxfolio Network Inc. ("Luxxfolio"). Luxxfolio is a development-stage financial technology company with a customized blockchain technology (the "Platform") that it owns and has available for licensing.

During fiscal year ended August 31, 2019, the Company completed a reverse takeover ("RTO") of Luxxfolio and began trading on the Canadian Securities Exchange under the symbol LUXX. Specific details of the RTO are described in the Company's audited consolidated financial statements for the year ended August 31, 2019.

The Company's focus is the development of the Platform to enable an organization or individual to authenticate, secure, and track via a highly secure verifiable ledger their digital based assets, contracts and documents or physical based assets such as luxury or collector goods, and other unique products ("Uniquely Identified Assets" or "UIA"). The Platform aims to provide a secure and reliable place to authenticate and track UIA and provide the ability to monetize or securitize these assets.

The Company continues to explore all options for strategic alternatives with respect to the Company's business, Platform, and other more broadly defined options, including changes to the capital structure, mergers and acquisitions, sales and divestitures. In conjunction with the Company's strategic review, 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.

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Going Concern

For the nine months ended May 31, 2020, the Company realized a net loss of \$77,920 and as at May 31, 2020, has an accumulated deficit of \$2,212,246. The Company has not generated cash inflows from operations. These factors raise significant doubt about the Company's ability to continue as a going concern.

The Company's continued existence is dependent upon its ability to raise additional capital, obtain financing, realize revenue sources, and realize positive cash flows from operations. Failure to do so would have an adverse effect on the financial position of the Company and its ability to continue as a going concern.

ANALYSIS OF FINANCIAL PERFORMANCE

	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	\$ 1,213	\$ 13,868	\$ 9,648	\$ 161,231
Consulting	4,500	31,594	23,500	126,694
Advertising and marketing	-	(18,000)	-	31,910
Management fees	750	8,000	8,250	26,000
Professional fees	13,841	5,947	11,665	4,023
Rent	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	-	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)

For the three months ended May 31, 2020 vs. For the three months ended May 31, 2019

The Company had a net loss of \$25,345 for the three months ended May 31, 2020 compared to a net loss of \$431,003 in the comparable prior period. The net loss in the prior period was primarily composed of the Listing fees of \$363,758 relating to the RTO. The net loss in the current period is primarily composed of professional fees of \$13,841 (2019 - \$5,947) relating to accounting and tax filings, and consulting expenses of \$4,500 (2019 - \$31,594) relating to corporate affairs, business planning and product innovation.

For the nine months ended May 31, 2020 vs. For the nine months ended May 31, 2019

The Company had a net loss of \$77,920 for the nine months ended May 31, 2020 compared to a net loss of \$789,670 in the comparable prior period. The net loss is primarily composed of consulting expenses of \$23,500 (2019 - 126,694) relating to corporate affairs, business planning and product innovation, office and administration expenses of \$12,674 (2019 - \$7,298) relating to annual market participation fees and office supplies, and professional fees of \$11,665 (2019 - \$4,023) relating to transfer agent fees, annual general meeting and accounting fees.

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ANALYSIS OF CASH FLOWS

	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	-	352,739
Changes in non-cash working capital	(158,669)	(5,086)
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

Operating Activities

The total cash used in operating activities for the nine months ended May 31, 2020 amounted to \$236,589 (2019 - \$442,017) attributed primarily to business research and development, consulting, and office and administration fees.

Financing Activities

The Company issued shares in settlement of certain debts owed by the Company during the nine months ended May 31, 2020. Certain creditors of such debts were considered related parties. The Company issued a total of 2,767,758 (2019 – nil) common shares at a deemed price of \$0.05 per share in full settlement of the indebtedness totaled \$138,388 (2019 - \$nil). A total of 1,747,758 out of the 2,767,758 common shares were issued to such related party creditors (see “RELATED PARTIES TRANSACTIONS”).

During the nine months ended May 31, 2019, Luxxfolio issued 1,030,000 non-escrowed special warrants for net proceeds of \$181,000, net of legal issuance costs of \$25,000. \$85,000 of the net proceeds were received on August 31, 2018.

During the nine months ended May 31, 2019, Luxxfolio raised \$526,000 through the private placement of 526 Units (the “Units”) at a price of \$1,000 per Unit. Each Unit consisted of one promissory note (the “Notes”) and 1,000

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share purchase warrants (the “LNI Warrants”). Each Note accrued interest at the rate of 8% simple interest per annum, was repayable 24 months from the date of issue, and secured against the assets of Luxxfolio.

