LUXXFOLIO HOLDINGS INC.

Consolidated Financial Statements
For the years ended August 31, 2020 and 2019
(Expressed in Canadian Dollars)

Smythe CPA

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF LUXXFOLIO HOLDINGS INC.

Opinion

We have audited the consolidated financial statements of Luxxfolio Holdings Inc. (the "Company"), which comprise:

- the consolidated statements of financial position as at August 31, 2020 and 2019;
- the consolidated statements of operations and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity (deficit) for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at August 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $135,618 during the year ended August 31, 2020 and, as of that date, the Company had an accumulated deficit of $2,268,087. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises of Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Hervé Leong-Chung.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
December 22, 2020

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LUXXFOLIO HOLDINGS INC.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

		August 31, 2020		August 31, 2019
Assets				
Current				
Cash	$	124,342	$	109,623
GST receivable		3,463		13,270
Prepaid expenses (note 5)		-		32,253
Total Assets	$	127,805	$	155,146
Liabilities				
Current				
Accounts payable and accrued liabilities (note 4)	$	28,836	$	223,947
	$	28,836	$	223,947
Shareholders' Equity (Deficit)				
Common Shares (note 6)	$	2,134,376	$	1,995,988
Special Warrants (note 6)		165,000		-
Reserves (note 6)		67,680		73,422
Deficit		(2,268,087)		(2,138,211)
	$	98,969	$	(68,801)
Total Liabilities and Shareholders' Equity	$	127,805	$	155,146

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

Approved on behalf of the Board:

"Kelly Klatik"
____
Kelly Klatik, Director

"Anthony Wong"
____
Anthony Wong, Director

LUXXFOLIO HOLDINGS INC.
Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian Dollars)

	For the year ended August 31, 2020	For the year ended August 31, 2019
Expenses		
Research and development (note 4)	$ 11,364	$ 218,571
Consulting (note 4)	29,000	181,694
Advertising and marketing	-	31,910
Management fees (note 4)	9,000	30,000
Professional fees	22,805	64,580
Rent (note 4)	12,000	21,050
Travel and conventions	3,183	13,204
Interest and accretion expense	-	74,040
Office and administration	16,014	11,633
Loss Before Other Items	(103,366)	(646,682)
Other Items		
Listing fees (note 7)	-	(391,418)
Loss on prepaid expenses (note 5)	(32,253)	-
Interest income	1	151
Net Loss and Comprehensive Loss for the Year	$ (135,618)	$ (1,037,949)
Basic and Diluted Loss per Share	$ (0.01)	$ (0.08)
Weighted Average Number of Common Shares Outstanding	17,099,420	12,502,185

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

LUXXFOLIO HOLDINGS INC.
Consolidated Statements of Changes in Shareholders' Equity (Deficit)
For the year ended August 31, 2020 and 2019
(Expressed in Canadian Dollars)

	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 special warrants, net of issuance costs	6	-		-		181,000		-		-		181,000
Conversion of special warrants	6	3,678,655		696,138		(624,989)		2,959		-		74,108
Equity component of unit offering	6	-		-		-		64,721		-		64,721
Reverse takeover of Luxxfolio Network Inc.	7	1,881,001		376,200		-		-		-		376,200
Net loss		-		-		-		-		(1,037,949)		(1,037,949)
Balance, August 31, 2019		14,879,657	$	1,995,988	$	-	$	73,422	$	(2,138,211)	$	(68,801)
Issuance of common shares for debt	6	2,767,758		138,388		-		-		-		138,388
Issuance of special warrants	6	-		-		165,000		-		-		165,000
Expired warrants	6	-		-		-		(5,742)		5,742		-
Net loss		-		-		-		-		(135,618)		(135,618)
Balance, August 31, 2020		17,647,415	$	2,134,376	$	165,000	$	67,680	$	(2,268,087)	$	98,969

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

LUXXFOLIO HOLDINGS INC.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

		For the year ended August 31, 2020		For the year ended August 31, 2019
Operating Activities				
Net loss for the year	$	(135,618)	$	(1,037,949)
Non-cash items				
Interest and accretion		-		64,721
Listing fees		-		347,903
Changes in non-cash working capital				
GST receivable		9,807		14,311
Prepaid expenses		32,253		86,157
Accounts payable and accrued liabilities		(56,723)		11,617
Cash used in operating activities		(150,281)		(513,240)
Investing Activity				
Cash acquired from reverse takeover transaction		-		47,349
Cash provided by financing activity		-		47,349
Financing Activities				
Issuance of non-escrowed special warrants		165,000		96,000
Issuance of escrowed special warrants		-		74,108
Proceeds from notes offering		-		526,000
Payment of notes offering		-		(526,000)
Cash provided by financing activities		165,000		170,108
Inflow (Outflow) of Cash		14,719		(295,783)
Cash, Beginning of Year		109,623		405,406
Cash, End of Year	$	124,342	$	109,623