During the nine months ended May 31, 2019, the Company received \$74,108 (2018 – \$nil) through the release of funds held in trust upon the completion of the Agreement with Luxxfolio.

Investing Activities

There were no investing activities during the nine months ended May 31, 2020.

During the nine months ended May 31, 2019, the Company acquired \$47,349 (2018 - \$nil) through the RTO with Luxxfolio. Other than the RTO, the Company has not made any significant acquisitions or dispositions since the date of its incorporation.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The Company has had no revenue from operations since incorporation. The following is a breakdown of the material costs incurred for the nine months ended May 31, 2020 and 2019:

- (a) Research and development costs - \$9,648 (2019 - \$161,231), being costs associated with development and maintenance of the Platform;
- (b) Consulting fees - \$23,500 (2019 - \$126,694), being costs associated with corporate affairs, business planning and product innovation;
- (c) Advertising and marketing expenses – \$nil (2019 - \$31,910), being costs associated with branding and marketing;
- (d) Management fees - \$8,250 (2019 - \$26,000), being fees paid to Cypress Hills Partners Inc., a related party, for accounting and administrative functions;
- (e) Professional fees - \$11,665 (2019 - \$4,023), being costs associated with accounting and legal expenses;
- (f) Rent expenses - \$9,000 (2019 - \$16,000), being costs associated with office space lease;
- (g) Travel and conventions expenses - \$3,183 (2019 - \$11,287), being costs associated with investor marketing, conferences, and business travels;
- (h) Interest and accretion expenses - \$nil (2019 - \$13,809), relating to the private placement of 526 Units of the Company,
- (i) Office and administration expenses - \$12,674 (2019 - \$7,298), being costs associated with office equipment and supplies; and
- (j) Listing fees - \$nil (2019 - \$391,418), being the excess value of consideration paid over the net assets acquired of AX1, fees paid to the auditors and lawyers for filing of the prospectus, and CSE listing fees.

LIQUIDITY AND CAPITAL RESOURCES

The Company manages its capital to maintain its ability to continue as a going concern, with a long-term view of providing returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and cash equivalents, debt comprised of promissory notes and equity comprised of issued share capital and

deficit. The Company manages its capital structure and adjusts it considering economic conditions and financial needs. The Company, upon approval from its Board, will balance its overall capital structure through issuance of securities or by undertaking other activities as deemed appropriate under the specific circumstances.

Working Capital

At May 31, 2020, the Company had a working capital deficit of \$8,333 compared to a working capital deficit of \$68,801 as at August 31, 2019. The improvement in working capital is attributed to the issuance of common shares related to shares for debt settlement (see “ANALYSIS OF CASH FLOWS”).

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 will provide CHI with a General Security Agreement covering all assets of the Company as security for the LOC. The terms and conditions of LOC are consistent with those that may be available from a third-party lender. Further, the LOC becomes immediately due and payable should a change of control occur in the ownership of the Company’s equity or the composition of the Board of Directors. As at May 31, 2020, no amounts have been drawn down on the LOC.

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

Requirement of Additional Debt and Equity Financing

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

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

RELATED PARTIES TRANSACTIONS

During the nine months ended May 31, 2020, the Company entered into the following transactions with related parties:

- a) paid management fees of \$8,250 (2019 - \$20,000) to a company controlled by Kelly Klatik, a director of the Company, and Dean Linden, an officer of the Company for accounting and administrative functions. As at May 31, 2020, the amount owed to the company controlled by Kelly Klatik and Dean Linden was \$4,725 (2019 - \$19,950);

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- b) paid research costs of \$8,250 (2019 - \$18,000) to a company controlled by Kelly Klatik, a director of the Company, and Dean Linden, an officer of the Company for research and development of the Platform. As at May 31, 2020, the amount owed to the company controlled by Kelly Klatik and Dean Linden was \$4,725 (2019 - \$19,950);
- c) paid office and administration costs of \$200 (2019 - \$nil) to a company controlled by Kelly Klatik, a director of the Company, and Dean Linden, an officer of the Company for filings with the securities commissions. As at May 31, 2020, the amount owed to the company controlled by Kelly Klatik and Dean Linden was \$200 (2019 - \$nil);
- d) paid rental fees of \$9,000 (2019 - \$16,000) to a company controlled by Kelly Klatik, a director of the Company, and Dean Linden, an officer of the Company for leasing the space used as the Company's office; and
- e) paid consulting fees of \$13,500 (2019 - \$3,000) to Geoffrey McCord, an officer of the Company for his engagement on the strategic planning and management of the Company.

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 full settlement of debts totaled \$87,388 owed to a company controlled by Kelly Klatik, a director of the Company, and Dean Linden, an officer of the Company. The debts were related to the management and research fees incurred by the Company.

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.

SUBSEQUENT EVENTS

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 intends to 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.

On July 16, 2020, the Company announced an extension to the Letter of Intent (the “LOI”) 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.

CONTROLS AND PROCEDURES

In connection with National Instrument 52-109 Certificate of Disclosure in Issuers’ Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the interim condensed consolidated financial statements and the accompanying Interim MD&A for the three and nine months ended May 31, 2020.

RISK FACTORS

Credit risk

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

Liquidity risk

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

Volatility of Enterprise Value and Market Conditions

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

possibility of the loss of their entire investment. Furthermore, an investment in the Company should not constitute a major portion of an investor's portfolio.

Limited Operating History

The Company was recently formed and has no operating history. The Company and its business prospects must be viewed against the background of the risks, expenses and problems frequently encountered by companies in the early stages of their development, particularly companies in new and rapidly evolving markets such as the product authentication, financial technology, and blockchain markets. There is no certainty that the Company will attain its business objectives or operate profitably.

No Profits to Date

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

Additional Requirements for Capital

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

Negative Operating Cash Flow

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

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

Line of Credit

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

Expenses May Not Align with Revenues

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

Market Acceptance

If the Platform does not gain market acceptance, its operating results will be negatively affected. If the markets for the Platform and services fail to develop, develop more slowly than expected or become subject to increased

competition, the Company's business may suffer. As a result, the Company may be unable to: (i) successfully market the Platform; (ii) continue to develop and improve the Platform; or (ii) complete software products and services currently under development. If the Platform is not accepted by its customers or by other businesses in the marketplace, the Company's business, operating results, and financial condition will be materially affected.

Global Financial Developments

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

Regulatory Risks

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

Dependence on Internet Infrastructure

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

Risk of Security Weaknesses in the Company's Platform Software

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

Risk of False Authentication

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

Risks Associated with IBM Hyperledger blockchain

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

Risk of Theft and Hacking

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

Intellectual Property Rights

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

Competition

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

Dependence on Third Party Relationships

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

Key Personnel

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

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

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

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

Management of Growth

The Company may be subject to growth-related risks including pressure on its internal systems and controls. The Company's ability to manage its growth effectively will require it to continue to implement and improve its operational and financial systems. The inability of the Company to deal with this growth could have a material adverse impact on its business, operations, and prospects. While management believes that it will have made the necessary investments in infrastructure to process anticipated volume increases in the short term, the Company may experience growth in the number of its employees and the scope of its operating and financial systems, resulting in increased responsibilities for the Company's personnel, the hiring of additional personnel and, in general, higher levels of operating expenses. In order to manage its current operations and any future growth

effectively, the Company will also need to continue to implement and improve its operational, financial and management information systems and to hire, train, motivate and manage its employees. There can be no assurance that the Company will be able to manage such growth effectively, that its management, personnel or systems will be adequate to support the Company's operations or that the Company will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth.

Litigation

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

Conflicts of interest

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

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

Currency risk

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

COVID-19

In December 2019, the 2019 novel coronavirus (COVID-19) surfaced in Wuhan, China. The World Health Organization declared a global emergency on January 30, 2020, with respect to the outbreak then characterized it as a pandemic on March 11, 2020. The outbreak has spread globally causing companies and various jurisdictions, including Canada and the United States of America, to impose restrictions, such as quarantines, closures, cancellations and travel restrictions. While these effects are expected to be temporary, the duration of the business disruptions domestically and internationally and related financial impact cannot be reasonably estimated at this time. At this point, the extent to which COVID-19 may impact our results and business, including the Transaction under the LOI disclosed above, is uncertain, however, it is possible that our consolidated results in 2020 may be negatively impacted by this event. The impacts of the outbreak are unknown and rapidly evolving. The extent of any impact, will depend on future developments, including actions taken to contain COVID-19.

Other Information

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