Supplemental Cash-Flow Information				
Interest paid	$	-	$	-
Income taxes paid	$	-	$	-

Non-cash transactions				
Shares issued for settlement of debt (Note 6)	$	138,388	$	-

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Luxxfolio Holdings Inc. (the "Company") was incorporated under the *Business Corporations Act* (British Columbia) on October 10, 2017. On March 21, 2019, the Company's shares began trading on the Canadian Securities Exchange ("CSE"), under the symbol LUXX. The head office of the Company is located at 212 – 1080 Mainland Street, Vancouver, British Columbia. The principal business of the Company is the development of 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 April 11, 2019, the Company completed the acquisition of Luxxfolio Network Inc. ("Luxxfolio"), a private company incorporated under the *Business Corporations Act* (British Columbia), and Luxxfolio became a wholly owned subsidiary of the Company. The acquisition of Luxxfolio is considered a reverse takeover by Luxxfolio since the legal acquiree is the accounting acquirer, as the former shareholders of Luxxfolio obtain a controlling interest of the resulting entity after the completion of the acquisition. These consolidated financial statements are a continuation of the financial statements of Luxxfolio.

These 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 year ended August 31, 2020, the Company realized a net loss of $135,618 (2019 - $1,037,949) and as of August 31, 2020, has an accumulated deficit of $2,268,087 (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.

As at the date of the consolidated financial statements, the Company continues 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. On July 16, 2020, the Company announced an extension to the LOI to December 31, 2020 from its previous expiry date of July 5, 2020. There can be no assurance that this process will result in the approval of any strategic alternative or transaction in the future.

The outbreak of COVID-19 in 2020 has caused 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.

1. NATURE OF OPERATIONS AND GOING CONCERN (continued)

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.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

(b) Basis of presentation and principles of consolidation

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

(c) Approval of the consolidated financial statements

These consolidated financial statements were authorized for issue by the Audit Committee and Board of Directors on December 22, 2020.

(d) Use of estimates and judgements

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

2. BASIS OF PRESENTATION (continued)

(d) Use of estimates and judgements (continued)

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.

Critical judgements:

(i) Going concern assumption

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company is aware that material uncertainties related to events or condition may cast significant doubt upon the Company's ability to continue as a going concern.

(ii) Recoverability of deferred tax assets

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgements in the interpretation and application of the relevant tax laws.

2. BASIS OF PRESENTATION (continued)

(d) Use of estimates and judgements (continued)

(ii) Recoverability of deferred tax assets (continued)

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 consolidated financial statements.

(iii) Research and development expenditures

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 August 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.

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 7).

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 following is the Company's accounting policy for financial instruments under IFRS 9 Financial Instruments ("IFRS 9"):

Financial assets

(i) Recognition and measurement of financial assets

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

(ii) Classification of financial assets

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

Financial assets measured at amortized cost

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

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.

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. After initial recognition, 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)

Financial liabilities

(i) Recognition and measurement of financial liabilities

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

(ii) 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.

(iii) 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)

(b) Financial instruments (continued)

The following table shows the classification of the Company's financial instruments under IFRS 9:

	Classification
Financial Assets	
Cash	FVTPL
Financial Liabilities	
Accounts payable and accrued liabilities	Amortized Cost

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(f) Common shares

Proceeds from the exercise of stock options, warrants, and special warrants are recorded as share capital in the amount for which the option, warrant, or special warrant enabled the holder to purchase, or receive, a share in the Company. Share capital and special warrants 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Earnings (loss) per share

Basic earnings (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 year. The Company uses the treasury stock method for calculating diluted earnings (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 shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(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) Newly adopted accounting pronouncements

IFRS 16 Leases

Effective for annual periods beginning on January 1, 2019

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties of a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. The adoption of this standard did not have an impact on the Company’s consolidated financial statements as the Company does not have any long term leases.

(Expressed in Canadian Dollars)

4. RELATED PARTY TRANSACTIONS

During the year ended August 31, 2020, the Company was charged management fees of $9,000 (2019 - $24,000), research costs of $9,000 (2019 - $24,000), rental fees of $12,000 (2019 - $21,050), and administrative expenses 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 $18,000 (2019 - $7,500), travel expenses of $3,183 (2019 - $nil), and administrative expenses of $118 (2019 - $nil) by an officer of the Company. As of August 31, 2020, $11,225 (2019 - $40,205) was included in accounts payable and accrued liabilities relating to these services.

During the year ended August 31, 2020, the Company issued 1,747,758 common shares with a fair value of $0.05 per share in settlement of certain debts owed to a company controlled by a director and an officer of the Company, 150,000 common shares with a fair value of $0.05 per share in settlement of certain debts owed to a director of the Company, and 150,000 common shares at with a fair value of $0.05 per share in settlement of certain debts owed to a company controlled by an officer of the Company (see Note 6).

During the year ended August 31, 2020, the Company issued 300,000 special warrants at a price of $0.05 per special warrant to a company controlled by a director and an officer of the Company (see Note 6).

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. PREPAID EXPENSES

During the year ended August 31, 2020, the Company determined that it is unlikely it will be able to utilize certain prepaid expenses in the foreseeable future. The Company has written down the carrying value of this asset as the amounts are non-refundable.

		Prepaid expenses
Balance, August 31, 2019	$	32,253
Write-down of prepaid expenses		(32,253)
Balance, August 31, 2020	$	-

6. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

During the year ended August 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.

- On October 31, 2019, the Company issued 1,806,153 shares at $0.05 per share in settlement of the indebtedness totaled $90,308. A total of 1,086,153 out of the 1,806,153 common shares were issued to such related party creditors.

- On December 3, 2019, the Company issued 961,605 shares at $0.05 per share in settlement of the indebtedness totaled $48,080. All of the 961,605 common shares were issued to such related party creditors.

During the year ended August 31, 2019, the Company issued 5,559,656 common shares as follows:

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

- On November 30, 2018, the Company issued 125,000 shares at $0.20 per share upon the automatic conversion of non-escrowed special warrants issued on July 31, 2018 for a total amount of $19,258 net of share issuance costs.

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

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

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

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

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

6. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued)

- On March 21, 2019, the Company issued 500,000 shares at $0.20 per share upon the automatic conversion of non-escrowed special warrants issued on January 18, 2019 for a total amount of $75,000 net of share issuance costs.

- On March 21, 2019, the Company issued 400,000 shares at $0.20 per share upon the automatic conversion of escrowed special warrants (note 5(c)) for a total amount of $71,149 net of share issuance costs.

- On April 11, 2019, the Company issued 1,881,001 shares to acquire Luxxfolio (note 7) for a total amount of $376,200.

(c) Special warrants

Escrowed Special Warrants

During the year ended August 31, 2020, the Company did not issue any escrowed special warrants.

During the year ended August 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. These are funds held in trust that will be released to the Company upon conversion of these escrowed special warrants.

During the year ended August 31, 2019, six subscribers opted for the return of their funds held in trust. In accordance with the terms of the escrowed special warrant agreement, 2,934,000 escrowed special warrants have been cancelled. Subscription proceeds of $586,800, without interest, have been returned to the subscribers from the funds held in trust. Finders' fees of $37,944 have been returned to the Company. Finders' warrants in the amount of 189,630 have been returned and removed from the 217,630 total finders' warrants allocated.

During the year ended August 31, 2019, 400,000 escrowed special warrants automatically converted into common shares for total proceed of $80,000. The Company incurred cash share issuance costs of $5,892 and issued 28,000 finders' warrants fair valued at $2,959.

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

(c) Special warrants (continued)

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, 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, August 31, 2019 and 2020	-	

Non-Escrowed Special Warrants

During the year ended August 31, 2020, the Company issued 3,300,000 (2019 – 1,030,000) non-escrowed special warrants pursuant to a subscription agreement for proceeds of $165,000 (2019 - $206,000). The Company incurred issuance costs of $nil (2019 - $25,000). Each non-escrowed special warrant entitled subscribers thereof to automatically receive, without payment of additional consideration and without further action on the part of the subscriber, and subject to adjustment, one common share in the capital of the Company upon the earlier of (i) five business days after the subscriber elects to convert all of their non-escrowed special warrants pursuant to the terms of the non-escrowed special warrant certificate; or (ii) the day that the Company has cumulatively raised $500,000 through equity financings after closing the sale of the non-escrowed special warrants; and (iii) the day that is three years after the date of the non-escrowed special warrants offering close. For the year ended August 31, 2020, nil (2019 – 3,278,655) non-escrowed special warrants were converted into common shares.

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, August 31, 2018	2,248,655	$ 0.20
Issued	1,030,000	$ 0.20
Converted to Luxxfolio common shares	(3,278,655)	$ 0.20
Outstanding, August 31, 2019	-	$ 0.20
Issued	3,300,000	$ 0.05
Outstanding, August 31, 2020	3,300,000	$ 0.05

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

(d) Share purchase warrants

During the year ended August 31, 2020, the Company did not issue any share purchase warrants. During the year ended August 31, 2019, the Company 554,000 share purchase warrants (the "Warrants") comprised of 526,000 share purchase warrants and 28,000 finders' warrants. Each 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 Company recorded a fair value of $2,959 for the finder's warrants issued during the year ended August 31, 2019. The fair value of was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

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

During the year ended August 31, 2020, a total of 54,250 (2019 – nil) Warrants expired at a total fair value of $5,742 (2019 - $nil).

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

	Number of Warrants	Weighted Average Exercise Price
Outstanding, August 31, 2018	54,250	$ 0.20
Issued	554,000	$ 0.20
Outstanding, August 31, 2019	608,250	$ 0.20
Expired	(54,250)	$ 0.20
Outstanding, August 31, 2020	554,000	$ 0.20

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

(d) Share purchase warrants (continued)

The following Warrants were outstanding on August 31, 2020:

Issue Date	Expiry Date	Exercise Price	Number of Warrants
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	554,000

The weighted average contractual life for warrants outstanding as of August 31, 2020 is 0.54 (2019 – 1.46) years.

7. ACQUISITION OF LUXXFOLIO NETWORK INC.

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

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

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

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. ACQUISITION 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 and accounts payable and accrued liabilities 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.

(Expressed in Canadian Dollars)

8. FINANCIAL INSTRUMENTS

(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. The Company has cash of $124,343 available to settle accounts payable and accrued liabilities which are due within 90 days.

9. INCOME TAXES

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

		2020		2019
Net loss	$	(135,618)	$	(1,037,949)
Income tax at statutory rate		27%		27%
Expected income tax recovery	$	(36,617)	$	(280,246)
Items not deductible for tax purposes		-		111,408
Over provided in prior years		-		(10,322)
Unused tax losses and tax offsets not recognized		34,437		182,897
Origination and reversal of temporary differences		2,180		(3,737)
Income tax recovery	$	-	$	-

Deferred income tax assets are only recognized to the extent that the realization of tax benefits is determined to be probable. As of August 31, 2020 and 2019, the Company has unrecognized deferred tax benefits for the following deductible temporary differences:

		2020		2019
Non-capital losses	$	1,394,400	$	1,259,000
Share issuance costs		43,089		60,100
Unrecognized deductible temporary differences	$	1,437,489	$	1,319,100

As of August 31, 2020, the Company had non-capital losses of approximately $1,454,718 available for carry-forward to reduce future years' taxable income. The non-capital losses expire between 2038 and 2040.

10. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. As of August 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 of August 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 year ended August 31, 2020.

11. SEGMENT INFORMATION

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

12. SUBSEQUENT EVENTS

(a) Special Warrants

On November 3, 2020, the Company completed the third and fourth tranches of its previously announced non-brokered private placement for up to 8 million special warrants (the "Special Warrants") at a price of $0.05 per Special Warrant. The third tranche amounted to 650,000 Special Warrants and the fourth tranche amounted to 200,000 Special Warrants for proceeds of $32,500 and $10,000, respectively. Both tranches carry the same rights, terms and conditions as the prior tranches which closed on July 3, 2020, and August 31, 2020.

On November 24, 2020, the Company completed the fifth tranche of its previously announced non-brokered private placement of Special Warrants. The tranche amounted to 200,000 Special Warrants for aggregate proceeds of $10,000. These Special Warrants carried the same rights, terms, and conditions as previous tranches of the Special Warrants.

12. SUBSEQUENT EVENTS (continued)

(a) Special Warrants (continued)

On December 2, 2020, the Company completed the sixth tranche of its previously announced non-brokered private placement of Special Warrants. The tranche amounted to 650,000 Special Warrants for aggregate proceeds of $32,500. These Special Warrants were issued to a related party. These Special Warrants carried the same rights, terms, and conditions as previous tranches of the Special Warrants.

(b) Potential Acquisition

On November 24, 2020, the Company entered into a non-binding term sheet with Ocean Falls Blockchain Corp. ("Ocean Falls") to acquire 100% interest in Ocean Falls. The anticipated price of $650,000 will be satisfied through the issuance of common shares in the capital of the Company. The closing of the transaction is subject to the negotiation and execution of a definitive agreement, completion of due diligence, receipt of required consents and approvals, a capital raise of at least $100,000, the purchase or lease of certain equipment and the completion of certain conditions that are typical for transactions of this nature.

(c) Stock Options

On December 16, 2020, the Company granted 1,300,000 of stock options to certain directors, officers, and consultants of the Company. The stock options are exercisable into common shares for a term of five years from the date of the grant at an exercise price of $0.075 per common share. The stock options granted are subject to a four-month-and-one-day hold period from the date of the grant. A total of 650,000 of the 1,300,000 stock options were granted to related parties. This is the Company's first issuance of stock options.